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TALENT ASSESSMENT IN M&A THE PEOPLE FACTOR

MARSH & McLENNAN COMPANIES

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TALENT ASSESSMENT IN M&A

THE PEOPLE FACTOR

There are many factors that contribute to success in M&A transactions. Many involve getting the right people into the right jobs. Unless the deal involves nothing more than physical assets (these are rare), the acquirer will need talented, high-performing individuals at all levels for the deal to reach its potential.

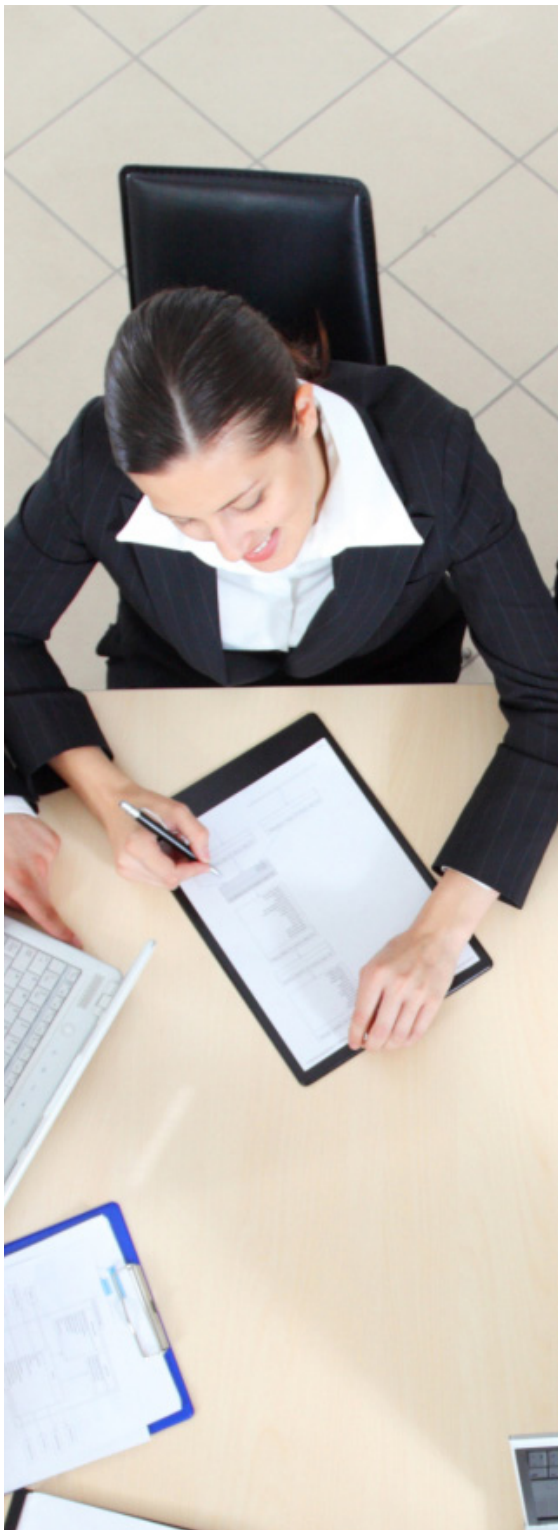
Consequently, it is critical to assess the target company's human capital with the same rigor that's applied toward assessing pension liabilities, inventories, financial statements and other significant assets. After all, people are ultimately a company's most valuable asset and solely responsible for income generation and revenue growth. Identifying and managing people risks and opportunities usually account for the difference between M&A success and failure. In most of the cases we see, however, acquirers know very little about the human capital that may soon be part of their corporate family – at least not initially.

M&A transactions always trigger decisions about individuals. A merger, for example, often produces redundancies; suddenly there are two CFOs, two customer service VPs, etc. The question is, who should go and who should stay (even if in a different role)?

In an acquisition, the acquirer must determine whether incumbents from the target are the best people for the job, given the objectives of the new organization. Talent assessment addresses this important issue. For each key position, talent assessment aims to answer these questions:

- Can this individual successfully achieve the business strategy?
- Has he or she demonstrated leadership that produces results?
- What is that person's industry-specific knowledge?
- How well does this person manage relationships?
- Will this person be able to work within our culture effectively?
- Does he or she develop the talents of key subordinates?
- How long will this person stay and remain motivated?

Answers to questions such as these put the acquirer in a much better position to make leadership and staffing decisions.



WHEN TO BEGIN

Talent assessment can be completed at any time, but the more information an acquirer has before signing a letter of intent or closing the deal, the better. For many practical reasons, however, this almost never happens. Time is insufficient. Data from the target is spotty or unavailable. Or the target will not give access to its key people. As a result, a big part of talent assessment tends to be done after the closing, when the acquirer has full control.

Mercer strongly encourages its clients to do whatever they can to overcome these barriers as early in the deal as possible. While the full, formal assessments described later in this article may not be possible in the early stages of a deal, there are many things that can be done to begin the assessment process and get an early read on people and potential deal risks that allow for an early determination of whether to proceed with the deal or walk away. These include observing the behavior during management presentations and meetings, reviewing CVs provided in the data room, conducting Web searches ("desktop" research) and conducting informal operational or functional meetings as part of the due diligence process.

The target's deal team can begin compiling a list of business, leadership and other behavioral attributes that begin to tell the story of whether a key or critical employee will fit into the go-forward organization or destroy the deal.

Years of experience have helped us systematize our approach to and tools for talent assessment, ensuring thoroughness and saving valuable time. The five steps are as follows.

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STEP 1: CLARIFY THE BUSINESS IMPERATIVES

Always begin with the objectives of the deal and expectations for the new organization. Talent, after all, must be measured against its potential to fulfill those expectations. A clear understanding of business objectives should guide the assessment. For example, is quick turnaround of the business needed, are growth objectives very high or is the acquisition in a stable environment that will need little change?

A FIVE-STEP PROCESS

STEP 2: DEFINE THE ESSENTIAL SUCCESS CRITERIA

2

The next task is to define the success criteria required by the business objectives. Those criteria typically involve skills, knowledge, behaviors, experience and values – and for executives, leadership ability and strategic thinking.

So, for example, for the CEO position at a target company, you should try to spell out:

- The level and scope of experience required to successfully lead the organization, depending on its size and complexity
- The technical skill/industry knowledge required for success in this position
- The intensity of ambition, commitment and personal interest a person must demonstrate in order to achieve the defined business objectives
- The balance of strategic and operational focus needed by the ideal leader

Culture is an important part of this step. The acquirer should define the workplace culture it wants its key people to embrace and demonstrate through their behavior. In many instances (including the case example offered below), acquirers want people whose values are compatible with their culture. They know that conflicting values will make for a bad corporate relationship and impair the deal.

STEP 3: DEVELOP ROLE PROFILES

3

In this step we move from the general to the specific, documenting the success criteria for each key position in terms of:

- Job scope and responsibilities
- Required skills, know-how and behaviors
- Experience the ideal candidate will bring to the table

Based on conversations with the acquiring company or hiring managers, we identify the level of responsibility and job requirements for the target roles. From this we identify the requisite skills, knowledge and abilities necessary to carry out the role requirements to their fullest extent.

In addition, we examine what experiences have helped other successful individuals in the past that are relevant to the current situation. This enables Mercer to create a robust, defensible and detailed description of the requirements of the target roles.

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STEP 4: ASSESS THE TALENT POOL

Our first three steps set the stage for the detailed work that follows. Here we gather whatever relevant data is available on candidates for each key position: Our goal is to give decision makers the information they will need in selecting the best people for each role. This data is gathered by interviewing the board (in the case of the CEO), hiring managers or others involved in the acquisition and gathering any past performance information that is available.

For executive and director/manager positions, the typical selection criteria include leadership ability and leadership style, alignment with the culture of the new organization, potential for future personal development, cognitive ability and motivation.

For professional positions, selection criteria are more concerned with specific skills and experience in the job; thus, assessment is heavily weighted toward professional competency, work history, past performance and future skill development potential.

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STEP 5: REVIEW AND SELECT TALENT

The results of the assessment are presented to decision makers in detailed reports. They use them for review and selection. This important final step, however, is beyond the scope of this article.

ORGANIZATIONAL LEVEL

ASSESSMENT APPROACH AND TOOLS

SELECTION CRITERIA

- Leadership behaviors, cultural alignment, future potential, motivational and cognitive assessment
- Specific skills, experience, tenure

ASSESSMENT

- Use of formal or external testing/ assessment tools
  - Strategic assessment /structured development interview
  - Career achievement record
  - Psychometric instruments, etc.
- Manager and employee assessment of competencies with panel validation process with input from:
  - Employee work history (pay/ performance)
  - Manager/self-evaluations
  - Interview (as required)

CASE EXAMPLE: JAPANESE CONGLOMERATE

To get a better feel for how talent assessment is actually conducted, consider the following case example.

One of the world's largest Japanese conglomerates has multiple Japanese and non-Japanese subsidiaries, many of which are acquisitive. In the US, each subsidiary is led by an American CEO who reports to an executive board in Japan.

Recently, one US subsidiary had its acquisition sights set on a smaller American firm in the oil and gas industry. Because the CEO of the acquiring subsidiary was approaching retirement, the executive board wondered whether the CEO of the target firm would be able to step into his shoes as leader of the newly enlarged US entity and if he would be a good fit. Mercer was asked to assess the CEO of the target.

In keeping with our methodology, we began with the Japanese board of directors. While others were scoping out the business imperatives of the proposed deal, our focus was on the CEO leadership question and the key concerns of the board:

- *Was the leader of the target entity capable of outstanding performance in a larger role?*
- *How well would he fit in with the Japanese conglomerate culture of tight management and its Japanese board?*
- *Would he have a long tenure (five or more years)? (The conglomerate's preference was for executives who would be effective and successful and stay on until retirement age.)*

These were the conglomerate's main leadership concerns; they asked Mercer to assess the CEO and report back. The board's concerns were well-founded in that the target CEO was relatively young and highly entrepreneurial. Having started and successfully guided his company for many years, he was accustomed to quickly and independently making key decisions. These are activities he might not be able to independently accomplish as head of one of the conglomerate's subsidiary companies.

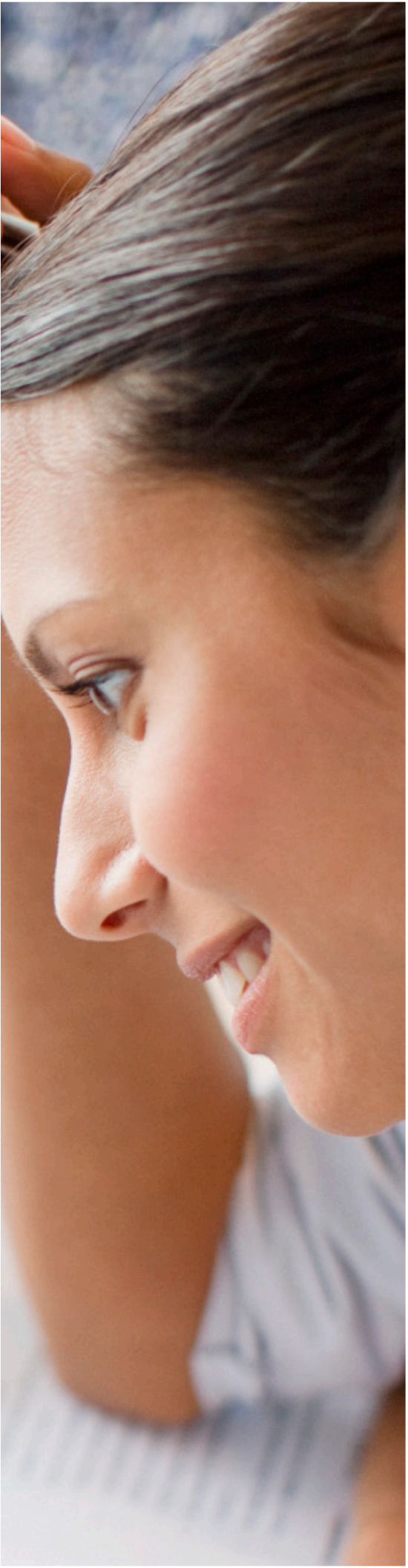
Fortunately, the conglomerate had a relationship with the target, as they had been doing business with it for many years: they knew the target fairly well, and communication was open even during the due diligence phase.

Through interviews with the target CEO and others and with the benefit of other data, Mercer recorded the assessment in terms of this individual's industry knowledge, role readiness, development potential, fit for his new role and the risks in his employment.

Mercer reported its findings to the Japanese board of directors, and the board then used that information as a piece of data for their decision. The board told us our information was insightful and helpful to them in evaluating the future potential of the target's leadership.

M&As are full of risks and opportunities. It is essential to thoroughly evaluate key and critical talent with focus, rigor and honesty – beginning as soon as possible and continuing throughout the deal phases.

The consequences of getting people decisions wrong could be the difference between winning and losing in the marketplace.



A FINAL THOUGHT

M&As are full of risks and opportunities – many reside in the target company's human capital. Because of this, it is essential to thoroughly evaluate key and critical talent with focus, rigor and honesty – beginning as soon as possible and continuing throughout the deal phases.

The consequences of getting people decisions wrong could be the difference between winning and losing in the marketplace – which is nothing any company can withstand in today's highly competitive market and volatile economic environment.

ABOUT MERCER M&A

Mercer's global M&A consulting business advises clients on transactions, including mergers, acquisitions, joint ventures, initial public offerings, spin-offs, divestitures, start-ups, and business restructurings and transformations.

Our experienced M&A consultants in more than 40 countries represent the full range of our consulting expertise and help clients realize the value of their deals through their people.

At each stage, from pre-target through transition to integration planning and execution, Mercer partners with each client to:

- Bring clarity to the business context
- Provide analytical support, solutions and proprietary tools for all people-related matters
- Offer guidance in managing and deploying the workforce
- Prepare and help organize HR to be successful in deal work and to help ensure that business goals are met

For more information, visit www.mercer.com/mergers-acquisitions.

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