

Talent selection in M&A

Introduction

Why do companies split up? Hundreds of business units and divisions are divested or spun off by their corporate parents each year. Investment firms, banks, analysts and company boards often find reasonable evidence that a company would be more valuable in case of a separation into two entities. This is frequently perceived as a successful strategy to unlock shareholder value and increase profitable growth by re-focusing the business portfolio. Several transactions in the recent past show that many companies have taken a closer look at their portfolios and decided to opt for separation.

Case in point: global separation to unlock current value and enable accelerated future growth

What

A global consumer goods company with a distinct product portfolio decided to separate the organization into two independent, publicly traded companies. Faced with the challenge to separate globally, more than 10,000 employees in over 50 global markets had to be separated into two independent businesses with different international org and hub structures. One business division stayed in the RemainCo set-up whereas the other division was transferred into a SpinCo with new legal entities and under a new umbrella brand. Employees needed to be engaged, understand their role, and know to whom they report. Lastly, key employees had to be retained.

Why

Despite increasing shareholder value, the company's stock had under-performed in relation to other indices. Competition for the businesses had continued to be challenging, with declining organic growth. The separation rationale was to intensify focus on distinct commercial priorities and allow each business to pursue distinct capital structure and capital allocation strategies. Moreover, providing a clear investment thesis and visibility to attract a long-term investor base suited to each business as well as maximizing strategic flexibility and value to shareholders were key drivers for the decision to separate.

How

The company initiated an orderly and managed separation of people, processes, systems, and physical assets resulting from the desired future state of two stand-alone organizations. The separation was generally guided by a disciplined methodology with a set of step-by-step, repeatable processes, milestones, and scheduled deliverables. Employees and candidates were selected for future positions based on the future structural design and on defined selection criteria as well as on a clear assessment of a role/fit into future positions.

Outcome

The detailed organizational structures and decision rights that align with the operating model were designed and aligned to the new operating models and provide the flexibility of each business required to remain competitive in future. The selection/de-selection processes including (collective) consultations were successfully completed to ultimately transition employees into their new roles prior to Day 1.

The active management of leadership talent is one of the key elements for a successful separation. Not only during the separation process which typically takes 12–18 months between taking the decision and closing the transaction, but also after the separation strong and capable leaders are required for both new companies as of Day 1. Companies must make selection decisions as early as possible in order to fill roles internally, retain staff for an interim period, acquire talent externally, and also release personnel where needed. A challenge frequently encountered during separations is related to the corporate-level experience that managers are drawn into as part of their new role.

This article will outline the approach to talent selection in separations pointing out key success factors as well as lessons learned.¹

Key separation challenges from an HR perspective

Every deal is unique. Nevertheless, our Deloitte experience indicates that a separation requires the company and in particular HR to address the critical issues during separations shown in figure 1).

Across all of the described challenges, talent selection can be viewed as a critical factor. Companies have to take decisions on leadership and other talent roles as early as possible in the separation process. A lack of focus on selection will negatively impact the success of a separation through higher fluctuation, loss of key skills, and an increase in staff retention as well as redundancy and new hire costs. It can also lead to a decrease in employee performance, risking a disruption of operations, thus attention to a clear and comprehensive talent selection approach proves to be a significant success factor. A critical path element in this includes the workforce transition and retention strategy under consideration of legal restraints, compelling rewards strategies, structure and design of compensation and benefits models, role descriptions based on the new organizational design, pricing of jobs and valid estimations of future cost structures.

¹ Talent selection refers to the process of assessing and aligning employees for future positions based on the future organizational design and the selection criteria.

Approach to talent selection in separation

There is no mystery about the importance of separation activities, such as adopting a solid business strategy, stabilizing operations, satisfying customers and so forth. But how would one handle the talent selection

while separating the businesses? The challenge comes in managing these activities quickly, thoroughly and successfully, and at the same time continuing to focus on current business priorities. Figure 2 summarizes the key steps and activities for talent selection in separations.

Fig. 1 – Key separation challenges to be addressed by HR

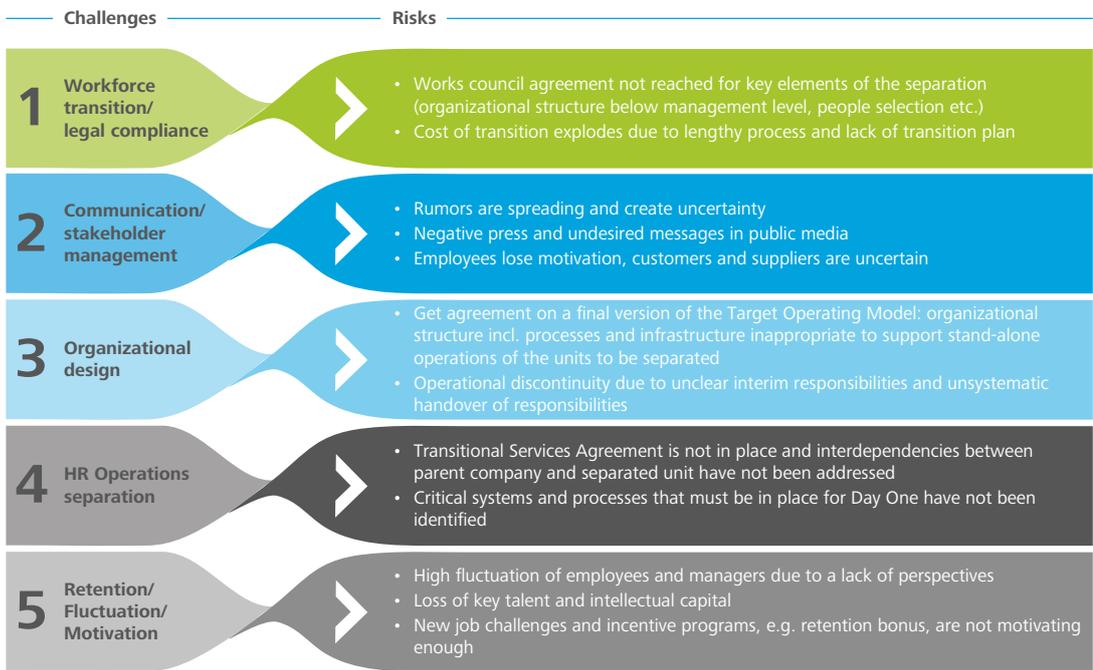
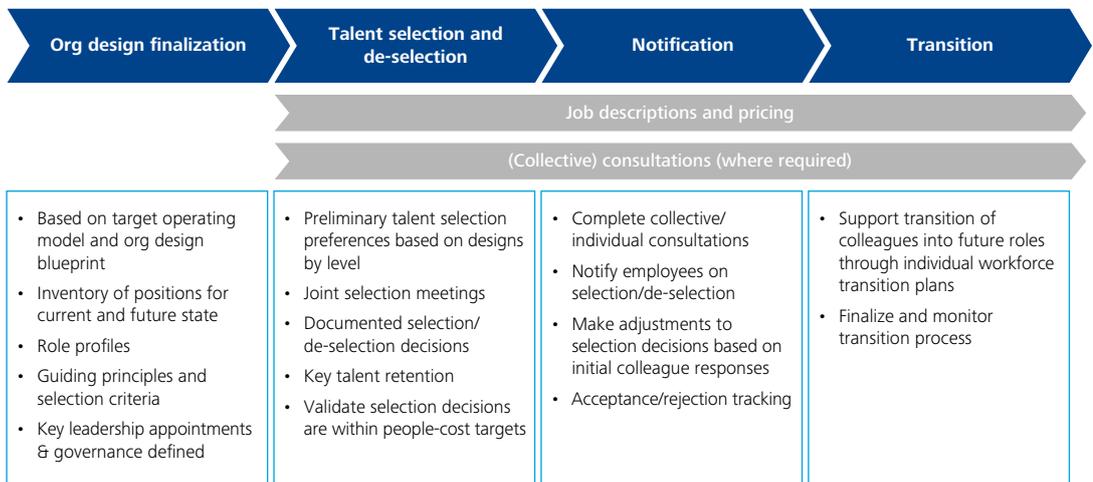


Fig. 2 – Talent selection approach



Org design and operating model finalization

The future org structure is designed in alignment with the strategic objectives of the separating businesses. Cost targets and functional design guiding principles are defined and a full inventory of positions including role profiles should be documented for both businesses. The finalization of the org design is crucial for the following steps and has instant dependencies for the talent selection exercise. Thus, locking in the org design is a key milestone in this process. At this stage, the employees for the top levels and leadership are also identified and nominated in order to immediately execute retention measures for this key group of executive leaders.

Talent selection & de-selection

Once the org design has been finalized, the preliminary selection of candidates for future positions based on the future design as well as the defined selection criteria can be initiated. One key objective during this phase is to identify further key talents in the organization and start developing retention activities supported by communication activities in parallel. Joint talent selection meetings are conducted function by function and level by level to select employees (“names in boxes”) for the different roles in the separated businesses. Selection decisions have

to be in line with the cost structure of the new organizations. HR supports this cost validation by pricing the roles which are subject to change and which determine the future cost structure of the new organizations.

This iterative process of selection is also essential for identifying skill gaps that can only be filled through external recruitment and for choosing employees to be de-selected where no role fit is decided. Severance packages and target exit dates have to be defined for the de-selected employees. However, the exit and severance activities are highly dependent on consultation processes in different jurisdictions and can lead to a delay in executing the employee selection and de-selection decisions.

During this phase, talent selection workbooks are used to document selection decisions and match candidates and position IDs, determine job titles, work locations and the impact on the organizational costing and consultation process across each of the separated businesses. HR plays a key role during this phase by typically owning and facilitating the overall selection process and hosting information, employee, and compensation data. The following table summarizes the key activities, ownership, and outcomes (see fig. 3).

Fig. 3 – Talent selection & de-selection

Activities		Owners		
 <p>Joint selection meetings per region and function</p>	<p>Intended outcome</p> <ul style="list-style-type: none"> • Agreement on slating of candidates between each organization • Documentation of final talent selection decisions 	<p>Functions</p> <ul style="list-style-type: none"> • Identify talent preferences prior to meetings • Participate in meetings • Determine exit date for de-select decisions 	<p>HR</p> <ul style="list-style-type: none"> • Schedule meetings and serve as facilitator • Identify pool of talent and determine conflicts • Document final selection decisions/escalate 	<p>Leadership</p> <ul style="list-style-type: none"> • Resolve conflicts as needed • Approve international assignees and exit dates for de-selected employees
	<p>People/cost validation</p>	<p>Intended outcome</p> <ul style="list-style-type: none"> • Validation that people selections are consistent with initial bottoms-up estimated costs 	<p>Functions</p> <ul style="list-style-type: none"> • N/A 	<p>HR</p> <ul style="list-style-type: none"> • Following selection at each level, validate that cost based on actual people selection is consistent with bottoms-up estimates
 <p>Selection adjustments (as needed)</p>	<p>Intended outcome</p> <ul style="list-style-type: none"> • Adjustments made to selection decisions (as needed) to align with bottoms-up estimates and/or employee responses to notification 	<p>Functions</p> <ul style="list-style-type: none"> • Make changes to selection decisions resulting from cost targets or colleague responses 	<p>HR</p> <ul style="list-style-type: none"> • Document changes to selection decisions (based on updates to align with bottoms-up estimates or colleague responses) 	<p>Leadership</p> <ul style="list-style-type: none"> • N/A
	<p>Selection adjustments (as needed)</p>	<p>Intended outcome</p> <ul style="list-style-type: none"> • Adjustments made to selection decisions (as needed) to align with bottoms-up estimates and/or employee responses to notification 	<p>Functions</p> <ul style="list-style-type: none"> • Make changes to selection decisions resulting from cost targets or colleague responses 	<p>HR</p> <ul style="list-style-type: none"> • Document changes to selection decisions (based on updates to align with bottoms-up estimates or colleague responses)

Notification

The notification phase aims at informing employees about selection and de-selection decisions in a legal manner. Beside notifying employees about automatic transfers (e.g. TUPE processes in countries of the European Union), job offer letters, and new employment contracts might be required to offer new roles and positions to the employees in line with the new organizational structure of the separated businesses and the information from the job pricing exercise. On the other hand, severance agreements have to be created and agreed for the de-selected employees.

However, in some jurisdictions the formal selection and notification processes cannot start until collective consultation has been concluded and selection criteria have been discussed. This is often a lengthy process which may lead to a delay in the overall timeline. Additionally, individual selection discussions will follow once the collective consultation phase is completed. Thus there is high dependency on consultation processes which often requires the definition of country-specific selection and notification timelines. In addition, collective dismissal procedures may come into effect depending on legally defined thresholds in different jurisdictions, in particular in Europe.

Finally, employee termination processes have to be thoroughly monitored and employee offer acceptances tracked.

Transition

The final phase of the overall talent selection process is the transition phase. The transition strategy as well as individualized plans to prepare and transition colleagues into their future roles and organizations are created. Key activities include identifying workforce impacts by individual, developing transition plans to address skill gaps and experiences, and executing transition activities.

Is the talent selection process set up for success?

Every separating organization needs to have a strong leadership team for making key decisions so that the separation does not jeopardize decision authority, transition plan approvals, strategic direction, or resource allocation. Giving early attention to leadership as well as identifying and selecting key talents is a fundamental milestone of success in the challenging venture.

Other key success factors include the finalization of org design at an early stage. Experience from case studies and other client cases show that completing the business model and org design for the separated businesses is in some way a gate-keeper for the flawless execution of the following project steps for talent selection, notification, and transition as well as meeting the overall separation timeline. Moreover, the final org design allows the validation of the cost structure of the new organization including job pricing for the selected employees and severance calculations for de-selected employees.

However, while creating two strong companies all employees remain under the same employer until separation. Thus, the employees need to maintain focus on carrying out business in a responsible and accountable manner and mitigate any business disruption, even though they may have been selected for one or other of the separated businesses already. Finally, being transparent in communicating separation and business decisions should be the overall guiding principle for mastering the break-up and managing Day 1 readiness.

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