At a glance:
Many organizations today are short on the type of talent that can generate substantial value and disrupt their industry.

Finding valuable talent is quickly becoming an important objective of M&A.

The right kind of positions, incentives, and environment are essential for the acquiring company to attract and retain those individuals—and for improving the long-term value of a deal.
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Introduction

In an environment where waves of disruption are frequent, many merger and acquisition (M&A) transactions today are driven by the need to stay ahead of the next one. CEOs have long understood that the right talent is essential for getting in front of that wave and for creating and riding it.

According to PwC’s 2015 Annual Global CEO Survey, 73 percent of participants say availability of skills is one of their top concerns—an increase of 10 percent over the previous year, and the second-most frequently mentioned threat to business growth.\(^1\) More than 80 percent of CEOs say they are looking for a much broader range of skills when hiring than in the past.

So it is hardly surprising that finding and bringing high-potential talent into the organizational fold is becoming a key focus of M&A. According to additional PwC reports, bringing in new skills and competencies via acquisitions, also known as acqui-hires, is increasingly a driver of M&A transactions. Indeed, the importance of having access to management or technical talent has grown as an M&A objective by 27 percent since 2010.\(^2\)

The focus on top talent is growing as companies are increasingly under the gun to produce innovative products and services. At the same time, they are facing new players who often swoop in, stealing market share and sometimes disrupting industries.

Introducing ... the Producer

Notably, the challenges business leaders have faced in creating breakthrough value contrasts with the successes of self-made billionaires, whose wealth since 1987 has grown three times faster than the world economy. In a new study of 120 self-made billionaires,\(^3\) PwC has uncovered what makes these individuals special and why their unique talents are often in short supply in organizations. This research has important implications for M&A transactions.

Most self-made billionaires are what the study’s authors call “Producers.” These individuals have the ability to both envision an opportunity to create massive value and bring together diverse people and resources to capitalize on that opportunity in groundbreaking ways. Performers, on the other hand, are people who excel at optimizing established functions or processes. Yet Producers do not necessarily create brand-new offerings: in fact, more than 80 percent of the individuals analyzed made their fortunes in highly competitive markets.

Generally speaking, Producers display five “habits of mind”:

- **Empathetic imagination**—A deep understanding of the customer’s future needs and wants, coupled with the ability to envision the new offerings and business models that will address them.
- **Patient urgency**—Steadfast preparation that makes it possible to lie in wait for a growth opportunity and then capitalize on it as soon as it materializes.
- **Inventive execution**—An understanding of how to unlock value by envisioning or re-envisioning every aspect of bringing a product to market, including design, pricing, business model, and customer experience.
- **Relative view of risk**—A perspective that prefers not to miss an opportunity to maximize value over protecting value already in hand.
- **Producer-Performer partnership**—A Producer working very closely with a Performer with complementary skills to make the billion-dollar product or service a reality.

Contrary to popular opinion most self-made billionaires did not start out on their own. Two thirds (66 percent) of those analyzed in the study worked at a large company before leaving to found their own business. One-quarter of those analyzed (25 percent) were fired or pushed out. These findings suggest corporations are often inhospitable environments for Producers.

One major reason why Producers are in the minority in many large companies is the corporate tendency to encourage and promote mostly “Performers”—employees who excel at applying their talent and creativity to optimize preexisting products, functions, or processes. Discouraged and frustrated in such an environment, many Producers leave to strike out on their own and are often very successful when they have free rein to implement their ideas.

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\(^1\) PwC’s 18th Annual Global CEO Survey.
\(^2\) M&A Integration: Looking beyond the here and now, PwC’s 2014 M&A Integration Survey Report; Public Company Due Diligence, Observations from a Silicon Valley roundtable; US technology deals insights, Q1 2014 update.
Clearly, to create massive new value, organizations need to attract, nurture, and retain more people with a "Producer" mindset. But they also should not forget their Performers: the Producer-Performer partnership is critical for creating massive value. Companies, therefore, should: 1) make space or a new role for Producers by creating an environment that engages and encourages them; and 2) pair Producers with the appropriate Performers to create the optimal basket of skills to both generate and execute disruptive ideas, while being careful not to create a reporting relationship that can stifle the Producer. M&A can become the impetus for creating new roles or even departments during the integration process.

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<th>Producers</th>
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**Using the M&A transaction to build the Producer pool**

These findings are relevant for corporate leaders looking to M&A transactions to help transform their businesses. Clearly, the acquisition of new products or services alone is insufficient grounds for M&A. In fact, one of the most serious mistakes an acquirer can make is believing that the deal’s value lies in the market the target business is catering to rather than the people behind the business. That view can lead the acquirer to start shedding valuable human capital as soon as the deal closes.

In such cases, the merger mentality needs to change. Understanding the target company’s talent assets—in particular, its Producers—offers a powerful means of unlocking deal value. So it’s critical to include an exploration of Producer capabilities in the leadership assessment and selection process during due diligence.

Companies can also gain access to Producer talent via strategic alliances and joint ventures. Looking beyond the current ecosystem to non-traditional alliances can present opportunities for assigning a company’s own Producers to projects that are a good fit for their skills and values.

M&A can be a rich source of Producer talent, especially when it involves the purchase of a small company built around a big idea. In such situations, retaining Producer talent may well be the primary objective of the entire transaction, so the stakes for getting the people integration component right are high. These leaders are likely to have specific ways of working and of approaching problems that are central to their success—and the acquirer should think twice before tampering with a winning formula. This makes it crucial to exert great care in determining how Producer talent will be deployed post-close—the success of the transaction can depend on it.
Here are some important guidelines for attracting and retaining Producers as part of an M&A transaction:

- Identify critical positions requiring a Producer skill set.
- Define the Producer role and contributions expected.
- Structure incentive packages that motivate Producers to stay after they receive their payouts.
- Pair Producers with Performers who have complementary skill sets (both can come from the target company or the acquirer), and make the duos responsible for identifying opportunities and developing new large-scale revenue streams.
- Adjust the organizational design to accommodate roles for Producers and the proper Producer/Performer pairs, including job titles, reporting structure, training, and budgets.
- Rethink the traditional employee delivery model and consider innovative ways for Producers to add value.
- Establish a reward and recognition structure that encourages and motivates future Producers.
- Involve Producers in designing incentives and new ways of working at the new organization.
- Design performance metrics that speak to Producers' unique qualities and abilities.
- Maintain an environment that allows Producers to thrive and encourages them to remain with the acquiring organization.
- Help Producers prepare for and execute capital-raising efforts.

Addressing these issues early in the deal process and maintaining transparency on an ongoing basis will help ensure that Producer talent is enthusiastic about joining the new organization.

**Rethinking talent strategies**

Most companies probably have at least a handful of Producers toiling away somewhere in the organization. Does leadership know who they are, and are they nurturing them in a way to best leverage their talents? An M&A effort that includes identifying and retaining Producers in the target company presents an excellent opportunity for the acquirer to take a fresh look at its own talent strategy. It’s the perfect time to make the changes needed to identify, motivate, and retain winning teams of Producers and Performers. With support resources committed to this new type of strategic talent management, there is no telling what these teams will be able to accomplish.
Acknowledgments

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