A CORPORATE M&A SERIES:

Your Next Deal Will Be Different

Part 4: Navigating Talent Strategy and Retention During the Great Resignation

Until recently, companies could power through a merger, acquisition or divestiture (M&A) with only minimal thought for talent strategy or retention. Buyers in these transactions had the presumptive, prevailing culture. “Assimilate or leave” was often the mentality.

However, job openings and voluntary turnover are at an all-time high. A record 4.3 million Americans[1] quit their jobs in August and 11.5 million quit[2] within a three-month span that ended in June – resulting in massive labor shortages. This behavior has been tagged as “The Great Resignation.”

While most companies have historically focused on the numbers over people, especially in private equity transactions, losing talent during a deal is more likely and more expensive than ever. Chances are, if you ignore or downplay the importance of talent and culture in your next transaction, you will be compromising significant value and hindering opportunities for growth.

What’s Driving the Change?

The pandemic exposed generational shifts among staff and accelerated trends in the workplace. Gen Z and Millennials expect employers’ purpose and values to align with their own. They want to choose where and how they work, and they expect employers to both articulate core values and act upon them in their daily experience.

There is also a paradigm shift in how people perceive work. Changes in how and where people expect to work, their alignment with the company’s values and/or how much they want to be paid, are fundamentally altering workforce cultures in ways that could not be anticipated or appreciated pre-pandemic. As such, they are still not fully understood.

These trends foreshadow a coming reckoning that pit the expectations of workers with more options available to them than ever before, against the desires of leadership. This is particularly true among companies that have mandated return-to-office policies.

Signs You May Have a Problem

Deals between two fundamentally different companies, even within the same sector, can bring significant complexity to the talent and culture landscape. Here are some questions to ask to identify the warning signs that your deal may be especially vulnerable:

- Has your company historically experienced retention challenges? Do you understand why?
- Is there a stark difference between the acquirer’s and target’s culture attributes or leadership style?
- Do the companies measure performance and reward employees in substantially different ways?
- Will turnover or cultural stress threaten key assumptions related to the value of the deal?

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[1] Wyatte Grantham-Philips, *Record-breaking 4.3 million Americans quit their jobs in August, new data show* (USA Today, 2021)

[2] Phillip Kane, *The Great Resignation Is Here, and It’s Real* (Inc., 2021)

Rethinking the Approach to Talent, Culture and Leadership

While it's certainly possible to see the warning signs of a culture clash, more often, identifying the risk requires objectivity and diligence early in the deal process. Below are constructive tactics to smooth assimilation in today's dynamic marketplace.

View cultural assessment as a must, not a nice-to-have.

Imagine this scenario: A buyer drives value by relying on data-driven decisions from a top-down strategic planning function. The buyer's target, on the other hand, leverages its agile, relationship-driven environment and decentralized decision-making to produce results. Both achieve value, and neither is right or wrong. The key is determining what values, culture attributes and supporting approaches will produce results in the combined entity.

Companies must:

- Identify differences between the values and culture attributes for each entity.
- Articulate the vision, purpose, values and strategic differentiators of the combined entity.
- Identify what culture attributes must be standard across the enterprise and which can vary. The last thing a buyer wants is to acquire a value-creating culture, only to destroy it through arbitrary assimilation.
- Design culture "levers" to drive strategy and desired values of the combined entity (e.g., performance measurement and rewards, organization structure, decision-making).

Increase the level of rigor in leadership assessments.

Companies cannot rely solely on past performance to evaluate leaders since their ability to deliver in the same way may change drastically under a new culture and business model. Instead:

- Build a leadership profile with the competencies and behaviors leaders will need under the new strategy and culture you seek to establish. For example, will value creation in the new entity call for a different level of strategic acumen? Risk-taking? Influence without direct authority? Global perspective? Innovation?
- Objectively assess leaders on current capabilities relative to the leadership profile, rather than simply relying on past results or relationships. Some C-level executives may be identified early in the planning process, but this type of assessment is especially important for selecting and developing the broader leadership team that will be instrumental in delivering deal value.

Align and communicate return-to-office expectations.

The pandemic introduced more employees to virtual work environments that many won't easily give up. Consider the following:

- Take a hard look at what processes must be performed in the office. Consider if hybrid or flexible models can produce retention gains and key labor market penetration (especially for diverse talent) that outweigh the benefits of "the way we've always done it."
- Clearly and quickly communicate the return-to-office policy and what's expected — ambiguity will only hurt the company in the long run.
- Clarify how professional development and mentoring in these flexible environments will work.

Prepare robust compensation and benefits plans for the near- and long-term.

In the short term:

- Expect retention plans for key talent to be more robust and more expensive.
- Ensure critical leaders remain on board by targeting the right C-suite compensation plans.
- Focus immediately on sales compensation and incentives to protect revenue.
- Keep in mind that employees will want to understand how remote work will impact their compensation – e.g., will they be paid based on the cost of their home location or according to the closest office hub's living costs?
- Lastly, plan for some turnover. Consider mitigating by accelerating knowledge transfer activities so that they occur as early as law allows.

In the long term:

- Align incentive plans to the strategy for the new, combined company.
- Choose incentives that will drive value and lead to growth opportunities, and identify the right KPIs to measure them.

Focusing on the People Side of M&A Will Add Value

The pandemic heightened the importance of planning for talent, pay for performance and culture creation in M&A. Plan to manage these factors as early as possible to avoid retention rates from spiraling out of control at significant cost to your next deal.

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