



**Amrop**

# Context Matters



**LEADERSHIP ASSESSMENT**

## **Watching Me, Watching You:**

The Hidden Stakes of  
Leadership Assessment  
Post-M&A

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# 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.

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# 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.<sup>1</sup>

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%<sup>2</sup> 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<sup>3</sup> 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<sup>4</sup>.

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."

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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 evaluatees. 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 evaluatees 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 Jérôme 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 evaluatee 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. Jérôme 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."



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