

# Maximizing PE Long-Term Deal Value

## Addressing post-M&A Value Gap through Culture Due Diligence & Integration

**Market dynamics are driving rapid acceleration in M&A. 2021 Global M&A exceeded US\$5T, up 64% over 2020, with 35,000+ deals consummated.**

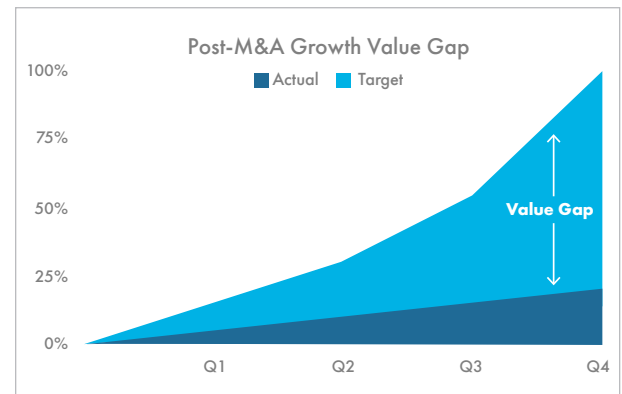


**Of these, a whopping 25,000 transactions—totaling \$1.2T—were with PEs, breaking all-time deal volume records.**

This pace is likely to continue over the next 18–24 months as investors zero in on value creation opportunities, with substantial dry powder to deploy.

Research tells us that 70% of M&A deals will fail to achieve their intended value creation. In fact, the majority become stagnant, quickly creating a Growth Value Gap (see figure).<sup>1</sup>

Why does this happen? A full 90% of CEOs surveyed said that “financial performance post-M&A is fully tied to **culture**.”<sup>2</sup> Failure to discover the acquired organization’s culture, and knowing how to integrate its employees for maximum long-term deal value, often has dire results: poor communication, unclear goals and objectives, strategic misalignment, unclear roles and responsibilities, under-optimized organization structure, lack of accountability, poorly informed decision-making, process drift, team burnout, and loss of key talent.



## Culture Due Diligence

PE firms that apply *disciplined due diligence and integration processes that focus on organizational assessments and talent management across their portfolio companies* better maximize their financial performance and valuations. This drives higher MOIC, thus giving buyers a higher confidence of future success.

The ideal time to address culture is *before* the merger or investment, not after. PE firms and their portfolio companies need to establish their operating model, and develop the cadence/frameworks for continuously monitoring performance, organizational and talent development, and change management.

And above all, they must work to *set and align the right culture*. If culture is not addressed early in the M&A process, the deal risks a large value gap, not reaching its full potential or even failing altogether.

<sup>1</sup> <https://hbr.org/2016/06/ma-the-one-thing-you-need-to-get-right> <sup>2</sup> Recent study by Society of Human Resources Management (SHRM)

## How Culture Influences the Value Gap

**Culture** is the interaction of systems, processes, and practices in an organization that influence performance. Culture shows up in what people consistently say and do every day. Culture defines how work is done and how people work together. It determines if, and how, strategy will be successfully executed, and whether the organization thrives or falters. Understanding and integrating culture can make or break an investment.

**Culture due diligence** is often neglected when assessing targets, but this is a serious misstep—because culture is the “How” of achieving growth and value creation in a merger. Assessing culture effectively early in the M&A process minimizes the risk of failed M&A integration.

**ALULA has helped our clients with culture due diligence and implementation for nearly three decades.** We proactively help investors avoid the post-M&A value gap. Companies have relied on our transformation expertise, behavioral science methodology, and easy-to-use tools, which include:

- DCOM<sup>®</sup> framework for high-performing organizations
- Leader-Led Change<sup>®</sup> methodology for successful transformation
- Q4 Leadership<sup>SM</sup> model using targeted results as basis for executive and/or performance coaching

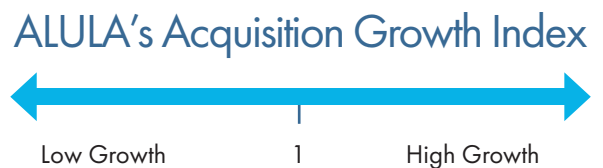
We design and support your execution of a comprehensive, customized approach to align and strengthen the culture to maximize the Acquisition Growth Index.

### OUTCOMES OF ALULA'S CULTURE DUE DILIGENCE INCLUDE:

- Identify strengths and gaps in management systems, processes, and practices that provide a solid foundation for success, and providing actionable recommendations
- Identifying short-term and long-term goals for senior leaders who are accountable and responsible for leading the transformation
- Providing a playbook to align and prepare senior leaders to lead their teams and the organization in this transformation
- Enabling growth capital to capture market share
- Accelerating performance and improving talent retention

## Introducing ALULA's Acquisition Growth Index

ALULA created this proprietary tool to show the ROI you get with culture due diligence. It enables organizations to identify potential gaps in value creation—early, when it does the most good. Being able to foresee these value gaps encourages leaders to develop robust plans early in the integration process.



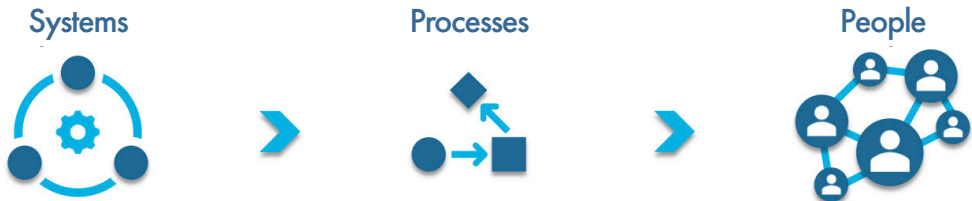
Where does your deal fall on this index?  
ALULA's proprietary formula analyzes real culture data to create this powerful diagnostic.

# ALULA Supports You Through the M&A Process

*We support you, both early in due diligence, and through the actual integration. Here's what you can experience, and the value you receive for your ALULA investment.*

PRE-DEAL AND EARLY POST-DEAL		
<p><b>Pre-Deal Assessment</b> Identifies Potential Post-M&amp;A Value Gap</p>	<p><b>Culture &amp; Performance System Evaluation</b> Using ALULA's Fast-Cycle Assessment Tool</p>	<p><b>Diagnostic</b> Expert Debrief and Discussion</p>
<p>ALULA's <i>Acquisition Growth Index</i> shows where the newly formed company is on the Index for Growth. This enables addressing the value gap early and planning a path to maximize investment.</p>	<p>ALULA's experts rapidly evaluate the target's people, systems, and processes, focusing on both <i>what</i> they do and <i>how</i> they do it.</p>	<p>ALULA's experts provide a detailed analysis of the culture, highlighting areas of risk, and reviewing with the PE firm the critical actions needed to prepare for successful integration.</p>

## POST-DEAL CULTURE INTEGRATION for maximizing performance and positive workforce engagement



Understand:

- Context – environment in people operate
- Impact (intentional or unintentional) – performance over time

Encourage/Discourage:

- Ownership
- Engagement
- Teamwork
- Standardized work
- Success and failure

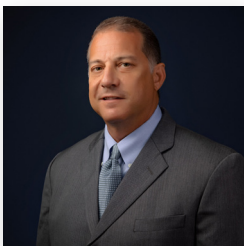
- Development – ALULA's "Q4 Leadership Model"
- Identify critical few behaviors – what matters most.
- Alignment & influence – intentions and positive/negative impact.
- Manage the right things at the right level – cascading accountability.

## ALULA's Help Is Fully Customized

Every engagement is customized for each unique deal. Please contact ALULA to discuss your options and timeline.

ALULA® is a management consultancy founded in 1993 to assist Fortune 500 and select mid-market companies with improving strategy execution.

Today, ALULA exists to inspire and accelerate the extraordinary growth of individuals and exceptional performance of business. ALULA employs proven principles of behavioral science to help organizations more efficiently and effectively transform, enhance leadership capability, and improve performance.



*For more information, contact:*

Ken Wagner, Ph.D., Practice Leader at ALULA  
kwagner@alula.clg.com 404.386.8506

*Contact ALULA:*

**ALULA.clg.com • PH:1.800.887.0011 (U.S.Toll-free) • 412.269.7240**

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