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Executive Talent: Critical Success Factor for Acquisitions

Sandra Davis, Chief Executive Officer of MDA Leadership Consulting, and David Nosal, Chairman and Chief Executive Officer of Nosal Partners, discuss the importance of executive talent assessment to making an acquisition successful.

Q: One typically thinks of talent assessments in terms of executive and organizational development. How do talent assessments fit into mergers and acquisitions (M&A)?

SD: When evaluating a potential acquisition, boards and company leaders examine the target company's financials and offerings—either of which can make or break the deal's success. Unfortunately, the M&A due diligence process frequently overlooks executive human capital, and the need to discover the unique talents that individuals possess that make a company successful. People are critical company assets.

DN: Whether seeking to integrate a target company or run it as a stand-alone operation, acquiring companies need to make sure they are building as strong an organization as possible. Although some firms routinely ask us to evaluate key players in a target organization before making an acquisition, we find few corporations that assess talent as part of their due diligence process. Many acquiring companies instead make quick assumptions that their own people should sit in the key roles. In fact, acquiring companies that don't assess, at a minimum, the higher organizational levels of both entities miss a huge opportunity to potentially augment their leadership ranks.

Q: Human capital is so critical to an organization's success. Why do

you think companies overlook talent assessment in their due diligence?

SD: There are two primary mind sets that thwart such analyses. First, there is a tendency to view people within the acquired company as expendable even though the acquiring company may not philosophically view its own talent as expendable. Second, some organizations fall into the trap of arrogance about their own talent: they believe they are unique and have the best people.

Q: How can neglecting a talent assessment affect the acquisition's overall success?

DN: When key people and positions don't survive an acquisition, the overall value of the business can suddenly decrease. The companies who make the most successful acquisitions have a clear due diligence agenda to evaluate categories such as product, technology, customer, infrastructure, balance sheet, as well as human capital. Some companies make these analyses extraordinarily well, but there are many more that do not. Pundits say that the vast majority of all mergers and acquisitions fail, depicting clearly a component beyond financial analysis that many of these companies are missing in the process of due diligence and integration.

SD: A human capital audit becomes especially important when the acquiring organization seeks not just a broader product set, but also an expanded sphere of influence. From an operating perspective, the acquiring company needs to ascertain which leaders are central to the target company's success. What are the critical roles and the key players who have made the company successful? In some cases, the acquiring company actually

finds it needs someone with specific experience not found in either company to make the combined organization successful.

DN: An examination of key leadership roles is also critical to maintaining customer relationships, which are sometimes strongest around people one might not necessarily expect, such as a product engineer or scientist. Why would you not retain the individual who has the strongest relationship with a key customer? Unfortunately, we see it happen all the time.

SD: In reality, it can take a few months for a company to truly understand what it has acquired in terms of executive talent, customer relationships and culture. In this regard, organizations fail when they try to integrate an acquisition too quickly.

Q: What role does a talent assessment play once an acquisition has taken place?

DN: Talent assessments can play a key role in the success of each phase of the acquisition process.

Putting the right people in the right positions is only half the story. Keeping them after the deal is done is equally important. Organizations that drive executive assessment into every M&A deal put the right talent in place for business success and truly understand how to retain key players. S

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