

The art and science of executive selection

Selecting leaders to capture the value of the deal



Selecting the new leadership team is one of the most important decisions you will face when combining two organizations after the completion of a merger or acquisition. It is a decision with lasting implications that are often underestimated. The leaders you choose will define the new organization's capabilities and culture. Stakeholders — employees, investors, and board members — will watch closely because your decision sets the tone for the integration, as well as the newly combined organization.

As the CEO of the new organization, your ultimate goal is to select leaders who will create and drive value, whether they come from the legacy company, the acquired organization, or from the outside. Regardless of their past experiences, the new leaders must demonstrate leadership competencies and behaviors that are aligned with the strategy, operating model, and desired culture of the future organization.

The selection process will test your own leadership skills. You must be able to deal with potentially volatile egos and remain objective as you keep the long-term good of the organization at the forefront. You will need to distinguish the people who will lead effectively from those who want to lead, and those who should stay from those who want to stay.

Executive employment agreements and severance protections add an additional layer of complexity to executive selection. A knowledgeable Human Resources (HR) professional, whether your organization's HR leader or outside professional, can provide guidance and support needed to navigate the nuances of these agreements and develop an objective selection process.

We have found that the best selections are often made by balancing the "science" of following a structured, rigorous, and objective decision process with the "art" of leveraging tools and tactics to gain insight to leadership abilities and behaviors, as well as cultural fit. This article outlines five key steps to consider as you select the leadership team that will champion and lead transformational change.

Five-step leadership selection process and considerations

Step 1: Define the future vision of the new organization.

Before you can select new leaders, the functional operating model, structure, and strategy of the new organization should be defined. Consider conducting cultural assessments that can help identify the culture you want to instill in the future organization, which may be different from the legacy and acquired organizations' cultures. Be confident that the leaders you select can — and will — execute this strategy.

Artful considerations: Executives with political clout may pressure you to create roles within the organization's structure for themselves or particular individuals, perhaps out of a sense of loyalty or because of the individual's long tenure with one of the legacy organizations. Resist this pressure and reinforce the importance of creating leadership roles around what needs to be done, not around the abilities or relationships of people who have done the job in the past.

It's important to have an objective approach to evaluating candidates from both organizations, as well as any outside candidates.

Step 2:

Define the job requirements and leadership attributes.

Clarify your expectations for the new organization's leaders by defining the specific, relevant job requirements, and desired leadership attributes that will be needed to execute the new vision, strategy, and operating model. You should incorporate the competencies, behaviors, and technical knowledge that the new leaders will need to fulfill their responsibilities.

Compare new positions' job requirements and leadership attributes with current leadership positions in both organizations to provide a baseline for evaluating whether or not leaders within either the legacy or the acquired company possess the ideal skill sets. If not, you may need to add outside candidates to the selection pool.

When setting compensation for the new leadership positions, consider salary ranges and benefits for comparable positions at both organizations, including specific executive incentive compensation programs. Adjustments may be required to balance inequities in salary ranges across the organizations and manage expectations.

Artful considerations: By determining the desired competencies, attitudes, and behaviors required for success in the combined organization, you can focus on what is needed for the future, rather than tailoring the new leadership roles to fit existing leaders. This allows you to assess candidates objectively based on the organization's future needs, rather than the current organizational structure or the candidates' past performances or roles.

Some of these attributes may be difficult to define, but they will provide a clear benchmark to measure candidates against. While specific job requirements will vary based on the organization's strategy and culture, you should look for individuals who have demonstrated an effective leadership style while driving growth in a transformational environment. Your future organization will need leaders who are able to motivate and empower employees while maintaining focus and delivering results.

Use the job requirements and leadership attributes during the interview process to communicate your expectations to candidates. This can help prepare them for the challenges ahead and position them to be successful in the new organization, if selected.

Step 3:

Objectively evaluate candidates and select the new leadership team.

It is important to have an objective approach to evaluating candidates from both organizations, as well as any outside candidates. Historical performance data for the candidates, including past performance reports and 360-degree feedback, if available, should be collected and reviewed to provide insight into past performance and behavior.

Selection tools, such as leadership competency tests and behavioral interview guides, may help to objectively assess candidates. Personality assessments conducted by outside vendors can provide additional information about the candidates' management styles and behaviors, helping you identify candidates who possess not only the required technical skills and competencies to lead, but also fit the desired culture of the new organization.

Conduct interviews that include behavioral questions that uncover whether or not candidates possess the interpersonal skills that fit with the culture of the new organization. During the interview phase, work with legal counsel or HR to monitor the interview process for consistency in the selection process for all candidates and for favoritism to reduce the chances for litigation or other legal repercussions that could create negative publicity, internal turmoil, and legal costs.

Artful considerations: Use a holistic approach in evaluating candidates. Rather than analyzing a candidate's past performance reviews, interview data, and personality assessments separately, examine them as a whole, looking for patterns and discrepancies. This process may uncover subtle competency and behavior gaps, which may not stand out on their own, but that could affect the person's ability to lead in the new organization.

Step 4:**Develop leadership announcement plans.**

Even before the new leaders have been selected, develop a detailed change readiness and communications plan for announcing the decisions to the candidates and other stakeholders. A prompt announcement and introduction of the new organization's leadership team to employees will help influence and engage them in the change and retain them in the organization. Plan to incorporate multiple communication methods, such as town halls, leadership meetings, corporate newsletters, and e-mails, to help employees understand the new leadership structure and the new leader announcement plans. When possible, create employee events so that they can meet the new leaders. Also, develop a detailed communications plan to announce the new leaders to external stakeholders, such as the investment community, board members, customers, and suppliers.

Artful considerations: Timing and tone are important when communicating leadership changes. If possible, plan to select the new leadership team just prior to the transaction close. Also consider incorporating media and communications coaching in the plan to prepare the new leadership team for effectively communicating with employees and other stakeholders when the public announcement is made. For executives who will not be continuing with the future organization, plan a clear — and preferably swift — exit strategy. Incentives in their severance package will encourage them to support a smooth leadership transition.

Step 5:**Communicate decision to all stakeholders.**

Once the decisions are made, the selected candidates should be informed through one-on-one conversations that include pre-close offer letters that detail compensation and benefits, as well as explicit confidentiality guidelines. As soon as the selected candidates accept their leadership positions, notify the other candidates quickly and discretely — also with explicit confidentiality guidelines tied to severance packages. Once that is done, roll out the communication plan for other stakeholders as quickly as possible to help avoid unofficial leaks and to reduce employee uncertainty, an unfortunate event that could affect job performance.

Artful considerations: Publically showing strong support and confidence in the new leadership team will help alleviate some of the uncertainty employees may feel about the future of the new organization. Treat the candidates who are not selected to lead the new organization with dignity and respect. This will show stakeholders that the organization is committed to integrity and sets the precedence for how future decisions will be handled.

The leadership journey begins

Selecting your leadership team marks the beginning of the postmerger leadership journey. Balancing the science of a rigorous process with the art of managing interpersonal dynamics can help optimize your ability to choose a capable leadership team that shares your vision for value capture and growth — it is a unique opportunity to set the future trajectory of the new organization.

Real life results in the energy industry

Two regional energy companies came together in a "merger of equals," creating a significant U.S. energy producer. Two cornerstone objectives of the merger were to minimize business disruption and capture the best of both organizations.

In order to meet these objectives, it was critical for them to balance the art and science of leadership selection:

- **Science:** Develop a methodical process to select the leadership team quickly and efficiently in order to alleviate uncertainty, allowing employees to remain focused on day-to-day operations.
- **Art:** Choose the "right" leaders from both organizations, factoring in desired culture, as well as experience, capability, and behavior.

Step 1:

Define the future vision

Science: The new CEO, who was quickly appointed by the Board of Directors, worked with the deal team to define what the organization should look like going forward.

Art: Facing political pull from both organizations, the CEO focused on remaining neutral, as well as on defining the business drivers, key positions, and span of control required to support the combined business.

Step 2:

Define the job requirements and leadership attributes

Science: A leadership competency model was developed to serve as a decision making tool, outlining the requirements for the second tier jobs going forward.

Art: In conjunction with the organizational design and selection process, the leadership team defined an interim mission, vision, and values to guide the combined organization through the transition. Candidates were assessed for cultural fit using the mission, vision, and values as a benchmark.

Step 3:

Objectively evaluate candidates and select the new leadership team

Science: The CEO put two specific processes in place to select the first level Senior Vice Presidents and the second level of executives, using a balanced scorecard and consensus meetings to achieve equitable consideration.

Art: In addition to gathering past performance data, interviews were conducted to gauge interest and cultural fit with the new organization.

Step 4:

Develop leadership announcement plans

Science: The CEO partnered with the Communications Team to develop a comprehensive leadership announcement plan for both selected/nonselected leaders, as well as the broad employee population.

Art: Employees at both organizations were concerned about the future organization structure and how their function would be impacted. In anticipation that a prolonged period of uncertainty would lead to a decline in productivity and engagement, the selection process was expedited in order to make leadership announcements prior to close.

Step 5:

Communicate decision to all stakeholders

Science: The CEO employed a structured cascade approach to leadership announcements. Human Resources first notified the candidates of the decisions. Once all candidates were notified, information was cascaded throughout the organization to provide clarity on the new roles and leadership, as well as to provide an opportunity for associates to ask questions.

Art: Communications did not end after the initial leadership announcement. Employees received regular updates on the continued organization design and selection process, including organization structure, functional responsibilities, and reporting relationships.

Results:

- Expedited process led to Level 1 and 2 leadership selected and announced prior to close
- Reduction in employee uncertainty influenced a continued focus on day-to-day operations, which helped minimize customer disruption
- Employees remained productive and engaged from deal announcement to close, typically a period of high anxiety

Contacts

For additional articles from the *Leading through transition: Perspectives on the people side of M&A*, please visit www.deloitte.com/us/peoplesideofMA.

Kevin Knowles

Principal
Deloitte Consulting LLP
Human Capital
+1 469 951 1732
keknowles@deloitte.com

Kimberly Storin

Manager
Deloitte Consulting LLP
Human Capital
+1 415 783 7535
kstorin@deloitte.com

Sarah Hindley

Senior Manager
Deloitte Consulting LLP
Human Capital
+1 213 553 1928
sahindley@deloitte.com

Daniel Schimmelpfenig

Manager
Deloitte Consulting LLP
Human Capital
+1 714 436 7923
dschimmelpfenig@deloitte.com

Deloitte's Merger & Acquisition Services professionals help clients in their efforts to gain a competitive edge by applying our multifunctional approach and providing services, which span the deal life cycle and include support for such activities as: M&A strategy development, target screening, due diligence, transaction execution, integration, and divestiture.

This publication contains general information only and is based on the experiences and research of Deloitte practitioners. Deloitte is not, by means of this publication, rendering business, financial, investment, or other professional advice or services. This publication is not a substitute for such professional advice or services, nor should it be used as a basis for any decision or action that may affect your business. Before making any decision or taking any action that may affect your business, you should consult a qualified professional advisor. Deloitte, its affiliates, and related entities shall not be responsible for any loss sustained by any person who relies on this publication.

As used in this document, "Deloitte" means Deloitte Consulting LLP, a subsidiary of Deloitte LLP. Please see www.deloitte.com/us/about for a detailed description of the legal structure of Deloitte LLP and its subsidiaries.