

Financial Services

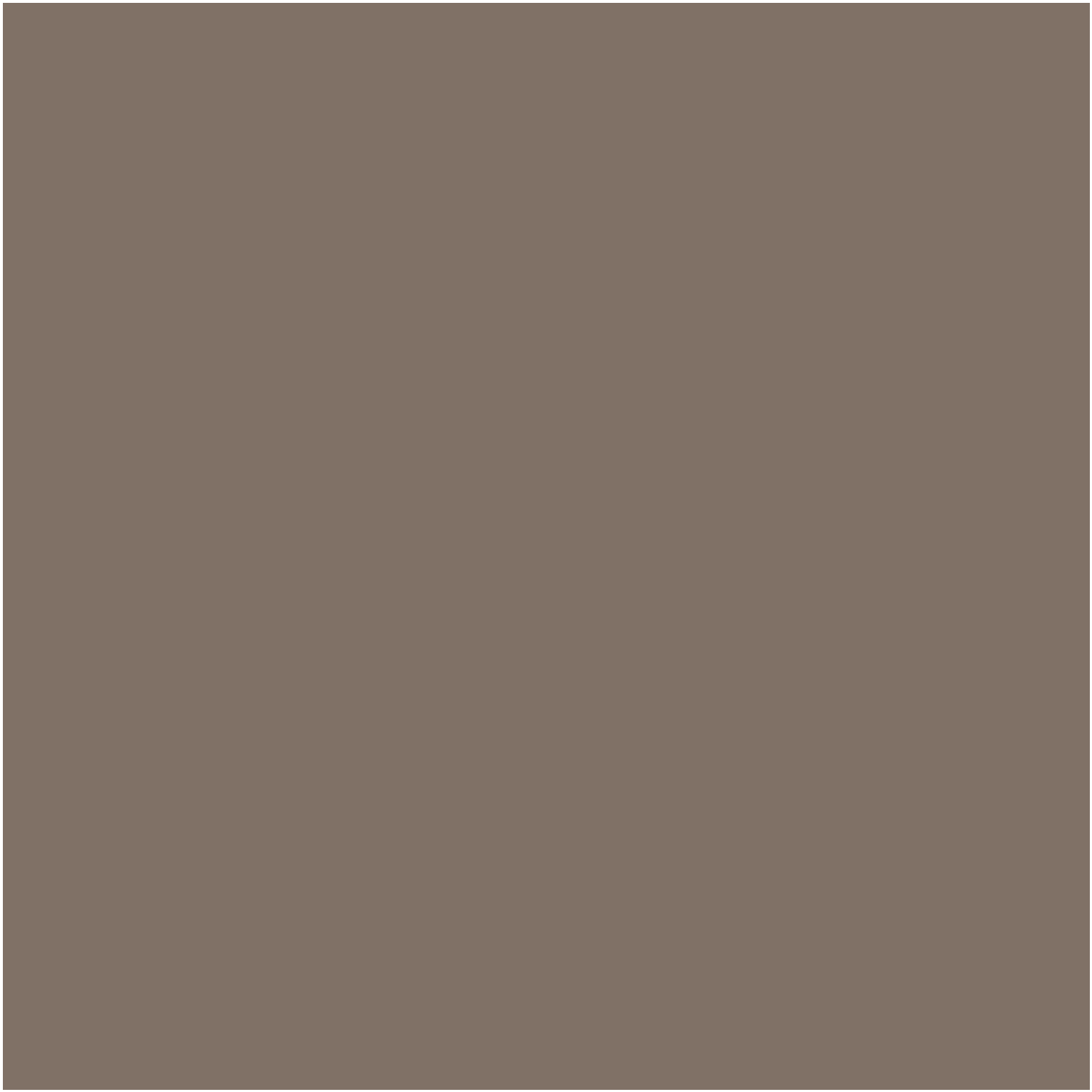
Talent and M&A

Meeting the talent needs in a globalising market*



*connectedthinking

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Overview

The world economy may be slowing, but for many businesses the need to expand across national and regional borders remains pressing. Equally urgent is the need to find talented people with the right skills to manage cross-cultural global operations. All too often, the strategic value of human resources professionals in this enterprise is unrecognised at a time when it should be seen as pivotal.

Change is now a constant in business, according to PricewaterhouseCoopers¹ 11th Annual Global CEO Survey. Nearly a quarter of chief executives taking part reported completion of at least one cross-border M&A deal within the previous 12 months and nearly a third said they planned to complete such a deal in the coming 12 months. Within the past three years alone:

- 80% of CEOs have implemented new business strategies.
- 72% have implemented new business processes.
- 71% have implemented new technologies.

And 90% have made up to eight major kinds of change in the way they operate. It is hardly surprising, then, that many are deeply concerned about increasing difficulties in recruiting, developing and retaining talented people with the right kinds of skills to implement and manage the sorts of changes they know have to be made. They now see the shortage of key skills as one of the biggest threats to business growth. But they are less clear about exactly what they want and how to get it.

The skills CEOs most frequently identify as critical are the ability to adjust rapidly to internal and external change, the ability to lead and develop others and the ability to collaborate. But although they favour these 'soft' skills and others, such as global experience, leadership skills, creativity and innovativeness, at the same time they also worry that it is difficult to find people with the right combination of technical and commercial skills.

They judge cultural complexities to be one of the biggest barriers to successful deals and yet tend not to value language skills very highly. Of all respondents, 43% are worried about cultural conflicts, and the larger the company, the more worried they are. More than 50% of the CEOs of \$10 billion-plus organisations are anxious about handling cultural conflicts.

More than two thirds say they want recruitment, motivation and development improved and a third of all CEOs are anxious about the poor management of human resources. HR functions are perceived by a large minority to be insufficiently effective in their approach. Although 62% think that new methods of recruiting, motivating and developing are necessary, only 43% believe that their HR functions possess the right qualities to do the job.

¹ PricewaterhouseCoopers refers to the network of member firms of PricewaterhouseCoopers International Limited, each of which is a separate and independent legal entity.

The key talent considerations can be summarised as follows:

The business challenge

- International M&A activity greatly increases the need for a broad range of skills and talents.
- Constraints on growth are now arising from lack of human, rather than financial capital.

Planning for change:

- Action needs to be taken much earlier in the M&A process to determine who are the people in a company that are key to the success of the project and how to keep them.
- Internal talent management processes should reflect changing skills requirements.

Global versus exporting talent

- Managers have to be clear about who is in charge of recruitment, talent management and retention and give these people the ability to act at the most senior levels.
- It is increasingly important to train staff in acquired companies for the most senior posts, rather than to import senior management from the parent company.

Practical questions

- The process of identifying key people helps in understanding how a target firm works.
- Good knowledge transfer is vital to future outcomes.

The problem for many large Western financial services organisations is that they are in mature markets in which they can no longer grow faster than their domestic economy. They can only grow by acquisition. But they are focusing more on market presence and the strategic aspects of the acquisition than on the talent and skills needed to make it work. Some companies, having concluded what appeared to be a good deal strategically, have then realised that the management of their target firm was simply not capable of working in a big global organisation.

The nub of the issue is the failure to recognise people problems early enough in the M&A process. Although, in the most recent survey, CEOs say that what most concerns them about M&A is the retention of talent, the vast majority of deals focus first on financial liabilities. In the due diligence stage, attention is mainly on the financials and it is not until the deal is done that attention turns to people and talent. There is little acknowledgement of the need to start identifying, at a much earlier stage, who key people are, how they are being defined as key people in the business and what needs to be done to retain them.

Equally, there is little acknowledgement of the strategically vital expertise human resources professionals can bring to bear on the problem. If business leaders do not think that their human resources professionals can do the job, they need to identify the people who can.

The business challenge

There is plenty of evidence that lack of the right talents and skills in a business is actively limiting the firm's ability to grow. Some lateral thinking is being done, and it is sorely needed.

The complexities of M&A have massively raised the overall talent benchmark. Buying businesses in different parts of the world, particularly, presents huge human resources challenges. This is not least because of the pressure regulators, local and global, now put on incoming firms rapidly to raise compliance standards in target firms, as a way of raising compliance standards in the whole host community. Pressure of this kind means that acquirers must either find people already within their organisation to do this work, or take people from the target firm and train them in the necessary core skills. These include all the deep technical skills, such as risk management and compliance, and it explains, to an extent, why technical skills remain so high on some CEOs' agendas while they also increasingly seek people skills.

Financial services firms have tended to cope with the problem by flying in their own teams of troubleshooters. This response demonstrates that the constraint on growth in these businesses is as much about the human capital that they can move around as it is about anything else. Until very recently it certainly was not lack of financial capital that constrained growth.

Influence on change

Because some players, particularly in the banking and insurance sectors, now have little scope to grow in their domestic market, they have been cutting costs, typically in the classic mid-level roles of risk, compliance and credit. But the people being lost are precisely those most needed now to deal with expansion into some of the newly opening emerging markets.

The constraint on resources that can take place at the heart of a business because of its need to cut costs in its local market can seriously threaten the success of its operations in other, international markets.

But straightforward shortage of necessary skill and talents is not the only problem for firms on the M&A trail. The fact is that talent in one organisation doesn't necessarily translate into being talent in another organisation. Sometimes only a proportion of the people deemed to be talented in one organisation move on to be seen as talented by a new organisation.

Similarly, key people identified in a target organisation may not ultimately fit with the new organisation that is being built.

Planning for change

A good first step towards easing a talent shortage is making it less an afterthought and more a central part of business planning.

The range of activities in which financial services companies are now involved has shifted dramatically from business as usual transactions to special project activity, such as integration, joint ventures, new product ranges and so on. Companies have become radically more focused on special projects, yet their talent management approach can still be narrowly focused on basic technical and product-orientated skills. These remain the competencies that most people are encouraged to develop if they hope to be groomed for senior roles, even though the business now demands a vital new range of activities as part of the M&A process. In M&A, the core talents include the ability to project manage, to integrate businesses, and to communicate effectively. Often these important abilities are not reflected in the talent management process.

Business leaders now really need to ask to what extent their internal talent management process reflects the need they have for a much broader set of skills in project management and integration that are increasingly core skills within the business.

Succession planning is key

In succession planning it is vital to determine:

- What is understood to be talent in the new organisation being created.
- Who are the people needed for the future.

If the business plans to expand into emerging markets, for example, it is important to reflect that in the talent acquisition and retention programme.

Banks are good at building operating models with a series of financial metrics that give a picture of the acquired organisation over a five-year time horizon and act as a cornerstone for strategy. It is time not just to look at financial metrics, but also behavioural factors, to understand what behaviours and cultures are most likely to deliver these desired results.

What business leaders need to do

When acquiring a company, business leaders should, as part of due diligence:

- Make qualitative analysis of the talent in the business.
- Identify potential high performers.
- Assess their willingness to relocate.
- Analyse the way that talent is managed.
- Assess the acquired business ability to bring people up through the ranks.

It is important to understand how good they are at the latter process; how they have approached it and the sort of qualities they have looked for. In the post-signing or pre-completion stage, there should be a separate work stream which identifies key influencers / high performers and starts to:

- Bring them into integration-related activity, or consultancy activity.
- Draw out from them why they are there.
- Develop with them a vision of the business's future.

The reason why these individuals are staying in the organisation is most likely not to do with cash, but with their role as key influencers and key potential. It is important, therefore, to bring these people into the exercise at that early stage and at an individual level. Whether or not people stay depends to some extent on the quality of communication and consultation they have and how valued and engaged they feel.

Managers have to be clear about how they develop people from entry level upwards. These processes are not necessarily seen as relevant at the acquisition stage, but the point of succession planning is to look into the future, particularly now, at a time of rapid change. When an organisation suddenly faces integration with another, objectives obviously change, which means that the talent in the pipeline will also have to change to reflect that.

Global versus exporting talent

The more a firm builds businesses across regions and cultures, the more it needs to develop a true global leadership cadre capable of running businesses on a global, rather than a colonial, basis. The tendency to export talent to run businesses in other parts of the world has long been a serious problem. Most acquiring organisations, particularly financial firms, are centred in the West. And, traditionally, their natural tendency has been to make an acquisition and put in westerners to run the business. This is seen as a safe option to ensure they bring the corporate approach into the new organisation but it may carry certain risks.

Firms are now beginning to recognise the business risk in assigning to the job people who may be challenged to understand the culture they are entering. They need people who are able to run and manage businesses globally, that is, to understand the company's markets anywhere in the world. That means developing local talent to fill the top jobs. The most successful firms will be those which shift from putting their own home-grown people into the top jobs, export style, to promoting people from any background, and which are capable of running

complex global businesses. It is these elements that will mark a firm out as truly global. By having a global approach to talent, the organisation no longer needs to depend on one central team for its growth.

Instead of having a 'war' team that travels the world to troubleshoot acquisitions, firms need to grow and develop teams in situ.

HR as a conduit for change

Often the catalyst for change from an 'exporting' to a truly global approach is significant re-organisation of the business. One UK firm has achieved it by recruiting a large number of people from outside the business at the most senior level and assimilating them into the emerging culture. Significantly, the human resources function has a very strongly strategic role in that business. As the CEO survey indicates, HR functions are often challenged when they seek such influence. The key point is that it is essential that whoever takes responsibility for identifying and managing talent globally has enough influence within the organisation to make change happen at the most senior levels in the business.

Practical questions

There are practical questions managers can ask that fit well in the pre-deal stages of M&A talks and help to minimise the risk that poor talent management will weaken and slow integration. Managers will be in a good position to head off trouble if they receive full answers to the following:

Culture

- How are decisions made in the target organisation?
- What are the acceptable behavioural norms?
- How do these norms fit with those of the acquiring firm?

Operations

- What is the state of relationships with employee representative groups?
- What might the impact be of recognising or derecognising trades unions in the business?

Structure and retention

- What are the implications of losing key staff?
- How effective is the existing senior management team?
- What might be the impact on costs and productivity if the target firm's organisational structure is very different from that of the acquirers?
- Does the organisational design reflect the requirements for the future operating model?

Regulation

- What are the implications of any local employment legislation?

Knowing the impact of talent

Business leaders have long recognised that there are people who are the key influencers in the businesses that they want to buy: pivotal people whom they need to keep. They have also started to recognise that they need to understand what impact these individuals have on results and/or what expertise or tacit knowledge they possess that influences or impacts

results within their organisation. Identifying pivotal people or pivotal roles is essential in understanding the influence or impact on business outcomes. PricewaterhouseCoopers (PwC) has developed a methodology to identify key influencers in three distinct dimensions:

- Pivotal People – individuals who influence others, possess tacit knowledge and/or have an impact on key business outcomes.
- Pivotal Roles – roles that have a significant impact on business outcomes.
- Critical Knowledge – expertise or tacit knowledge that is critical to execution of business processes or achievement of key business outcomes.

The output needs to be compared with the acquiring business's approach to ensure that the definition of 'talent' is understood and starts to become more consistent as the businesses integrate.

This identification process starts to build a picture, from an early stage of the M&A process, of pivotal people and pivotal roles and why and what needs to be done to:

1. Retain pivotal people;
2. Align the right talent to pivotal roles; and
3. Transfer critical knowledge where necessary.

For mergers and acquisitions, looking beyond leadership roles to identify pivotal people and pivotal roles is essential in a business climate where there is a limited supply of highly qualified talent. Equally important, with the pace of change, the retention of pivotal people and/or transfer of critical knowledge will have a significant impact on business outcomes going forward.

How can we help?

To accelerate the full benefits of mergers and acquisitions, an assessment of the workforce to get a clear picture of talent strengths and gaps will help clients shape strategies to resize, realign and retool resources to be competitive in the market and demonstrate expected shareholder value. In the past, organisations may have been able to get away with incremental steps to increase the effectiveness of talent. However, with the pace and impact of change in the business environment, incremental improvements will not create sustainable value. Merely understanding gaps won't move the business ahead as much as proactively managing talent strengths in alignment with the business strategy.

Organisational assessment

With our proven methodology, deep talent management expertise and strong business knowledge, we can help clients conduct an assessment of talent assets with the same level of rigour with which other assets are evaluated. From an organisational standpoint, we can help clients evaluate the effectiveness of their talent management processes. Some of the key considerations are:

How is the company maximising talent?

- How is the talent strategy aligned and integrated into the business plan?
- What are the processes used today to proactively anticipate talent needs and plan?
- How do the annual report and other strategic documents review how well the organisation is maximising the impact of talent?
- How does the organisation review talent and assess talent strengths and gaps?
- How are executives and managers at all levels involved in developing people? How are they held accountable for it?
- What is the organisation doing to build a strong set of new leaders?
- How are employees at all levels accountable for modelling values and leadership behaviours? How are they integrated into the performance management system?
- How are rewards and recognition aligned with values and leadership behaviours?
- What talent metrics does the organisation report on?

Talent assessment

We help organisations define what the critical success factors are going forward and translate those factors into a clear set of behaviours. Using these behaviours as criteria for assessing talent, we create a comprehensive talent assessment process to identify strengths and gaps. The steps are:

1. Define the audience.
2. Determine the skills required and how they are going to be assessed.
3. Conduct the assessment.
4. Provide an aggregate report with key findings and recommendations.
5. Create individual reports.

Looking ahead

More than ever, organisations embarking on merger and acquisition opportunities need to assess talent assets as a critical component of their due diligence. Equally important, the new organisation must effectively manage talent to deliver the benefits. To remain ahead of the competition, the organisation needs to view talent as a 'critical asset' and assess talent routinely to deliver sustainable value. Businesses which are looking to be competitive need to anticipate talent needs and cultivate their high performers as a competitive strength for the future.

Talent transactions

How have firms been tackling their talent shortfalls? PricewaterhouseCoopers, a long-term participant in the global M&A scene, is well placed to observe what has been happening on the ground and what is happening now.

Then...

Recycling talent

One major European bank has regularly used a single mobile team to move in on acquired companies and manage their integration. When it bought a business in the Czech Republic seven or eight years ago, it flew in a team of three very senior people to manage that business. It then moved those three people to Egypt to a business that it bought there. The team stayed for two years and was then moved on to Russia.

Group resources

For many years a very large financial services group maintained a team of around 200 very senior people who were seen as a sort of group resource. Every time a firm was acquired, this team went in and ran the businesses to integrate them. Until very recently, these 200 were white, mainly British and almost exclusively male. This is changing rapidly now, because that kind of approach is no longer sustainable.

Opting out

And one UK bank looking to buy a bank in Egypt decided to pull out because the internal capabilities in the target bank were not adequate and the strain on UK management resources was judged too great.

...and now

The rules are changing

A UK bank bought a bank in Asia to be told by the local regulators that they expected it to raise the quality of the acquired business's regulatory compliance to the UK parent's level very quickly. It was clearly no longer an option to buy this Turkish bank and let it be, because the local regulator saw it as a chance really to raise compliance standards in the whole local banking community.

Vital signs

Financial services firms are beginning to tackle this resources issue imaginatively and in a more truly global way. One bank recently bought a financial services business in Turkey, principally because of the human capital it could provide, rather than for its strategic geographical value. The acquiring firm realised that the local market was offering mostly young managers in their mid-20s to mid-30s, well trained, with good language skills, plus some of the core skills it needed. Those young people were mobile, too, and could be trained in the parent company's way of doing things before being moved around to different markets. Effectively, the acquiring firm bought a human resources pipeline.

HR correctly valued?

Recognition of the importance of human resources skills can make the difference between a smooth merger and a rocky one. The CEO of one very large financial services firm recently bought a business in Europe, using the HR function as the channel through which to effect change. Unfortunately, in the company he acquired HR is not seen as a conduit for change and is not considered to be a strategic function. The HR director of the acquiring firm therefore faced difficulty in gaining access to the target firm's decision-makers. In situations like these, there is dangerous potential for vital changes to be delayed unless there is recognition of these critical people issues.

If you would like to discuss any aspect of the issues raised in this paper, please speak to your usual contact within PricewaterhouseCoopers or one of those listed below.

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