THE PEOPLE PROCESS

Talent Assessment During M&A

Getting to know talent during a merger or acquisition is the key to success.

Many factors contribute to success in mergers and acquisitions transactions. Many involve getting the right people into the right jobs. Unless the deal involves nothing more than physical assets — which is the exception to the rule of acquisitions in today’s global business world — the acquirer will need talented, high-performing individuals at all levels for the deal to reach its potential.

Consequently, it’s critical to assess the target company’s human capital with the same rigor that is applied to the assessment of pension liabilities, inventories, financial statements and other significant assets. If we agree that people are, ultimately, a company’s most valuable asset and largely responsible for income generation and revenue growth, identifying and managing people risks and opportunities usually account for the difference between success and failure. In many cases, however, acquirers initially know little about the human capital that may soon be part of their corporate families.

Mergers and acquisitions transactions always trigger decisions about individuals. A merger, for example, often produces redundancies; suddenly, there are two CFOs, two customer service vice presidents and so on. The question is who should go (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,

By Chuck Moritt, Linda Gookin and Emily Boynton, Mercer
Mergers and acquisitions transactions always trigger decisions about individuals. A merger, for example, often produces redundancies; suddenly, there are two CFOs, two customer service vice presidents and so on. **The question is who should go (even if in a different role)?**

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/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/she develop the talents of key subordinates?
- How long will this person stay and remain motivated?

Preclose Pressure

Talent assessment can be completed anytime, but the more information an acquirer has before signing a letter of intent or closing a deal, the better. For many practical reasons, however, this rarely happens. Time is insufficient. Data from the target are 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. Thus, organizations should 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, many things 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 a deal. These include observing the behavior during management presentations and meetings, reviewing CVs provided in the data room, conducting web searches and informal operational or functional meetings as part of the due diligence process.

The target’s deal team can begin to compile 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. Figure 1 on page 28 describes the assessment approaches and tools that can be used for a systematized approach to talent assessment that will ensure thoroughness and save valuable time. In the authors’ experience, there are five steps to the process.

**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 high or is the acquisition in a stable environment that will need little change?

**step 2 Define the Essential Success Criteria**

Define the success criteria required by the business objectives. Those criteria typically involve skills, knowledge, behaviors, experience, values — and, for executives, leadership ability and strategic thinking.

For example, to fill the CEO position at a target company, it’s important to determine:

- The level and scope of experience required to lead the organization or destroy the deal. Figure 1 on page 28 describes the assessment approaches and tools that can be used for a systematized approach to talent assessment that will ensure thoroughness and save valuable time. In the authors’ experience, there are five steps to the process.

To read a book about this topic, log on to [www.worldatwork.org/workspan](http://www.worldatwork.org/workspan).
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 company described in Talent Assessment at the CEO Level: A Case Study on page 29), 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**
In this step, the assessment moves from the general to the specific, documenting the success criteria for each position in terms of job scope and responsibilities; required skills, knowledge and behaviors; and experience the ideal candidate brings to the table.

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

In addition, the team examines which experiences have helped other successful individuals in the past that are relevant to the current situation. This enables the creation of a robust, defensible and detailed description of the requirements of the target roles.

**step 4 Assess the Talent Pool**
The first three steps set the stage for the detailed work that follows, gathering whatever relevant data are available on candidates for each key position. The goal is to give decision makers the information they will need to select the best people for each role. These data are gathered by interviewing the board (in the case of CEO talent assessment), hiring

---

**Talent Assessment at the CEO Level**

**A Case Study**

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

Recently, one U.S. 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 the retiring executive’s shoes as leader of the newly enlarged U.S. entity and if he would be a good fit. A talent assessment of the CEO of the target company was ordered.

In keeping with the methodology described in this article, the assessment began with the Japanese board of directors. While others were scoping out the business imperatives of the proposed deal, a team of HR experts for mergers and acquisitions focused on the CEO leadership question and the key concerns of the board:

- Is 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 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 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 together for many years. The conglomerate 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, the assessment focused on the individual’s industry knowledge, role readiness, development potential, fit for his new role and the risks in his employment. The findings were reported to the Japanese board of directors, and the board used that information as key data for its decision.
managers or others involved in the acquisition and gathering any past performance information 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 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 potential for skill development. In addition, competencies may be more circumstantial, related not only to past performance and potential, but to more immediate factors, such as the maturity of the market or what stage of the business cycle the company to be acquired may be in.

**step 5 Review and Select Talent**

The results of the assessment are presented to decision makers in detailed reports. The reports are used for review and selection. The quality and extensiveness of these results go a long way toward ensuring the full value of the deal.

**Conclusion**

Indeed, mergers and acquisitions are full of risks and opportunities, and many of those live 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 decisions about people wrong could be the difference between winning and losing in the marketplace — something no company should risk in today’s highly competitive and volatile economic environment.

Chuck Moritt is a senior partner at Mercer in Washington, D.C. He can be reached at chuck.moritt@mercer.com.

Linda Gookin is a principal at Mercer in New York. She can be reached at linda.gookin@mercer.com.

Emily Boynton is a principal and senior mergers and acquisitions consultant at Mercer in New York. She can be reached at emily.boynton@mercer.com.

**resources plus**

For more information, books and education related to this topic, log on to www.worldatwork.org and use any or all of these keywords:

- Talent management
- Merger and acquisition
- Talent pool.