



Sikora Associates, LLC

Helping Organizations Understand...

Cultural Due Diligence in
Mergers and Acquisitions

Cultural Due Diligence in M&A's

WHY BOTHER?



M&A Success?

- Studies consistently report that **60-80% of M&A's** are viewed as **financial failures** (e.g., outperform stock market or deliver profit increases) and that about half simply fail.
 - An Andersen Consulting survey of 323 senior execs reports that 61% of alliances were viewed as a disappointment or failure (conversely, only 39% met or exceeded expectations)
 - A survey of 1000 companies by Watson Wyatt found that two-thirds of M&A's failed to meet profit goals and only 46% met cost-cutting goals
 - A study by A.T. Kearney reports that only 42% of mergers outperform competitors after two years.
 - An analysis in Harvard Business Review (HBR 2007) indicates that nearly two-thirds of companies lose market share in the first quarter after merger - 90% lose share after three quarters.
 - In a review of 276 Fortune 500 takeovers over a 15 year period (Trimbath, 2002), only 13 firms reported efficiency gains of 10% or more; 70% reported gains of 1% or less (some reported losses).



Culture: The Core of M&A Success

"Too often, deal makers simply ignore, defer or underestimate the significance of people issues in mergers and acquisitions." (HBR, 2007)

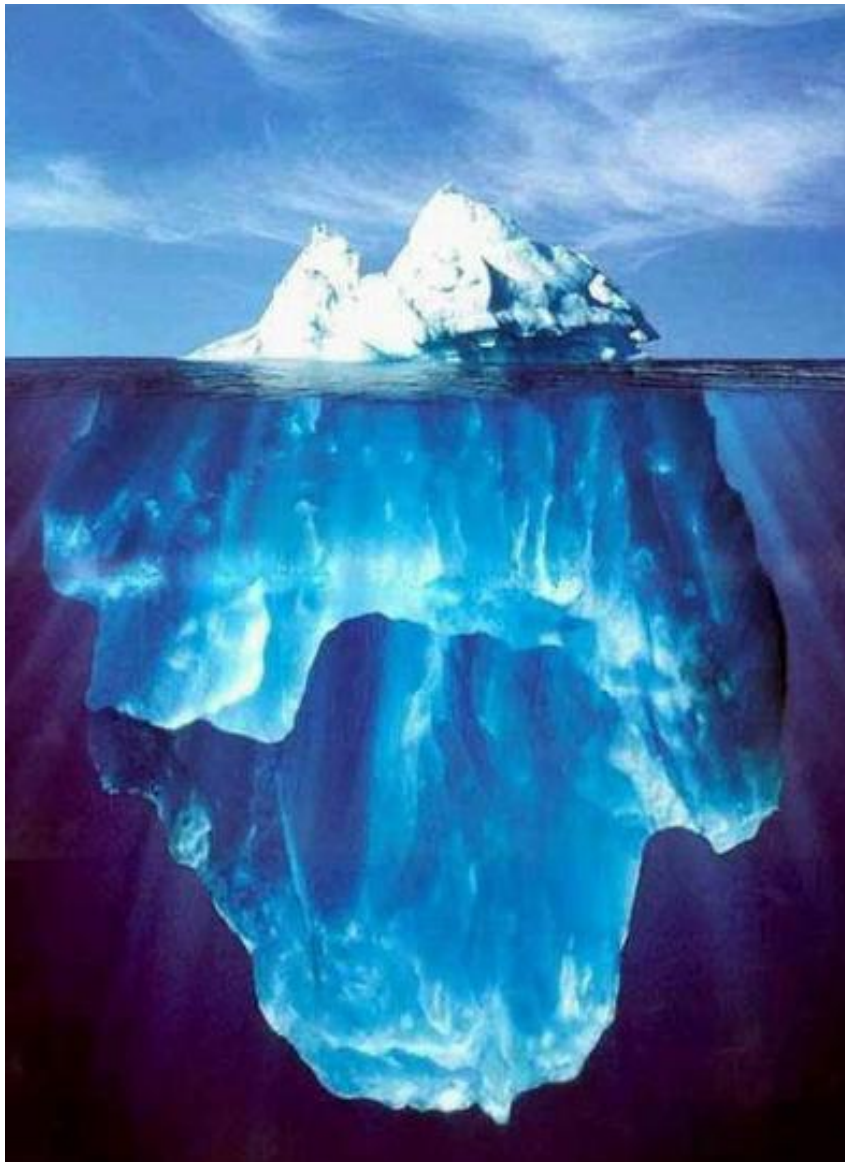
- In a 2008 Maritz poll of telecom employees, *those who had undergone merger reported organizational attitude ratings 11-13% lower than those who had not* – they were more mistrustful and disenfranchised than employees who had not experienced a merger.
- A survey based out of Ohio State (Noe, 2002) found that *47% of senior managers in acquired firms leave within first year* and most companies experience *50% drop in productivity* in first 6-8 months of integration.
- Commenting on Bank One's acquisition of First Chicago in 1998, a recent HBR (2007) article reports that "none of top 16 execs picked to run the merged company remained on the job."
- In a recent Tower & Perrins survey of 132 executives (2003):
 - The *top 5 causes* noted for M&A failure were "soft" or people related
 - The *top cause* of failure was "cultural incompatibility" noted by 57% of execs
 - Cultural alignment was named by nearly half (47%) as the most critical "people issue" to address, second only to effective communication (62%)
- In a survey of senior managers by Society for Human Resource Management (2005):
 - Two-thirds had been involved in three or more M&A's in previous 5 years
 - Only 43% of those reported success in expected pre-deal synergies
 - Incompatible cultures named as "*major obstacle*" to success by over half (56%)



Why Pay Attention to Culture?

WHAT SANK THE TITANIC?





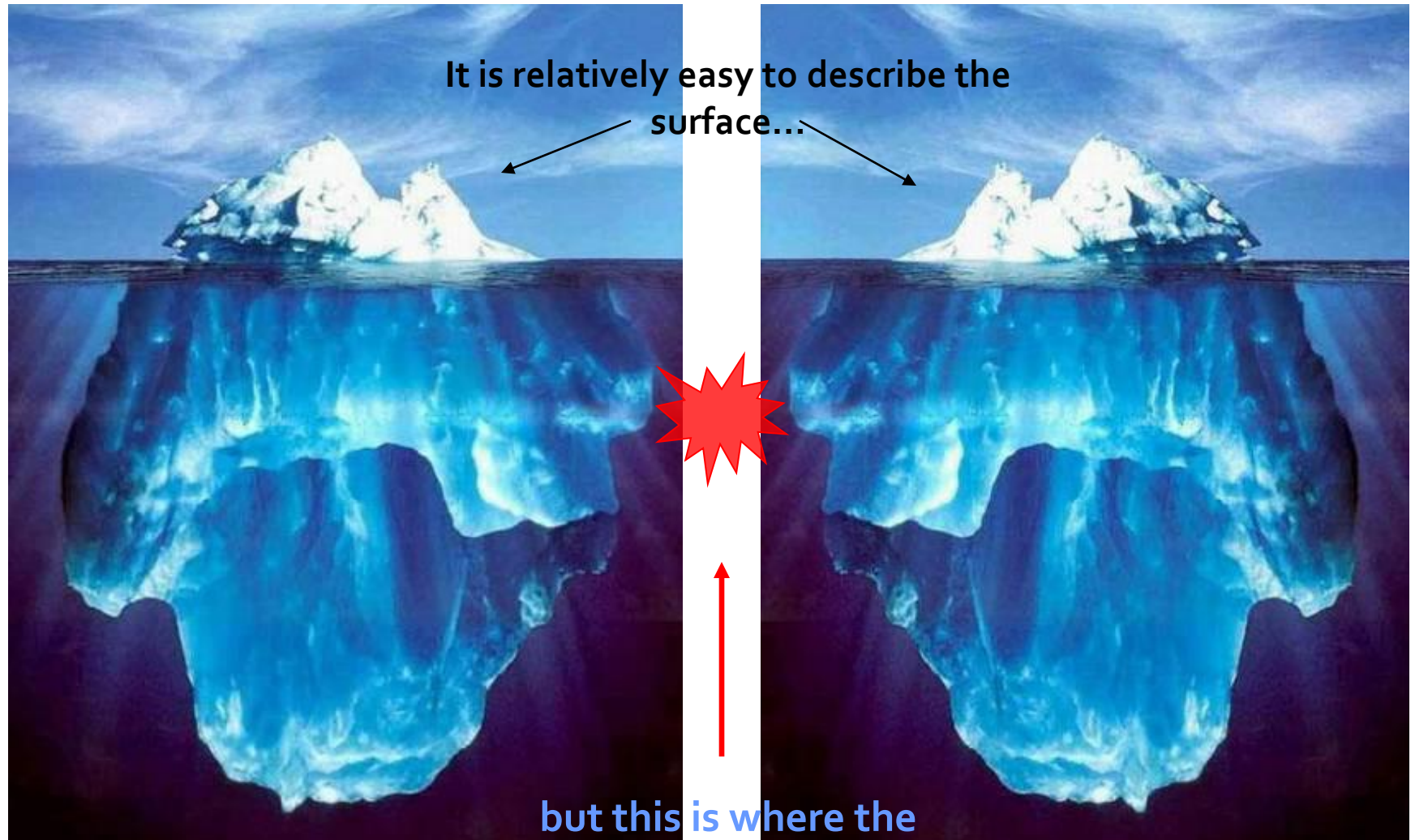
***IT WASN'T
THE TIP!***

**Presumption of
“unsinkable”**

blinded leaders and passengers
to real risks.



Danger in the Depths

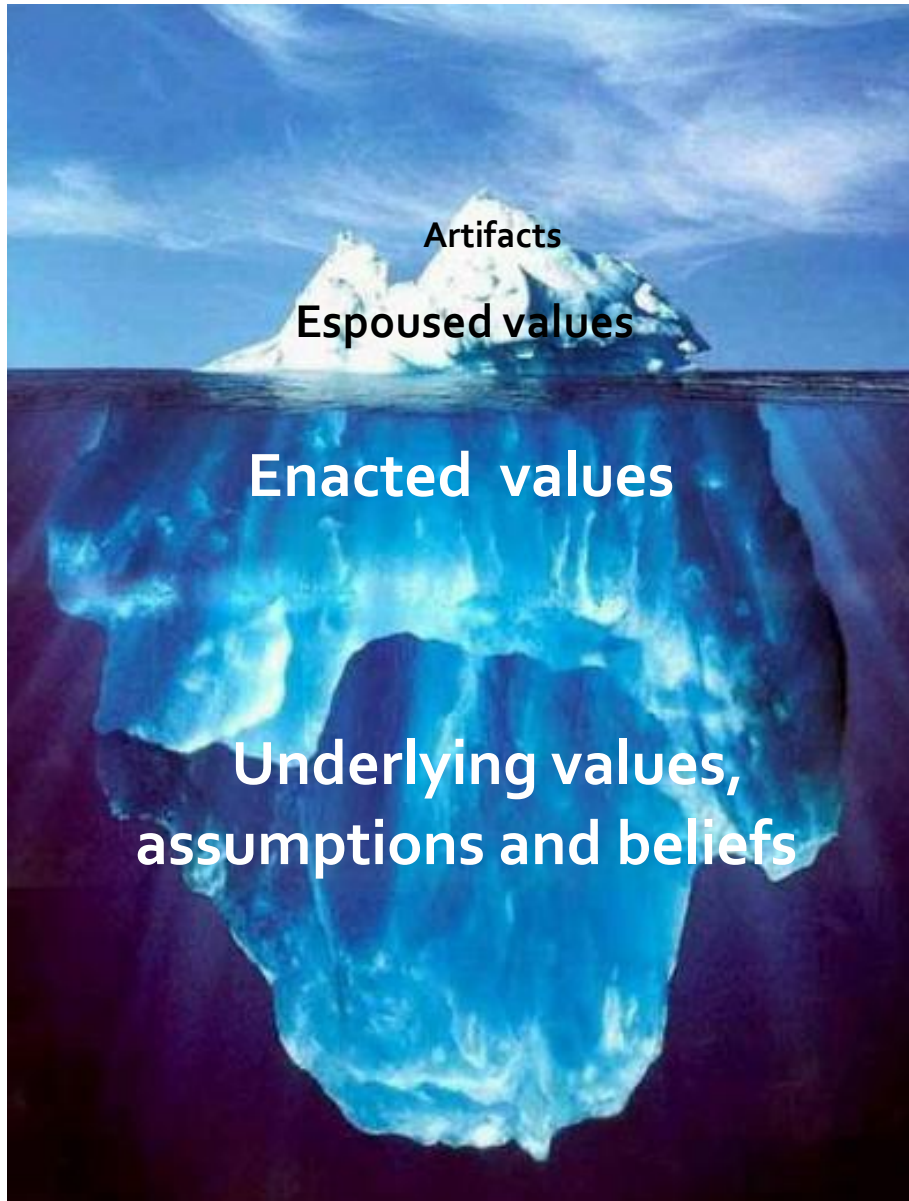


Danger in the Depths

“Culture is deep. If you treat it as a superficial phenomenon, if you assume that you can manipulate it and change it at will, you are sure to fail.”

Ed Schein





adapted from Schein, 1992, 1999

The Organizational Iceberg

■ Culture exists at several levels

- **Artifacts** – visible objects, building layout, décor, physical “climate” that reflects who we are/want to be
- **Espoused Values** – what we *say* we stand for; written mission and vision statements, posters on the wall
- **Enacted Values** – what our behavior says we stand for; policies, procedures that demonstrate what *really* matters
- **Underlying Values, Assumptions, Beliefs** – shared, usually unspoken (tacit) beliefs about the world, what success is, what matters, who matters, and why



Cultural Due Diligence

If you don't know what's under the water,
it's hard to avoid the collision.

If you're on the iceberg,
it's hard to see under the water.

Cultural due diligence *gets under the water*

- Identifying, naming, and understanding
 - Explicit and implicit values and beliefs
 - Perceptions of "us", "them" and expectations about the future "we"
- Identifying issues that signal potential collisions
- Identifying synergies that signal success



Cultural Due Diligence

Knowledge Supporting Management Supporting Success

- It is difficult to manage collisions if you don't know they are coming or where they might occur:
 - Between the two companies' views of each other today
 - Between two companies' views of their shared future
 - Between senior management and frontline perspectives
 - Between departments/functional groups
 - Between companies and their current and future customers
 - Between companies and their investors, industry analysts
 - Between companies and their suppliers



Getting Under the Surface is Essential

- Depth interviews and group discussions with
 - Top managers of both companies
 - Employees of both companies
 - Core customer segments
 - Key suppliers, analysts, other stakeholders
- Ethnographic research: meetings, walk the halls, look at the walls, cafeterias, parking lots
- Secondary research: what is the industry saying, review of annual reports, marketing materials, branding, websites.



Surveys Follow a “Deep Dive”

- Most surveys reflect superficial description of the tip
 - Miss unarticulated concerns, beliefs, expectations
 - Language out of sync with partner firm, stakeholders
 - Hundreds of possible questions – what matters? To who??

**We simply don't know what to ask of who
or how to ask it until we listen to stakeholders.**

- Ongoing assessments built on foundation of deep understanding provides more actionable results



Let Us Help You Improve Your Odds of Success

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