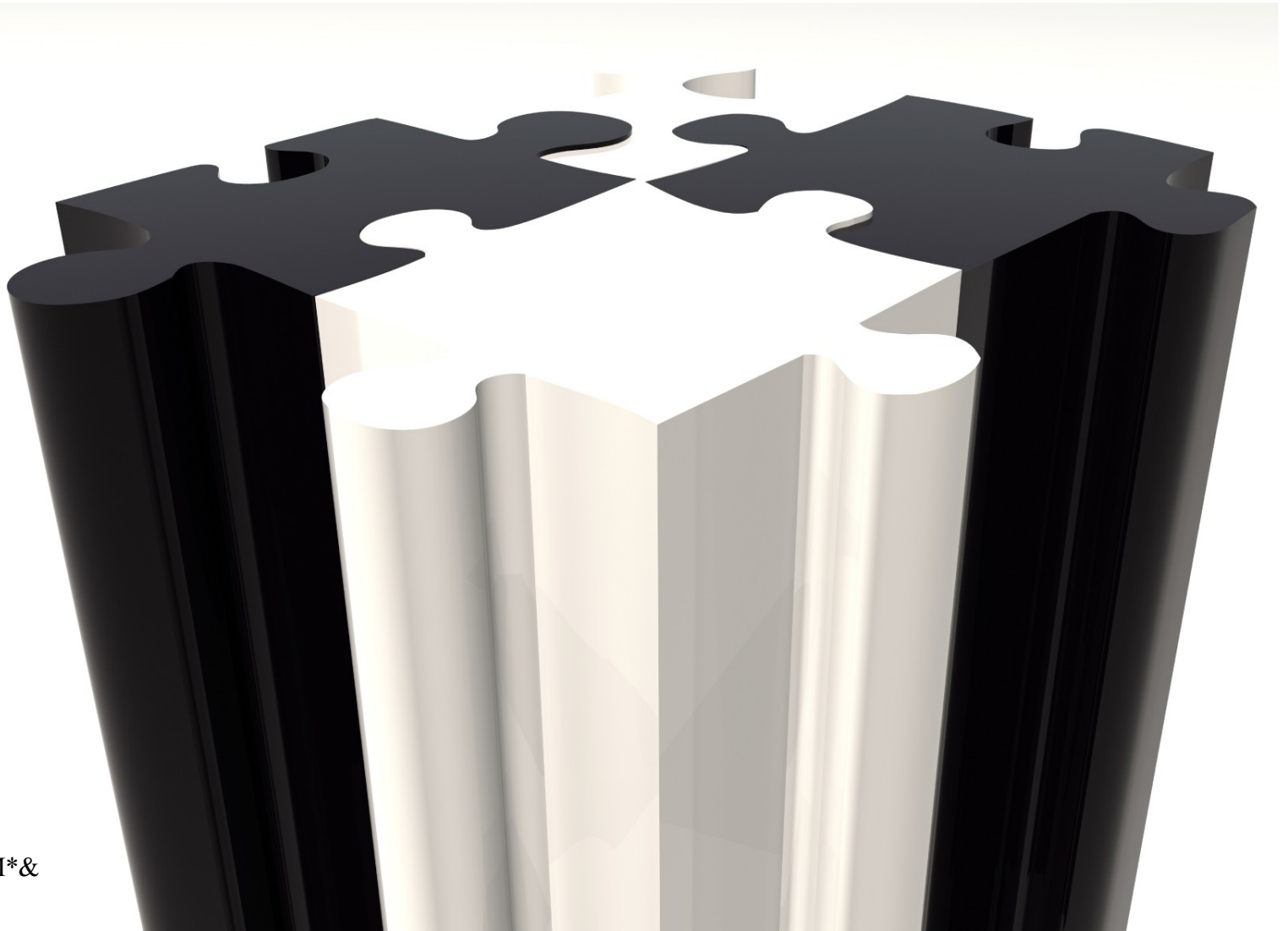


Cashing in on Culture

Culture Fit Analysis for Merging Companies

IF 83% of M&A transactions fail to achieve announced expectations and 50% don't even earn the cost of capital. And, most failed mergers cite CULTURE as the reason.....

Then, why do 94% of acquirers continue to make acquisitions where they have performed little of no meaningful cultural due diligence?



Cashing in on Culture

Sooner or later, virtually every business is bought or sold or merges with a supplier, distributor or competitor. From Bank of America buying Merrill Lynch to the changing of franchises by your local realtors, mergers and acquisitions are a fact of business life. Yet, historically, seven of every eight business combinations fail to achieve the financial success envisioned by the buyers and sellers.

After 12 years helping clients wrestle with M&A challenges, and recent exhaustive research on the topic of *Cultures Influence on operating results*, M&A Partners has developed a practical understanding and *approach* to assessing the cultural implications for merging companies.

Companies should discover the risks during due diligence and have a strategy for managing the combined cultures following a merger. Our hands-on experience demonstrates that bad deals can be avoided, underperforming deals can be improved and good deals can excel when the merging cultures are objectively factored into the decision, pricing and integration phases of mergers.

When one considers the millions of dollars that are spent on lawyers and accountants to prepare for the marriage, it seems ridiculously shortsighted not to spend a dime on checking out the compatibility of the two cultures. Stan Davis

Organizations, like people, have their own histories, values, opinions and behaviors. Yet many mergers and acquisitions look more like arranged marriages than prudent courtships. The hope that the parties will learn to “love one another” is a fallacy that leads to failure in seven of eight mergers.

Deals makers who don’t take the time to know and acknowledge the strengths and weaknesses of the joining entities are destined for relationships that foster and perpetuate misunderstandings, inefficiencies, loss of opportunities and downward spirals.

Based on our research and actual work with clients, unless there is a correlation between culture and the value drivers of a merger, there is little need for all of the cultural “gap” surveys and frankly, the excuses for underperforming mergers and acquisitions.

In an age of increased board-level scrutiny, ignoring the impact of culture during due diligence should be unacceptable. Directors and stakeholders want managers to connect the dots between culture and financial performance to avoid the missteps of the past.

Just like the traditional assessment of Strategic Fit and Financial Fit for a potential acquisition, M&A Partners proposes a new requirement for due diligence.....The Culture Fit.

Cashing in on Culture

Culture Fit Analysis

Most of what companies and their consultants provide as a “culture” assessment is based on simple observations or interactions between the executives prior to serious negotiations. Usually after the deal is struck, there is little or no meaningful attention paid to culture. And we agree that most culture talk is too soft and vague to merit serious consideration.

But this leaves leaders without the meaningful and actionable information they need to make smart decisions. Strategic and financial choices require good information; so do cultural choices.

Now we can provide the high-quality information that you need, using our proprietary TDF® Culture Fit Analysis. Cultures don’t need to match, but they must mesh. They must be able to interact effectively, or the risk of failure is too great. This Analysis will tell you what you need to know about:

- Key cultural values
Stability/Innovation/Speed/Quality/Service/Production
- Key cultural practices
Leading/Managing/Communicating/Teaming/Selling/Producing/Talent
- Key sub-cultures
IT/Sales/Business Units/Geography/Interfaces

All in a straight-forward, actionable format.

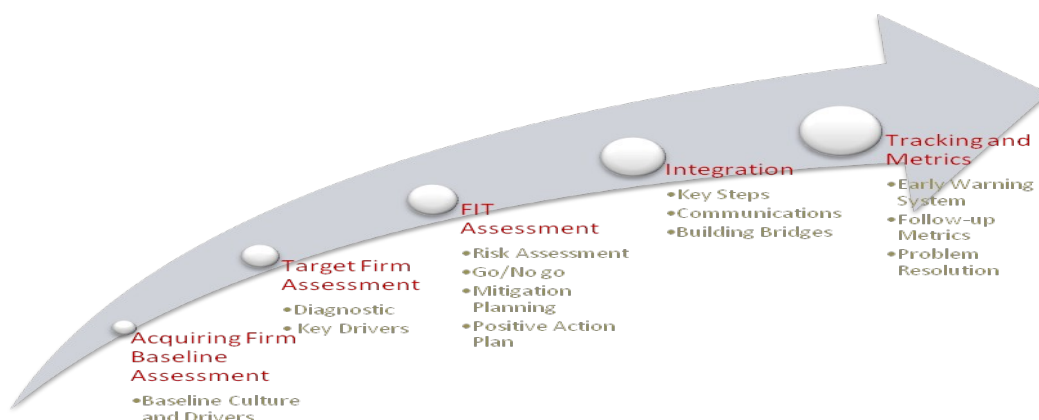
SENSITIVITY OF MERGER PERFORMANCE TO CULTURAL VALUE DRIVERS

The good news for those who are responsible for making high-value acquisitions or subsequently integrating mergers and acquisitions – **the cultural value drivers that impact a merged enterprise are identifiable, measurable and often manageable.**

Just as there are strategic value drivers/synergies for the deal itself, M&A Partners has identified specific cultural value drivers that should be assessed during due diligence, managed through integration and tended to thereafter. Each component can be linked to future performance. There are also legacy traits that may come from historical asset utilization, forms of recognition, organization deployment or unspoken practices that a company operates by, but no longer see as unique to their culture.

DIAGNOSING CULTURAL VALUE DRIVERS

As simple as cultural value drivers appear, their assessment can be complex. Traditionally, companies have tried to assess culture with inappropriate diagnostic instruments. This often produces some kind of soft “gap” analysis between the companies with no real identification of risk or remedies. Assessing Cultural Value Drivers to the degree that you can leverage them to advantage requires a battery of powerful tools and techniques built on years of experience. You have to determine the connection between culture and *enterprise operating effectiveness*.



The process should begin right now, with a comprehensive assessment of the acquiring company to establish the “culture baseline”. Until you know and agree on your own culture value drivers how will you be able to relate to the differences inherent in a target acquisition.

ASSESSING AND MANAGING CULTURE FOR VALUE CREATION

The *Corporate Personality* is very difficult to change, but in most cases it can be managed. Once you know the cultural value drivers and understand the detail behind each one, the establishment of operating protocols can occur. Planning and administering operating protocols that are linked to culture is the key to stabilizing operating performance and retaining talent and customers throughout the integration and into the optimization phase of a merger. A well-managed culture is the platform for the enterprise value in the future.



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