

## M&A Due Diligence—More Than Just Financial

### RIGHT'S POINT OF VIEW

Our latest research project, *Creating Value Through Mergers and Acquisitions*, included findings based on global survey data, as well as on a number of interviews with executives who had been intimately involved with implementing M&A activity in their respective companies. Another important factor contributing to the project was our consulting experience in partnering with organizations engaged in acquiring or merging with other organizations. Not all of the lessons learned from this experience could be included in the published study. This article presents a concept we believe, from experience, is a unique, leading-edge best practice in merger integration: organizational due diligence.

The period of time between the public announcement of a merger or acquisition and the actual close of the deal (anywhere from three to eighteen months) is usually associated with a process known as *due diligence*—in which the acquiring organization carefully analyzes available data from the target

organization, to determine whether its financial condition is as advertised. It is generally agreed that to proceed with an acquisition without this process would be foolish and irresponsible.

**Organizational Due Diligence.** But, there is another less well-known form of due diligence which, in our view, is of equal importance to any deal and can have a profound impact on the integration of a merger or acquisition. We refer to it as *organizational due diligence*—an examination of the target company in regard to six key areas: strategy, culture, leadership, competencies, organizational structure, and processes. Some questions to ask about these areas include:

- What is the overall health of the organization?
- What is the culture of the organization and how will it fit with the culture of the acquiring organization?
- What is the *new* culture that will be needed in the combined organization, and

will the target organization be compatible with that culture?

In fact, our experience has taught us that neglecting organizational due diligence is as irresponsible as neglecting financial due diligence, and can have consequences no less disastrous.

**Why do Organizational Due Diligence?** The biggest single reason to consider the concept of organizational due diligence is that it can help ensure the best fit between the cultures of the two organizations and the strategy needed to achieve the desired business results. One M&A client of ours—a global company in the hospitality industry—was about to merge with another large firm. The cultures of the two organizations were quite different. One had leadership that stressed a careful, cautious and controlled approach, highly organized and professional. The other was somewhat more people-oriented, more social, and operated at a slower, more relaxed pace. To be sure these two groups could succeed as

one, we brought their managers all together so they could become intimately acquainted with each others strengths and characteristics, to learn respect and understanding of their individual cultures, and to develop a sense of the sort of culture they would all have to commit to going forward.

**Questions to ask.** Embarking on organizational due diligence entails asking some relevant questions, such as:

- Does the organization understand and embrace the vision and strategy for the merger or acquisition?
- To what extent are the two organizations' current cultures aligned with the anticipated merged company's **Strategy? Desired culture?**
- What barriers exist to developing a culture that will ensure the successful execution of strategies?
- What actions need to be taken to ensure a seamless integration and achievement of common goals?

**Work to be done.** The answers to these questions will go a long way toward preparing the organization to complete the numerous tasks that are essential to moving the new entity forward, including:

- Identify cultural similarities and differences
- Elicit a "best of the best" rationalization from both organizations
- Determine potential areas of resistance
- Determine levels of commitment and understanding
- Address retention and morale issues (if necessary)

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A number of useful tools can support this process. We have used a range of surveys and assessment instruments, individual interviews, focus groups, and other methods, to diagnose cultural strengths and barriers as accurately as possible. The output of the process is a detailed road map or blue print—a plan for building a unified culture, with leadership, structure, processes, and competencies aligned with the strategy which formed the basis for the merger or acquisition in the first place.

Done properly, organizational due diligence is an effective form of risk management, an insurance policy against the failures that so often come out of attempted mergers. It supports not only cultural fit but smoother transitions for groups and individuals affected, retention of key talent, and higher levels of morale and productivity during and following the transaction.

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Right Management is focused on ensuring that mergers and acquisitions achieve their strategic objectives. With over fifteen years' experience partnering with managers during a significant organizational change, Right Management has a measurable track record in helping mergers and acquisitions succeed.

**Do M&A the Right Way.** Learn how by ordering your copy of Right Management's research report, *Creating Value Through Mergers and Acquisitions* by calling 1.800.237.4448 or contact your local Right Management office.

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