

Cultural Due Diligence and Acquisition Integration

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The past several years have seen a record number of mergers and acquisitions across all industries as companies seek competitive advantage in highly competitive and rapidly changing industries. Central to determining the suitability of a potential merger or acquisition is the Due Diligence process. One of the key purposes of due diligence is to determine the potential business value, risks, and liabilities inherent in the deal.

The majority of the due diligence process tends to focus on financial and legal matters. In some cases, leadership, the management team, and key operational processes are assessed for robustness and fit with the acquiring company. Rarely are the two corporate cultures assessed for how well they fit together.

\$3.7 Tn

global value of
M&A deals in
2019

70%

of mergers
fail to deliver
sustainable value

Culture Clash

a significant factor
in M&A failures

Studies over the past several decades on the success of mergers and acquisitions often cite incompatible cultures as a key reason so many mergers fail. Great insight can be gained from an effective and robust way of defining and comparing two companies for cultural fit – a “cultural due diligence” process.

“While the numbers added up and AAI was by all accounts a perfect fit for our long term business strategy, I was concerned about how we were going to integrate such a large number of AAI employees into the Textron family and what that influx would do to our own culture.”

~ *Frank Tempesta, CEO TSC*

When \$1.4B Textron Systems Company (TSC) acquired \$600M AAI (a division of United Industrial Corporation) it looked like a perfect fit, with AAI’s aircraft reconnaissance technology fitting perfectly into the Intelligent Battlefield Strategy of Textron.

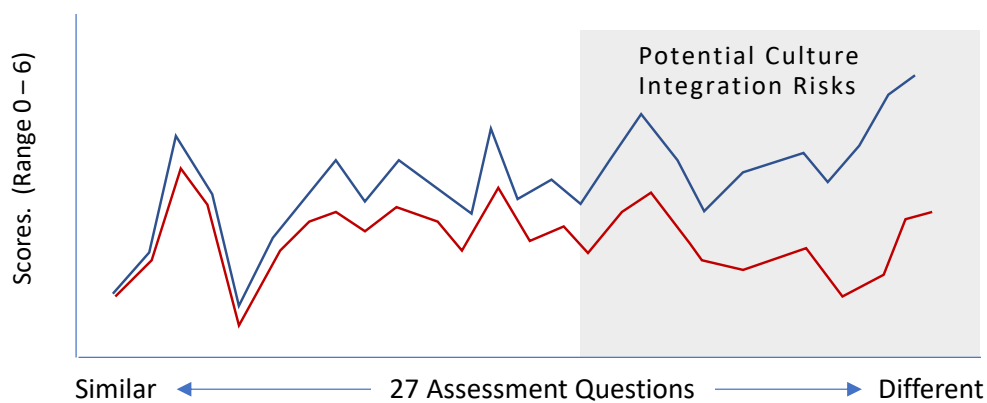
But CEO Frank Tempesta wanted to make certain there were no “hidden” liabilities, especially since this was a major acquisition and Textron had a relatively poor track record in acquisition integration. Tempesta decided to evaluate the culture of the two companies to assess fit and identify any potential culture clash issues that might get in the way of effective integration.



A customized **Culture Assessment** was sent to senior and middle managers at both TSC and AAI. In addition, face-to-face and telephone interviews were conducted with the senior leadership from both companies to better understand their views and concerns on the integration.

What quickly emerged was a graphical snapshot of the differences and similarities of the two company cultures. The assessment showed some previously unrecognized culture integration issues which posed a potential risk for the integration.

Culture Assessment Comparison (TSC v AAI)



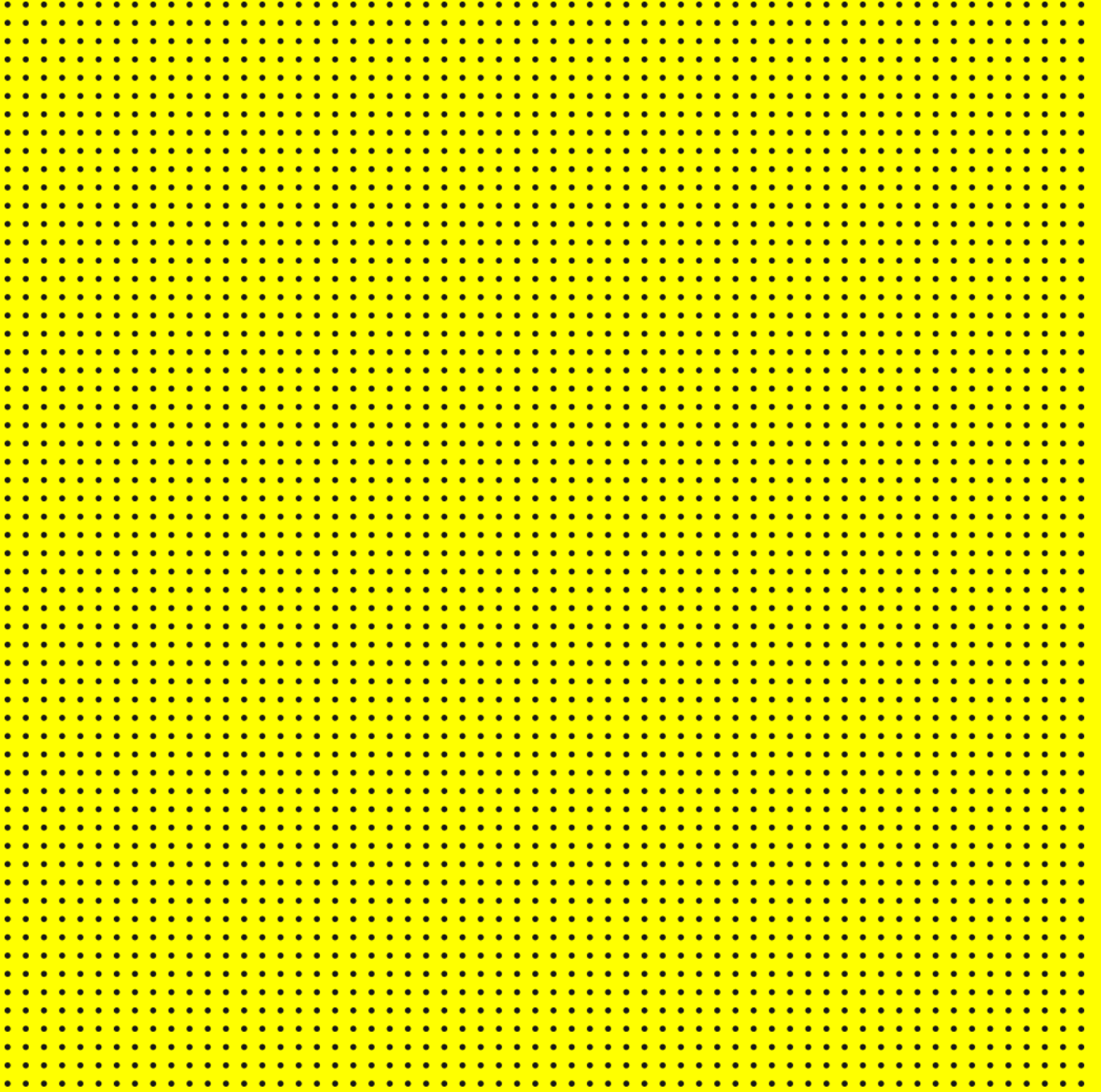
The results from the culture assessment took me by surprise. It pointed out, in a very visual way, the areas we had overlooked in our traditional integration assessment. But it didn't take us long to plug this new information into our plans.”
~ Ellen Lord, *Integration Manager*

The Culture Assessment sparked a lively debate among the Textron senior team that resulted in a number of key actions:

- Restructure the senior team to focus on merger synergies
- Revise the merged company organization structure
- Expand the integration team to include more AAI members
- Review and adopt best practices from both companies
- Align the newly expanded senior leadership team
- Implement integration workshops
- Dramatically upgrade and expand integration communications.

AAI is now fully integrated into the TSC family of companies and the acquisition has already generated new business development opportunities where the two companies have combined their business strengths to win significant new US Defense contracts.





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