

UNLOCKING VALUE IN M&A: **THE CRITICAL ROLE OF INTANGIBLE ASSETS**

Thought Leadership



More and more, merger-and-acquisition (M&A) practitioners in financial services are recognizing how important intangible assets are to success.

While traditional financial metrics still matter, organizational culture, leadership capabilities, and human capital are now pivotal to M&A outcomes. This shift shows a more nuanced understanding of creating value in these transactions and underscores the need for deal teams to pay closer attention to these assets.

Korn Ferry conducted an anonymous survey of executives and senior M&A leaders from top global financial services firms in banking, insurance, asset management, and private equity to examine how organizations are improving their due diligence processes and integration outcomes. Our findings reveal that over a third (36%) of respondents now view intangible assets as a primary driver of M&A activity, placing greater value on culture, leadership, and intellectual property in maintaining a long-term competitive edge.

This growing emphasis on intangibles as strategic drivers marks a broader transformation in how value is measured during M&A deals. Companies are starting to see that these elements are key to staying competitive and sustaining success.

Key Findings

Our survey found that deal teams in financial services must recognize the growing importance of intangible assets throughout the entire deal cycle, starting with due diligence. In fact, only a third use HR expertise, leading to gaps in evaluating cultural fit, leadership alignment, workforce standing, and organizational readiness. Focusing on the following areas can improve M&A success.

The Confidence Gap in Evaluating Intangible Assets

Despite the recognition, many deal teams feel ill-equipped to evaluate intangible assets effectively. Only 35.7% of survey respondents say deal teams integrate human resource (HR) expertise into the due diligence process, highlighting a significant gap in assessing human and organizational dimensions. This lack of confidence is particularly evident in how deal teams evaluate cultural fit, leadership alignment, and organizational readiness. They often concentrate on traditional due diligence topics—such as financial statements, tax records, legal considerations, and market analysis—leaving a critical oversight in assessing human and organizational factors that directly impact overall deal value and integration success.

Cultural Fit: A Critical Yet Neglected Component

Survey participants stressed the importance of assessing a target's leadership and culture, placing it on the same level as traditional financial evaluations. However, cultural assessments often take a backseat, particularly among private equity (PE) firms. Corporate organizations are more inclined to prioritize cultural integration but still face difficulties in executing it effectively. Our survey reveals that cultural alignment during M&A is as critical as financial due diligence, yet it remains one of the most significant challenges for many companies.

Operational and Organizational Readiness

More than half (54%) of respondents reported a greater focus on evaluating operating model fit and organizational readiness during due diligence. This trend reflects a growing awareness of these factors' importance in assessing deal viability, estimating potential value creation, and ensuring successful integration. Yet, HR's involvement remains limited. Including HR professionals in deal teams can provide vital insights into workforce dynamics, change readiness, and leadership alignment. These elements are instrumental in identifying integration risks and guaranteeing that post-merger strategies are executed smoothly.

Workforce Analytics: A Rising Priority

Our survey shows that workforce analytics are becoming more relevant in M&A due diligence:

- 77% of respondents consider employee engagement scores important
- 69% prioritize employee productivity/performance metrics
- 69% focus on turnover rates and employee tenure

These metrics offer valuable insights into the target company's workforce, including employee sentiment, organizational culture, and the overall HR landscape. These factors are key for post-merger success. The increasing focus on workforce analytics aligns with the improved quality and scope of data available to assess an organization's intangible assets, especially its workforce.

Addressing the Challenges in M&A Integration

What does it take for a merger to be successful? Our survey identified four areas where organizations struggle during M&A integration:

- **Cultural Fit:** Establishing and demonstrating a shared culture through consistent leadership actions.
- **Leadership Alignment:** Building a strong leadership team and quickly setting up governance to ensure stability, direction, and focus.
- **Operational Integration:** Executing timely plans and tracking value effectively to drive success.
- **Communication Issues:** Sharing clear and transparent timelines for key decisions to reduce anxiety and curb misinformation.

The challenges faced in these areas underscore the importance of thorough due diligence that looks beyond financial metrics to include cultural and organizational factors. Identifying potential issues early in the process helps mitigate risks and allows companies to decide whether to move forward with the deal. Proactively addressing these factors can lead to better outcomes, whether through improved integration planning or by avoiding problematic transactions altogether.

5 Essential Leadership Capabilities for M&A Success

Our survey highlighted five critical leadership capabilities for successful M&A integration:

1. **Cultivating Trust:** Building and maintaining trust across organizational boundaries.
2. **Managing Ambiguity:** Skillfully managing uncertainty and complexity during transitional periods.
3. **Taking Decisive Action:** Making timely and effective decisions in dynamic environments.
4. **Engaging Collaboratively:** Fostering cooperation and teamwork across diverse groups.
5. **Developing Strategic Vision:** Crafting and communicating a compelling long-term direction.

Leaders who excel in these areas are better equipped to guide their organizations through the complex post-merger integration process and align diverse organizational cultures. Companies should prioritize developing and selecting leaders with these competencies to drive M&A success and maximize value creation.

5 Recommendations for Maximizing Value Creation in M&A

To tackle these challenges and capitalize on opportunities presented by intangible assets in M&A, we recommend the following:

1. **Adopt structured frameworks.** Implement comprehensive frameworks to systematically assess and value intangible assets like leadership alignment, cultural fit, employee engagement, and organizational change readiness.
2. **Leverage workforce analytics.** Use data-driven insights to evaluate key personnel dependencies, organizational structure, and potential integration challenges. This approach complements traditional financial analysis and gives a more holistic view of the target organization.
3. **Prioritize cultural due diligence.** Develop robust methodologies for assessing cultural compatibility and integration risks, giving these factors equal weight compared to financial and operational considerations. This helps prevent cultural clashes that can disrupt integration.
4. **Include HR expertise in deal teams.** Adding HR professionals to deal teams provides necessary insights into workforce dynamics, change readiness, and leadership alignment. This expertise is instrumental for assessing potential transactions, identifying integration risks, and ensuring smooth execution of post-merger strategies.
5. **Improve leadership development.** Invest in developing leadership skills that are essential for successful M&A integration. These capabilities include managing ambiguity, building trust, and strategic thinking. This prepares leaders to effectively guide their organizations through M&A complexities.

Conclusion

As M&A in financial services evolves, organizations must recognize the growing importance of intangible assets throughout the entire deal cycle, starting with due diligence. By expanding frameworks to include cultural, leadership, and organizational assessments, deal teams can reduce risks, improve integration outcomes, and unlock greater value from M&A transactions. The future of effective M&A lies in balancing both tangible and intangible assets. Organizations that master this approach will be better equipped to navigate the complexities of modern M&A and achieve sustainable, long-term success.

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