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MERGERS & ACQUISITIONS: CULTURAL DUE DILIGENCE

Mergers and acquisitions (M&A) is a key growth strategy for many of the most successful organizations entering new markets, acquiring new technologies, increasing scale or leveraging purchasing power. However, despite the best of intentions and plans, the inherent risk of “culture clash” can seriously derail the realization of expected synergies. In fact, up to 70% of all M&A deals fail to achieve expected results. Incompatibility of organizational cultures is one of the most dominant drivers of such failures.

Why Culture Matters to M&A

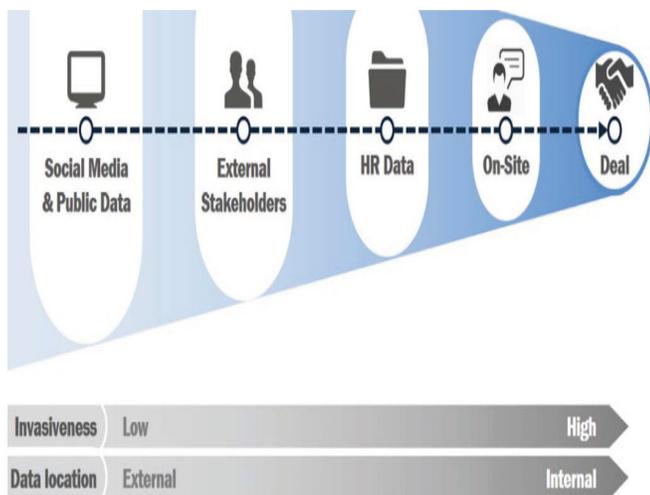
An organization's culture reflects the various lessons that an organization learned through its history and encompasses the many habits and routines that have developed over time. While many elements of an organization's culture aren't always visible to its members, disruptive events like M&A's can make a focus on culture salient. Our research at Denison Consulting over the last 25 years has proven a clear connection between an increased focus on culture and business performance metrics that are critical to the M&A process, such as profitability and growth, revenue, and employee satisfaction.

The most successful mergers and acquisitions pay attention to culture early in the process. Organizations can proactively avoid the pitfalls of **'culture clash'** during the M&A process by performing cultural due diligence. Due diligence helps organizations uncover key issues that can impede negotiations and integrations. Understanding the cultures of both the acquiring organization and the target firm can help inform the deal, highlight the integration challenges, and prepare for a both a smooth transition and a successful integration.

How Denison Can Help Organizations Make Informed Decisions Around M&A

Denison Consulting's cultural due diligence framework will set organizations up for success during the M&A process. This framework allows organizations to screen M&A targets, gain insight into the target firm's culture,

and identify integration challenges. It is critical that all organizations involved in an M&A deal first understand their own cultures in order to define the strengths that they want to build on and the limitations that the M&A deal will ideally overcome. The Denison Organizational Culture Survey (DOCS) can help clarify the key aspects of culture, measure and serve as a useful framework for integration of data from different sources, and help synthesize the findings. Lastly, it helps firms manage their culture beyond the due diligence stage. The Denison Cultural Due Diligence process includes five optional steps, and begins with an unobtrusive, indirect, and informal assessment of the target firm's culture and later moves onto a more obtrusive, direct, and formal assessment.



Step One: Social Media Analysis

When initially identifying a potential acquisition target, social media analysis can serve as an unobtrusive method to narrow potential targets and identify an ideal target. Mining and analyzing the social media data can highlight issues related to organizational culture. It also serves as an effective way to further analyze

the competitive landscape by comparing the target firm's data against its competitors. We will map the data from the analysis to the Denison Culture Model and create an estimate of the organization's culture profile.

Step Two: External Stakeholder Interviews

Semi-structured interviews with external stakeholders can help an acquiring firm gain insight into a target firm's culture. These early stage interviews focus on identifying key strengths and issues from each stakeholder's perspective, giving a well-rounded view of the organization. These interviews do not require direct interaction with current employees.

Step Three: HR Data and Document Review

It is sometimes possible to gain access to the target firm's internal archival data related to its HR and management practices (including tenure data, hiring and staffing data, performance appraisal, templates and processes, compensation structure, and various training programs). Using this information and applying it to the culture model as a framework will enable an organization to gain additional insight into the target's culture.

Step Four: Internal Stakeholder interviews

As the acquisition nears completion, interviews with the target firm's leadership team and a sample of the middle managers and front-line employees can further strengthen the assessment of the target firm's culture and identify potential integration challenges.

Step Five: Synthesis of Key Integration Challenges

Collecting data is challenging enough for

organizations, but making sense of this data from different sources poses an even greater challenge. Using the Denison Culture model as a guiding framework throughout the process can help clarify:

- Lessons learned about the target firm's mission, adaptability, involvement, and consistency
- Potential integration challenges that they will need to present to the deal team
- Initial recommendations for addressing the integration challenges

Conclusion

Many organizations that are considering an M&A as part of their competitive growth strategy understand that organizational culture is important, but don't know how to leverage it in a way that allows informed decisions to be made. Our cultural due-diligence framework can help organizations better understand and manage their culture throughout the M&A process. If both the acquiring and target firms can effectively understand their cultures, from the due diligence phase to the integration phase, they will be able to more effectively achieve their business goals.

FOR MORE INFORMATION

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