

Human Capital Due Diligence

**Reducing
Investment Risks**

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Why we are here:

- **Introduce Human Capital Due Diligence program**
- **Share the findings and feedback on our Human Capital Due Diligence process from angel investors, investment bankers and several key venture capitalists**

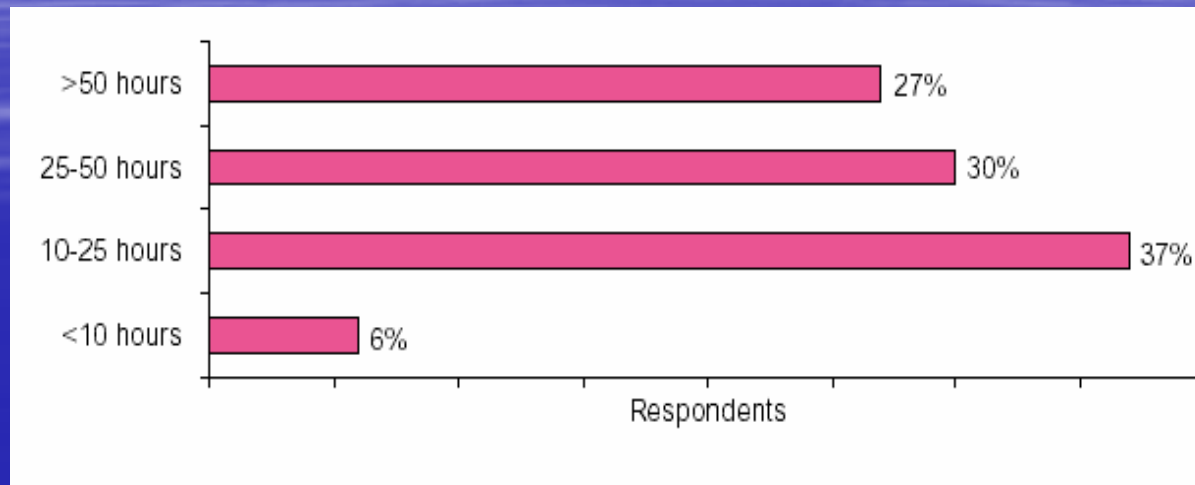
Agenda

- **The Problem defined**
- **A formal Human Capital Due Diligence process is required**
- **Process leads to better investments**
- **Wrap Up: Q & A – Feedback**

The Problem

- **The most common cause of failure in start-ups is poor management.**
- **Yet the due diligence focus is on the product, the market and the investment...**
- **There is a lack of a consistent process in doing Human Capital Due Diligence.**

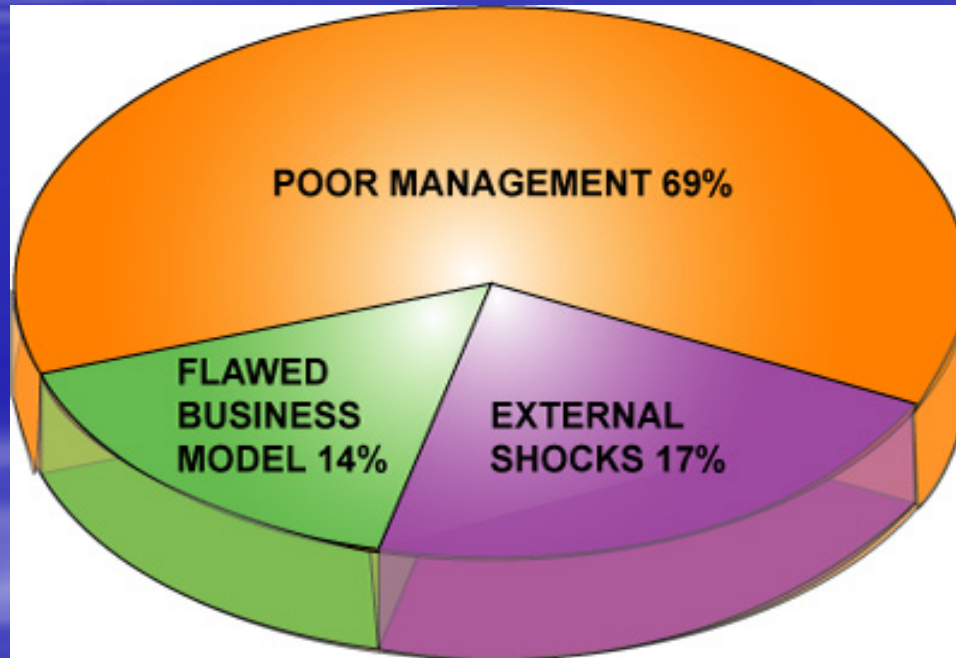
Human capital assessment: a case of quantity not quality?



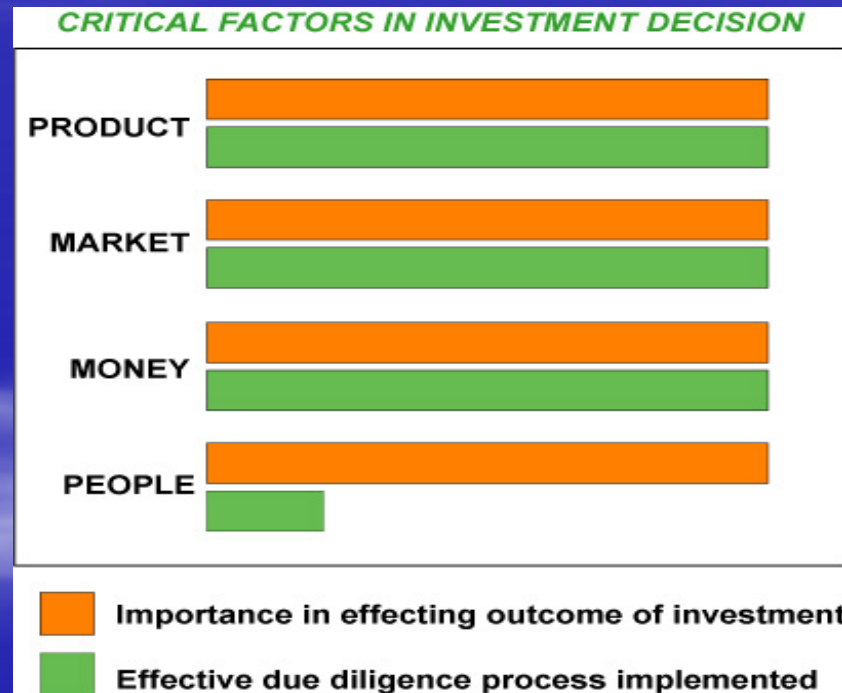
If management does play such a pivotal role, it has to be asked why the quality of assessment remains so patchy. The majority of investors spend more than 25 hours evaluating a prospective management team, with nearly 30% devoting over 50 hours to this all-important topic.

72% rated Management characteristics as Key drivers of success in investee companies

The most common cause of failure in VC investments is a poor management team.



The current focus of investment due diligence is on Product, Market and Money ... not People.



Focus vs. critical attributes:

TOP ATTRIBUTES VC's SEEK TO ASSESS

Technical Knowledge	40%
Industry Knowledge	26%
General Mgmt/Operations	26%
Sales/Marketing Skills	24%
Leadership	17%
Strategic Thinking	14%
Relevant Past Experience	14%
Finance	12%
Ability to Build a Team	12%
Ability to Grow a Young Company	10%
Integrity/Honesty	10%
Openness	10%
Strong Work Ethic	7%
Can Work Well with Others	5%
Can Recruit Alliance Partners	5%

TOP ATTRIBUTES VC's FAIL TO ASSESS

Lack of General Mgmt/Operations	29%
Cannot Work Well with Others	24%
Sales/Marketing Skills	19%
Technical Knowledge	10%
Ability to Build a Team	10%
Leadership	7%
Finance	7%
Integrity/Honesty	5%
Lacked Strong Work Ethic	5%
Details	5%
Emotionally Unstable	5%
Strategic Thinking/Vision	2%
Ability to Grow a Young Company	2%
Openness	2%
Charisma	2%

Definitions

Human Capital (HC) is the sum total of the skill, talent and experience of the entire team.

Human Capital Due Diligence (HCDD) is the systematic evaluation of Human Capital in an organization.

Formal HCDD processes are required because:

- **People are complex**
- **Teams are even more complex**
- **Multiple investors result in multiple ad hoc processes**
- **Results are not well organized or documented**

Time and Methods used by VC's

METHODS USED BY VC's TO ASSESS HC	AVE HRS
Work Sample	63.9
Reference Interviewing	19.8
Past-Oriented Interviewing*	16.8
Documentation Analysis	3.7
Job Analysis	3.6
Psychological Testing	0.1
Formal Assessment Center	0.0
Total time allocated to Human Capital Methods	120.0

**Past-oriented interviews have been found to be the most effective method.*

What is proper HCDD?

- **Research - is each team member who they say they are, drilling down beyond superficial level**
- **Assessment - determining if each team member well suited for their job and this organizational climate.**

RESEARCH - how far do you peel the onion?

- Reference checking on each team member
 - Personal references
 - Co-worker (peer, subordinate, superior levels)
 - External industry associate (vendor/account)
 - Past Employment
 - Background check including driving record, credit, legal etc
 - Resume validation

ASSESSMENT - Tools to “peel” the onion

- Assessments and Interviews
 - Job Profile Assessment
 - Reference Evaluation
 - Personal Style Inventory
 - Behavioral / Past-Oriented Interviews
 - High Impact Team (HIT) Evaluation

Results of proper HCDD:

INVESTIBILITY

- Provides baseline of HC in the target company
- Provides documentation; in-depth results using consistent, repeatable process
- A more thorough job can be done quicker, resulting in time and cost savings
- Fewer mistakes means making better investment decisions.

All together these equal a higher ROI.

Use us as your HC Due Diligence tool: ***ADVANTAGES***

- Saves investor's time on the major legwork of HCDD
- Minimizes legal liability or conflict of interest
- Provides 3rd party perspective
- Industry professionals keep up with latest trends and processes to give more accurate assessments
- Elevated Awareness - HCDD deliverable allows Investors to begin at a higher awareness level for further investigations.

Our Findings:

Early stage investors and several key venture capitalists have given feedback to develop these programs:

- Formal HCDD Process
 - The Process needs to be well defined and consistent
 - Project managed approach for less disruptive and quicker assessment
 - A qualified staff with expertise on “peeling the onion”
- Training & Tools
 - Options for internal implementation
 - Seminars and workshops to train staff in our processes

HCDD Summary

- Human Capital DD has been the “Achilles Heel” of the investment community.
- Proper HCDD Processes are required to make informed decisions regarding the investibility of target companies.