

trends Human Capital Affects M&A Activities

a cook associates report

Historically, mergers and acquisitions have paved the way for a company to achieve greater market share and attain new technologies. In recent years, however, the M&A process has evolved to include a new element during due diligence, that of human capital.

Cook Associates, Inc., an executive search and M&A consultancy, has decades of experience in guiding its clients to ideal investments, whether in companies or individual executives. We have noticed that our M&A clients continue to validate deals based on market potential, company profitability and similar financials, but they are just as interested in assessing the company's talent.

“Companies haven't taken their eye off the ball in terms of growing market share, but they are now making sure they have the right talent to get it done. In the past, we walked away from a deal if we didn't think the talent and culture fit, even if the financials were attractive. Our focus and strategy have shifted to concentrate on fewer, recognizable brands that we believe can deliver exceptional value to our consumers and shareholders. As a result, talent is an even more critical factor in the deal evaluation,” comments Larry McClure, Senior Vice President, Human Resources for multi-billion dollar Liz Claiborne, Inc. (NYSE:LIZ), the apparel giant with a history of increasing its product offerings by acquiring new brands.

Mr. McClure is responsible for leadership development and the overall human resources strategy, as well as support for more than 17,000 Liz Claiborne associates worldwide. Prior to Liz Claiborne, he held a variety of human resources leadership roles including organizational development and helped craft global strategies for acquisitions, divestitures and growth initiatives.

“M&A activity has added a dimension to both the due diligence and consideration of a deal – and that is talent,” continued Mr. McClure. “It's only reasonable. If the acquiring company sees potential for growth, increased market share and profitability, the right talent has to be in place to get them there. With the increasing challenge to attract and retain talent, I doubt there is anyone today with a bench of idle, great people who are waiting to go into a business.”

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Inspect & Assimilate

The due diligence process is prime time to uncover potential issues with talent. “If you're looking at an acquisition with a great brand or technology, and discover they need an infusion of capital and talent in order to take it to the next level, it is best to find out during the due diligence process and have that discussion with the sellers. This is your opportunity to identify what the company needs to be truly successful as an enterprise and an investment,” advises Mr. McClure.

Cisco Systems made headlines for its rigor in scrutinizing a company and its talent, ensuring both the technology and culture met its criteria well before it entered into discussions with the company. Time and again, this laid the foundation for prosperous acquisitions.

In his book, *The Halo Effect*, author Phil Rosenzweig describes the meteoric rise of this networking equipment colossus and the success it achieved through strategic acquisitions: From 1993-1996, Cisco moved to acquire nearly 40 new companies. By 1998 it held a 40 percent share of the \$20 billion data-networking equipment industry and an 80 percent share of the high-end router market. With nearly \$9 billion in revenues, Cisco posted operating margins of 60 percent and saw its market capitalization top \$100 billion.

American business magazines wrote article after article about Cisco attempting to uncover how this company was able to succeed where others had failed. In addition to its highly disciplined approach to acquisitions, another contributing factor cited was Cisco's ability to quickly integrate and assimilate new employees.

A Harvard Business Review case study commented, “Integration success was due in large part to the very organized, methodical approach that Cisco took toward managing the experience of acquired employees.”

In another analysis conducted by two professors at Stanford Business School, it was noted that “the key to Cisco's success had everything to do with its ability to tap the talent and energy of its workforce.”

Cisco accomplished this by establishing a dedicated team focused on rolling-up the start-ups into the larger organization. It followed a systematic post-acquisition integration process with clear expectations for specific milestones at 90 and 180 days.

It also welcomed and embraced new employees like no other. Cisco “cared about the soft side of merger integration, helping bring new employees on board, making them feel part of the team-by handing out Cisco baseball caps, for example, to help build company identity,” wrote Mr. Rosenzweig.

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Inherent Challenges

Even when the acquiring company takes every measure possible to make the acquisition a positive experience, the reality is that there will be fallout.

Ann MacCarthy, a Managing Director with the executive search consultancy at Cook Associates, Inc. commented, “I have found that some employees from the acquired company do not want to be part of a larger entity; still others feel a sense of loyalty to someone who will not be part of the newly combined organization and so they will move on with that individual. At the very least, an acquisition is going to generate anxiety and confusion, making employees wary, cautious and suspicious of the new entity.”

In addition to attrition and cultural fit, other challenges include harmonization of compensation and benefit plans, and leadership assessment and selection.

This means that early on in the M&A process, all executives in leadership positions must communicate and listen effectively to build trust, candor and transparency with its acquired employees. Also, it’s imperative to build an appreciation and respect for the uniqueness of each culture rather than immediately seeking to homogenize everyone into one.

Your Search Partner

While there will be fulfillment needs as you deal with gaps and vacancies brought upon them by the acquisition, your executive search partner can do more by serving as a trusted business advisor.

“The search professional who can change altitude from merely filling positions to holding a more comprehensive role as an organizational consultant becomes an invaluable partner at the crossroads of the deal. We can bring considerable perspective from being personally involved with a large number of organizations and their management in terms of solving problems through the strategic deployment of human capital,” suggests Ms. MacCarthy.



Considering that the notion of M&A usually goes hand in hand with integration efficiency, which is usually coupled with downsizing or process change, your search partner can offer a professional and dispassionate perspective that is familiar with many different types of business processes. In this way, they can help you establish “best practices” out of the colliding and moving parts of each organization as they are merged together.

Search may also be called upon as a reference. “To me, executive search can be another lens to peer through when you’re even evaluating a potential company. A strong and informed relationship with your search partners can provide valuable insight and on-going assessment of the reputation of other companies and the quality of their talent,” said Mr. McClure.

Keep in mind that an M&A event will affect the pace of any active searches. Ms. MacCarthy notes, “As a client, be aware that candidates could shy away from exploring the opportunity because they are uncomfortable with the ambiguity, whereas others may become more interested as they perceive a strategic move toward growth.”

Ultimately, if your search partner knows your strengths, weaknesses, opportunities and threats, in addition to your talent landscape, they can partner with you on your growth strategies and act as a trusted advisor during M&A events.

About Cook Associates, Inc.

Cook Associates, Inc. is a retained executive search and M&A advisory services firm. We are uniquely positioned to help our clients capitalize on the brightest talent and best performing companies in the marketplace. Our client base ranges from multinational corporations to early stage entrepreneurial companies, private equity and venture capital firms.

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Based in New York, Ann MacCarthy is a Managing Director, Retail & Fashion with the Executive Search Division of Cook Associates, Inc. Her 15 years of high level search experience spans multiple channels of distribution in all classes of trade from luxury to mass market including the retail, fashion, apparel and accessories, home fashion, and beauty industries. Ann’s insider experience as SVP, Human Resources for Gestetner PLC and senior human resources positions at Sara Lee Corporation and U. S. Industries Group enable her to partner effectively with clients in addressing their organizational needs. She can be reached at 212.471.5239 or via email at amaccarthy@cookassociates.com.