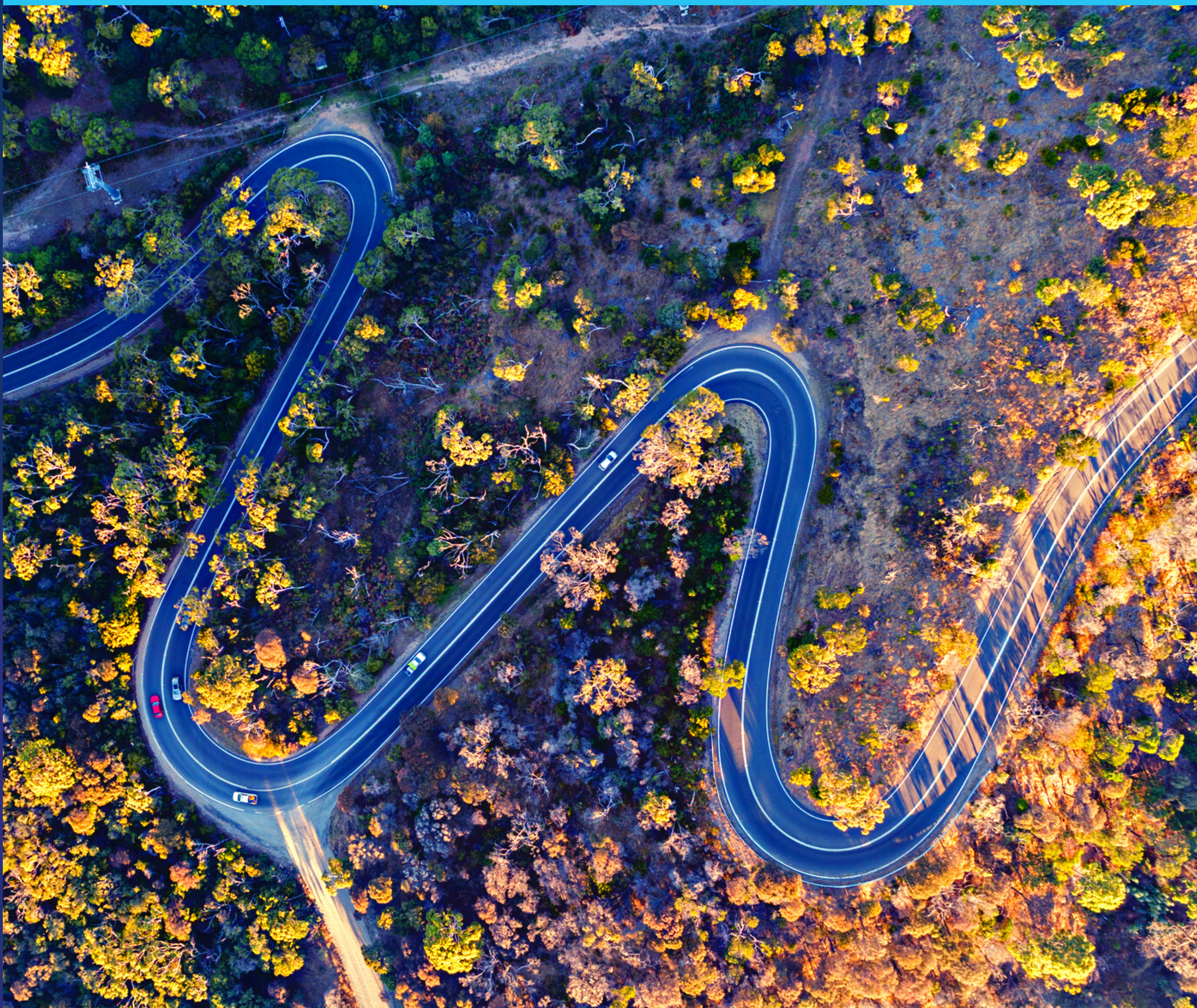
# THE ROADMAP FOR HUMAN DUE DILIGENCE IN M&A

## The risks of incomplete human due diligence in M&A are steep. They do not need to be.

**Richard Stein,** Managing Director, Strategic Client Research & Advisory



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**Announcements of mergers and acquisitions are ritually accompanied by rhetorical nods to the human elements of a deal, nearly always in the most glowing terms. What every veteran of M&A knows is how often the human elements are under-appreciated in the process of getting a deal done.**

The risks of incomplete human due diligence in M&A are steep. Cultural mismatch, for example, generates friction that holds back integration in a combined organization. It hurts productivity and it works at cross purposes to winning hearts and minds.

*The long-term damage is to the combined company's talent pipeline as good people begin looking for the exits—the opposite of what anyone connected to a deal wants.*

It is an enduring fact that successful M&A is hard, and not just in our current era. As far back as 2007, for instance, Bain & Company surveyed managers involved in forty M&A deals. In 15 deals that Bain classified as "successful", almost 90% of the acquirers reported identifying essential talent for retention during due diligence. Typically, they did that before a deal closed. In only one-third of the unsuccessful deals was this the case.

In an age when the war for talent still rages at every level of an acquired company the need to pay more than lip service to human due diligence is a primary obligation of deal makers.

## A road map for human diligence

The time before and after a closing is compressed and crazy. Everything needs doing, and all at once. Here is the good news: Properly done, an acquirer's human due diligence should take no longer than a couple of months.

**More good news: There is a road map for navigating the challenges of human due diligence. It is called "talent intelligence."**

Sheffield Haworth's work with clients necessarily acquaints us with their strategic ambitions, typically in detail. Our client work could be characterized as an ongoing conversation about where an organization needs to go, the obstacles it faces getting there, the people it needs to attract and retain, its competitive advantages, its sources of internal resistance.

## This is talent intelligence.

Customized to M&A, talent intelligence can identify deficiencies in human capital, say, or spotlight talent at risk of leaving after a deal closes. Like every other aspect of a deal, the talent-intelligence piece should be guided by a clear expression of strategic rationale—clear to both parties.

This clarity will be essential to describing the match between talent strategy and business objectives. Without that guiding clarity, output generated by a talent-intelligence engagement would be merely a data dump.

## Generating forensic insight

If you class cultural assets as "nonfinancial risks" consider this: data from 1,400 M&A deals collected by Mercer concluded that cultural issues were the reason 30% of transactions fail to ever meet financial their targets.

For that reason, a central objective of talent intelligence is generation of what we term "forensic insight." Forensic, that is, in the sense of investigating future sources of change for a combined organization's competitive condition.

Developing forensic insight depends on combining hard data about an acquired organization's human design with high-touch intelligence on management style, commitment to the mission of the new enterprise and the adaptability of established organizational cultures. Full partnership is indispensable.

This is knowledge gained by walking the halls of the acquired company and knowing the humans who make it go. Talent intelligence brings rigor to this knowledge. It helps all parties avoid the temptation to confirmation bias and illuminate the blind spots that can make good deals go bad.

## Talent for combined organizations

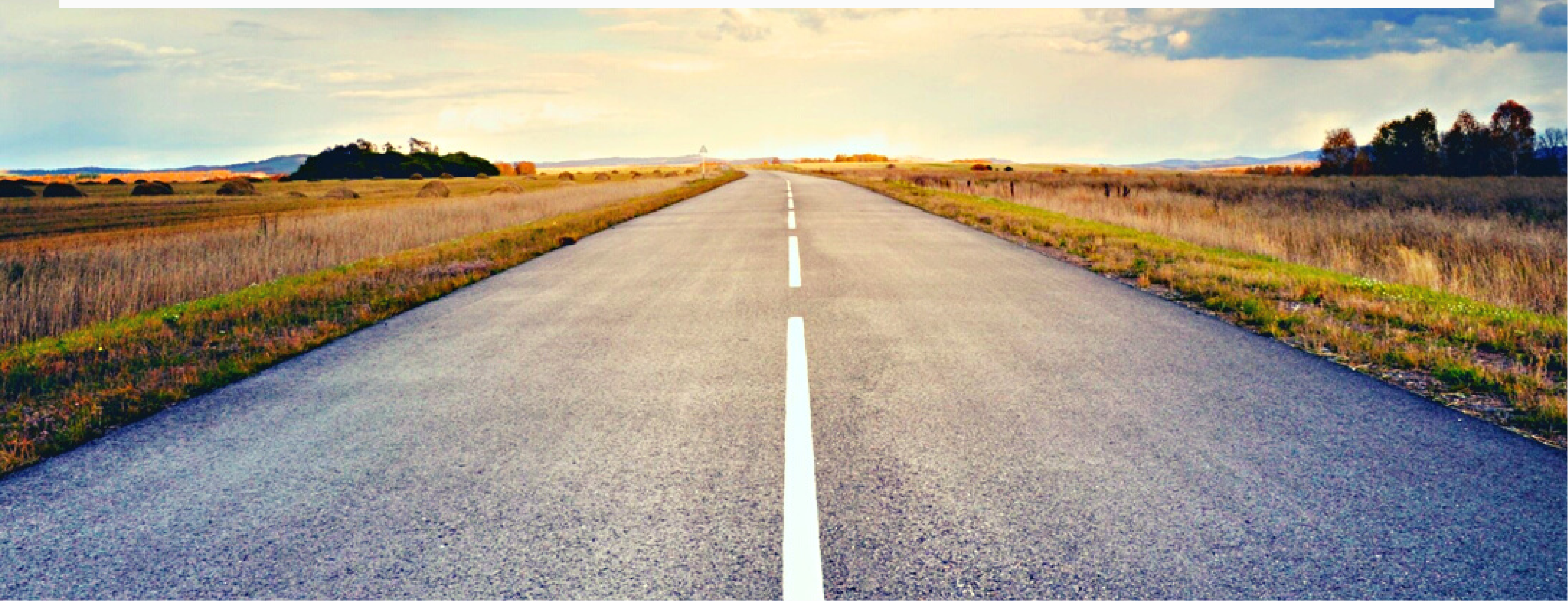
**It is hardly a secret that retention of superior talent is harder than ever. The trend has been building for a long time.**

In 2020, for example, PwC's M&A integration survey found a large decrease in the percent of respondents reporting "significant success" in employee retention. In 2019 it was just 10 percent. In 2010 it was 56 percent.

The strategic rationale behind a deal defines the perspective on individual talents. Whose departure would be felt the most? Who might have talent yet not be a good fit? Where are the gaps in the talent pipeline? Where is the company overspending on talent?

In answering these questions, talent intelligence supports the matching of current staff to projects by rigorously defining knowledge and skills that an organization may not even know it owns.

For just this reason the deliverable of any human due-diligence project includes what we call a "diversity snapshot." The purpose of the diversity snapshot is not just to describe the demographics of the merged organization. It is to ensure that a culture is supportive of the right kinds of talents and adaptable enough to embrace new ideas.



Data from a talent intelligence engagement can be used to map which high-performing individuals are most at risk of leaving after a merger and to define the steps taken to protect it. For a combined organization this is self-knowledge of an essential kind. It can head off the departure of crucial personnel in the integration phase of a deal. In the ensuing years it can stop the slow drip out the door of gifted talents unpersuaded that there is a future for them in the combined organization.

***The positive signal sent by these actions to the rest of the organization is enormous.***

## The Importance of Human Due Diligence in Strategic Investments

Investors seeking strategic stakes in companies are driven by the desire to enhance value creation, drive growth, and align their investment with the target company's strategic objectives. To achieve these goals, they must conduct thorough human due diligence to assess the leadership team's capabilities, culture fit, and overall talent composition within the organization.

Similar to its application in traditional M&A, talent intelligence plays a crucial role in supporting investors throughout the strategic investment process. By utilizing talent intelligence methodologies, investors gain a comprehensive understanding of the target company's human capital and can make informed decisions to optimize their investments.

## Eye-opening value

Even as it customizes its talent-intelligence capabilities to the challenges of a specific client's deal, Sheffield Haworth brings broad experience with what other organizations have tried, identifying which have been successful and which not. Little of this is in the public domain, making our talent-intelligence tools of eye-opening value to clients.

These tools include Sheffield Haworth's specific-industry expertise, of course. They also include our firm's prowess in compensation metrics, brand differentiation, talent benchmarking and performance management.

Success in M&A is a challenge in the best of circumstances. Understanding how well the combined companies will fit—on every dimension but most especially the human one—reduces that challenge radically.

[1] 'Don't Make This Common M&A Mistake.' Graham Kenny. Harvard Business review. March 16, 2020.

[2] 'Human Due Diligence.' Harding & Rouse. Harvard Business review. April 2007.

[3] 'Mitigating Culture Risk to Drive deal value.' Cox et al. Mercer. November 2018.

[4] ' 'Evolving with agility: PwC's 2020 M&A integration survey.' PwC. June 11,2020. See also, 'One Reason Mergers Fail: The Two Cultures Aren't Compatible.' Gelfand et al. Harvard Business review. October 2, 2018.

[5] Research published by McKinsey in 2022 suggests that a perceived lack of career development was the single most common reason given for quitting a job—and a major motivation for taking a new one. 'The Great Attrition is making hiring harder. Are you searching the right talent pools?' de Smet et al. 13 July 2022.

# Talent **Intelligence**

## ACTIONABLE INSIGHTS TO OPTIMIZE YOUR STRATEGY

A premium has been placed on organizational agility and transformation in the modern tech-fueled economy. Both these capabilities took on heightened importance as the pandemic swept the globe and disrupted systems — not just for months but indefinitely. As a result, in today's rapidly evolving business world, simply being "good enough" isn't good enough anymore. The most successful companies know how to harness their greatest asset - their people - to gain an edge. But it's not just about making the right decisions: it's about doing so with lightning speed, using actionable intelligence leveraging every aspect of data and metrics. At Sheffield Haworth, we call this Talent Intelligence.

## The 4 Key Benefits of Talent Intelligence for Executives

**1** **Keeping up to date on your competitors**
Identify and assess which of your competitors and teams are most aligned to the capabilities you are trying to build. Understand which other organisations have tried but not been successful in building these capabilities over time.

**2** **Market best practices**
Understand the changing reputation, franchise strengths and weaknesses of your competitors. Gain insight into their key financial metrics, operating model, technology infrastructures and plans. Importantly understand what ex-employees are saying about them and you in the market.

**3** **Leadership sustainability and succession**
Dive into your competitor's leadership structure to understand key profiles, hot skills and the next generation of up-and-comers. Evaluate each organisation's culture, key differences to your own, and market leading compensation practices. In doing so, you can maintain optimal corporate governance.

**4** **Candidate push/pull factors**
Be more forensic in assessing the industry's top talent: understand which firms your competitors are hiring from and how they are branding themselves as the employer of choice. Gain insight into what might attract them to your own organization and how happy they are at their current employer.

## The Talent Intelligence Transformation Agenda

**SURVIVE** — *Remain viable in the marketplace*

**THRIVE** — *Differentiate to gain competitive advantage*

**DRIVE** — *Lead the market by radically innovating and transforming*

# Our **Talent Intelligence** Expert

**Richard Stein,**
Managing Director,
Head of Strategic Client & Advisory.
New York

**Contact Richard:**
T. +1 347 491 2083
E. r.stein@sheffieldhaworth.com

Richard joined Sheffield Haworth in 2022 as a Managing Director based in New York. Richard oversees Strategic Client Research and Advisory. In this newly created role for Sheffield Haworth, Richard is responsible for building a firm-wide consulting offering in strategic research, consultancy, and talent advisory solutions. He works with internal and external stakeholders to understand strategic and organizational initiatives that drive performance and long-term value, proposing approaches to talent strategies and organizational structures for existing and proposed businesses. This role builds upon existing Sheffield Haworth materials and research to create a robust, standardized approach to servicing client needs. Richard is instrumental in creating and developing operational structures and opportunities for geographical expansion and the development of new product lines for the firm. Prior to joining Sheffield Haworth, Richard was with another global financial services specialist, where he was the Chief Growth Officer for eight years. Previously, he held a variety of positions, including Co-Head of Global Markets at Korn Ferry, Caldwell, and other firms. He is a graduate of the University of Buckingham in History, Politics and English Literature.

# Contact

**Sheffield Haworth Inc.**
**28th Floor, 777 3rd Avenue**
**New York**
**NY 10017**

**enquiries@sheffieldhaworth.com**