Mergers and Acquisitions: Measuring the People Side of the Ledger

Mergers and acquisitions are highly focused on balance sheets, income, and cash flow statements. Yet it is the people side of the new business that will make the difference between success and failure.

Retention of key talent is a critical factor in any integration plan, but the people side of the ledger receives limited consideration. This may be the reason why most research studies show that mergers and acquisitions (M&As) have very high failure rates. Despite these disappointing findings, M&As continue to occur as companies struggle to compete in the challenging global environment.

Existing infrastructures are not always capable of expanding at the rate needed when merged or acquired. If the new company does not have executives with the right skills, many decisions about expansion needs may not bear fruit. Not all executives handle the pressure of growth equally well. Some – on both sides of a merger – are unable to anticipate the challenges of integrating two different cultures or repositioning the business in response to marketplace changes.

Investors have their own business goals for the acquired or merged company that often focus on the financial side – how the new company will grow and be able to pay off the cost involved. Most investors are less prepared for the people side, in part because they lack measurement systems for determining that part of the transaction. They are investors, not psychologists.

Identifying the Leaders

When it comes to the people side of M&As, the first step is to determine whether the existing leaders have the skills and competencies needed to carry out the new business strategy. The best way to properly evaluate this is to use professionally developed measurement systems. This requires an accurate understanding of key leadership skills and behaviors needed by the new enterprise. Once these are identified, the existing executives are assessed to determine who has the requisite skills and where new talent is needed.

Using a third party whose core competency is measuring human capital is the soundest approach to doing this. Using psychometric testing that includes benchmarks developed from other successful leaders provides added confidence in the outcomes. Psychometric assessments allow quick identification of the existing players with the talent required for the new enterprise and show where investments need to be made in new management. To learn more about psychometric testing, please visit **www.pspmetrics.com.**

For example, investors who could see a merger begin to fail found that psychometric testing identified a new leader within the enterprise who was able to successfully develop the business. When the business was subsequently sold, it returned a significant profit to investors. In another example, with the help of psychometric testing, an investor felt confident in bringing in a female leader to run the new business. Upon selling the business later, the investor stated that the female leader added significant value that was recouped in the sale.

Rightsizing the Organization

Most M&As involve a reduction in the total number of employees in the newly formed company. This serves to eliminate redundancy, increase efficiency, and achieve economy of scale. Unfortunately, most approaches to downsizing and rightsizing an organization after a merger or acquisition cut muscle as well as fat from the workforce. Capable people are displaced, while marginal employees remain – especially when downsizing is conducted by seniority.

An alternative method for downsizing is available: the Wyvern OJQ. Wyvern is a rating tool that enables a company to compare employees to each other on a variety of factors related to job performance. The approach yields rankings that clearly tell which employees fit best with the new business strategy. Wyvern also shows the training and development needs of each employee. Moreover, Wyvern's unique rating system enables companies to rate large numbers of employees and managers rapidly and objectively.

Organizations have chosen the Wyvern OJQ for downsizing because they think it is the most accurate and objective system available. Wyvern uses mutiple raters for each employee so that no one person can tilt the scale. In fact, employees rate themselves and their peers, and thus have a voice in their own fate. In addition to multiple raters, Wyvern uses a paired comparison rating process that prevents employees from "gaming the system."

After a recent merger, a global chemical company needed to downsize the enlarged IT staff. After creating a competency model that reflected the new business plan, the company was able to utilize the Wyvern process to identify those who fit best for new job expectations. The Wyvern online rating process worked quickly and smoothly, resulting in a leaner, stronger and more focused workforce.

Downsizing decisions made using the Wyvern process are highly job-related and therefore legally defensible. They yield not simply a leaner company, but one that has retained the employees with the necessary competencies for carrying out the new business plan. To learn more about the Wyvern OJQ, please visit **www.wyvern-ojq.com**.

These tools – PSP psychometric assessment and Wyvern OJQ – offer measurement systems for making objective and targeted decisions for handling the people side of M&As. Getting the people side of the ledger right goes a long way toward improving the odds of a successful merger/acquisition that can adapt quickly to marketplace changes.