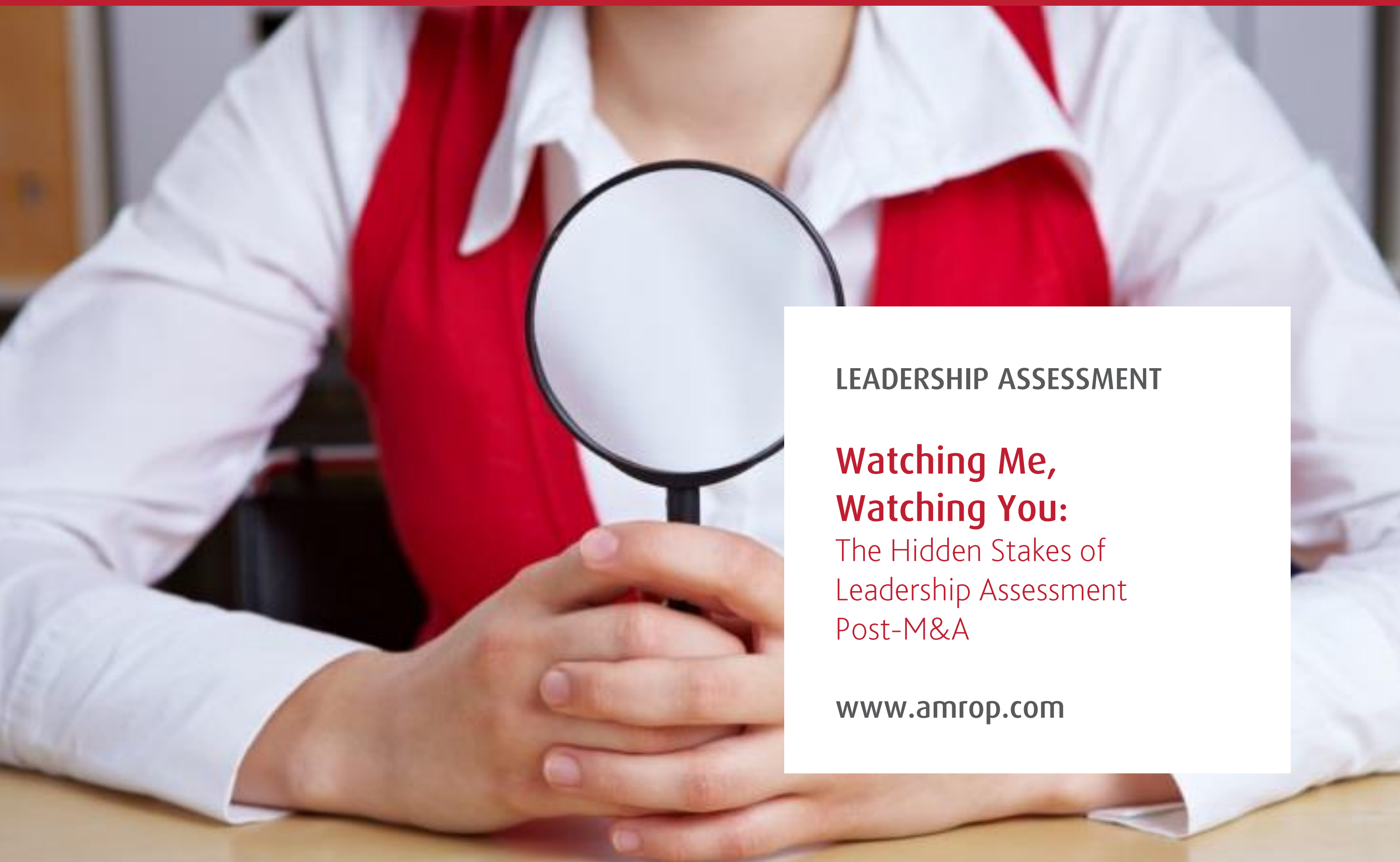
Amrop

Context Matters



LEADERSHIP ASSESSMENT

Watching Me, Watching You:

The Hidden Stakes of Leadership Assessment Post-M&A

www.amrop.com

Executive summary

Watching Me, Watching You:
The Hidden Stakes of Leadership Assessment Post-M&A

A merger or acquisition is an enduring yet risky 'reboot' strategy for organizations. And the post M&A phase is pivotal. Identifying and positioning the right leaders is a matter of vital importance, making their assessment a widespread reflex.

Yet the way in which senior talent is assessed can make or break the commitment of an organization's most precious asset at a vulnerable time for all.

In this article, Amrop highlights a core finding of recent mergers and acquisitions research and presents a set of leadership keys post M&A. Next, we demonstrate the importance of the human dimension in leadership assessment: firstly, to safeguard the retention of leadership talent and secondly, in yielding unexpected and critical benefits for M&A follow-through. We present the findings of two recent case studies and conclude with a shortlist of Management Messages.

Contents



Watching me, watching you

The Hidden Stakes of Leadership Assessment Post-M&A

Even as global economies fought to recover growth and market indicators flickered like candles in the wind, the overall volume of mergers and acquisitions activity remained impressive throughout 2012. The final quarter even ticked up as global deal volume rose 34% over the same period in 2011 to reach the highest levels since the third quarter of 2008.[1]

The drive for M&A activity seems to resist the most turbulent weather. It is an almost irresistible strategy to reboot corporate performance. Nonetheless, the failure rates make for sobering reading – between 70% and 90%[2] depending on which of the multiple reports you consult. And your choice is confusingly rich. Whether penned by consultants or academics, the literature accumulated over recent decades is as wide-ranging as it is fragmented. From identifying success (or damage limitation) factors, to re-examining the very purpose of mergers and acquisitions.

Fortunately, a recent analysis[3] of M&A thinking published from 1967 to 2011 is here to help. It provides talent strategists and practitioners with a clear path through the advisory jungle. Its authors highlight the *post*-acquisition or merger phase as most crucial, given its value-creation potential. Furthermore, during that honeymoon, the importance of having strong leadership clearly emerges.

Jerôme Touiller, Director of Leadership and Consulting Services with Amrop in Russia, explains: "Most research I have read investigating the roots of M&A failure identifies the 'human' factor as the most tricky and critical. I would link three of the top five phenomena to weak leadership and management. Firstly, the spontaneous departure of key people, secondly, strategic disagreements and thirdly, cultural gaps in governance. All of these add to finance-related factors - over-pricing, for example, or asymmetry of information before the deal."

If leadership is so crucial, what qualities should we seek in the select few? And, could the hunt for leadership qualities be only the beginning of an even richer story?

A recent study assessing employee attitudes to the ‘psychological contract’ after a large organizational change suggested that major shifts significantly impacted individuals’ view of their employment relationship

Leadership Keys Post M&A

Let us begin with some qualities that are non-negotiable for any leader in the post merger or acquisition period. These also illustrate ways in which organizations can leverage leadership to deliver performance.

- Establishing a clear direction whilst preserving room for maneuver
- Personal change-readiness – the neuroplasticity to navigate and adapt to disruption and paradigm shifts
- Self-governance – the ability to manage one’s personal anxieties - and those of stakeholders
- Example behavior - walking the talk and talking the walk
- High self-awareness regarding one’s role contribution potential - and limits - in the team context
- Team leadership – the ability to build and steer diverse and complementary teams
- Ability to champion and cascade change top-down, whilst establishing systemic dialogues
- Capacity to assure alignment whilst preserving critical zones of diversity
- Realism in expectation- and goal-setting, whilst applying stretch where necessary
- Dual focus - installing change whilst safeguarding day-to-day business activities

This wish-list suggests how important it is for leaders to manage not only the *structural* aspects of change, but *human* resistance to it. Simply put, change stresses, even distresses, people. Whilst this is hardly news, human reactions are notoriously difficult to predict and capture. For example, a recent study assessing employee attitudes to the ‘psychological contract’ after a large organizational change suggested that major shifts - such as a merger or an acquisition - significantly impacted individuals’ view of their employment relationship[4].

If leadership matters in the post M&A period, then it goes without saying that organizations need to ensure that the right leaders are identified, assessed and positioned. Yet deep-seated human reactions to change can have serious implications for the way organizations go about leadership assessment.

Leadership Assessment – More Than a Numbers Exercise

José Leyun is a Partner with Amrop Seeliger y Conde, Spain, and Global Head of Amrop's Leadership Assessment Community of Practice. "It is impossible to over-estimate the importance of leadership assessment in an M&A context. As a guiding principle, it is essential to ensure that objectives and benefits, tangible as well as intangible, are professionally and independently defined. When designing a leadership assessment process and methodologies, their adaptability to local as well as organizational needs is key. A 'one size fits all' approach certainly gives an initial sense of coherence and manageability. However, pushback to 'one size fits all' will quickly become an all-too familiar feature of roll-out. The skill lies in defining what can be universally applied, and what can and should be adapted. It's all about synthesizing contradictions - unity and diversity, consistency and flexibility. This makes particular demands on the mental agility of leadership assessment designers – they need to be able to conduct a robust contextual analysis and translate this into pragmatic, flexible solutions."

An organization's leadership assessment strategy risks the opposite outcome from the one intended – leading to a drop in performance or even the defection of the very people it needs the most…

With these overriding principles as a starting point, what could remain the *risks* of an assessment process, and how can these be transformed into unexpected *benefits*?

"Identifying and positioning leadership talent in the post-M&A context tends to be the dominant objective of an assessment," Leyun explains. "However, keeping the successful leaders on-board post-assessment is just as important. When discussing human reactions to change, altered perceptions of their psychological contract for example, we must remember that leaders are humans too! This has clear implications for the way the assessment process should be communicated to the leaders under evaluation, conducted and followed-up.

"In reality, an M&A process is often dominated by structural, operational and financial considerations. Whilst the search for quantifiable security is understandable, it can swiftly turn leadership assessment into a 'human numbers' exercise. An assessment strategy must keep clear sight of the human dimension and take proper account of the professional and emotional needs of individual evaluees. If it fails to do so, even the people who are finally selected may feel disillusioned to a point of no return. This means that an organization's leadership assessment strategy risks the opposite outcome from the one intended – leading to a drop in performance or even the defection of the very people it needs the most – one of the new organization's most precious assets at a vulnerable time of transition.

"One powerful way of engaging senior evaluees is to seek their advice during the assessment on strategy and operations. This means that leadership assessment can have a major secondary benefit – management information. Getting such vital clues from well-versed stakeholders can and should increase the chances of a successful merger or acquisition."

Leadership Assessment in Action

We now present two leadership assessment cases conducted by Amrop. The first was performed post-acquisition and the second post-merger. Neither involved psychometric tools, preferring an exploratory, in-depth and structured interview. This had several benefits - it allowed unpredictable variables to emerge and created a compassionate, objective and confidential space for reflection, self-expression and buy-in.

1

Logistics Leader - Post-acquisition Assessment of the Top 50 Managers

CONTEXT

One of the strongest logistics operations in Northern Europe had acquired a 75% stake in Russia's leading warehousing operator with a workforce of 6,000.

It was now time to re-model the management team to ensure the success of the takeover, as well as assessing the top 50 managers to identify the pool of highest potentials in which to invest. These must be the people most demonstrably able to implement the strategy of the new organization in Russia and CIS. The New General Manager, an expatriate appointed for the region, approached Amrop's Leadership Assessment team.

PROCESS

Ekaterina Kimpelainen, Partner with Amrop in Russia, co-led the assignment with Jerôme Touiller, Director of Leadership and Consulting Services with Amrop in Russia. She explains: "It was essential for the company to audit the quality of its existing management team before deciding upon any promotion, internal mobility, reallocation of management responsibility or investment in management development. To deliver relevant insight, this programme must be customized to the client's specific context, strategic and operational objectives. Each two-hour assessment was implemented via an in-depth, structured interview in an individualized and confidential format. We applied our guideline set of 30 questions customized to the client's specific context, strategic and operational objectives. All interviews were performed in the local language and recorded to allow full transcription and translation into English. Given the post-acquisition context, the assessment also included an investigation to complete the due diligence and enable the top management team to anticipate possible resistance to change."

First, the Amrop Leadership Assessment team examined the past situation of the top 50 managers - their professional track record and successes. This was followed by core factors – comfort and discomfort zones, motivational drivers (power, achievement, affiliation) and personality profile, moving to leadership qualities including the all-important readiness for change and ability to drive it.

Crucially, the managers' possible fears, positive and negative feelings related to the arrival of a new shareholder were also explored. So too were their vision and understanding of the change process, the current and future strategy, potential synergies and risks. Of equally keen interest were evaluee perceptions of the quality of the social and organizational climate, the company as an employer and market player, its corporate culture and values, the calibre of its local management.

Finally, the future situation was explored with a view to succession planning, the managers' career preferences and ambitions. To close gaps, development needs and priorities were defined in compliance with the key competencies, behaviors and core values to be reinforced in Russia. Furthermore, the quality of the top 50 was compared with benchmarks in Russia and the CIS.

However, the assessment did not stop there. Jerôme Touiller: "It was also important to determine improvement priorities and identify unexpected operational challenges and risks. In that sense, our approach enriched the due diligence in this post M&A context. The interviews solicited managers' opinions regarding priorities for action and change, their suggestions to improve efficiency and productivity (globally or locally) in their direct scope of responsibility. We explored the optimization of existing processes and practices, the introduction of new processes and procedures, and so on. By discussing these topics through individual and confidential interviews, we also managed to raise awareness and readiness regarding the need for change – it was rather like a buy-in process. This approach is distinctive in that it combines assessment techniques with an engagement process. Apart from remodeling and developing the management team, we were preparing people to change and creating the right dynamic for change."

"Apart from remodeling and developing the management team, we were preparing people to change and creating the right dynamic for change…"

"Managers were taken into account as individuals rather than as 'human capital'. This increased the chances of establishing mutual respect and trust and obtaining sincere insights rather than generalized or socially acceptable responses…"

Communication and Anchoring

Ekaterina Kimpelainen adds: "Personalizing the assessment meant taking managers into account as individuals rather than as 'human capital'. This increased the chances of establishing mutual respect and trust and obtaining sincere insights rather than generalized or socially acceptable responses. Preserving confidentiality, the verbatim was not communicated to the client. It was exclusively used by the Amrop Leadership Assessment team to enrich the case for key findings, recommendations and the proposed action plan. At the client's request, we provided selected extracts re-compiled by key topics to nourish the discussion during feed-back. The way the format of the process and deliverables is set and customized and the arguments used for internal promotion are key to its success and to the final added value of the whole exercise."

AMROP's INSIGHTS AND RECOMMENDATIONS

The qualitative feed-back duly yielded recommendations to develop, retain and/or reposition each manager assessed. However, the leadership assessment process also yielded vital indicators for the successful follow-through of the acquisition. Decision-making was considered slow, the interviews revealed, and this was linked to the way that power was delegated. Furthermore, understanding of the organization's vision was fragmented and cross-functional communication and cooperation were disconnected. Performance was further undermined by frequent bottlenecks and the fact that key business process were considered poorly standardized and over-complex. Motivation was sub-optimal, linked to factors such as over-generalized target setting, the low exposure of employees and a general lack of teamwork. Amrop therefore recommended as priorities to:

- Improve the delegation of power to speed up the decision making process
- Communicate and cascade the corporate vision at all levels
- Redesign and implement a new motivation system based on individual KPI's
- Structure cross-functional cooperation between departments and motivate teamwork
- Eliminate bottlenecks (transportation, IT, regional development); simplify and standardize key business processes
- Mobilize and develop key employees through exposure, teamwork
- Install tutoring and best practice sharing with the *alma mater*
- Set up the internal communication function.

In this way, leadership assessment reaped a dual benefit for the organization: the identification of the managers best positioned to assure the post-merger integration and vital indicators for the managerial and cultural framework best likely to create the conditions for success.

2

Banking Services Leaders – Post Merger Assessment of the Top 33 Managers

CONTEXT

The two leading Spanish companies active in processing credit/debit card payments and cash withdrawals had merged and transferred to an entirely new entity with a fresh structure and organization. Having taken up the reins only a month previously, the incoming CEO sought the evaluation of the 33 top managers of both businesses.

"The new CEO was an outsider," says José Leyun, Global Head of Amrop's Leadership Assessment Community of Practice, who spearheaded the leadership assessment project. "He needed to evaluate the senior management of both companies in an independent and professional way – one that would enable him to form a clear-sighted opinion upon which to create a new senior management team. He also required insight into the second and third management tiers to evaluate their disposition to make a real contribution to the merger and rise to future challenges. Beyond these indicators, our leadership assessment also sought to better understand the culture of both companies. The target population for our assessment comprised the Executive Committee and their direct, senior, reports.

"It is important to note that the merging companies were unequally sized. Company AA was larger in terms of market share and structure. It had always had access to resources, enabling it to invest and grow in a significant and relaxed manner. Company A, the smaller of the two, had had comparatively limited access to resources. Its reference shareholder emphasized efficiency and envisaged a short term sale. It had been the sole operator in the Spanish market in the early stages of this business. Yet despite the initial head start of Company A, the subsequent commitment of Company AA's shareholders had led to heavy investments in technology and resources.

AMROP's INSIGHTS AND RECOMMENDATIONS

Applying a customized, interview-based methodology, the exercise delivered its primary goal – to give the new CEO an objective picture of existing and potential leadership capacity.

Yet the leadership assessment also uncovered fundamental differences between two organizations who were at first glance engaged in the same core business and activities. There were serious disparities in the managers' mindset and understanding of the business they were in. These differences were manifested in two distinct structures and cultures. José Leyun explains: "Perhaps due to the separate evolutionary paths of the two organizations, their managers had divergent perceptions of the merger. Those from the larger, resource-rich Company AA simply considered it as an opportunity. Those from the smaller Company A welcomed the end of restrictions and the renewal of their professional and personal growth. Not only did the sizes of the two players differ - the heavy investment of Company AA's shareholders had paradoxically led to the creation of an organization that was not very efficient. A culture of free expenditure and low control was highly evident.

"The managers of the two companies also had significantly different attitudes to the leadership assessment process. Those from larger Company AA displayed a reluctant, dominant style, making a wide variety of declarations regarding the superiority of its vision, structure and technology. They had no doubt about who should run the new company or the type of organization needed. We therefore evaluated their flexibility and integration capability as being lower than that of the managers of Company A. Despite this, the vision and ideas of Company AA's managers for future development were stronger – perhaps due to the fact that they had had to develop their organization from its position of smallest market player. They were more aggressive and proactive than the managers of their new bedfellow.

"Overall results-orientation was also very poor in Company AA - the abundance of easily-accessible resources had undermined any quest for efficiency or market competitiveness. At Company A, however, the situation was the opposite.

The assessment uncovered some fundamental differences between two organizations who were at first glance engaged in the same core business and activities. There were serious disparities in the managers' mindset and understanding of the business they were in.

“Over the years, managers had been assigned responsibilities as a result or technical prowess or the pure passing of time…”

“Levels of commitment to the company post-merger were also different. The managers from Company AA would engage only if they obtained an ‘adequate’ position based on track record and merit. No alternative option was considered – apart from leaving the new company. Those from Company A favored a role that would position them for their future growth. Yet they were potentially unprepared for this, believing that the challenge lay not in the merger itself, but in the future organization - regardless of their starting position. Still, some senior professionals at Company A sought a highly visible and responsible role within the new structure.

“However, the management teams had factors in common. Neither measured results in terms of financial indicators or efficiencies, but in technicalities and systems – all being difficult to quantify and correlate with performance. Neither had needed to engage in customer identification and acquisition and this had led to an absence of customer focus. Since the shareholder was the customer, the response to shareholder needs and demands was a priority.

“Furthermore, and perhaps due to the technological nature of both companies, leadership style and communication skills revealed room for improvement. Over the years, managers had been assigned responsibilities as a result of technical prowess and in some cases, the pure passing of time. We could find no evidence of higher-level management training in either company.” The findings raised the following imperatives for the new organization:

- Define a unified vision and strategy, including:
    - Short and medium-term goal-setting
    - Core values and principles
- Design a coherent leadership and management training and coaching programme
- Identify and cross-fertilize critical behaviors and practices
- Embark upon organizational and team re-structuring to dissolve barriers and open up silos
- Define KPI’s and development plans for teams and individuals
- Develop a customer acquisition and retention strategy

Amrop

CONCLUSION

A merger or acquisition remains an enduring yet risky 'reboot' strategy for organizations. And the post M&A phase is a critical time. Identifying and positioning the right leaders is of vital importance, making their assessment a widespread reflex. However, the way senior talent is assessed can make or break the commitment of an organization's most precious asset at a vulnerable time for all. Unfortunately, in the quest for the security of numbers, individual consideration may be sidelined. Yet taking care of the human dimension, we argue, can not only safeguard the retention of crucial talent, it can yield unexpected benefits for M&A follow-through.

MANAGEMENT MESSAGES

- A merger or acquisition remains an enduring 'reboot' strategy
- Yet 70% and 90% of efforts fail
- Research identifies the post M&A phase as critical
- During this phase, leadership remains of paramount importance and its assessment, equally so
- Overriding considerations in assessment design are independence and objectivity.
- The leadership assessment design team needs to be able to differentiate between global and local needs and create a synthesized and pragmatic assessment model
- In the M&A focus on the material dimension, the human dimension can be neglected
- Yet the way leadership assessment is conducted can make or break the commitment of those assessed
- A qualitative, individualized discussion allows reflection, exploration - and insights
- Soliciting assessee recommendations regarding post-merger strategy and operations has a dual benefit:
    1. Respect and consideration of the assessee
    2. Clues and keys to a successful M&A implementation.

Sources

1. Bloomberg 2012 Annual M&A Legal Advisory Rankings February 2013
2. The New M&A Playbook, Harvard Business Review, March 2011, Christensen et al
3. Critical Success Factors through the Mergers and Acquisitions Process: Revealing Pre- and Post-M&A Connections for Improved Performance, Thunderbird International Business Review, January/February 2013, Gomes et al
4. Psychological Contract Assessment After a Major Organizational Change. The case of mergers and acquisitions, Employee Relations, Bellou, 2007.

Authors:

Steffi Gande
steffi.gande@amrop.com

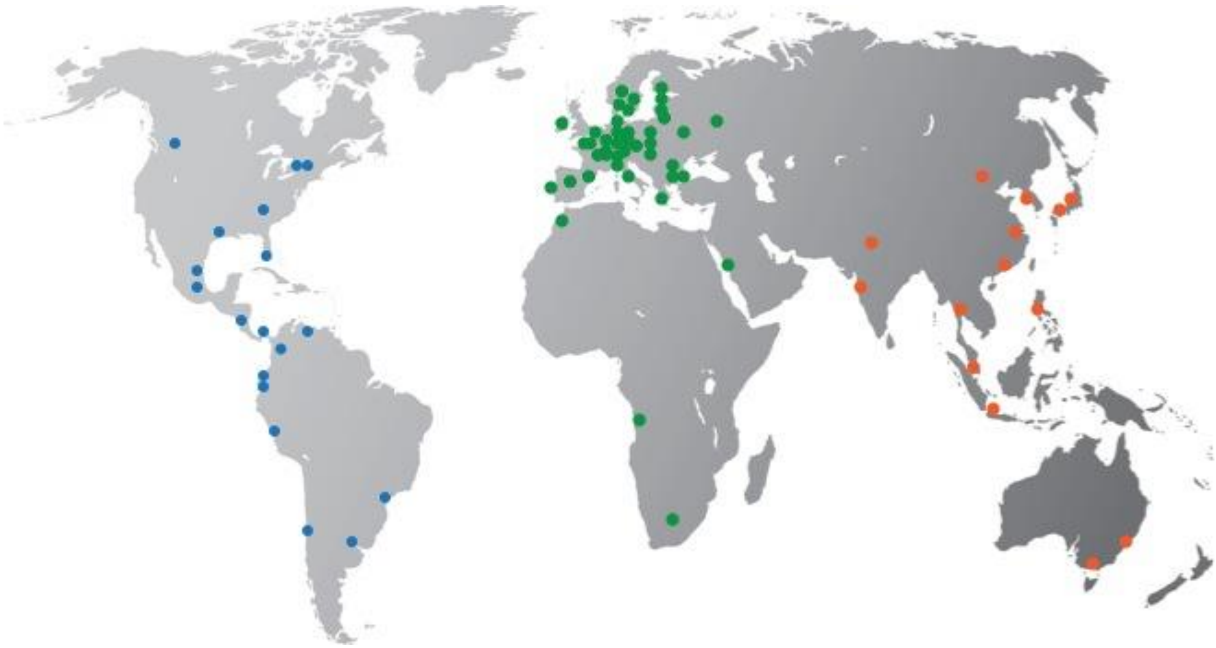
José Leyun
jose.leyun@syc-amrop.es

Jerôme Touiller
jerome.touiller@amrop.ru

About Amrop

With 85 offices in 56 countries, Amrop provides services in Executive Search, Leadership Assessment and Board Consulting. It is the largest partnership of its kind.

Amrop's Leadership Assessment specialists draw on a range of customized solutions and methodologies to offer a context-driven, local and global perspective to clients managing change in leadership succession, mergers or acquisitions, identification of senior executive development needs and areas of strength and weakness.



www.amrop.com