Conducting a Pre-Acquisition Investigation

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Soft Due diligence is an in-depth intervention enquiring and investigating the relative health of an organisation. Our diagnostic skills are concerned with investigating disease and finding cures for what ails the body corporate. As corporate surgeons or diagnosticians are deciphering cause-effect relationships, within the business, it is vital to create prescriptive measures and regime which when applied will generate wealth and health.

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Traditional Due diligence, whether undertaken by investors, lawyers or accountants is time consuming and much that is analysed, studied, discussed and debated is strictly legally bound by contractual documents of 'non-disclosure' and 'confidentiality agreements'. Most acquisition or business expansion is commercially sensitive, which others can use to their advantage so it is not surprising that assumptions are made and trade-off is taken. Risk is what business expansion is about, whether it be organic or acquired business expansion. However, the risk is reduced substantially by undertaking some cultural analysis as well as pure financials.

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Confidentiality & Need to Know

The benefits of working in creating a new entity commercially will have an impact on the share price and investment decisions of all partners to the transaction, so all parties have to consider 'what if scenarios' and don't wish to advertise too much or show too much interest in their partners, their quest or their prey! Frequently, only the CEO and Chairman of the two or more businesses will know what is happening at any one time.

Thin on the ground: Methodologies for Soft Due Diligence

Surprisingly few companies have set in place a discipline and a methodology for diagnosing the ills and opportunities and hazards that are likely to mature in potential commercial partnership. Often, decisions that drive acquisitions are based purely on numbers and optimistic and unrealistic assumptions. Some others have argued that the ambitions of key CEO's are the driving force for business expansion. Key dealmakers want to dominate the market and make a difference to trading and performance. Key players like this can make a significant impact on the performance of their businesses and will probably benefit substantially from taking the right decision or the right calculated risk.

Strategies for Soft Due Diligence

Very few businesses have in place strategies for Soft Due Diligence and those which do, are usually renowned for their extensive acquisitions as a key component of their overall corporate business strategy. Two companies immediately leap to mind. Jack Welch, CEO led the ever-powerful General Electric (now run by Jeff Emmelt) to create the acquisition fever for which GE is renowned. In the GE Empire very few days go past without purchasing, merging or divesting one of its businesses. GE has a powerful set of processes in place to undertake both Soft Due Diligence and Post Acquisition Integration. They commit to them every time. The same performance is mirrored by Fred Goodwin, CEO of Royal Bank of Scotland. In his hands, the business has grown to become the sixth biggest Bank in the world.

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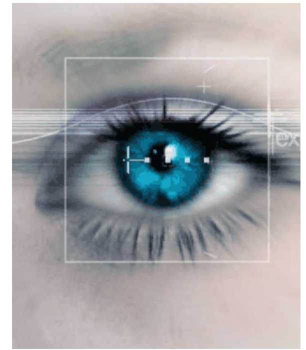

The business models that both businesses employ are well tested, and fit neatly into a series of soft due diligence and post acquisition strategies that can slot into place, depending on the size, the type of business and the geographic culture or cross border deal that is taking place.

As most organisations focus more on the hard areas such as strategies, systems, processes and technology, companies like RBS and GE also commit greatly to investigate how businesses are managed.

Cultural Audits

Every organisation has a culture. Smart organisations design and nurture their own culture and have business models to achieve this. Few organisations commit resources to this formally and most cultures unfortunately evolve due to the wins and the whims of their key players, and the charisma and vagaries of key personalities as they emerge in the business. A great deal of culture may be based on the personality and styles of key top people. The trouble is if this is the default model – then, when a key person move onwards or out, the culture has nothing with which to hold itself together, apart from a belief in the 'old leader or warrior' which fails to sustain the business model.

Companies with strong cultures are attractive

If a culture is dependent on certain personality types, there is little to leave in terms of a powerful legacy. The trend now and in the future is that few acquisitions will be made of businesses whose leaders are the sole or even the major influence on the firm. For a company to achieve consistent high performance levels requires a strong positive customer focused culture which will survive most catastrophes associated with people moving on up or being moved on out!

It would appear that if a company does want to create a larger strategic presence, then they might be courting several partners at the same time. The company with the strong performance driven culture will increasingly become the option that poses least risk. We know that companies purchase other businesses purely for their 'order book' but, increasingly, more than the strict value of harvesting key assets are driving acquisitions. Mergers are being driven by synergies and options to create significant impact in world markets.

The world is getting smaller and the competition for the best businesses is underway. The market is full of Investors looking for a good deal. Companies are awash with cash and want to invest it wisely. To do so in the absence of 'Soft Due Diligence' is a crime.

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You are Quick or you are Dead

It is true that you are either quick or you are dead in many markets. While it is easy to make the wrong decision, the more that companies commit to understanding their adversaries and their partners, the more accurate intelligence will be on the relative performance of potential deals. We cannot afford to take risks in acquisition, and conversely, we have to take risks because some opportunities will never rise again.

Key Issues that relate to Soft Due Diligence

- Balance sheets are a fine historical measure of value – but true value lies in what the culture can become if its built and shaped into a new entity.
- Do we really appreciate the value of the business beyond the tangible bricks, mortar, investments, assets etc?
- What opportunities are there to install best practice in technology, CRM marketing, product portfolio, distribution, routes to market, logistics, HRD?
- What opportunities, currently not pursued, could reap returns for the new business entity?
- What opportunities could never materialise without some form of joint venture?
- How would you value the talents and the value of the managerial group?
- How sure are you that the right chemistry will exist in the management group driving the new entity?
- What value do you put on the company's core competence, and the competencies of the best management team?
- Can you value 'talent' and grow the business?
- How do you measure 'human capital' in the current business – the potential acquiree, and the new entity, which will evolve from coming together?
- Can you ensure that the output from your investigations into due diligence are the key drivers for post acquisition integration?

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Philip Atkinson specialises in strategic cultural and behavioural change. For the last twenty years he has been engaged as a consultant supporting companies in strategic development, organisational design, business expansion due diligence, post acquisition integration, quality management and culture change. He has partnered with a variety of blue chip companies in the UK, Europe and the North America He regularly presents at conferences and workshop sessions and has written seven books on change management and his articles are regularly published in a number of management journals.

Dara Clarke was co-founder of White Clarke Group, one of the leading global consultancy and business solutions providers to the financial services sector - trusted partner to organisations such as Toyota Financial Services, Fortis Lease, RBS group companies, Ford Credit, Volkswagen Financial Services, LeasePlan, Lombard, Ocean Finance and Lloyds Bank.

He has specialised in new company set up, reconstructions, mergers and acquisitions He has lectured widely on emerging trends in the financial services sector, consulted on behalf of the World Bank and European Bank of Reconstruction and Development