

Knowing Your Executive Talent—Critical Success Factor for Acquisitions

Sandra Davis, PhD, 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 spend a great deal of time examining the target company's financials and offerings—either of which can make or break the deal's success. An equally critical success factor is the target company's people. Unfortunately, the M&A due diligence process frequently overlooks executive human capital, and the need to discover the unique talents that individuals possess to make a company successful overall. These are the underlying attributes of a company. They could be special skills, unique knowledge, great connections and more.

DN: Yes, and it's surprising. 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 post-acquisition. Although some big private equity 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. We constantly meet exceptional executives who find themselves on the bench following the acquisition of their former employers. 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: Failing to place the best people in key leadership positions is clearly a lost opportunity, but how specifically can neglecting 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 we have encountered 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. There is 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 through the acquisition. The people in the acquired organization will be core to that sphere of influence. From an operating perspective, the acquiring company should also find out which leaders are central to holding the target company together. 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 key engineer or scientist. Why would you not keep 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 make a mistake by trying to integrate an acquisition too quickly.

Q: Human capital is so critical to an organization's success. Why do you think so many companies overlook talent assessment in their due diligence?

SD: There are two primary mindsets 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. This is especially the case in large companies where people assume that smaller companies don't have the same high caliber of executives they have. On numerous occasions we have assessed key talent in both the acquiring and acquired companies to make sure the leadership team really understands the talent they have and ultimately places people in the right slots. The results can be surprising. M&A situations represent a rare chance to see one's own talent in comparison to that in another organization.

Q: What role, if any, 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 don't drive executive assessment into every M&A deal also miss a huge opportunity to understand how to retain key players.

SD: That's right. The human capital audit should ideally provide insight into executives' professional goals and interests. By offering opportunities that not only keep executives feeling challenged and engaged, but also align with their individual aspirations, organizations strengthen the connections that drive retention.

DN: In summary, to build the strongest combined organization possible, the entire acquisition process needs to be a thoughtful one from start to finish.

Q: In addition to assessing talent, what else should companies do to successfully handle executive talent during an acquisition?

SD: First of all, don't immediately impose new people standards. Your first moves post-acquisition will convey how much respect you have for your employees. Part of the way you

retain talent is by showing people a great deal of respect. If you immediately seek to impose your own new standards, you send a clear message about how much you don't respect your people. Be up-front with employees about the course of action that you plan to take over your first three to six months, including assessments, interviews, etc. Employees appreciate it when a company is open and candid about its plans and processes. Acquisitions are made for many different reasons; anything a company can do to communicate about its processes and rationale will help create a stronger sense of trust and connectedness post-acquisition.

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