NAVIGATING TOP TALENT DECISIONS FOR MERGERS AND ACQUISITIONS

To find the leadership team best fit for the new organization—from day one—companies need to perform the same level of due diligence as they do for other strategic matters during a merger or acquisition.

Organizations undergoing a major transformation, such as a merger or acquisition, know that getting the right leaders into the right roles will accelerate performance. But too many organizations make decisions about their leadership teams in ways that slow them down. How can they develop a clear, fair, and timely process to ensure the best-fit team is steering the organization?

During most mergers, companies focus on strategy, synergies, process, technology and intellectual property, valuation, and so forth from the beginning. They create internal teams and mobilize suites of advisers—consultants, lawyers, accountants—to address these topics. Such due diligence is crucial to success. Yet far too few organizations take the time to apply the same level of rigor to the selection of their leadership teams, which can lead to a host of barriers to long-term transaction success: brain drain, customer disruption, value destruction, and culture clashes.

For instance, when the $35 billion merger between Publicis Groupe and Omnicom broke up in 2014, Maurice Levi, then the CEO of Publicis, attributed the breakdown to "fundamental differences on how to balance the leadership of the new organization."[1]

To bolster the odds of M&A success, organizations should approach their top talent decisions just as systematically and strategically as other forms of transactional due diligence.

In practice, this means starting the leadership selection process early—during the due diligence period, well before companies typically do—so the best team can steer the organization from the moment the deal closes. And as companies build out their top talent pipeline, they must also ensure that these executives are truly the best fit for the positions at hand regardless of their previous role or relationships. At each step, transparency and communication are key. Finally, beyond selecting the new team and making sure people find their place within the new organization, success in this part of merger implementation also depends on leaders anticipating and preparing for potential cultural conflicts.

As companies take these steps, they can face a number of pitfalls. In our experience, three are most common: not employing a systematic or timely approach to talent decisions, lacking courage to make tough talent calls, and failing to recognize that favored leaders in the old regime are not the best fit for the new business.

Companies can best avoid these pitfalls by ensuring they align the new structure and roles to the strategy behind the transformation, define the culture that will drive future growth and select leaders who can shape and embody that culture, and make and communicate decisions at pace.

1 Edward C. Baig, "Omnicom, Publicis merger fell over 'equal' terms," *USA Today*, May 9, 2014, usatoday.com.

Aligning the new structure with the transformation strategy

Companies should set out to design their new operating model and organizational structure as soon as a merger or acquisition is agreed. To start, they must simultaneously define the capabilities they will need to fulfill their ambitions, determine the talent profiles required to build these capabilities, align on the culture aspiration, and define the profile of leaders to drive this culture. Almost certainly, the configuration of the organization and its leadership team will change: there will be some legacy roles, many totally new positions and structures, and new reporting lines—and some roles will be redundant. For example:

- A global telecommunications company that merged with rivals in tough markets with the vision of growth through customer centricity needed to realign its top leadership positions to reflect new growth markets that had not previously been represented in the most senior team.
- An incumbent company in the construction industry acquired a tech company for its logistics operation, and the composition of the merged company's top team changed significantly. In the course of six months, on a leadership team of eight, three became obsolete and four new roles were added.
- If the merger is in support of a digital transformation, the CMO and CIO roles must typically be reconfigured along with adding or expanding the remit of more digital C-suite roles, such as a chief digital officer or chief data officer.

Once the overall structure and role definitions are agreed on, companies should employ a transparent and fair selection process that takes nothing for granted—including the fit of individuals to roles they may aspire to or may even have had in the old organization. It's natural to feel misgivings about overlooking a current high-performing team or to try to split the roles 50-50 between the two organizations, which makes it all the more important that the selection and nomination criteria are transparent and obviously aligned to the strategy.

In addition to specific skill sets and experiences each role requires, companies need to define the characteristics the new organization's leaders will need (described in the following section). With both of these aspects defined, companies can then carefully design an assessment framework, including who will be assessed, the tools to be used, the process and timeline, and how to communicate. The earlier organizations are able to articulate the approach, the better they will be able to minimize uncertainty and the risk that people whom they do not want to lose will leave the business. Figure 1 lays out a simple selection process companies can follow.

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Figure 1. **A simple, accelerated approach to selecting "best fit" leaders**

Process	**Align**	**Design the framework**	**Assess**	**Decide**	**Best fit in each leadership role**
Key activities	✓ Align process with strategy ✓ Align on success profiles for key roles	✓ Who will be assessed? ✓ With what tools? ✓ Who will take the decision? ✓ Process and timeline	✓ Administer the assessments ✓ Conduct interviews ✓ Analyze the results ✓ Produce feedback reports and recommendations	✓ Present results and recommendation to current leadership team ✓ Select the individuals who fit the profiles, considering implications on transitions and postmerger integration implications	
Outcomes	→ Success profiles for key roles	→ Framework tools → Process and timeline → Communications strategy and plan	→ Individual assessment reports → Summary reports	→ Recommendations report → Leaders selection	
Timeframe	MONTH 1	MONTH 2	CLOSE	MONTH 3	

Source: Heidrick & Struggles

Companies generally find that asking all potential candidates to participate in the same assessment process, from application to interviews, ensures that everyone perceives the process as fair and transparent. The use of data from psychological and cultural assessments, along with qualitative interviews, is helpful in creating the best understanding of whom will perform best in the new role and structure. In addition, assessments of executives who aren't, in the end, placed in the new top roles can be used for ongoing coaching and development.

The top leaders managing the process should bring in HR leaders as early as possible, so they are completely familiar with what capabilities will be needed to drive the strategy and can ensure the organization has the tools and resources to objectively diagnose the current state and define the future best-fit state. Two months before closing on the deal, we find, is a good time for companies to begin undertaking assessments, interviews, and data analysis. One month out, the integration leaders should begin filling the new leadership roles. In the event that internal assessments do not yield the right leader for the role, the company will have a clear understanding of what skills they do need should they decide to seek someone externally.

As part of their assessment process, companies should focus on the capabilities and attributes—beyond hard skills and past experience—that leaders will need to deliver the strategy immediately and in the long term. Heidrick & Struggles research indicates that companies accelerate performance in any situation when they build strength to mobilize, execute, and transform with agility, a framework we call META.[2] For leaders, this means the following:

Mobilize:
Leaders who capitalize on uncertainty and achieve clarity and alignment on the most important forces shaping the future, helping pinpoint where some of the most profitable opportunities actually exist

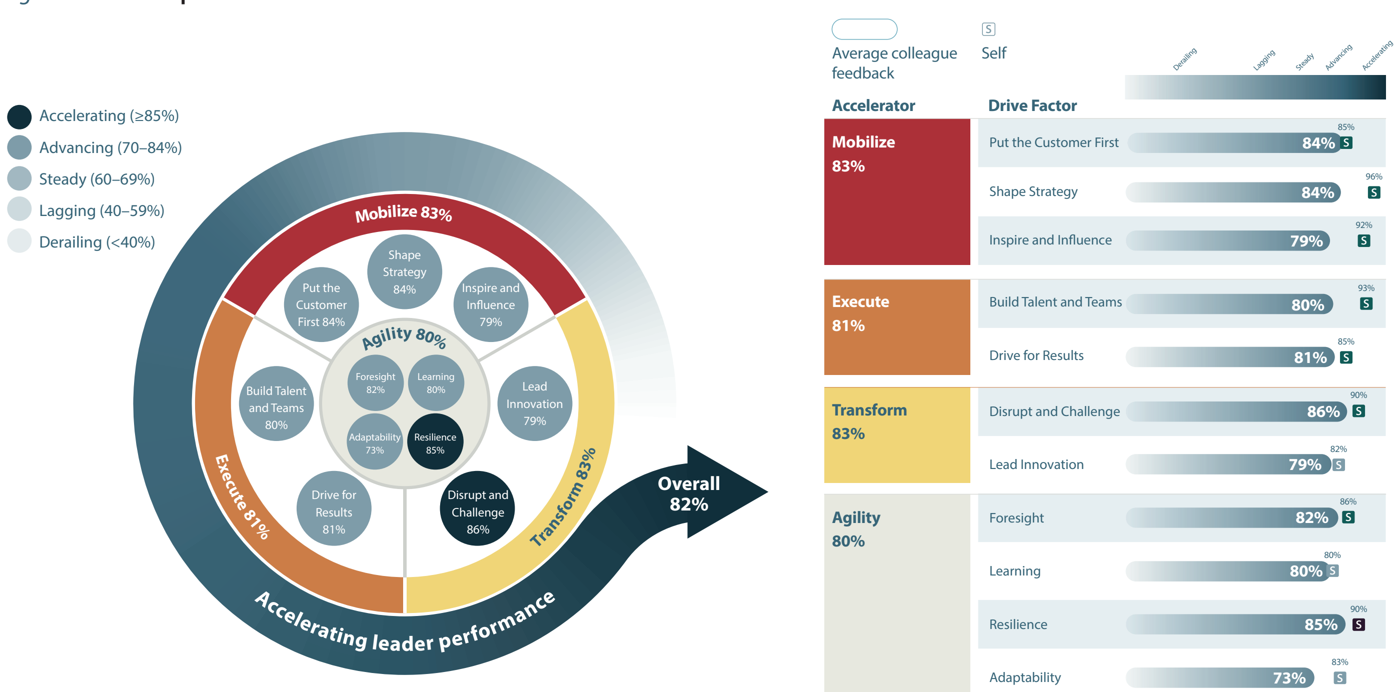
Execute:
Leaders who understand how to harness the strengths the organization already has and build those it needs to deliver

Transform:
Leaders who can make the tough decisions to move the organization forward as a whole toward its new goals

Agility:
Leaders who can look ahead to areas such as competitors' potential moves and likely reactions, market shifts, and the potential effects of new technologies and help the organization adapt in response

An example assessment, showing scores in all four META areas, is shown in Figure 2. In merger situations, we know that agility, resilience, and the ability to build sustainable bridges between the two cultures are all fundamental characteristics of successful leaders.

Figure 2. **An example of assessment results**

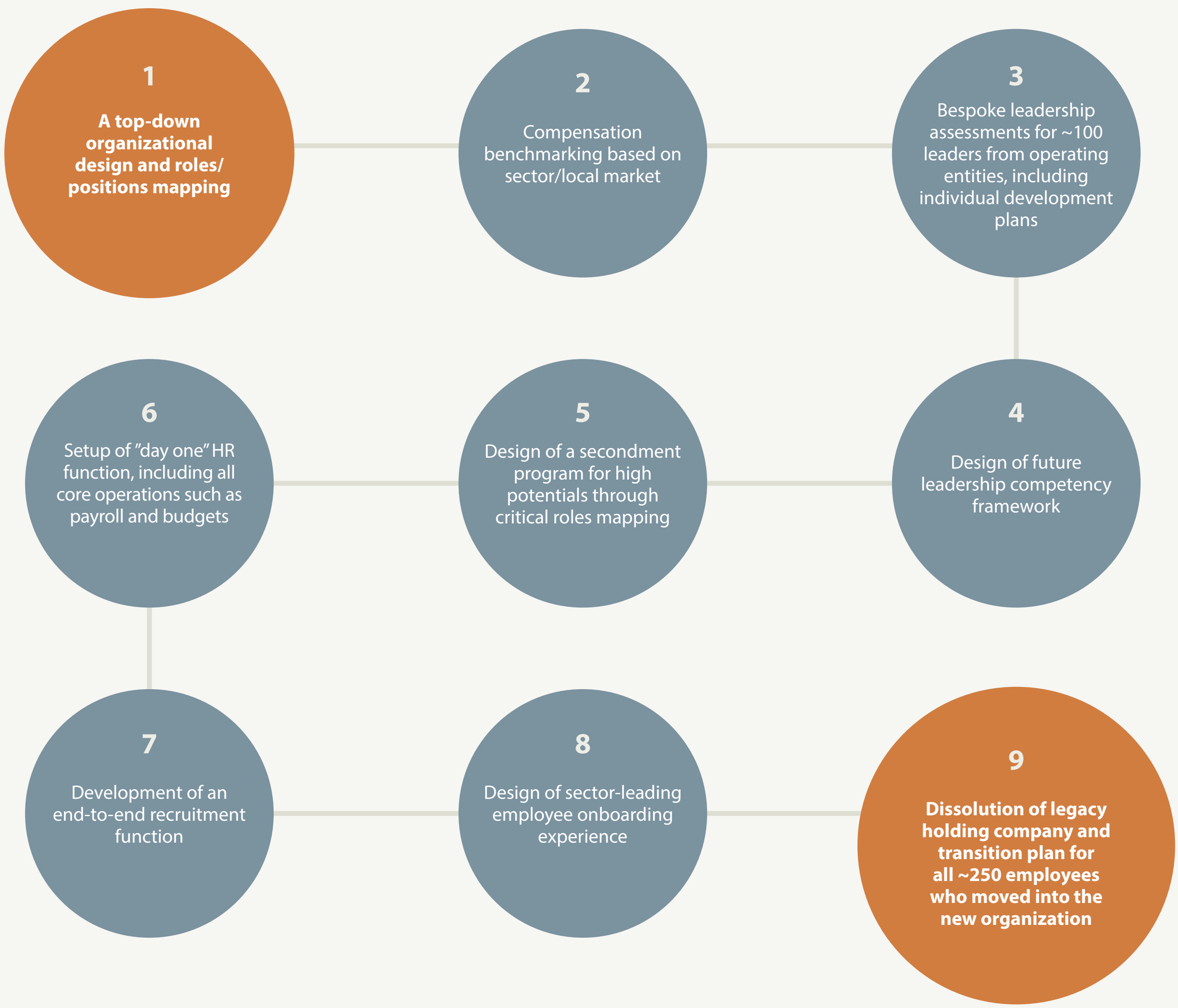


Source: Heidrick & Struggles
Note: These results are for illustration purpose only

2 Ruben Hillar, Colin Price, Sharon Toye, and David Turnbull, "Accelerating performance," Heidrick & Struggles, January 1, 2017, heidrick.com.

A well-designed selection process

A power company took the following steps to develop an organizational design within a 100-day timeframe to support the setup of a new holding company:



The result was twofold: the organization was ready to go on the first day, and having the right people in the right roles helped it shift rapidly toward a performance culture.

Choosing leaders who can shape and who embody the future culture: The shadow of the leader

Getting the people with the right skills in the right roles is just a start. Far too often, companies undergoing this kind of transition don't focus on how their organizational cultures will have to change to meet the new strategic goals. Indeed, some executives still think of organizational culture as they do the weather—something that affects everyone but that no one can do anything about. However, culture lies at the heart of many merger successes and clashes, and, as is now well known, executives who focus on culture as relentlessly as they do other strategic challenges can shape it to the organization's advantage.

Studies on culture point to a powerful phenomenon, "shadow of the leader," where over time organizations take on the characteristics of their leaders. Therefore, it's vital that the leadership of the new organization align around a common definition of the desired culture, and then commit to demonstrating common values and behaviors individually and collectively.

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Alignment towards a future definition of culture requires four key steps:

Establish a baseline of the current state

built on the foundation of the "best of both," including their strengths and mapping out potential barriers. Companies should ideally complete this exercise during due diligence, through a combination of employees' survey and anecdotal perspectives from interviews with top leadership.

Align the top team around a definition of the future culture

they aspire to create, building from the current baseline. The alignment requires leaders to be *purposeful* in defining a culture each will commit to, and a willingness to embrace *personal change* in order to cast an authentic leadership shadow for the culture.

Build broad engagement around the desired culture

across the organization, starting with a critical mass of leaders below the top team who take personal ownership of the values and guiding behaviors for the new organization.

Create an enterprise road map that establishes a clear plan of action

for broad engagement, culture communications, integration of the new culture with all HR systems and processes, and alignment with key initiatives.

The role of leaders in launching the new organization culture is key and so ensuring the best fit, the right leaders for the future, becomes mission critical.

Make—and communicate—decisions at pace

In addition to identifying leaders with the right skills and leadership behaviors, another key challenge of a successful postmerger integration is retaining them. One study, for example, showed that 55% of acquirers cite employee retention as the top perceived risk in M&A.[3] Prolonged uncertainty—driven by a lack of transparency and what is often seen as a closed-door selection process—can lead to the most qualified people leaving first, shrinking the leadership pipeline. Such lack of coordination can also hurt the organization further down the hierarchy, as high-performing managers leave and uncertainty spreads. Companies can find themselves without the right talent to manage or supervise teams, hurting overall productivity and morale. Yet in our experience, not only are organizational decisions started too late, but communication about them lags further, increasing the risk. In addition to making decisions in a timely way, starting during the due diligence process, employing a clear and timely communication strategy is just as crucial to retention.

That strategy should ensure that everyone knows why this specific process was developed, what it entails (including the chronological succession of events), what the impact will be, and whom to go to for questions. One of the simplest and most effective open-communication tactics we have seen was a weekly meeting chaired by the acquired company CEO from six months before the transaction closed to six months after, where all news was shared and people from both companies could raise any questions or concerns. HR leaders are an important part of the strategy as well. They need to be empowered by the top corporate leadership team and communicate regularly with the rest of the organization (even when there is no news to share) to keep the business on track and achieve successful integration. By reducing the potential for surprises, organizations reduce the likelihood that they will lose promising current and potential leaders.

Timeliness and clarity are particularly important for current leaders or high-potential executives who haven't been chosen for a leadership role in the new organization. Using the outcomes of the assessment process described earlier to open conversations about ways forward with potential leaders will go a long way to build or cement trust and retention.

A Fortune 100 technology company, for example, often retained and found good roles for the CEOs of the Silicon Valley start-ups it acquired. It used their entrepreneurial mind-sets to pursue market adjacencies with a parallel organizational model in which these ex-CEOs were paid handsomely to wait for the right opportunity; they were then deployed to create a new market, expand an existing business, or run a newly acquired technology tuck-in. At one point, more than 100 ex-CEOs had stayed with the acquiring company. This deep pool of venture general managers was a critical reason for its growth from networking roots to entirely new areas such as data centers, online collaboration, and smart grids.

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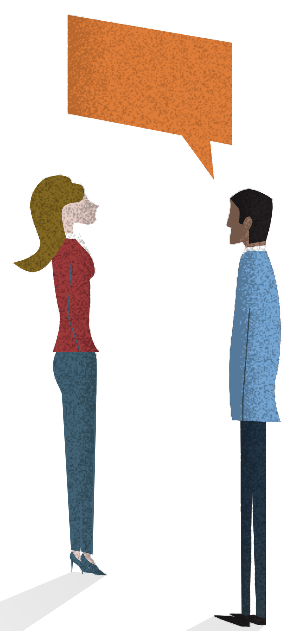

3 Mercer, *People Risks in M&A Transactions*, 2016, mercer.com.

Getting to the best fit

The hard truth of M&A and other transformations is that they always involve difficult people decisions. Yet such decisions are often approached late and haphazardly, slowing performance and increasing the likelihood of losing top talent. Companies with a systematic approach to formulating the top team in alignment with the transaction strategy and organizational culture, and that communicate clearly with leaders and other stakeholders, can accelerate their performance through the transformation (see sidebar, "Timely decisions and communications").

While there is no one-size-fits-all approach to talent matters during a merger, companies should ensure that the talent side of M&A gets the same level of attention—at the same time—as other crucial strategic concerns.

Timely decisions and communications

When a leading global technology company announced it would spin off its services business and then merge with another multinational IT company to create a new global organization, the CEO was clear that the right structure and leadership team would need to be in place from day one if they were to meet the strategic aspiration of the merger.

In order to find the best fit for each leadership role, the CEO and a team of executives from both merging companies set up a process to evaluate leaders from each business and recommend the best fits for the new organization. The crucial elements of this process included objective analysis of individuals' technical/industry experience, leadership potential, and values/culture fit with the newly formed company, understood through a fair and optimized assessment experience. The overall solution was comprehensive and easy to scale quickly and globally.

Two hundred top executives from six geographies were assessed, and 135 were selected for the top leadership roles. Their selection was in some cases followed up by customized coaching and development sessions. In addition to creating a smooth integration process, the company's ability to announce 135 of the most senior leaders a month before the merger built market confidence. And the merger got off to a running start: more than 40% increase in its share price in the year after the merger.

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