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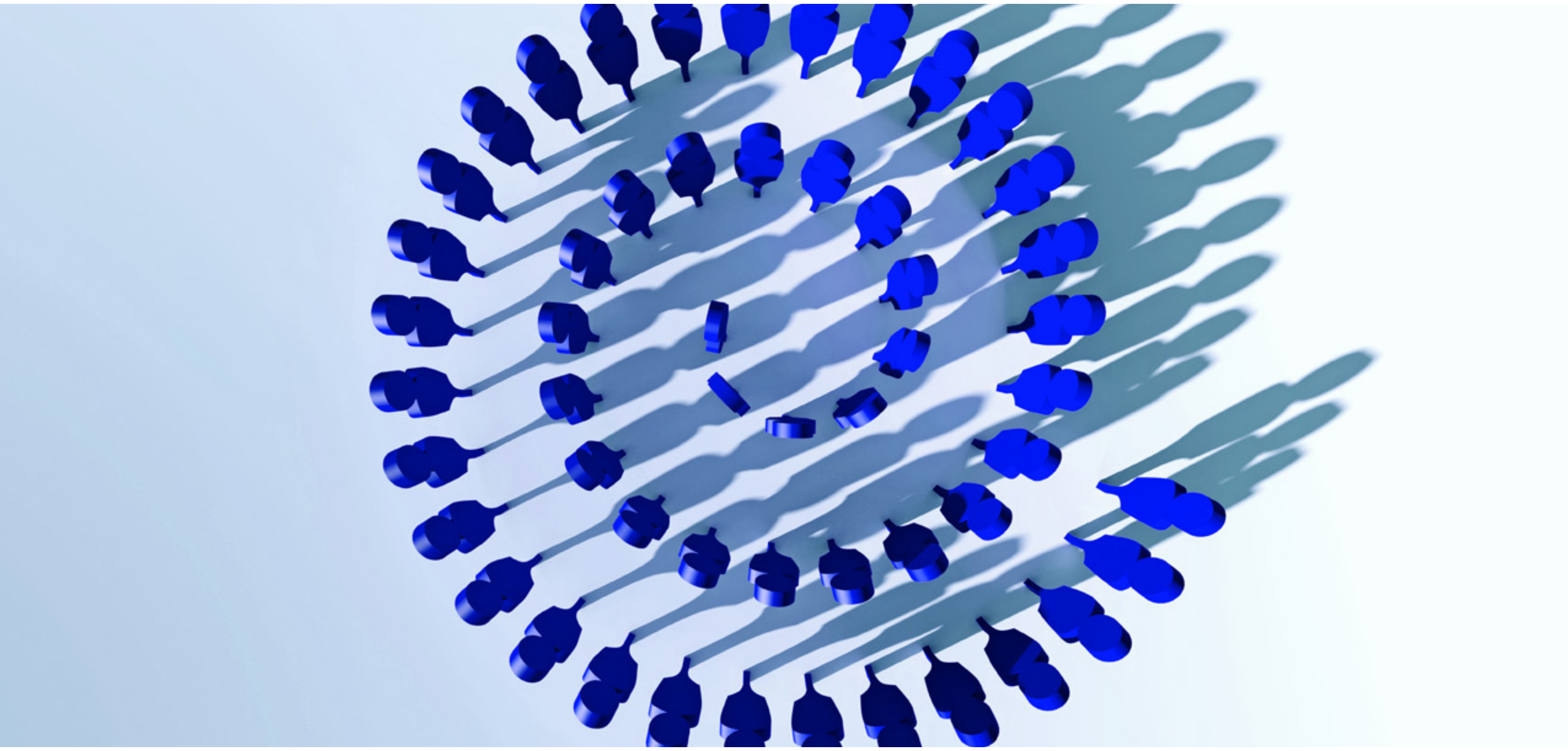

M&A Practice

Retain, integrate, thrive: A strategy for managing talent during M&A transactions

Keeping top talent in the fold and engaged before, during, and after a large deal closes is critical for creating value from transactions. Here's how to address their needs throughout the M&A phases.

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There is a paradox built into some M&A transactions that, when left unaddressed, can delay value creation or even demolish an otherwise solid deal thesis: Sometimes the very talent that an acquirer needs—the people and skill sets that perhaps attracted the acquirer to the target company in the first place—may not want to stay, given the timing or nature of the deal.

Departures of top talent can raise operational risks, weaken morale, or create other negative effects on an M&A integration. In the case of one serial acquirer, for instance, the near loss of an individual contributor turned out to be significant: This person was the only one at the target company who knew how to run an important process. The acquiring company managed to retain this individual at the eleventh hour, but the situation highlighted for the acquiring company a major gap in how their leaders identified critical talent.

In today's tight labor market, we've observed headhunters reaching out to some of the most talented people—mostly client-facing and revenue-generating staff and experts with specialized skill sets—at both target *and* acquiring companies on the very day a deal is announced. These high-performing employees are typically presented with more exit opportunities and are thus more likely than lower-performing employees to bolt when a deal is announced—and, in our experience, are still likely to do so in the two to three years after the deal closes. Meanwhile, research has shown that replacing an employee can cost up to three or four times the annual salary for the role[1]; in a high-stakes M&A integration, the costs of productivity loss and delayed value creation could be far higher.

Not every deal is centered on acquiring talent, of course, and some departures are inevitable in nearly every integration. But given the costs and opportunities at stake, senior leadership teams should think early and often about the actions they can take to keep people in the fold before, during, and after integrations.

Our decades of research and experience working with global organizations on M&A integrations reveal three steps leaders can take to retain top talent during all phases of dealmaking:

— Prepare the ground for integration ahead of the deal announcement by actively identifying high-potential performers, or "high potentials," across roles and revisiting incentives.

— Keep employees focused during integration and ahead of the deal close by communicating effectively, empowering frontline managers, and identifying key performance metrics.

— Sustain postclose changes by establishing onboarding and development programs and revisiting the employee value proposition (EVP).

Most important, these steps should be discussed and built into integration plans long before a deal is announced. In this way, acquiring companies can identify top talent, match them to mission-critical, value-creating roles, help them adapt to new workplace realities, and limit any disruption to day-to-day operations.

[1] Katie Navarra, "The real costs of recruitment," SHRM, April 11, 2022.

Before a deal is announced: Prepare the ground

In any organization, there are typically four crucial employee groups: the 2 percent who are high potentials and future leaders, the value creators and those who own important business initiatives and deliver on the deal synergies, the influencers and other people with deep social capital who can make change happen, and a broader group of mission-critical people who keep the company humming—for instance, a top salesperson or technology manager (exhibit).

Typically, when it comes to the talent component of a deal, an acquirer's first action is to identify which employees fit into each of these four groups within the target company—a reasonable reaction. To get a more complete picture, however, they should also extend this exercise to categorize the people in their own organization. And when looking at talent in both the parent and target companies, they should consider employees at all levels, not just in the first few management layers. After all, we all know people who play vital organizational roles without lofty titles or dozens of direct reports.

As part of this assessment, acquirers should also review existing incentives and consider whether they would still be fit for purpose after integration. McKinsey research reveals that in the post-COVID-19 talent market, nonfinancial incentives, such as public praise from managers, leadership attention, and leadership development opportunities, are just as critical as financial ones.

With these data about talent and incentives in hand, the top team can solidify its retention plans and, most important, actively shape the messaging on this topic. In our experience, when senior leaders convey their plans for change with empathy, consistency, and a sense that employees' skills, insights, and contributions matter, top talent will be more likely to stay in the wake of M&A.

Exhibit

Critical talent can be found at all levels of the parent and target companies.

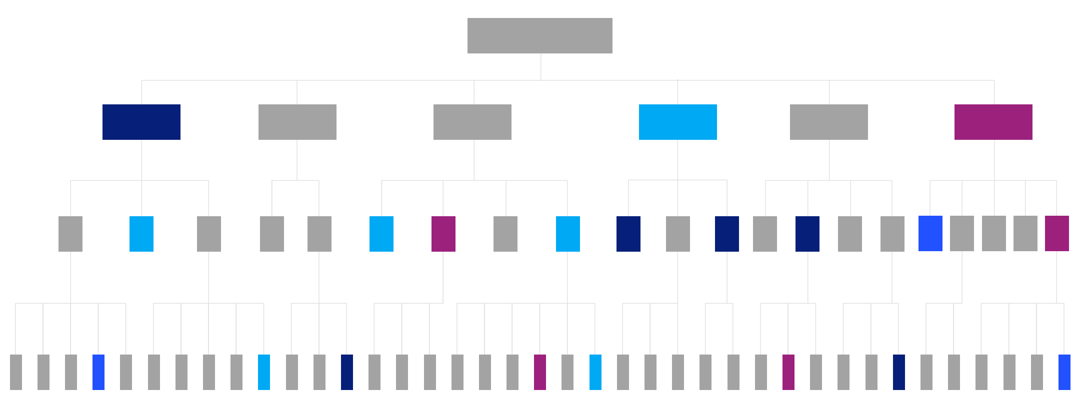
4 crucial types of employees within an organization's structure (illustrative)

1 Mission-critical performers maintain business continuity

2 High-potential performers are critical to future success

3 Value creators own initiatives and deliver deal synergies

4 Influencers motivate and inspire others



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One financial-services provider, for example, embarked on a major acquisition that it hoped would help the organization maintain its core business while still seizing the potential for growth in new product and service areas. Senior leaders knew they would need a comprehensive understanding of the talent needed not only to deliver services to customers day to day but also to support the future state that served as the rationale for the deal. Rather than rely only on performance ratings to identify this critical talent, senior leaders in the financial institution tapped into the insights of its people managers (across both the acquiring and target companies) to identify the high potentials, employees in business-critical roles, and so on.

After identifying the specific people deemed essential, leaders in both the acquiring and target companies worked together to build and deploy a retention communications strategy tailored to a dozen talent archetypes, which helped them retain nearly all the most critical employees.

Between the deal announcement and close: Maintain stability and focus

The period between the deal announcement and close can be filled with uncertainty, creating anxiety and disengagement across both organizations and often spurring high performers to consider their options—especially with headhunters on the prowl.[2] It's important, therefore, for senior leaders to act quickly to reassure and engage top talent.

Communication skills have become more important than ever in an era in which people spend less time in an office and engagement may be low. But leaders should understand that a stirring memo or town hall meeting about an impending deal won't be enough; employees generally pay less attention to what leaders say and more attention to what they do, including which employees they recognize and reward, which meetings they attend, and how receptive they are to innovative ideas.

Maintaining employees' engagement during a transaction requires a steady hum of two-way communication and support for change. Acquiring companies should establish a dedicated team to manage talent-related issues, address concerns promptly, identify and squelch myths and untruths, and focus on business objectives. This team should invite top talent into integration activities when possible, including in conversations with executives and the board, to ensure that their perspectives are reflected throughout the integration.

Acquirers should also remember the role their frontline managers can play in retaining talent through integration periods and equip them with the right information, tools, and training. Research shows that, across industries and functions, most employees trust their direct supervisors more than anyone else in the organization. In the case of M&A integrations, frontline managers can use their regular one-on-one meetings with top performers to discuss their concerns about integration and aspirations for the new organization and to generally make them feel heard and valued. Frontline managers can send these insights up the chain of command to help senior leaders track attitude changes by department, function, business, and region.

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[2] Jocelyn Chao, Becky Kaetzler, Natashya Lalani, and Laura Lynch, "Talent retention and selection in M&A," McKinsey, October 12, 2020.

Metrics are always central to effective performance management, but monitoring and measuring the outcome of retention programs are especially important in times of transition.

Metrics are always central to effective performance management, but monitoring and measuring the outcome of retention programs are especially important in times of transition. With that in mind, senior integration leaders should identify the most critical metrics to monitor across each of the four categories of talent. They should regularly discuss progress and shortfalls to make timely course corrections and intervene as needed. A thoughtful approach to exit interviews can also help the organization react quickly to any trends described by departing employees.

In the case of a transaction involving a large North American bank, the executive team built and deployed a robust “manager’s tool kit” to maintain consistent communications about integration and to set frontline leaders up for success in high-stakes interactions. The tool kit included speaking notes and detailed answers to frequently asked questions.

The bank’s communications team also built and deployed a quantitative dashboard to track which messages about integration and change resonated in each part of the organization, as well as in the target company, and where they needed to launch interventions or nudge managers to improve communications. The effort led to significantly lower attrition than expected across top performers and value-creating roles—both keen areas of focus in this integration.

After the deal closes: Solidify engagement and retention

Acquirers can identify key talent at the outset of deal discussions and take steps to keep top performers on board during the integration—but the work doesn’t stop there. Leaders must combat the change fatigue that often sets in during integrations and find ways to engage their high performers, even after the deal closes.

Indeed, the most effective engagement and retention programs typically begin immediately at close and are keenly focused on creating a sense of unity and purpose among employees from both organizations as they begin to execute the new company’s strategies. A comprehensive onboarding program for the merged entity is critical. Each step in the onboarding process, from getting access to new tools and technologies to being physically set up in a new location, can make or break the integrated organization’s relationship with its top performers. It may be helpful, then, to include these high potentials in meetings with senior leadership and involve them directly in discussions about the integration and the new company’s strategic direction, which can reinforce their importance to the company.

The postclose period can also be a good moment to roll out a redesigned, best-in-class EVP to align with the direction of the new company that includes, for instance, new development and skill-building opportunities, geographic and functional rotations, and better work–life balance. By the new, merged entity showing rather than simply telling employees how much it values their contributions, it can bring its values to life, strengthen culture and engagement, and improve the long-term retention of high performers.

A B2B electronic-materials player, for example, embarked on a large-scale organizational transformation in the wake of a significant acquisition. That effort required the organization to seek different kinds of talent beyond the types of candidates it had traditionally attracted. Clearly, this would require a new approach to talent attraction and retention and a revised EVP.

Recognizing this, talent and business unit leaders crafted a new EVP and launched communications and change management programs to help other leaders across the organization understand it. They asked managers and employees to help integrate the five core elements of this EVP—impact on society, impact on customers, impact on the company, impact on the team, and impact on personal success—into their conversations, processes, and day-to-day work.

They then identified and enlisted “cultivation leaders,” who were paired with job candidates to convey the company’s unique value proposition and to create a personal connection to demonstrate that this organization was different. Some top performers did depart, but senior leaders believed the efforts persuaded many highly valued people to stay.

While not every transaction requires a focus on talent, talent is a critical element in most deal theses. By identifying essential talent early, at all levels, and crafting a fit-for-purpose retention strategy, organizations will keep more of the people they need to deliver value and set up the new company for sustained success.

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