

# The Talent Prize: A Strategic Outcome of Corporate Transactions



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**C**orporate transactions — mergers, acquisitions, divestitures, joint ventures — took the global economy by storm in 2007, their peak year, with approximately 73,000 transactions. Collectively, these deals were valued at \$5.6 trillion. In 2008, the appetite for corporate transactions remained strong at the beginning of the year but weakened considerably with the onset of the global financial crisis. Transactions in 2009 fell to 54,000, and the total deal volume plunged to \$4 trillion.

## NEW CHARACTERISTICS

Without question, the combination of the global recession and the decreased availability of credit has reduced organizations' willingness to engage in mergers and acquisitions (M&A) and other types of deals. However, interest in transactions persists, given the continued strategy of many organizations to deliver growth. These deals, in the new economy of 2009 and beyond, will likely be characterized by:

- Increased speed
- Increased diversity in cross-border transactions
- Increased bargains
- Increased focus on talent management.

### **Increased Speed**

The average time from announcement to close of a transaction dropped from 130 days to 60 days in 2008. This decrease resulted in one important outcome: the due diligence process, already uncertain in many cases, has become more intense and more vital to influencing the long-term prospects for a successful deal.

### **Increased Diversity in Cross-Border Transactions**

From 2000 to 2001, the United States, Europe and Asia accounted for 60 percent, 30 percent and 10 percent of deal volume, respectively. By 2008, the distribution was approximately 40 percent, 40 percent and 20 percent. Emerging market players in India and China have joined the global community of acquirers, taking advantage of their accumulating capital alongside the dealmakers in the traditional markets of the United States and Europe.

### **Increased Bargains**

Acknowledged values could be obtained in the market, for those willing to seek them out. While credit is less readily available, numerous organizations are sitting on strong balance sheets with enough cash to complete deals, and they will. Some 10,400 transactions were recorded in the first quarter of 2009, indicating a slower pace but an ongoing desire among many companies to pursue growth by taking advantage of lower-priced assets.

### **Increased Focus on Talent Management**

Through research Towers Watson has conducted on M&As, as well as in the work it does with clients, it's become clear that deal values are strengthened by certain factors that don't always receive the attention they deserve. These factors include the formation and alignment of leadership teams, as well as the selection, staffing and deployment of talent — that is, talent management.

### **WHY TALENT MANAGEMENT?**

In today's transaction environment, companies are struggling to balance the need for talent, at all levels, with the need to control costs and achieve other business objectives. Despite salary freezes, limits on executive pay and other measures in response to the economic downturn, people costs remain one of the largest expenditures for many organizations. The fact remains that many companies completing deals will be hobbled by future talent shortages. Even those companies with strong balance — that plan on acquisitions to deepen and strengthen their product and service portfolio — may not succeed in building their talent portfolio to the extent desired without fully integrating their acquisition strategy into their overall talent agenda.

## **SHAPING THE TALENT AGENDA**

What form the talent agenda will take in a corporate transaction will vary, depending on the transaction's intended purpose and the predetermined talent gaps.

### **Organizational Capability Builder**

In some cases, the deal can advance a company's strategic position through the acquisition of missing capabilities. For example, for a pharmaceutical company, a deal can bring skills and knowledge about the generic drug industry or the consumer health business that may not have been part of the existing business. In this case, ensuring that those employees in pivotal positions who contribute most directly to key organizational capabilities are retained and engaged in the new company will safeguard the deal's perceived value. Pivotal jobs are determined not only by assessing their importance to executing strategy, but their impact on financial value. Typically, more can be done in a deal to ensure that the people who made the target attractive in the first place are identified and retained.

### **Leadership Pipeline**

For young companies or companies that may not have invested in building a leadership succession pool, transactions can provide an opportunity to preview leadership talent in a more effective and meaningful way than external recruiting. A deal gives an organization the chance to identify who the key influencers are at all levels of the organization as well as those managers or leaders with a proven track record of success. Regardless of function or geography, letting good leaders leave the organization is a potential liability. Taking the time to gather insights into current and future leaders through available assessment and performance data can strengthen the organization's future pool of leaders. Observing behaviors during the deal phases provides a real view into how these leaders champion change and handle times of ambiguity and uncertainty.

### **High-performing Teams**

For teams to achieve high standards of performance, time is a core requirement: time to build trust, to understand how best to leverage strengths and to shorten the learning curve so common objectives are reached more quickly. Disassembling teams that already function above the norm may shortchange the deal's value. Oftentimes, a team leads to a transformational breakthrough. Retaining effective teams will increase the probability of future innovative solutions. Thinking carefully about how to retain and engage not only individuals but teams will shorten the time needed to integrate into the new company. Successful retention of high-performing teams in M&A can have value beyond the obvious: performance and productivity. Leveraging successful teams for cultural integration and knowledge transfer are just two examples.

## Workforce Supply

Often times the “business as usual” recruiting processes continue to operate, separated from the staffing and selection process of the people involved in the deal. This may occur when a company is being integrated into one strategic business unit (SBU) that functions as a stand-alone unit. The loss of talent that may well serve another SBU that is part of the parent company may be an invisible cost. Robust workforce analytics capturing needs across lines of business and geographies can help to hold on to talent that may otherwise be ignored or let go.

Strong existing talent-management processes will ease the burden of integrating companies. Those companies with solid processes in place will be able to move with speed and agility during what has become a shorter life cycle for M&As from pre-deal to integration. Companies putting in place the tools and methodology to assess their current and potential talent gaps will be better positioned to reap the value of future deals. Companies that can answer the questions in Figure 1 are more likely at the end of the integration to have gained a significant talent advantage.

## INTEGRATING TALENT MANAGEMENT INTO DEAL PHASES

Talent management begins with target evaluation and extends through the implementation of the integration plans (See Figure 2). Among the most important deal-related activities are:

- Talent due diligence
- Integration planning
- Implementation
- Post-deal assessment.

### Talent Due Diligence

If done properly, due diligence can uncover or validate the essential qualities of talent. It is here that the partners can learn about the strength of each other’s talent-management practices and the strength of the talent itself — which jobs are pivotal, which are held by high potentials and which job families are mission-critical.

### Integration Planning

The all-important activity of strategic staffing initiates integration planning — that phase of the deal where the new organization identifies its roles and its workforce. Just as it is critical to understand the product and service offerings, geographic penetration and financials of the partner, it is critical to understand the workforce: what roles people hold; how and where they are deployed; what and how they are paid; what their age, length of service and performance happens to be. Depending on the timing — some or all of these data will be accessible. Tools useful to this identification include internal and external labor scans (See Figure 3).

Harmonizing all HR programs and processes provides the opportunity to support influential engagement drivers, the first and foremost of which is

**FIGURE 1** Questions to Consider in order to Gain a Significant Talent Advantage

Issue	Questions for the Acquirer	Questions About the Target
Organizational Capabilities Builder	<p>What core organizational capabilities should be strengthened to propel our future growth and success?</p> <p>Which roles are most critical to our ability to execute our business strategy for the combined company, i.e., what are the pivotal roles?</p>	<p>What capabilities exist within the target company that we need to retain? Where do these capabilities exist (functions, markets, levels)?</p> <p>Does the target company possess any new capabilities that can enhance our requirements?</p> <p>What similar pivotal roles exist in the target company? How would we assess the people performing those roles? Do they execute these roles in ways that create additional value?</p>
Leadership Pipeline	<p>What do our talent plans reveal about our supply of current and future leaders?</p> <p>Will the newly combined company and its strategic plan require a different set of leadership competencies?</p> <p>What are the requisite competencies?</p>	<p>What is our assessment of the leadership talent in the target company?</p> <p>What is the risk of turnover in key current and future leaders?</p>
High-Performing Teams	<p>What are our strengths and opportunities with respect to teamwork?</p> <p>In which functions/units would we be able to gain advantage by adding high-performing teams?</p>	<p>Where are the high-performing teams within the target?</p> <p>What is the benefit of retaining the intact team? Do these benefits outweigh the costs?</p>
Workforce Supply	<p>To what extent do we currently have the right people with the right skills?</p> <p>In which roles do we see the biggest gap between supply and demand?</p> <p>Are there specific markets in which we need to strengthen our presence or our capabilities?</p>	<p>What is the talent supply in the target company?</p> <p>How does the supply map to our existing shortages? To our future demand?</p> <p>In which markets does the target company have a strong local presence? How does this map to our existing or future needs?</p>

leadership behavior and involvement, according to the *Towers Perrin 2007-2008 Global Workforce Study*. (See “Closing The Engagement Gap: A Road Map for Driving Superior Business Performance” at [www.towersperrin.com](http://www.towersperrin.com).) It also affords the opportunity to leverage career pathing, as well as establish a new approach to pay, using a tool that brings career ladders into the compensation and development conversations. (See Figure 4). Career ladders allow for the evaluation of jobs and of the people who occupy them. They provide a ready format for transparency and communication of the skills and competencies needed to succeed and advance.

### Implementation

Ongoing career management and retention strategies support the continued enhancement of talent management during the rollout of new programs. It is here where new leaders are first tested, where engagement ebbs or flows, where outside

**FIGURE 2 Critical Steps to Inform Your Workforce Strategy and Solutions During the M&A Life Cycle**

	Pre-Deal	Due Diligence	Integration	Implementation
<b>Critical Steps</b>	<ul style="list-style-type: none"> <li>• Define strategic objectives</li> <li>• Determine M&amp;A business objectives</li> <li>• Determine future capabilities required to deliver on those outcomes</li> <li>• Identify current capability gaps</li> <li>• Identify pivotal talent gaps linked to strategic objectives</li> <li>• Identify key leadership gaps</li> <li>• Determine other key workforce issues</li> <li>• Collect workforce data and assess what data are missing for a full talent assessment</li> <li>• Review existing data to determine other key insights into current talent pool</li> <li>• Determine the success/failures of prior M&amp;A activities related to talent acquisition and retention</li> </ul>	<ul style="list-style-type: none"> <li>• Determine what data currently exist to understand workforce capabilities and identify additional data required</li> <li>• Based on data room and publicly available data, determine key organizational capabilities of the target</li> <li>• Prepare a preliminary point of view on their pivotal talent, key leaders, high-potential individuals and teams</li> <li>• Prepare a preliminary point of view on key workforce issues; note available data to support these hypotheses</li> <li>• Summarize the target's talent management processes, and identify any transferable processes</li> <li>• Prepare a preliminary assessment of combined capability gaps and strengths</li> </ul>	<ul style="list-style-type: none"> <li>• Determine capability gaps that may be closed post-M&amp;A via talent acquisition from the target</li> <li>• Pinpoint individuals and/or teams critical to closing the gaps</li> <li>• Develop an integration strategy to address the supply/demand gap, including talent acquisition and retention goals</li> <li>• Assess how the integration staffing and selection processes will be defined to ensure talent acquisition and retention goals are met</li> <li>• Begin to plan for integration of talent processes to yield stated results</li> <li>• Develop a retention and engagement strategy for the integration with a focus on pivotal and key talent</li> </ul>	<ul style="list-style-type: none"> <li>• Determine role of influential key change leaders in both organizations who can support integration efforts</li> <li>• Assess the effectiveness of the integration efforts on strengthening organizational capability and enhancing overall bench strength</li> <li>• Review the overall people integration plan to ensure alignment with talent goals</li> <li>• Document lessons learned for future transactions</li> </ul>
<b>Outcomes</b>	<ul style="list-style-type: none"> <li>• Organizational capability assessment</li> <li>• Workforce insights</li> </ul>	<ul style="list-style-type: none"> <li>• Target capability assessment</li> <li>• Workforce insights</li> </ul>	<ul style="list-style-type: none"> <li>• Workforce strategy</li> <li>• Talent integration plan</li> <li>• Required solutions</li> </ul>	<ul style="list-style-type: none"> <li>• Workforce action plan</li> <li>• Success metrics</li> </ul>

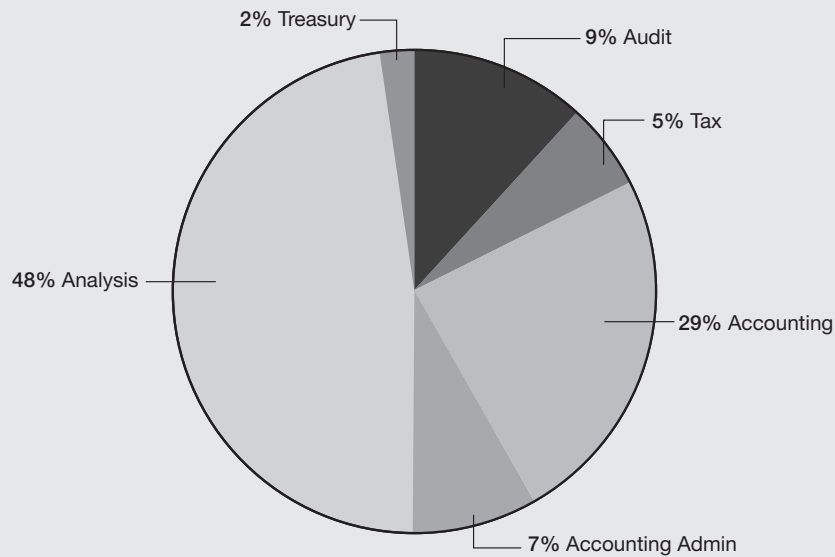
analysts and media critics observe and comment on the day-to-day performance of the organization.

### Post-deal Assessment

Just as the organization's performance will be closely watched by the analyst community, employee performance planning, assessment and feedback ought to be important contributors to the new organization's success. Ensuring performance

FIGURE 3 Workforce Scorecard — Analysis of Financial Function

Demographic Mix	Company A	Benchmark *
FTE Count	185	35,383
Avg Age	41.4	43.0
Avg Svc	10.3	9.9
Avg Pay	64,000	N/A
Percent Female	28%	38%
Pct at risk due to short service (< 5 yrs)	34%	N/A
Pct at risk for retirement	17%	N/A
Pct at risk for retirement in 5 years	33%	31%



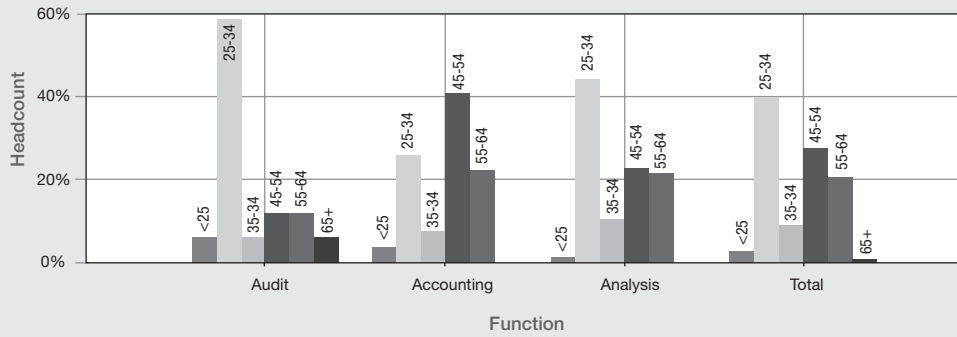
and contributions among everyone in the workforce helps ensure that the new organization’s goals are met. Leadership assessment is also important, as are leadership talent maps that point to strengths, weaknesses and developmental needs.

**SEVEN AREAS OF CRITICAL VALUE**

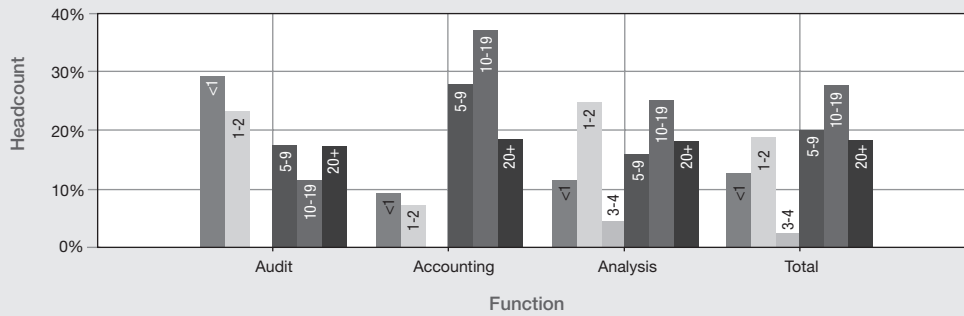
To support a talent-management strategy, seven critical drivers of value should be employed in any transaction (See Figure 5). These drivers of value are embedded within the cycle of a transaction from the identification of strategy, derived from the business plan, to the intended outcome of enhanced business performance by driving growth and managing costs. The seven drivers can be found in all stages of the deal from identifying a compatible business/venture to ensuring the deal is sound, establishing its value proposition, defining the blueprint for all aspects of the merged entities, including talent management programs, and executing the merger integration plan. The seven drivers of value are supported throughout by a project management office and change management processes. Some of the

**FIGURE 3 Workforce Scorecard – Analysis of Financial Function (Continued)**

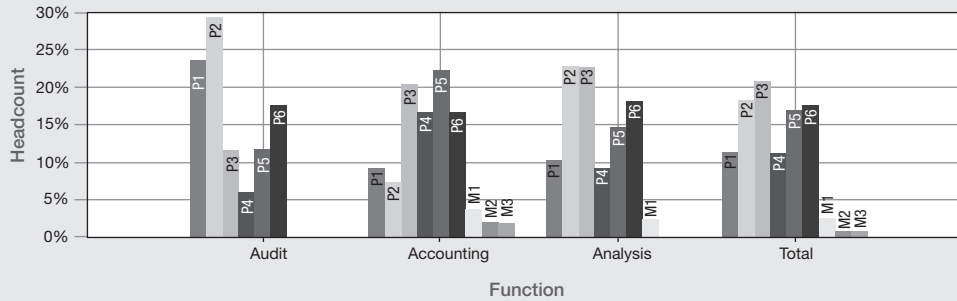
**Age Mix By Job Function**



**Experience Mix By Job Function**



**Job Grade Distribution by Function**



**Female Talent by Job Grade**

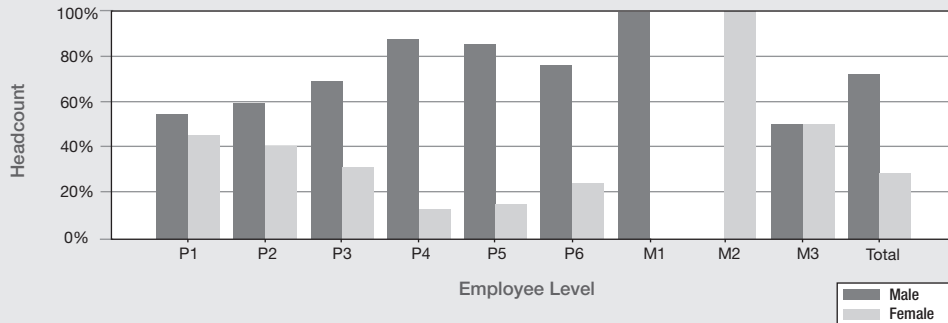
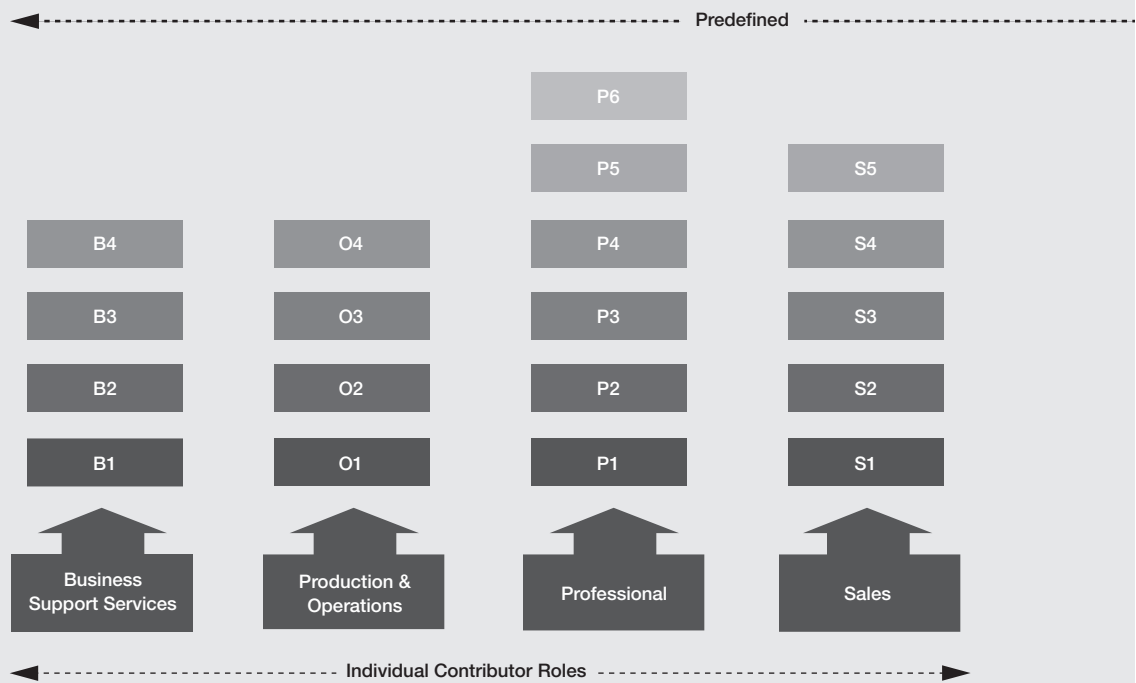


FIGURE 4 The Career Management Framework



Towers Perrin's predefined career ladders are adapted to ensure that the unique elements specific to the company, function or job family can be identified.

seven areas of critical value augment a talent-management strategy. Some allow for its implementation, and some are necessary for all elements of the transaction to succeed. The seven areas of critical value are:

- **Leadership** — selecting, retaining and equipping the right leaders for the new entity who are capable of delivering on the new business agenda that may, and often is, different from the requirements of either legacy company. Key to achieving this are leadership selection tools, programs focusing on skill building, and aligning executive performance and rewards with drivers of shareholder value, all the while assessing retention risks.
- **Culture** — creating and sustaining a corporate culture that is aligned with the new business strategy by assessing the cultures of the acquirer and target, developing a set of interventions to align the cultures and providing for ongoing assessment and measurement.
- **Workforce deployment** — translating the business plan into a detailed workforce plan that projects the number, mix, skills and cost of employees needed to meet business objectives across job families and locations. This is done by benchmarking the current workforce, analyzing anticipated changes, evaluating relevant labor market data and identifying actions to close the gap.
- **Staffing and selection** — rationalizing the merged workforce to achieve required cost savings while retaining and engaging the correct employees for the merged

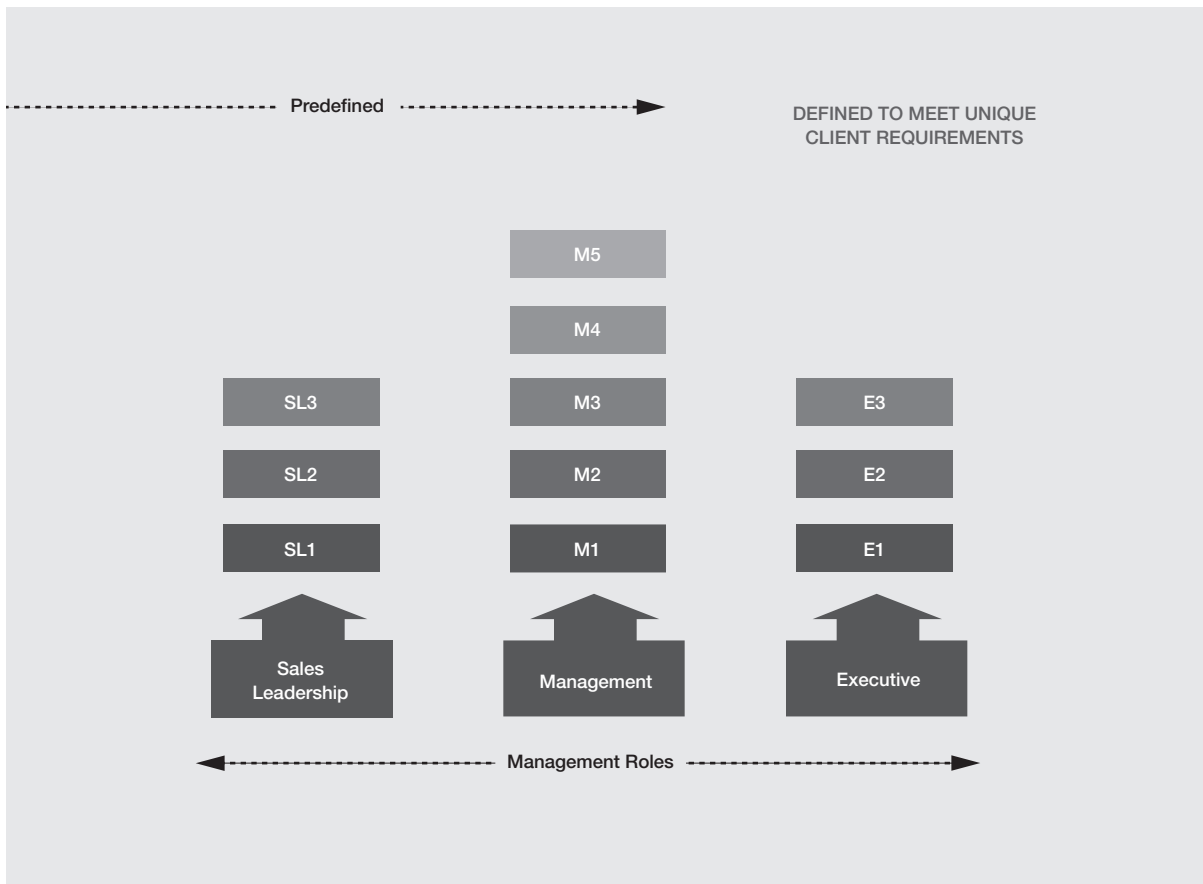
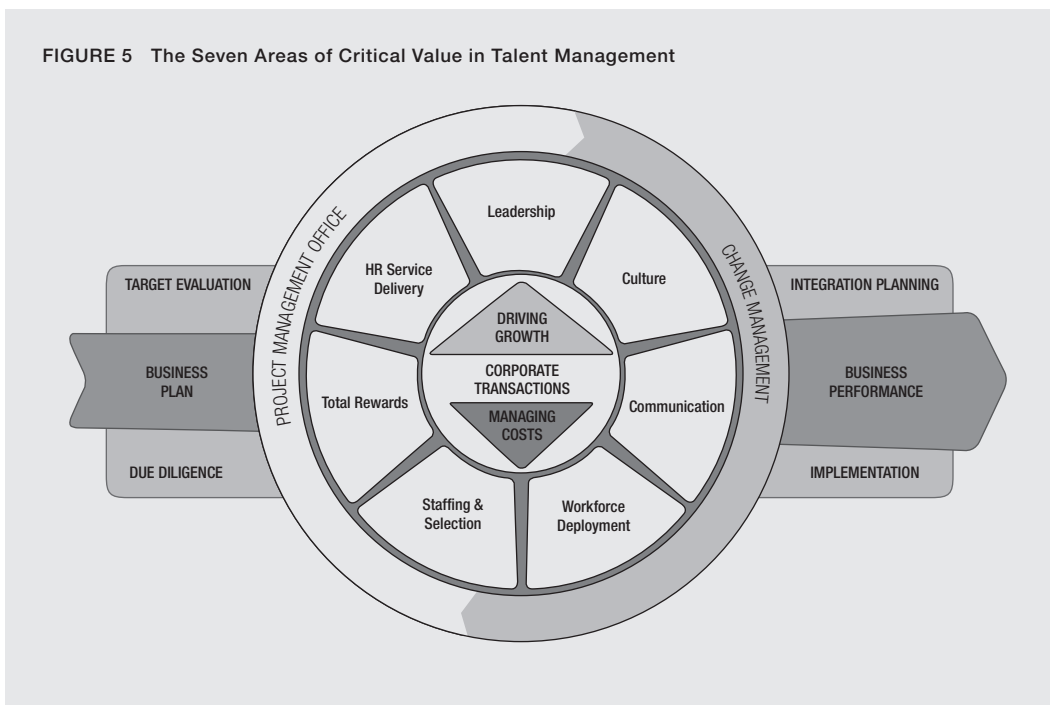


FIGURE 5 The Seven Areas of Critical Value in Talent Management



organization. Appropriate processes and tools are necessary, as are retention and transition plans, and identifying the new managers who will need to lead the newly formed teams.

- **Total rewards** — harmonizing the total rewards strategy and related programs to drive employee attraction, retention and engagement at the right cost by conducting side-by-side analyses to understand opportunities, risks and liabilities of each organization's reward systems. External market data and fact-based decision tools are fundamental to this assessment. Performance management and career-management processes are critical to sustaining any new total rewards strategy.
- **Communication** — creating clear and compelling communications supporting employee engagement and maintaining focus on driving business performance from predeal through integration by leveraging a variety of media to deliver messages most effectively.
- **HR service delivery** — aligning the HR function with the needs of the merged company while balancing day-to-day operational needs. Validating or refining the HR strategy, structure and delivery model is critical to this alignment, as is assessing and integrating HR technology and harmonizing HR policies.

Corporate transactions afford an opportunity to strengthen current and future workforces. The thoughtful acquirer will examine the talent that a deal affords. Good talent-management practices and processes can ensure value creation as well as help to achieve the deal's goals. Shopping for talent and new capabilities via a corporate transaction has become one of the lesser known, but nonetheless, real options in the new war for talent. The successful organization of the 21st century will be the one with a workforce-deployment strategy that includes securing, developing and rewarding top talent. ■

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