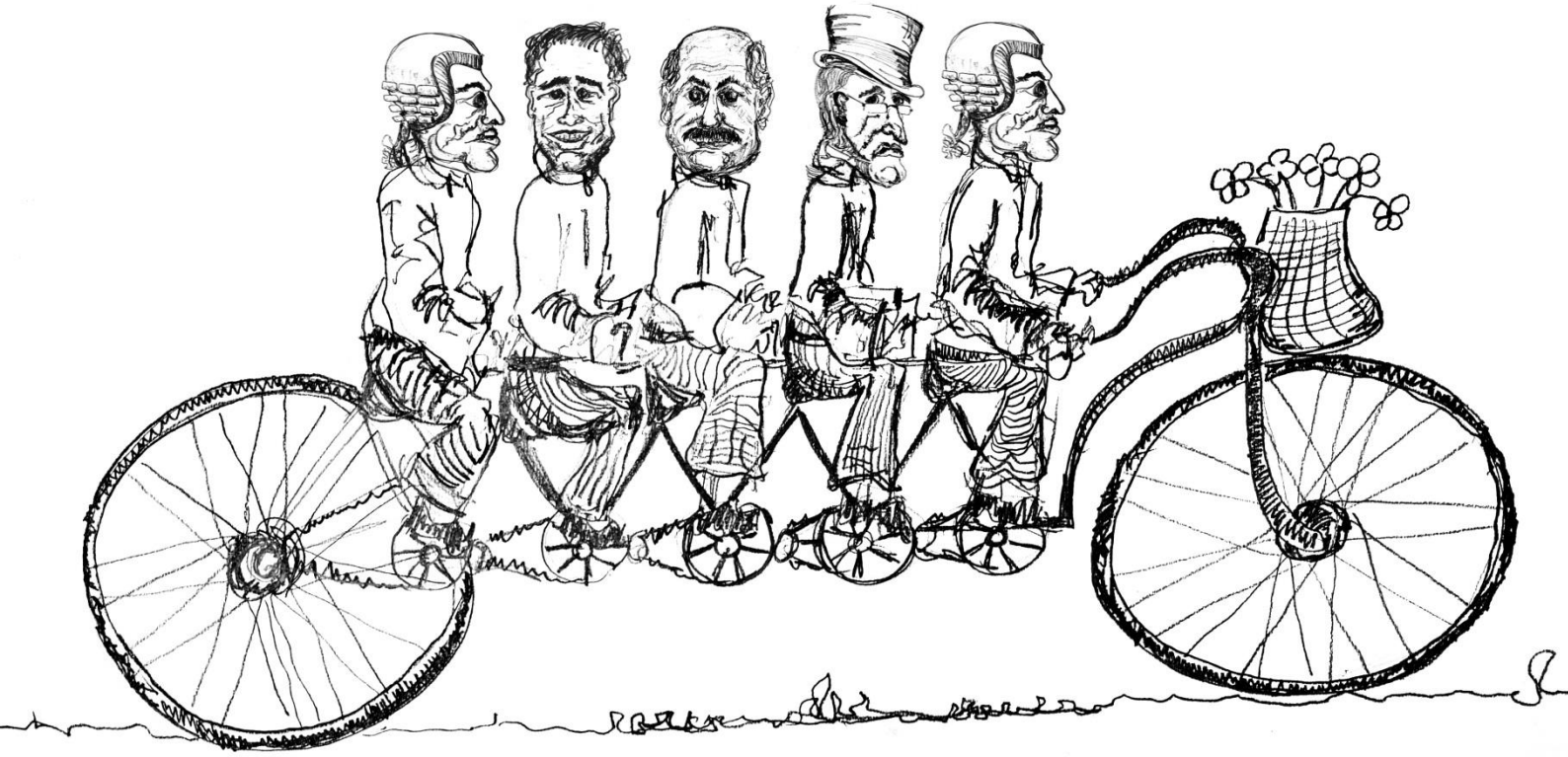
Does A Fish Rot from the Head?

An Exploration of Consideration of Culture at the Due Diligence Phase of a Cross Border Merger or Acquisition.



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Contents

Tables

Figures

Abstract

In 2014, Mergers and Acquisitions (M and A's) were valued globally, at US$3.5 trillion. Of those, more than a third were cross border transactions. The failure rate of M and A's is high. Depending on the criteria used to measure this, failure rates have being estimated as being from 40% to as high as 90%. This presents a sizeable issue for the management of the M and A market. In recent years, research has attributed this high failure rate to a lack of consideration of culture prior to the merger taking place. This is the case in terms of corporate culture and workplace culture. International transactions also include an element of national culture. With the increase in size and number of cross border M and A's, consideration of culture at the stage of due diligence is important if possible failure is to be mitigated. This thesis will report on an exploratory study focussing specifically on if and how considerations of culture are integrated into due diligence.

A recent cross border merger between two companies, one based in Australia and the other based in Asia has been analysed. Data was drawn from semi-structured exploratory interviews conducted with select members of the due diligence team. These were used to assess the team's practices, attitude and views to the consideration of corporate culture. The data was analysed in relation to the central themes that emerged across the different interviews, as well as identifying areas of divergence. The results are presented as a combination of conventional qualitative data analysis, coupled with the use of art based methods. The results have enhanced the understanding of how culture plays out as a part of due diligence as its depth can be appreciated through both analytical and impressionistic accounts. In conclusion it is evident that the practical role and purpose of due diligence and the team performing this task has diverged from the theoretical views of scholars of what due diligence actually is and what it is done for. Aspects of culture are considered poorly and in some respects not at all, at the due diligence phase of mergers and acquisitions, based on the data in this thesis.

1. Introduction

Understanding the process, success or otherwise, of Mergers and Acquisitions (M & A's) is becoming more and more important with the increase in global merger activity and a corresponding continuing failure of M & A's. The main objectives of M & A's are usually to maximize shareholder value and open up opportunities for firms in a growing and competitive global market. With welfare maximization as a priority in M & A's this continuing high failure rate is a significant concern for management and other stakeholders.

How the success of an M & A is measured is a problematic exercise with many different parameters, time frames and criteria considered to be important. The process of an M & A is complex and complicated. Many academics have considered this ongoing and problematic question as to why do M & A's fail.

There are many ways of measuring success, or otherwise, of an M & A. A common theme in much of the literature though, when failed M & A's are analysed, is that culture is not adequately considered prior to a merger. Further very little or no thought is put into developing a strategy by the acquiring company on how to address the merging of cultures in an M & A. However when the M & A fails frequently the blame is put on this lack of consideration of culture as the main contributing factor.

Analysis of M & A from a research perspective has gained momentum over the last three decades mainly as a result of:

1. M & A activity has increased significantly over this period as businesses search for new markets, elimination of competitors, look for economies of scale and adopt both vertical and horizontal integration in order to maximize profits and returns to stakeholders.
2. An ongoing prevalence of low success rates of M & A's is evident. Depending on the criteria used to measure the success or failure of an M & A the failure rate has been found to be anywhere from 40% to as high as 90%.

IN 2014 M & A's globally were in the vicinity of US$3.5 trillion. Of this amount about US1.3 trillion were cross border transactions. Tables 1 and 2 illustrate the size and number of M & A's in Australia and globally over the last three decades. Globally the trend is clear in that both the value and number of M & A's is increasing significantly. In Australia there has been a decline since the peak in 2007 but recently the trend is moving upwards again.

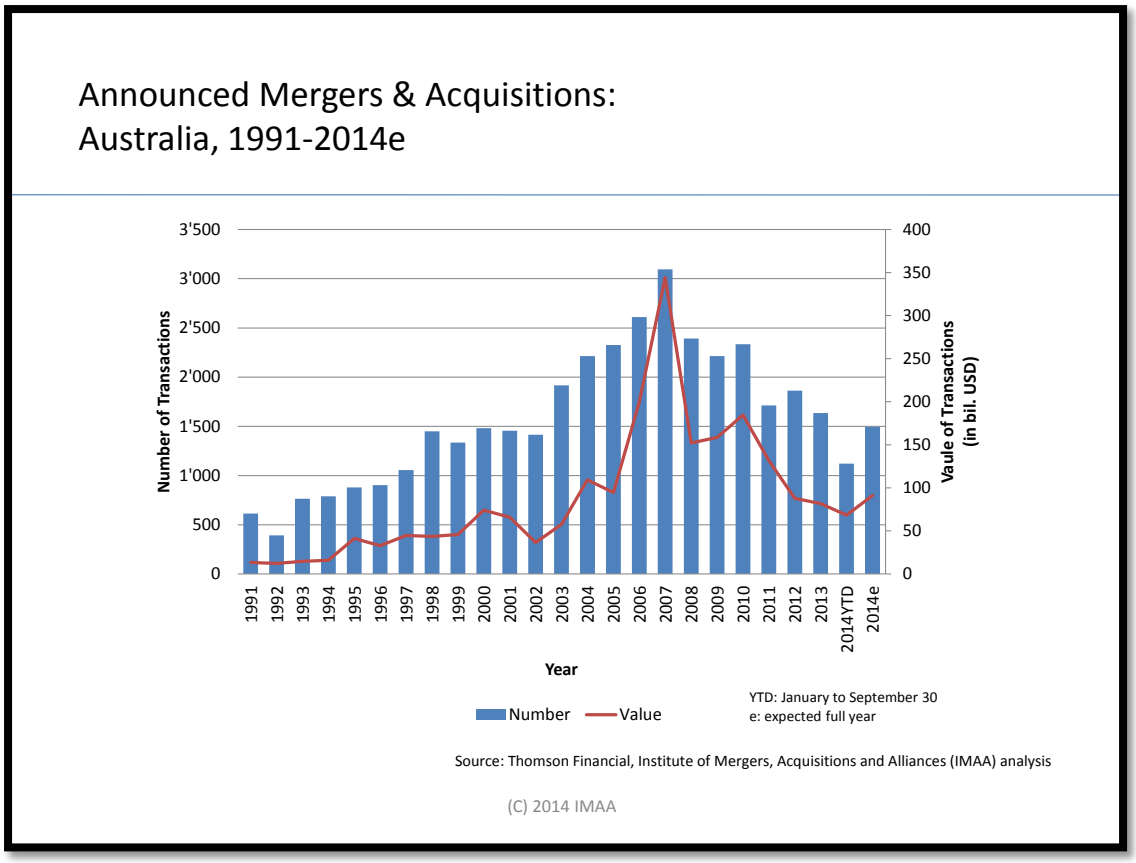


Table 1 - Numbers of Transactions and value of M & A's annually from 1991 to 2014

for Australia

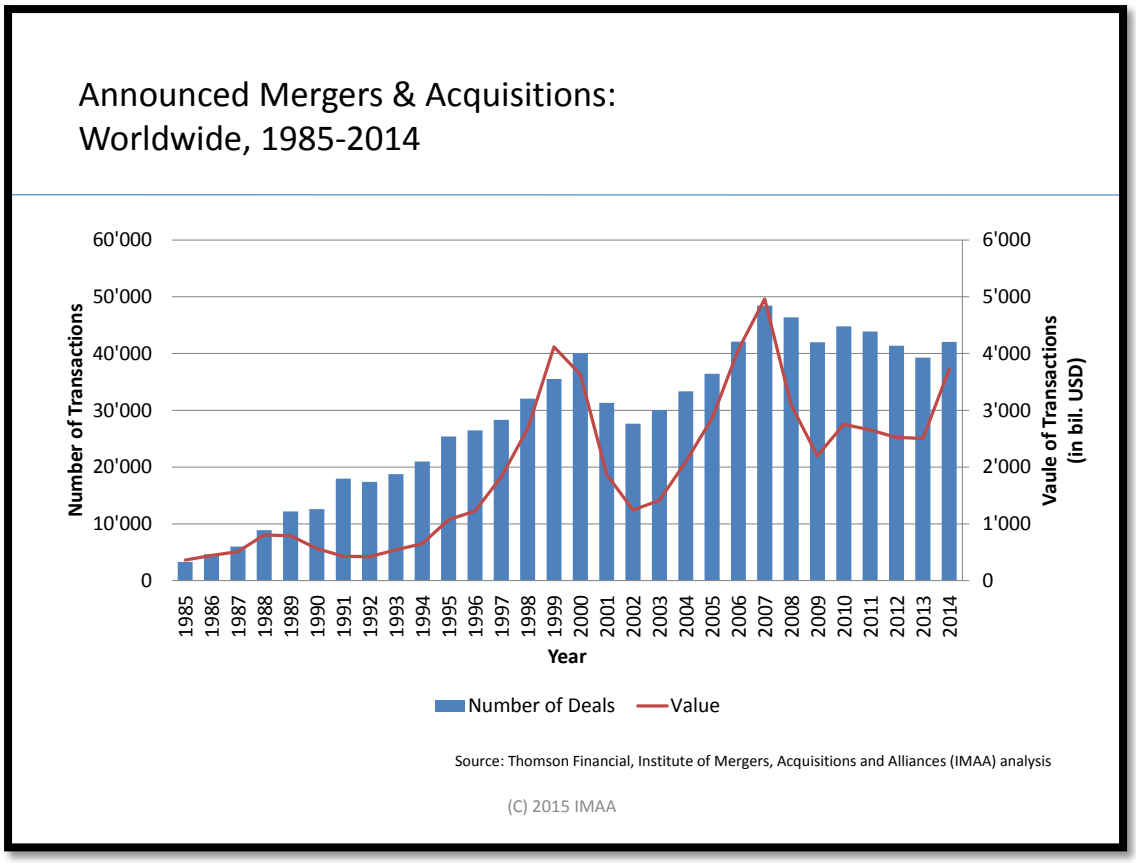


Table 2 - Number of Announced Mergers and Acquisitions Worldwide 1985 to 2014

Depending on the method or criteria chosen to measure whether an M & A has succeeded or not the percentage of failures varies between 40% and 90%. Table 3 illustrates how significant M & A's and their subsequent failures are. To put this in context, if 40% of global transactions in 2014 failed this higher than the value of roughly all the listed companies on the Australian Stock Exchange by about 0.35 trillion dollars US. These Australian companies have a total market capitalization of around $US1.05 trillion with the top 50 Australian companies having a combined market capitalization of $US770 billion (Data taken from ASX publicly listed Australian companies website as at 17 December 2015). At a failure rate of 40% on global transactions this equates to wiping out the Australian Stock Exchange roughly 1.4 times. At a failure rate of 90% this equates to wiping out the Australian Stock Exchange listed companies 3.5 times. This shows the significance from a dollar perspective of lost value in M & A's in 2014 alone.

	All M & A's 2014	Cross border M & A's 2014	All M & A's 2013	Cross Border M & A's 2013
US Dollar value	$3.5trillion	$1.3trillion	$2.38 trillion	$0.73 trillion
Value at a 40% failure rate	$1.4 trillion	$0.52 trillion	$0.952 trillion	$0.292 trillion
Value at a 90% failure rate	$3.15 Trillion	$1.17 trillion	$2.142 trillion	$0.657 trillion

Table 3 - Value of M & A's 2013/4 and value of M & A failures 2013/4. (extracted from KPMG Data 2014)

(KPMG 2014)

Much of the academic literature suggests that traditionally there has been a neglect of the soft or intangible factors when considering whether to proceed with an M & A. Further, it is rare to see the development of a strategy for assimilation of culture after the M & A has taken place. Em phasis has traditionally been placed in share value before and then after the M & A as the only criteria or main criteria in measuring the success of an M & A. Recently research has recognised the need to pay attention to soft factors such as culture and human resources to increase the likelihood of success of an M & A.

It is not the purpose of this thesis to analyse the strength or otherwise of the measurement parameters and techniques that have been used to ascertain the success of a M & A. As mentioned, the measurement of the success of an M & A will vary depending on the criteria used to assess the same. However the level of failure is without doubt too high no matter which criteria is adopted to assess the transaction and its success.

The aim of this study is to carry out an exploratory qualitative research analysis of one aspect on the M & A time line being the due diligence phase. Practitioners and academics alike are pointing to this period as to where the problem lies and that culture is not adequately or properly considered. The aim is to gain an enhanced understanding of this due diligence process, the parties involved and their attitude to culture and how it was or should be considered.

Culture has three aspects in this context being corporate, organizational and national/country culture. This study will focus mainly on corporate culture and to a lesser extent national culture. A recent cross border transaction involving an Asian company acquiring an Australian company was analysed. Semi structured interviews of members of the due diligence team on this transaction were carried out. This transaction was friendly in nature (as opposed to, for example, a hostile takeover) and involved a high level of cooperation between the parties. This resulted from the acquirer making a very attractive offer which the target company would have had difficulty rejecting. Such an offer added

significant value for shareholders. The parties certainly cooperated in order to see the transaction completed.

As this was a high dollar value M & A the assumption was made that the processes undertaken throughout the transaction were thorough and comprehensive. Therefore a good example of an M & A to consider. In other words the study would not be flawed or inhibited by commercial decisions which would be inherent in a small merger where, for example, funds would not be made available for proper and thorough due diligence processes to take place.

The interviews were semi structured with a set questions provided to the interviewee's prior to the day of the interview. All interviews were conducted face to face. After these initial questions were asked, the direction of the interview was dependant on the responses given. The questions then evolved during the interview and continued to be exploratory in nature. The interview evolved in a semi to unstructured nature from thereon in. Five core members of the due diligence panel were interviewed. The interviewees were chosen based on their involvement and availability.

Coupled with the semi structured interviews, a complimentary and reflective method of creating a visual journal during the data collection and analysis phases of the research, was undertaken. Illustrations were created in this visual journal using the medium of pencil and charcoal on paper. These illustrations are intended to convey a clear visual illustration of the starting point prior to interviews, discovery and reflection through the interview process and finally illustrating the outcome and analysis of the interviews. The semi structured interviews and the visual journal have then been combined in order to present the results.

It became evident from the results that there is very little coordination and formal consideration of culture, at all, at the due diligence phase. Understanding of the different aspects of culture by the interviewees was low and, at times, confused. No one was appointed to the due diligence team with the specific task of addressing any aspects of culture in the merger. The interviewees possessed varied and conflicting views of the importance of culture, how to consider it, who should consider it and how to implement it into a strategy moving forward with the M & A. All interviewees considered that culture issues would not be a "deal breaker". The general consensus was that culture was important but would be considered by someone else at some other time. No strategy for assimilation of the two companies cultures was addressed by the due diligence team.

2. Literature Review - Due Diligence in M & A's.

2.1 Why Do Companies Consider M & A's?

The primary purpose of merging or acquiring a company is usually to improve overall performance for the benefit of shareholders. Ie an increase in market value. This is done by achieving synergy which is commonly described as the 2 + 2 = 5 effect (Cartwright and Cooper 1993, Appelbaum, Gandell et al. 2000, Cartwright and Schoenberg 2006). This improvement of overall performance can be achieved in many ways including achieving economies of scale, tapping into new markets, eliminating a competitor or implementing horizontal and/or vertical integration. Synergy is a general term that encompasses many of these aspects.

A more detailed approach to motives for an M & A have been classified by Ojanen et al (Ojanen, Salmi et al. 2008) in table 4:

• Expansion and development
○ Geographic and/or product expansion
○ Client following
○ Redeployment of resources to or/and from target
• Increase internal efficiency
○ Economies of scale
• Improved competitive environment
○ Increase market share and power
○ Gain sixe to face global competition
○ Defence mechanism
○ Acquire a competitor
○ Create a barrier to market entry
○ Decrease industry overcapacity
○ Benefit form cost disparities (eg labour)
• Financial motives
○ Diversify risk
○ Invest in fast growth markets
○ Turnaround of a failing target
• Personal Motives
○ Increased sales and asset growth
○ Gain personal power and prestige
○ Cashing in on short term stock market reactions (incentive system)
• Others
○ Benefit from exchange rate differentials
○ Bypass protective tariffs, quotas.

Table 4 - Detailed approach to Motives for M & A's classified by Ojanen et al (Ojanen, Salmi et al 2008)

Most of the criteria discussed above by Ojanen et al (Ojanen, Salmi et al. 2008) have a financial connation. All categories will hopefully lead to improved financial returns to stakeholders. Stakeholders are not just the shareholders. Stakeholders are anyone that has interest or concern in the organization. Stakeholders can affect or be affected by the organization's actions, objectives and policies. Certainly an M & A has a major impact on all stakeholders.

Schuler and Jackson (Schuler and Jackson 2001) in table 5 outline a number of reasons as to why companies continue to merge or acquire:

Reasons why Companies continue to Merge and Acquire.
• Horizontal mergers for market dominance, economies of scale. • Vertical mergers for channel control • Hybrid mergers for risk spreading, cost cutting, synergies, defensive drivers • Growth for world class leadership and global reach • Survival, critical mass • Acquisition of cash, deferred taxes, and excess debt capacity • Move quickly and inexpensively • Flexibility, leverage • Bigger asset base to leverage borrowing • Adopt potentially disruptive technologies • Financial gain and personal power • Gaining a core competence to do more combinations • Talent, knowledge and technology.

Table 5 - Reasons Why Companies Continue to Merge and Acquire(Schuler and Jackson 2001) P241.

(See also (Charman 1999))

Because M & A's are usually undertaken for financial reasons the focus in negotiations, valuation, and due diligence having a financial bias. Value creation strategies are usually singular focused (Ambrosini, Bowman et al. 2011). Ambrosini advocates that four value creation strategies should, however, be considered being leverage, re-configeration, learning and integration which have a financial bias.

There are many other reasons for mergers and acquisitions to be considered some of which are listed above by Ojanen which may not have a financial basis. For example cross border mergers open up new markets for companies and now that we operate on a global economic platform cross border M & A's have become increasingly popular (Erel, Liao et al. 2012). Typically companies have exhausted expansion opportunities in their own country and

venturing across borders, particularly into developing economies, may open up opportunities that are not available in their home market. Further, with the development of sophistication and ease of globalisation methods, doing business across different jurisdictions has become accessible and feasible.

2.2 Recent History of Mergers and Acquisitions

Mergers and acquisitions came to the fore some three decades ago from a research and a practical perspective. It became evident then and has been so ever since that many M & A's fail to achieve their goals of success. Researchers have been trying to find out why there is such a high failure rate and what can be done about it to reduce this high level of attrition. M & A's are not simple. Practitioners and to some extent researchers initially have adopted a simple approach in considering M & A's and as to why they may have failed. However it is recognised that this simple approach is not ideal with such a complex type of transaction.

Selection of measurement criteria to assess the success or otherwise of M & A's has also been subject of debate. This has led to varied results in assessing the success of M & A's. Therefore there has been a wide variation between levels of success measured by research scholars over time. For example, Dunbar (Dunbar 2014 Sept) states that 40% to 80% fail, Christensen (Christensen 2011) states 70% to 90% fail, Weber (Weber, Christina et al. 2014) states at least 50% fail and Harrison (Harrison and Farrell 2008) states 37% fail. The many and varied parameters used to measure the success, or otherwise, can explain the wide variation between the results achieved by different scholars. However, overall, the success rate as shown by researchers, it is agreed, is alarmingly low. Despite these high and totally unacceptable levels of failure rates M & A's continue to increase in size and dollar value year on year.

Companies will continue to merge and acquire and unfortunately the failure rate will continue to remain too high unless there is more understanding of the process, the need for an assimilation strategy and the involvement of experts to assess the cultures to see whether they are compatible or will lead to failure of the M & A.

2.3 Measuring Success of M & A's.

The acquiring company shareholders find that their company's acquisitions are value destroying in almost half of the cases (Tuch and O'Sullivan 2007, Meglio 2009, Meglio and Risberg 2010, Meglio and Risberg 2011, Very 2011). Measurement of success of M & A's also is rather inconsistent from a scholarly perspective. The level of or measurement of success will depend on the variables considered to analyse the M & A.

Measuring the success or otherwise will depend more than ever on the merged company's ability to create added value (Tetenbaum 1999, p. 25, Agrawal and Jaffe 2000) Some scholars profess more than just financial results when measuring success of an M & A (Lebedow 1999, Antikainen 2002). Studies show that non-financial benefits might not immediately turn into measurable figures and it may be only several years later that it can be measured. For example some acquirers simple seek to destroy a competitor (Dauber 2011) which may result in deteriorated financial statements initially soon after the deal is done. (Dauber 2012, p. 392, Harvey and Lusch 1995, Meglio 2009, Meglio and Risberg 2010, Meglio and Risberg 2011).

A multi-facetted approach gives a more comprehensive measurement of success. This can be analysed across a range of disciplines. Traditional measures considered important were accounting principles such as ROI, standard costings, shareholder value, variance analysis and profit based methods of measurement (Chenhall and Langfield-Smith 2007).

The reasons given for failure can be many and varied or one single reason. Shuler and Jackson have developed a list of reasons why M & A's can and have failed as per table 6. Again it is important to note that it can be one or a combination of reasons from this list according to the authors as to why an M & A may fail.

• **REASONS FOR FAILURE OF MERGERS AND ACQUISITIONS**
• Expectations are unrealistic
• Hastily constructed strategy, poor planning, unskilled execution
• Failure/inability to unify behind a single macro message
• Talent is lost or mismanaged
• Power and politics are the driving forces rather than productive objectives
• Requires an impossible degree of synergy
• Culture clashes between the two entities go unchecked
• Transition management fails
• The underestimation of transition costs
• Financial drain
• Defensive motivation
• Focus of executives is distracted from the core business

Table 6 - Reasons for Failures of Mergers and Acquisitions (Schuler and Jackson 2001) p241

2.4 Destruction of Shareholder Value

Epstein (Epstein 2004, Epstein 2005) stated that loss in shareholder value in M & A's is staggering with one of his studies showing 61% of recent mergers destroyed shareholder wealth. He discussed, as an example, when Daimler Chrysler merged and decreased quickly the market value by US$60 billion. "Thus not only did Daimler-Benz get no value from Chrysler it further destroyed the value of Daimler." (Epstein 2004, p. 174). Another well publicised example is the merged company AOL-Time Warner which was forced to take a $54 Billion charge against earnings as the value of the merged assets declined after the combination.

Epstein identified seven determinants of merger success as outlined in table 7 below.

Key	
Strategic Vision and Fit	Clear merger rationale articulated and focused on long term competitive advantage and designed for synergies in size, geography, people or services. Partners are the right choices for merger to fulfil the strategic vision
Deal Structure	Price paid and type of financing are appropriate and beneficial
Due Diligence	Conducts a formal review of assets, liabilities, revenues and expenses and evaluation of culture, organizational fit and other non financial elements
Pre merger Planning	Formulation of the key integration processes and decisions are coordinated, communicated and completed quickly
Post Merger Integration	Processes including the management of human resources, technical operations, and customer relationships are carefully blended and important decisions made
External Factors	External factors that damage the long term merger value are distinguished from those that only damage the short term perception due to temporary stock declines.

Table 7 - The six Keys to Merger Success (Epstein 2005) p41

Epstein stated that, "Evaluating merger success based on short term changes in stock price is ridiculous. Mergers should not be completed to impact these short term changes and should not be evaluated on that basis." (Epstein 2005, p. 41). "Narrow definitions of merger success and failure must be replaced by broad and complete measures that take into consideration company goals and performance, as well as the economic and industry context. Both financial and non financial measures should be considered." (Epstein 2005, p. 46).

Existing empirical research has not clearly identified those variables that impact on acquiring company's performance (King, Dalton et al. 2004). These authors concluded that researchers may not be looking at the right set of variables and should be paying more attention to non-financial variables currently underrepresented in theory and research (Gomes, Angwin et al. 2013). M & A is a multilevel, multidisciplinary and multistage phenomenon (Javidan, Pablo et al. 2004, Angwin 2007). It requires a more pluralistic approach with integrative frameworks to grasp the complexities of this multifaceted multi-temporal phenomenon (King, Dalton et al. 2004, Shimizu, Hitt et al. 2004, Stahl and Voigt 2008, Haleblian, Devers et al. 2009). This multidisciplinary approach to research is necessary and desirable as it seeks to capture the dynamic and complex nature of the phenomena and also fosters cross disciplinary learning (Gomes, Angwin et al. 2013).

To date, interdisciplinary reviews, focusing purely on M & A's, have been oriented to the use of different research methods (Meglio and Risberg 2010), the impact of M & A on company

performance (Tuch and O'Sullivan 2007, Meglio 2009) how companies learn from acquisitions (Barkema and Schijven 2008) and the use of M & A as an entry mode into foreign markets (Gomes, Angwin et al. 2013). Gomes states that the high failure rate of M & A's suggest that neither scholars nor practitioners have a thorough understanding of the variables involved in the M & A process and their complex relationships. The existing body of knowledge is characterized by several independent streams of management research that have studied discrete variables in either the pre-acquisition or post-acquisition phase. "Despite the copious amount of literature over the last half century looking at M & A's there is limited and compartmentalized understanding of the complex acquisition process, since the various streams of research on acquisition activity are only marginally informed by one another." (Gomes, Angwin et al. 2013, p. 5).

Central to research on M & A's is a performance paradox: Huge volumes of deals are transacted and yet half underperform (Tuch and O'Sullivan 2007). However the underlying reasons for the poor performance remain unclear. Attention needs to be directed to how performance is measured as the choice of appropriate performance measure also varied considerably between studies (Datta 1991). These disciplines have relied on objective performance metrics such as share price movements and accounting data. (Anand, Capron et al. 2001, Stahl and Voigt 2008, p. 338). While organizational behaviour and strategic management have re-lived on more subjective performance indicators such as synergy realization, trust building capabilities and knowledge transfer and employee attrition (Larsson and Finkelstein 1999, Schoenberg 2006) the focus is still too much on the financial factors of an M & A.

Stahl (Stahl and Voigt 2008, Stahl, Angwin et al. 2013) divided M & A performance measures into five types and stated there is a need to develop a more holistic understanding of what determines performance and the consequences of M & A's. Cartwright and Haleblian concurred with this approach. (Cartwright and Schoenberg 2006, Haleblian, Devers et al. 2009).

- Financial measures (e.g. earnings per share, return on investment)
- Economic measures (e.g. efficiency, profitability, synergies)
- Strategic measures (e.g. strategic goals)
- Executive measures (CEO's stock options, salaries)
- Regulatory measures (e.g. public interest, antitrust legislation)

Stahl also stated the need to consider the complexity in terms of three dimensions (eg short, medium and long term horizons) and level of analysis (task, transaction and firm level) (Stahl and Voigt 2008, p. 337).

2.5 Stages of a Merger Or Acquisition .

There is no consensus in the current literature as to how many stages of an M & A there are. Some scholars advocate seven phases (Buono and Bowditch 1989), some advocate six phases (Angwin 2012), others four phases (Graves 1981, Haspelagh and Jemison 1991) and some divide it into three phases (Howell 1970, Appelbaum, Gandell et al. 2000, Bower 2001, Schuler and Jackson 2001, Aguilera and Dencker 2004, Antila 2006, Budhwar, Katou et al. 2009). There is also disagreement as to what those phases are. However one thing has universal agreement which is consensus on the closing date (Gomes, Angwin et al. 2012). The closing date is the date when ownership changes hands, hence breaking the period into pre-merger and post-merger periods. There are these two distinct periods.

Part of the pre-merger phase, it is also agreed, includes a due diligence process. As to what is or should be included in a due diligence phase however has been contentious amongst scholars and practitioners. Traditionally, due diligence focused on hard factors with no consideration of the intangible soft factors such as culture. However, lack of consideration of culture has been blamed for failure many times. Despite this, there does not appear to be an increase in analysis or consideration of these soft intangible factors in this important pre-merger phase.

Lodorfos and Boateng have outlined four phases of a cultural integration process (Lodorfos and Boateng 2006).

Phase 1: Pre merger and pre planning stage

This phase involves information gathering and developing trust through one to one interaction between members of both companies. This stage culminates into pre planning stage aimed at identifying cultural gaps and clarification through holding of retreat/workshop and the use of job rotation in an attempt to identify

1. Structural/physical characteristics of each business
2. Beliefs and values behind these practices
3. Decision making processes and communication lines

Phase 2: Planning stage

This stage aims to produce the action plan to facilitate the cultural integration process. Key tasks to be undertaken are as follows:

1. negotiation the composition of a sub-taskforce for integrating culture
2. Decide on the extent of cultural integration
3. Decide on the methods and timing of change
4. Assess the potential risks
5. Identification of training needs
6. Setting integration goals
7. Budgeting for integration

Phase 3: Implementation stage

This stage is designed to integrate structure and control systems and it involved the following activities

1. Creating atmosphere for cultural integration
2. Communication
3. Training/staff development
4. Re-organisation
5. Integrate structures, functions and control systems

Phase 4 : Evaluation, review and reflection

1. Evaluate expected against actual outcomes
2. Learn lessons
3. Revise through consultations

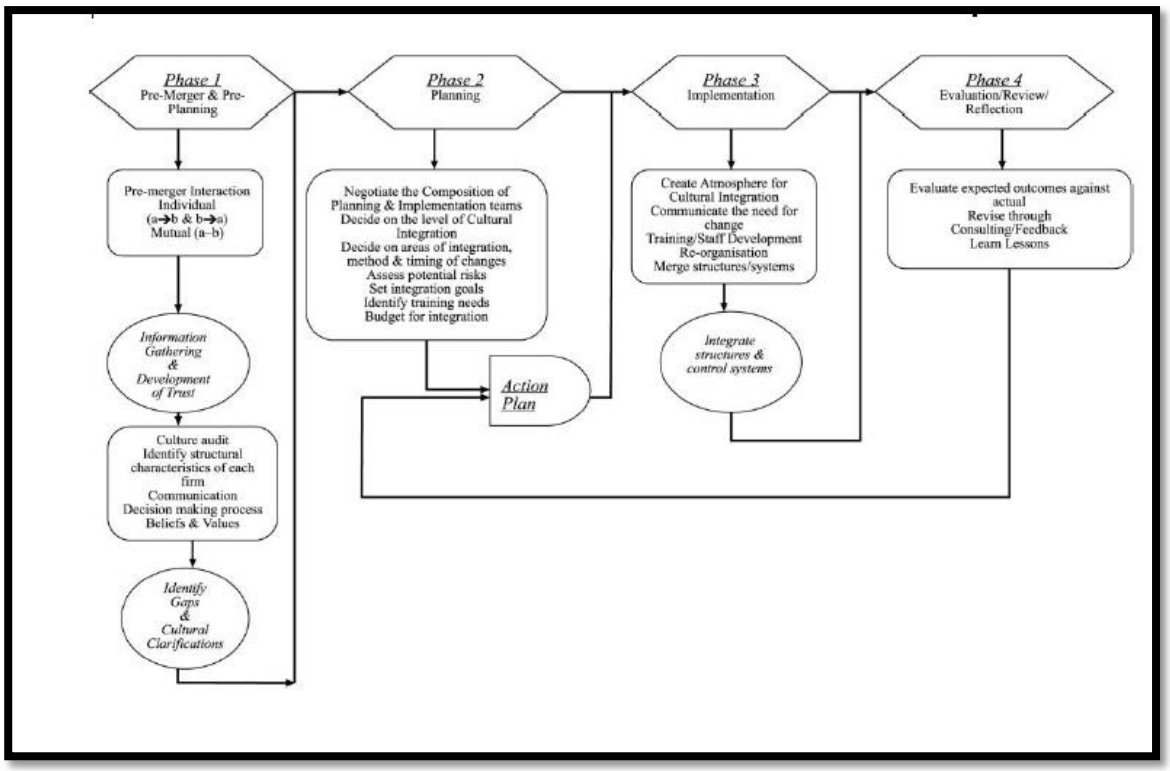


Table 8 - Typical stages of a Merger and Acquisition according to Lodorfos (Lodorfos and Boateng 2006) p1416

As stated above a universally recognized and important phase of any M & A is the due diligence phase. This is part of the pre merger phase using Lodorfos's categorization (Lodorfos and Boateng 2006).

For the purposes of this research paper the two stage model of pre and post-merger will be adopted. The emphasis for this paper will be on the due diligence in the pre-merger phase.

From the perspective of this paper it is worth noting that in Lodorfos four phase model above Culture is considered inter alia, in the first three phases with a review of success or otherwise in the forth phase. A culture audit is required in phase one with the characteristics of each firm identified. Gaps are identified and cultures clarified. Phase two requires the decision on the level of cultural integration that is required and roles are identified for this to occur. Phase three requires the creation of the atmosphere to allow cultural integration and a need for change needs to be communicated. In other words this is summary of a cultural assimilation strategy. For this study we are looking at these three phases in the pre merger

phase. Then in the post merger phase a cultural assimilation strategy is implemented and the success or otherwise is analysed. This, it should be noted, is a theoretical model which the author believes has excellent merit. However it is rarely followed.

2.6 Due Diligence

What is due diligence? Due diligence is an objective independent examination of the transaction. "It adds a "third eye" with independent cross border familiarity to look at the transaction form a different vantage point and it examines for example, operations, financials, tax matters, and asset valuation." (Kissin and Herrera 1990, Collins, Holcomb et al. 2009). This is a traditional view of the concept of due diligence. Kissin states that due diligence scrutinizes such things as:

- Company background (history and development)
- Business (products/services, strengths, weaknesses, and segmental profitability analysis)
- Industry and economic sensitivity (Strategy, markets, competitive position, and sensitivity to outside factors)
- Management and personnel (structure and capabilities)
- Financial (historical performance, trend analysis, and asset values)
- Accounting (incl. information systems)

In this traditional definition of due diligence there is no mention of factors that are commonly called the soft or intangible factors which are also hard to quantify. These factors are more recently being considered to be an important part of the due diligence process. As early as 1995 these soft, intangible dimensions were recognized (Cartwright and Cooper 1995, Harvey and Lusch 1995, Cartwright and Schoenberg 2006). Various aspects that should be considered in the due diligence process are well summarized in table 9 below.

Internal Environment	External Environment
Tangible • Cash • Plant equipment • Accounts receivable • Patents/trademarks • Technology • inventory	Tangible • share of market • supplier/distributor contracts • physical location
Intangible • quality of leadership • training of personnel • corporate culture • quality of info/analysis operating system • loyalty of personnel • trade secrets • data bases • personal/professional networks	Intangible • brand product awareness • customer loyalty • competitive positioning

Table 9 - Due Diligence Dimensions and Environments (Harvey and Lusch 1995)

Consistently, academics recognise the need for the analysis and consideration of culture at the due diligence phase of a M & A to be of utmost importance. However, consistently, it is not considered by the practitioners on the due diligence team of an M & A despite the all too common recognition in hindsight of this leading regularly to a failure of many M & A's.

However, in practice more often than not, due diligence is not carried out in a comprehensive manner as discussed above in this theoretical analysis. Sometimes it is viewed as too expensive to call in all the required experts in every functional area to render an opinion (Heame and Dean 1989). Sometimes time restrictions play a part in cutting short, literally, analysis of the target acquisition in a proper and timely manner (Crisafio and Schliebs 1989).

Multi level, due diligence in capital, labour, natural resources, culture, legal systems and accounting rules between the home and host countries affect the rationale that lead a firm to acquire a target company in many ways. Behind financial aspects, taxes and asset valuation, multilevel due diligence needs to consider investment rules, antitrust, protectionism, labour, local regulations, cultural and human resources and management issues (Angwin and Savill 1997, Angwin 2001, Angwin 2007, Barkema and Schijven 2008, Angwin 2012, Volpe and Caiazza 2015).

As Hopkins stated (Hopkins 1999, p. 224) "You really have to do more than adequate due diligence. You have to do an incredibly in depth due diligence……but if you can't do the due diligence adequately then my view has always been to recommend to a client to walk away from the deal". Perry and Herd concur, stating, "Ensuring that an acquisition is a good fit, not just on paper but as an integrated business calls for going beyond performing traditional financial due diligence to performing a detailed value assessment. We call this a pre-assessment or improved due diligence", (Perry and Herd 2004).

Kissin discusses an eloquent example of Kenichi Ohmae, a leading strategic thinker of the 90's on comparing gardening and growing a global organization. In this example Kissin draws a parallel between taking note of climatic conditions and soil types when choosing plants for his garden and then asks the question why managers do not adopt the same approach when trying to grow their organizations globally.

> *"In the garden outside my home in Japan, I grow the most appealing mix of plants and flowers I can – that is, given the kind of soil I have, the exposure , the light, the extremes of temperature. I do what the environment allows and encourages. I get lots of advice, of course but no green thumbed expert has yet tried to convince me to lay out a bed for flora*

indigenous to desert, arctic tundra or tropical rainforest. There would be no point in it. They would not grow in Tokyo and no one would expect them to. And if by a miracle they did, I would not know how to care for them." Why then when managers prepare the ground for the global organizations that they hope to grow, do they often pay scant attention to the quality of soil, light, temperature and exposure? At home on the weekend in their own gardens they know better. When they get to the office on Monday why is it they forget?" Keniche Ohmae as cited in (Kissin and Herrera 1990, p. 52).

A rather apt, eloquent and pertinent analogy when considering the decision making process of a due diligence team along with their clients when considering an M & A.

Information that is typically uncovered in a good due diligence process could and sometimes should be deal breakers but are often not considered as such. Table 10 list some of the information that can be uncovered in good due diligence that may or should be deal breakers. (Kissin and Herrera 1990, p. 53).

Information expected to be Uncovered In Good Due Diligence.

- Management capabilities and incentives
- Weak cash flows
- Weak strategic position (Long term)
- Dependency on factors not controlled by management
- Inventory distortions
- Dressing up of financial statements before sale
- Unrealizability of certain investments
- Tax contingencies
- Related party transactions
- Poor financial controls
- Need for significant future expenditures
- Unusual transactions.

Table 10 - Information uncovered in Good Due Diligence (Kissin and Herrera 1990) p53

Traditionally during a due diligence phase a team of lawyers, accountants and bankers have been assembled to assess the hard factors of the acquirer and target. (Kinley, Morrison et al. 2008) Due diligence is intended to be an objective, independent examination of the acquisition target predominately (Angwin 2001). According to Kissin and Herrera (Kissin and Herrera 1990) due diligence should be a comprehensive analysis of the target company's business – its strengths and weaknesses – its strategic and competitive position within its industry.

However, such a traditional due diligence process is ignoring an examination of the acquirer company as well. Improved due diligence practices have been considered to reduce the

incidents of M & A failure and this includes an examination of the culture of the acquirer company as well. It is not possible to look at a strategy of culture assimilation or compatibility without considering the culture of the acquirer company (Jeffrey and Thomas 2004).

As early as 1989, (Haleblian, Devers et al. 2009) when the American Management Association estimated that 7500 companies were involved in M & A's annually, 25% of merged companies confronted declining productivity, nearly one of every six companies established through an M & A loses market share, one of every four faces declining profitability and high employee turnover. The Association stated that it is disquieting that a more comprehensive model of due diligence had not emerged.

2.8 Culture Consideration

Culture can be broken down into distinctive types being organizational, corporate and national. Cartwright and Cooper and other scholars (Cartwright and Cooper 1993, Cartwright and Cooper 1995, Stahl and Voigt 2008, Marks and Mirvis 2011) state that culture is an integral part of an organization and that culture is to an organization what personality is to an individual. Ignoring this, is done at the peril of the two companies or combined company's future. Financial benefits anticipated from M & A's are often unrealized because of incompatible cultures. (Lodorfos and Boateng 2006, p. 1407, Fralicx and Bolster 1997).

Human resource management, which is part of organisational and corporate culture is an oft neglected area in due diligence and in strategic analysis. (Faulkner, Ptikethly et al. 2002, Horwitz 2002, Kakkonen and Antila 2008).

In hindsight, the reasons for failure are regularly put down to incompatible cultural fit (Appelbaum, Gandell et al. 2000, Dauber 2011, Dauber 2012) being the single largest cause of lack of projected performance, departure of key executives, and time consuming conflicts in the consolidation of businesses. This has gained credence with many researchers that lack of cultural fit is the major reason for unsuccessful deals (Chatterjee, Lubatkin et al. 1992, Olie 1994, Weber Yaakov and Adi 1996, Larsson and Finkelstein 1999, Hurt and Hurt 2005, Fink and Holden 2007, Rana 2010, Weber, Belkin et al. 2011, Dauber 2012).

Weber in his seminal work, (Weber Yaakov and Adi 1996) found that the greater the cultural differences between the combining top management teams the lower the effectiveness and the

lower the financial performance of the finalized merger. Tetenbaum (Tetenbaum 1999) believes culture is at the heart of integration. He claimed that one human resource issue that was significantly underrated in most mergers was culture. In 1992 Coopers and Lybrand studied 100 companies with failed or troubled mergers and found 85% of the executives of those companies indicated that differences in management styles and practices were the major problem. In 1996 The British Institute of Management surveyed executives involved in a number of acquisitions and concluded that the "major factor in failure was the underestimation of difficulties merging two cultures." (Tetenbaum 1999, p 23). In 2001 Biljlsma-Frankema stated that in the last 15 years management of the human factor in M & A's has been recognized as an important source of success by an increasing number of authors. (Bijlsma-Frankema 2001, Kimberley and Quinn 1984, Kilman, Saxton et al. 1985, Buono and Bowditch 1989, Gilkey 1991, Cartwright and Cooper 1993, Lubatkin and Lane 1996, Buono 2005).

Many researchers have analysed reasons for M & A failure and consistently come up with the lack of culture integration and lack of an assimilation strategy as one of the key factors. However there is little research on whether culture is being considered adequately in the due diligence phase. Rottig has done some research along with Angwin but the study involved analysis in retrospect ie after the failure of the M & A. (Angwin 2001, Rottig 2007). Research has shown that sound cultural analysis was neglected by a large number of acquirers and may have caused the failure of these transactions. Angwin studied 142 cross border transactions and the majority of acquirers attached low importance to the assessment of cultural compatibility as part of their pre acquisition due diligence (Angwin 2001, p 104).

Schraeder (Schraeder and Self 2003, p. 511) discussed the example of Daimler and Chrysler merger as a classic example of a warning where cultural differences inhibited the success of the proposed union. The culture was not considered, at all, in the pre-merger phase and it was found to be so different and was incompatible resulting in the merger being a consummate failure (Kinley, Morrison et al. 2008). Again this was an analysis in hindsight after the transaction had consummately failed.

It is interesting to note that the legal system has taken an interest in the impact of organizational culture on M & A's. In 1989 a Delaware Supreme Court ruling involving the proposed merger between Paramount Communications Inc and Time Inc, the court concurred with Times lawyer's contentions that the merger would pose a serious threat to the corporate

culture of Time. Further the court decided that Warner was a better fit with Time than Paramount as there was less threat to the Time culture despite the fact that the Warner partnership would likely result in a lower post-merger value per share than the Time/Paramount merger (Schraeder and Self 2003). There is no doubt that those involved from Warner's view regret this decision with the marriage between Time and Warner being a financial disaster.

While there is general acceptance that cultural differences matter, there is still debate over the extent to which this affects M & A's. Some scholars say poor cultural fit and lack of cultural compatibility are the key factors leading to M & A failure (Cartwright and Cooper 1993, Weber Yaakov and Adi 1996, Stahl and Voigt 2008, Weber, Belkin et al. 2011, Weber, Rachman-Moore et al. 2011, Weber, Teerikangas et al. 2011, Stahl, Angwin et al. 2013).

Some other scholars say that cultural differences can actually enhance an M & A. (Weber Yaakov and Adi 1996, Morosini and Sbane 1998, Larsson and Lubatkin 2001, Andersson and de la Rosa 2006, Stahl and Voigt 2008). These scholars argue that differences rather than similarities make it possible for merging organizations to learn from each other, expand their knowledge base and create additional value.

Angwin argues that, however, it is imperative that culture be considered at the pre-acquisition phase so as to have a strategy for its integration in the post-acquisition phase (Angwin 2001). This is supported by many scholars who believe that neglecting culture at the pre-acquisition phase does not allow a strategy to be devised for the merging of the two cultures (Olie 1994, Piero, Scott et al. 1998, Perry and Herd 2004, Weber, Rachman-Moore et al. 2011, Weber, Teerikangas et al. 2011, Weber and Tarba 2012).

The integration process of a formulated culture strategy is considered to be an extremely important pathway that is required from the pre-merger phase and goes for many years. Without a strategy devised in this early part of the M & A culture becomes an oft neglected problem (Hajro 2015). Hajro conducted a longitudinal study spanning over 7 years analysing this integration process. Managing the integration process is imperative to enhance the likelihood of success of an M & A (Koza and Lewin 2000, Krug and Aguilera 2005, Lakshman 2011). Incompatible strategies in cross border M & A's result in failure of the venture (Meyer and Alterborg 2008). Some good and well-studied examples of this are Daimler/Chrysler and Time/Warner. Both of these examples of M & A's resulted in consummate failure. In hindsight much was said about the incompatible culture of the

merging organizations, how this was not considered prior to the merge and that there was no strategy in place to facilitate the merge of the two cultures.

National culture is an element of culture that does add another element to M & A's. This becomes particularly evident and important in cross border M & A's (Norburn and Schoenberg 1994, Vasconcellos and Kish 1998, Nocke and Yeaple 2007, Leneve and Stullein 2010, Sarala and Vaara 2010, Vu and Rusi 2010, Smircich 1983).

Corporate culture is often considered integral in or part of organizational culture. Organisational culture is another element of culture (Linstead and Grafton-Small 1992, Turner 1992, Pothukuchi, Damanpour et al. 2002). Rottig analysed pitfalls and problems with unique cultures that were then combined in an M & A. Due consideration must be shown to these cultures along with a culture analysis early in the M & A phase with the development of an integration strategy. Without such a strategy M & A's are destined to struggle and will most probably fail (Rottig 2007, Rottig 2009, Rottig Daniel and Reus 2009, Rottig 2011). The strength of corporate culture plays a significant part in an M & A and the strategy of integration (Yablon 1997-8, Sorensen 2002).

Certainly the attitude and approach of the managers and in particular the CEO's and other executive management at the acquirer company will play a significant part in the approach to M & A's. Hubris is often cited as an explanation for management behaviour in M & A (Sharma and Ho 2002). In the context of M & A's, the hubris hypothesis as developed by |Roll (Roll 1986) asserts that decision makers in acquiring companies pay too much for their targets on average, based on the self-belief that they can value targets better than the market consensus. Roll proposed that if there are no gains in takeovers, hubris is necessary to explain why managers do not abandon these bids since reflection would suggest that such bids are likely to represent positive errors in valuation (Garrow 2012).

Some of the symptoms of hubris syndrome were summarized by Owen and Davidson (Owen and Davidson 2009) as follows:

(i) sees the world as a place for self-glorification through the use of power;
(ii) has a tendency to take action primarily to enhance personal image;
(iii) shows disproportionate concern for image and presentation;
(iv) shows excessive self-confidence;
(v) resorts to restlessness, recklessness and impulsive actions.

They found that qualities such as charisma, charm, the ability to inspire, persuasiveness, breadth of vision, willingness to take risks, grandiose aspirations and bold self-confidence, are often associated with successful leadership (Garrow 2012).

3. Methodology – Research Design

In this paper a unique mixed method methodology has been adopted. Arts based research has been carried out with the creation of a visual reflective diary. Semi structured interviews were carried out and analysed. The visual diary and the semi structured interviews have then been combined to make observations, analyse and present the outcome of the research. With the adoption of this unique combination of arts based research and semi structured interviews it is important to define the method, purpose and benefit of these techniques and how they can be combined to provide these observations, analysis and outcome.

3.1 Semi Structured Interviews.

The semi structured interviews were exploratory in nature and all were conducted on a face to face basis. All interviewees were provided with and asked a standard set of questions (See appendix 1). From the responses the interview then progressed to illicit information/qualitative data in order to understand the roles and processes of the members of the due diligence team.

The object of the interviews was to explore the opinions and attitudes of the due diligence team to the consideration of corporate culture at this stage of an M & A. This was also a cross border acquisition adding the element of national culture to the mix. As discussed, the literature review and evidence of opinion from practitioners after an M & A has taken place and then failed is that culture is inadequately addressed at the due diligence phase. This has led to an increase in the failure rate of M & A's.

Prior to the interview taking place, ethics approval was sought and received from the Macquarie University to carry out the interviews. (See ethics approval from Macquarie University at Annexure 2). Confidentiality was addressed in the ethics approval with the intention that no interviewee or their client could be identified. This had the added benefit in that anonymity would more likely elicit open and detailed responses from the interviewee. From the first interview and throughout all the interviews it became apparent that the requirement of confidentiality for all interviewees was paramount. Although the transaction was complete, all the interviewees stressed the importance of continuing anonymity of both themselves and their respective clients.

As a result of this requirement for strict anonymity, any reference to the acquire company, the target company and any of the interviewees has been removed. Careful attention has been paid to further remove any possible opportunity for the reader to identify the parties in any manner. This was done by removing any information or data that could indirectly lead to identification of the client. Information such as nomination of the country of the acquire company, naming any individuals involved within the client or the due diligence team or their employers, dollar value of the transaction or type of industry these clients were involved in were all deleted. Any attempt to now identify the clients of the due diligence team would be based on pure speculation and not any commentary or evidence within this paper. This anonymity requirement took precedence over all other matters.

The choice of structure for the interviews is important with three typical methods of interviewing being structured, semi structured and unstructured. The interviews were carried out in a semi structured manner. As Parker states (Parker 2005, p. 53) there is no such thing as a completely structured interview, "because people always say things that spill beyond the structure, before the interview starts and when the recorder has been turned off". Utterances that spill beyond the structure are important and are even sometimes the key to understanding the interviewee's answers to the structured questions (as cited in (Leavy 2014, p. 285).

Semi structured interviewing is the most common form of interviewing in qualitative research (Leavy 2014, p. 286). "Compared to structured interviews semi structured interviews can make better use of the knowledge producing potentials of dialogues by allowing much more leeway for following up on whatever angles are deemed important by the interviewee, as well, the interviewer has a greater chance of becoming visible as a knowledge producing participant in the process itself, rather than hiding behind a press interview guide. Compared to unstructured interviews the interviewer has a greater say in focussing the conversation on issues that he or she deems to be important in relation to the research project". The aim is to obtain the interviewees descriptions and reflections rather than theorizations. Interviewers are normally seeking descriptions of how interviewees experience the world, its episodes and events. Semi structured interviews allow this and this method was chosen to be appropriate for an exploratory research paper of this kind.

There are four vital aspects as outlined by Leavy (Leavy 2014, p. 288) which are covered in a semi structured interview being:

1. interviews are structured by the interviewer's *purpose* of obtaining knowledge,

2. they revolve around *descriptions* provided by the interviewee,
3. such descriptions are commonly about world phenomena as *experienced*,
4. and understanding the meaning of the descriptions involving some kind of *interpretation*.

The questions were structured to allow collection of knowledge and opinion of the interviewees allowing them to give descriptions of their role, views and experiences in the due diligence process. Further the questions were structured so as to evoke commentary and views from the interviewee on the due diligence process and how culture is or is not considered, its importance in the success of otherwise of a M & A.

All interviews were conducted face to face. In this respect it was possible to ascertain emotions, and observe body language, gestures and facial expressions. Interviews ranged in length from 37 minutes to 1 hour. All interviews were then fully transcribed to allow further observations, analysis, interpretation and most importantly editing to satisfy the confidentiality requirements of all interviewees.

3.2 Arts Based Research

Art journaling is one arts based practice used by researchers. It involves the creation of a visual journal where mixed text, images, drawings become sites for artistic enquiry and active collaborative meaning making. Art journaling can be a combination of visual and words to evoke thought and convey a message.

Before looking specifically at art journaling it is worth considering the benefit and role of arts based research in general and then specifically for the this research project.

Arts based research is an extension of the conventional qualitative research while they may also constitute a departure and ultimately an expansion of the qualitative paradigm. "In this regard arts based research practices can help qualitative researchers facilitate their research goals, in a way not possible with traditional approaches." Building on the idea of going further with qualitative research skills, it is fair to say that arts based practices are moving from interdisciplinary to transdisciplinary. Former disciplinary boundaries are disrupted within the expanded qualitative paradigm – making way for integrated cross disciplinary practices and emergent practices that are not housed in any one disciplinary context. Table 11 indicates that the goals of arts based practices – differs from quantitative and traditional

qualitative research purposes. Therefore, knowledge constructed with arts based practices needs to be assessed on its own terms (Leavy 2009, p. 257).

Arts based research adds a different element to research and communication. In some respects, arts based research leaves a lot up to the reader/receiver as to what the message is. At times the message may even go further or in a different direction than that proposed or intended by the author. This should not be viewed as a negative as it would be if compared to the traditional view of quantitative and qualitative data analysis where the author dictates interpretation. It is a positive in that there are less inhibitors or boundaries in data analysis and interpretation. Arts based research is transdisciplinary as noted in table 11– a new horizon in data analysis and consideration.

Quantitative	Traditional Qualitative	Arts Based Research
Numbers	Words	Stories, images, sounds, scenes, sensory
Measurement	Meaning	Evocation
Tabulating	Writing	Re(presenting)
Value neutral	Value laden	Political, conscious-raising, emancipation
Reliability	Process	Authenticity
Validity	Interpretation	Truthfulness
Prove/convince	Persuade	Compel
Disciplinary	Interdisciplinary	Transdisciplinary

Table 11 - Main Tenets of Quantitative, Qualitative and Arts Based Research Approaches (Leavy 2009, p256)

Visual images are a powerful communicative tool with the potential to help us see things in new ways. Researchers are using visual imagery as a part of data presentation and analysis as well as a medium to represent data, often with the intent of confronting and challenging stereotypes and the prevailing ideology that normalizes them (Leavy 2009, p. 263). Visual art challenges viewers in an immediate and visceral way while remaining open to a multiplicity of meanings. It can force people in seeing old ideas in new ways (Hooks 1995).

Arts based researchers are not "discovering" new research tools, they are carving them. And with the tools they sculpt, so too a space then opens, within the research community where passion and rigor boldly intersect out in the open (Leavy 2014, Leavy 2009, p. 2).

Both artistic practice and the practice of qualitative research can be viewed as *crafts*. Qualitative researchers do not simply gather and write, *they compose, orchestrate and weave* and that is the aim with this arts based research technique adopted herein, of keeping and

presenting a visual reflective and reflexive journal of the research process. Moreover both practices are holistic and dynamic, involving reflection, description, problem formulation and solving, and the ability to identify and explain intuition and creativity in the research process. Valerie J Janesick (cited in (Leavy 2009), p. 10) stated that qualitative researchers are "artistic-scientists". She went on to say if we begin to understand and disclose how we use creativity and intuition in our research then we can better understand the function of qualitative research.

The writing of qualitative research as with the works of artists, is ultimately about (re) presenting a set of meanings to an audience. In this regard Diaz (Diaz 2002) writes "the act of writing assumes an attitude of persuasiveness. Literary persuasion, or rhetoric, like much of visual persuasion, is artistic. As writers and painters we try to persuade our readers and viewers to see the world through our eyes." (Diaz 2002, p. 153). The arts simply provide the qualitative researcher with a broader palette of investigative and communication tools with which to garner and relay a range of social meanings. Moreover the artists palette provides tools that can serve to expand the promise of qualitative research.

Arts based research is considered particularly useful for research projects such as this present project that aims to describe, explore or discover. The arts, at their best, are known for being emotionally and politically evocative, captivating, aesthetically powerful and moving. Art can grab people's attention in powerful ways.

The purpose of arts based research has a relatively common purpose. To the extent that an arts based research project effectively employs aesthetic dimensions in both its inquiry and representational phases, to that extent the work may provide an important public service that may otherwise be unavailable (Barone and Eisner 2012, p. 13). Arts based research can promote autonomy, raise awareness, activate senses, express complex feeling based aspects of social life, illuminate the complexity and sometimes paradox lived experience, jar us into thinking differently and transform consciousness through evoking empathy and resonance. Free from academic jargon and other prohibitive barriers, the arts have the potential to reach a broad range of people and to be emotionally and or politically evocative for diverse audiences (Leavy 2014).

The power of the image and its role in society cannot be underestimated. Visual imagery does not represent a window onto the world but rather a created perspective. Visual images are unique and can evoke particular kinds of emotional and visceral responses from their

perceivers; they are typically files in the sub-conscious with the same conscious interpretive process people engage in when confronted with a written text. Moreover, visual images occupy an elevated place in memory. For example when we mention September 11 we have collective images of New York's Trade Centre under some form of senseless destruction. – not a written description as to what occurred (Leavy 2009, p. 216). This visual journal is expected to similarly evoke emotion and responses for the reader in this area of due diligence of M & A's.

Eisner and Barone observe that arts based research permits ambiguity and frees the researcher to use aesthetic form and expressive language (Barone and Eisner 2012). Thomas (Thomas 2001, p. 274) writes "Art as inquiry has the power to evoke, to inspire, to spark the emotions, to awaken visions and imaginings, and to transport others to new worlds". The art can assist researchers as they aim to portray lives illuminating untold stories (Coles and Knowles, 2001 p211) as cited in (Leavy 2014, p. 403).

The use of art and its somewhat ambiguous message is not to be considered a failure of communication but a broadening of the horizons of evocative thought from the researcher to the audience that is not possible with only words. The ability to skilfully use aesthetic elements in research to communicate emotional experience, inspire the imagination, and evoke empathy is important for such research outcomes. This aesthetic power is constructed through the incisiveness, concision and coherence of the final creative form (Baron and Eisner 2012).

Baron and Eisner (See table 12) summed up the fundamental ideas which they say are the basic ideas upon which arts based research is built.

1.	Humans have invented a variety of forms of representation to describe and understand the world in as many ways as it can be represented.
2.	Each form of representation imposes its own constraints and provides its own affordances
3.	The purpose of arts based research is to raise significant questions and engender conversations rather than to proffer final meanings.
4.	Arts based research can capture meanings that measurement can not.
5.	As the methodology for the conduct of research in the social sciences expands, a greater array of aptitudes will encounter forms that are most suited to them.
6.	For arts based research to advance, those who prepare researchers will need to diversify the development of skill among those who are being taught.
7.	Arts based research is not only for arts educators or professional artists
8.	In arts based research generalising from an n of 1 is an acceptable practice.
9.	The aim of arts based research is not to replace traditional research methods. It is to diversify the pantry of methods that researchers can use to address the problems they care about.
10.	Utilizing the expressive properties of a medium is one of the primary ways in which arts based research contributes to human understanding.

Table 12 - List of fundamental ideas and criteria for Arts Based Research (Barone and Eisner 2012)

It is not essential to cover every point above. However arts based research will ideally cover a combination of some of these points. In my art I have attempted to cover most of these points. The most important aspect though is the combination of the arts based research with the semi structured interviews. These interviews have evoked emotional responses which I have then expressed in art form.

A visual journal is akin to a written journal and is a reflective, reflexive research activity which is commonly called reflective journalling or reflexive by many sociologists is used in research but has been used in considering professionals seeking to describe a given social setting or business setting (Leavy 2014, p. 306). A reflective journal is a device that allows the recording of thoughts, reflections, observations and ideas throughout the process and allows them to evolve during that process. The visual journal becomes a tool of communication in research.

Qualitative research relies heavily on the researcher as the research instrument, journal recording can assist the researcher reach the goals in the research project. It also allows the reader to then reflect, analyse and form their own opinions and observations from the visual impact of the researcher's reflection. As Paul Byer's stated "cameras don't take pictures – people do." (As cited in (Hesse-Biber and Leavy 2011, p. 244). The process of reflexivity is critical in visual journal creating as it discloses one's position within, during and throughout

the process. The visual journal is also intended to introduce an element of interactive research with the reader, forming their own opinions on the presentation of the visual data.

3.3 Mixed Methods - Combining Semi Structured Interviews and Arts Based Research

With the visual journal combined with analysis, observation and interpretation of the interviews this has allowed comprehensive exploratory research to be presented, discussed and analysed. This is combining an traditional qualitative research technique of semi structured interviews with a newer and less recognised qualitative research method of an arts based journal. The semi structured interviews certainly provided interesting and valuable input and response to the aim of this research project and could have been the only research method used. However by mixing this with the arts based journal keeping it expands the horizon of analysis, reflection and representation of the research project and further provides opportunity for further research which may have otherwise not been discovered or recognised.

Many of the drawings were inspired from content in the interviews. For example the lawyer for the acquirer made the statement that the fish rots from the head (This is an ancient Turkish proverb which is actually incorrect as the fish rots from the gut first) which inspired drawings of rotting fish. Further, the manager in the target company made the statement that the financial advisors would love the deal to go through as it generated enough income for a new sports car for them. This led to drawings of the due diligence team arriving to the due diligence meetings on a bicycle and then leaving the due diligence meetings in a Lamborghini.

The strong element of anonymity assisted in both qualitative techniques. Preservation of anonymity in the interviews allowed the interviewee to certainly be open and candid in their views and information offered. Similarly in the visual journal the pictures not being associated with any particular individual or transaction preserves reputations but enhances the opportunity to be more open in visualisation that otherwise may be considered unethical or offensive.

It is not intended that the arts based research replace the traditional qualitative processes but would be a complimentary form of communication that could enhance evocative thought that the interviews alone would not be able to convey. This research is exploratory in nature and

in this respect it is the intention of the research findings to uncover or evoke thought from what is discovered. This has led to discovery and recognition of further opportunities for research.

4. Observations, Interpretation and Analysis of Interviews

4.1 Evolution of the Transaction.

As with most mergers and acquisitions this transaction was highly confidential. If information about the likely transaction leaked to market this could affect the share price rapidly and jeopardise the whole deal. With the need for high confidentiality it is usual that a due diligence team is small and has to operate efficiently in a short period of time.

Interviews were carried out with members of the due diligence team of a recent merger in Australia. In this transaction the main members of the due diligence team were as follows:

Acquirer Company
Law firm in Asia
CEO and other members within the acquirer company
Law firm in Australia
Investment bank advisory
Accounting Firm

Target Company
CEO and managers in target company
Law firm in Australia
Investment bank advisory

There were other members or consultants who were brought in as required and carried out specific tasks. However the main members of the due diligence team are listed above.

From the above list, interviews were carried out with the following:

1. Lawyer for acquirer company
2. Investment bank advisory for acquirer company
3. Accountant for acquirer company
4. Lawyer for target company
5. Senior manager in target company

Due to the geographical and time constraints it was not possible to interview a representative of the acquirer company who are all based in Asia. The investment banker for the target company declined to be interviewed due to internal policy that they do not discuss any of their client's matters. Although the list of interviewees is small it comprised the core of the

due diligence team for this transaction with the notable exception being the ‘leaders’ of the acquirer company.

Before commencing any interviews but after completing the literature review I perceived from the literature review that it was a common belief amongst professionals of failed M and A’s that a main contributor to the high failure rate was a lack of consideration of the intangible cultural aspects of a merger. It appeared that in some respects the lack of consideration of cultural aspects was used as a scape goat for the failure. Most professionals within merged companies had a strong belief, with hindsight, that this lack of consideration of culture or the lack of strategy for the merge of the two cultures invariably was the main reason for the failure.

With this in mind, I saw the due diligence team as lacking a “player”. I drew a due diligence team and also a soccer (football) team with a member missing. Missing a member of a soccer team will invariably lead to a loss. Why would it be any different in a due diligence team?

4.1.1 The Soccer Team

Figure 1 - The Forwards

Figure 2 - The Halves

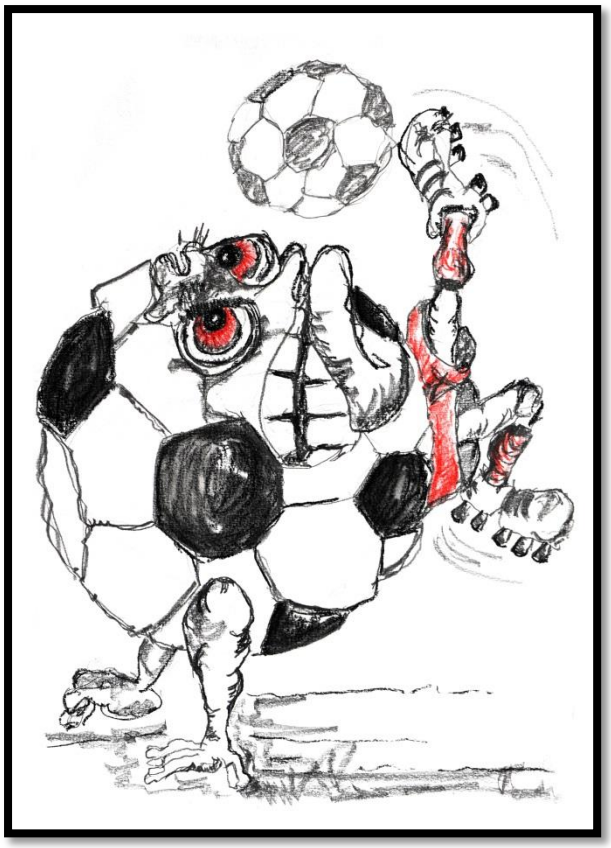


Figure 3 - The Goalkeeper

Figure 4 - Where are the Backs?

Incomplete Soccer Team with no Backs

Low likelihood of a win!

4.1.2 The Due Diligence Team

Figure 5 - The Acquirer's CEO

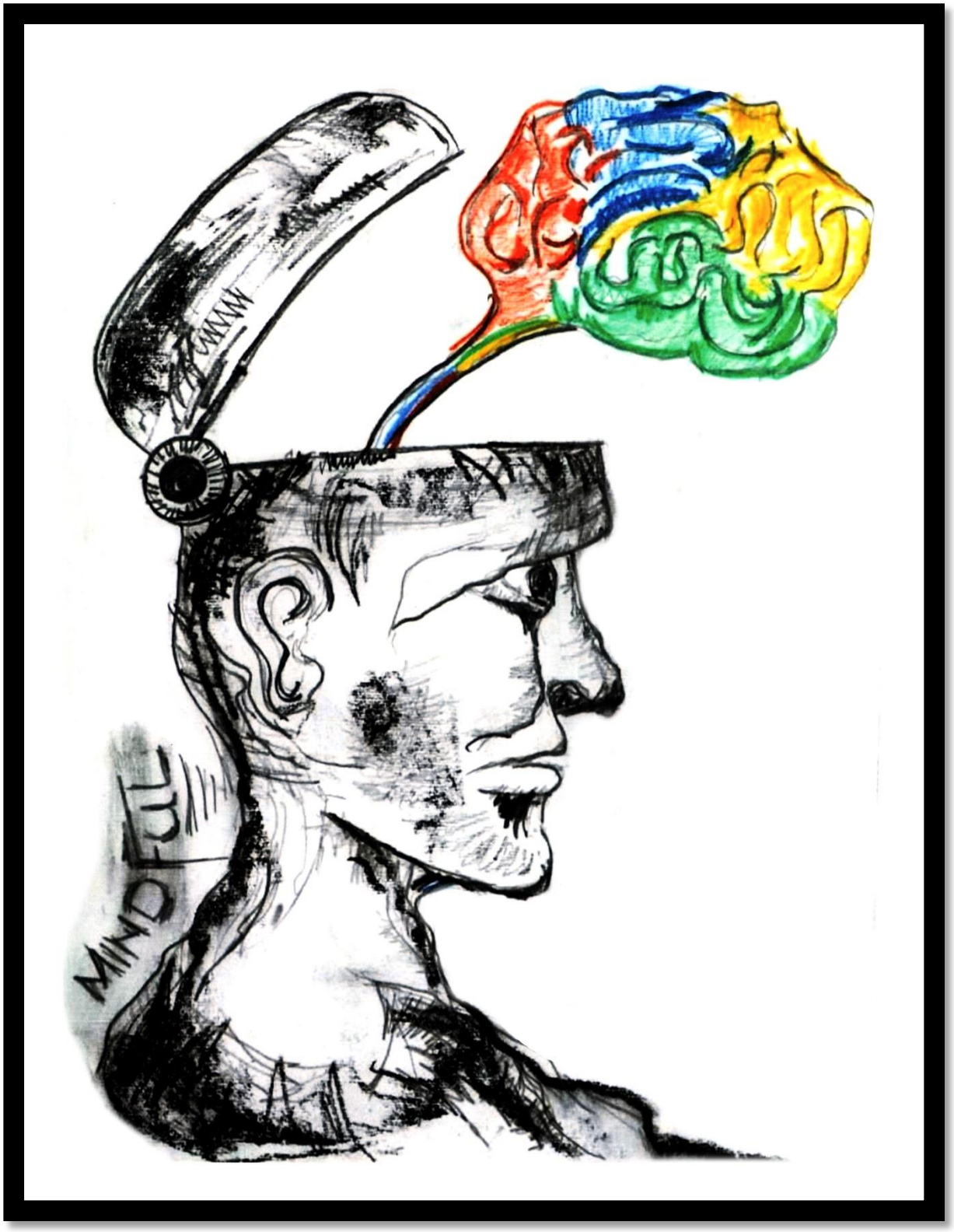


Figure 6 - The Acquirer's CFO

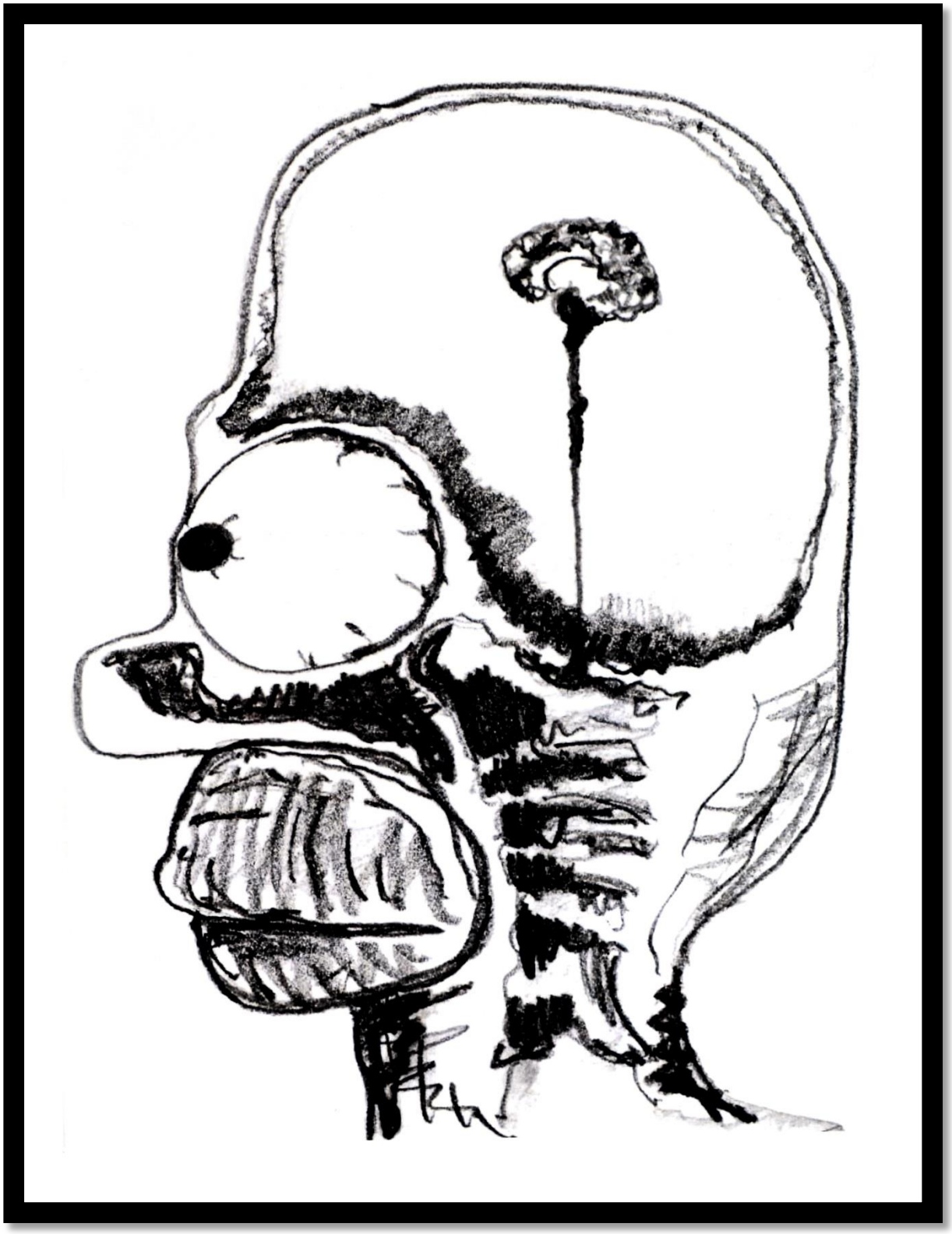


Figure 7 - The Acquirer's COO

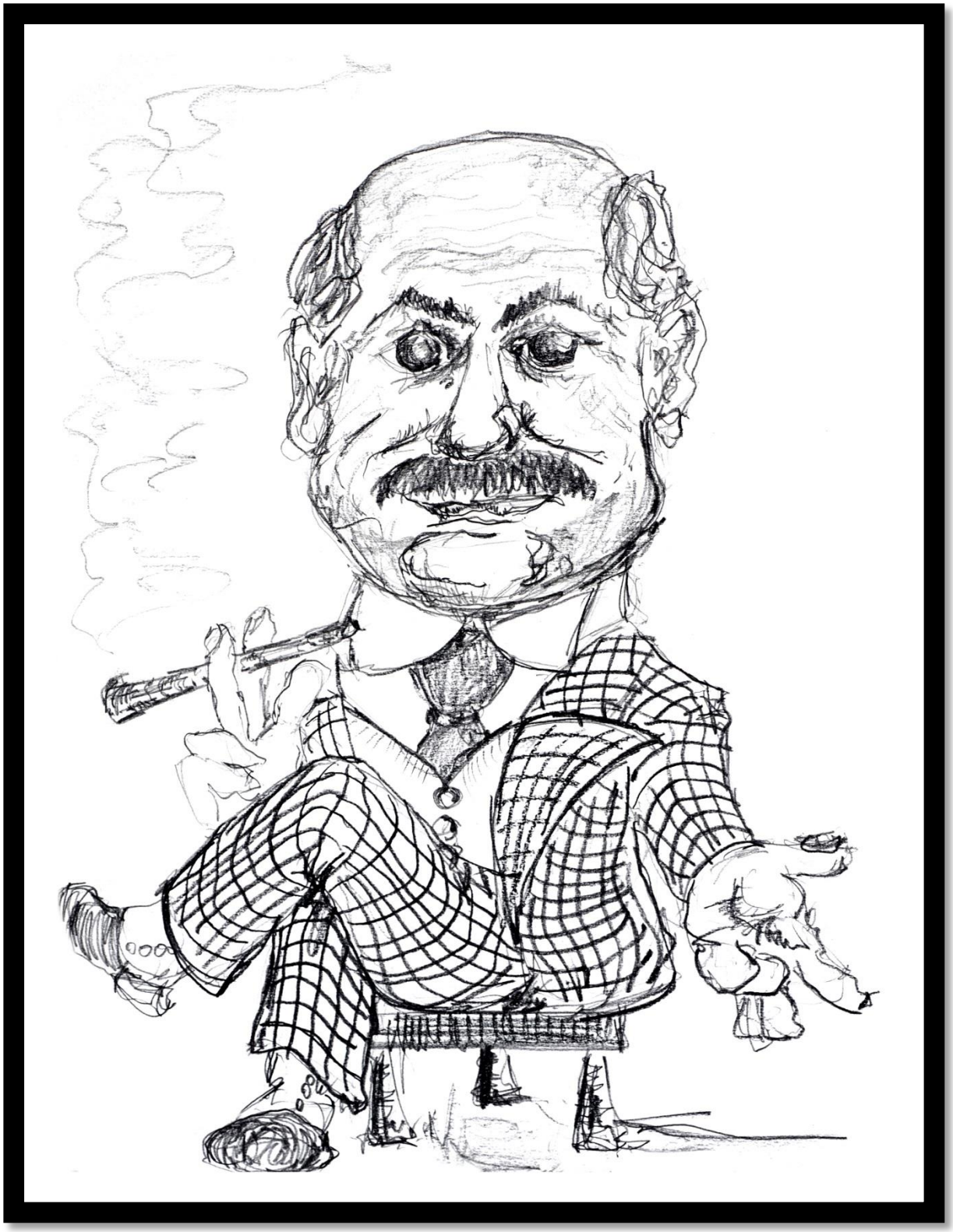


Figure 8 - The Acquirer's Investment Bank Advisor

Figure 9 - The Acquirer's Lawyer

Figure 10 - The Target Company's Lawyer

Figure 11 - The Acquirer's Accountant

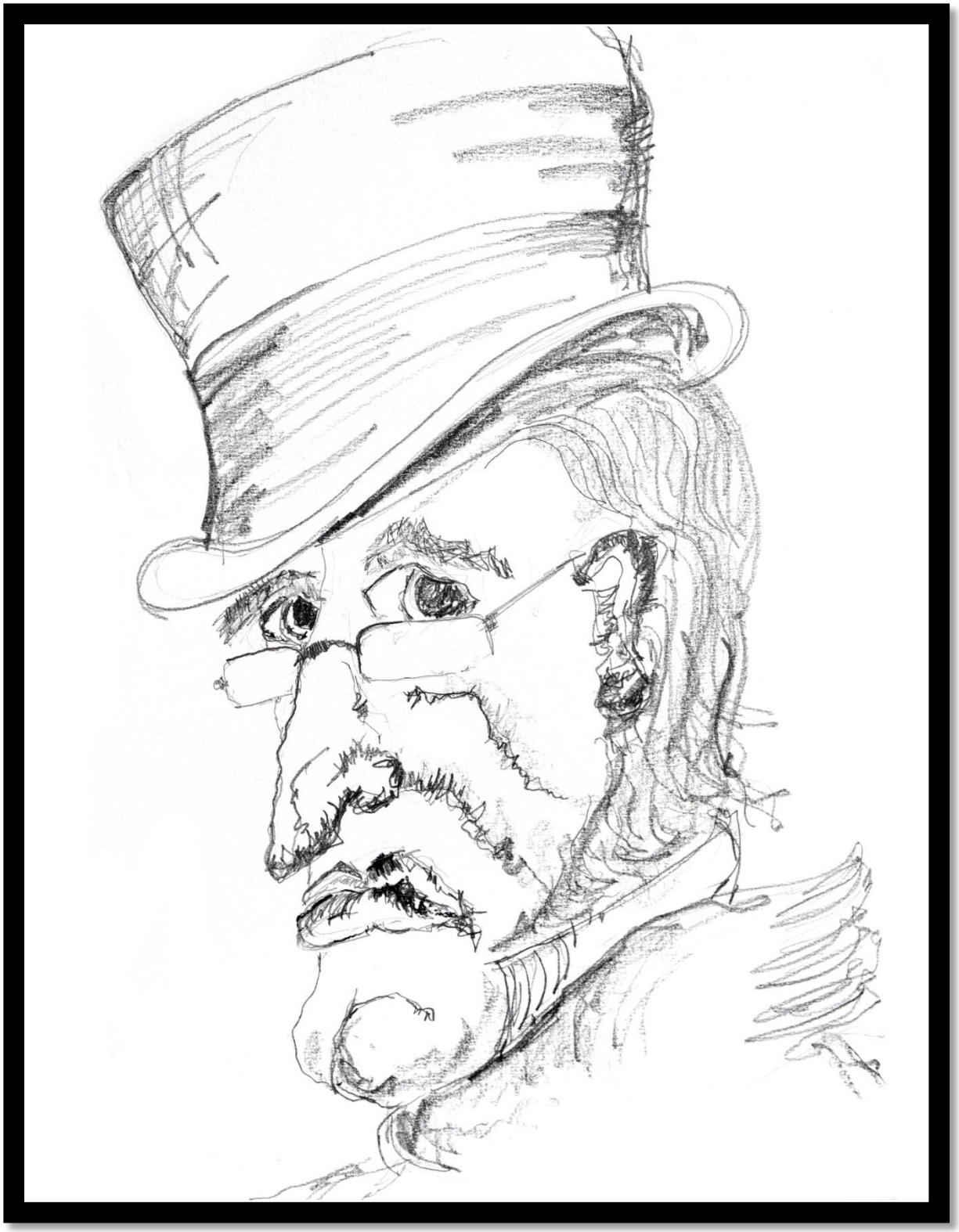
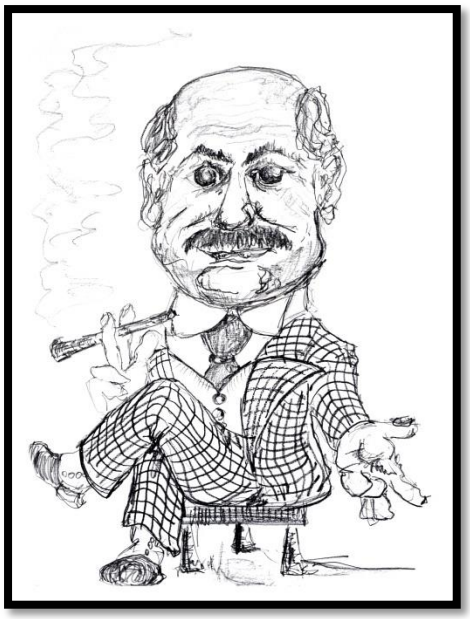


Figure 12 - The Target Company's Senior Management

THE DUE DILIGENCE TEAM – OR IS IT?

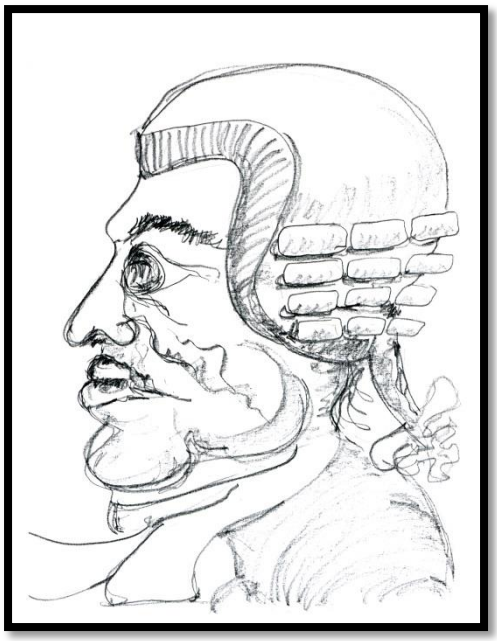
Who is considering Culture? This team is incomplete.

4.2 The Interviews



Interviewee one – investment bank representative for acquirer company

(Due Diligence Team Member 1 – hereinafter referred to as DD1)



Interviewee two – lawyer for acquirer company

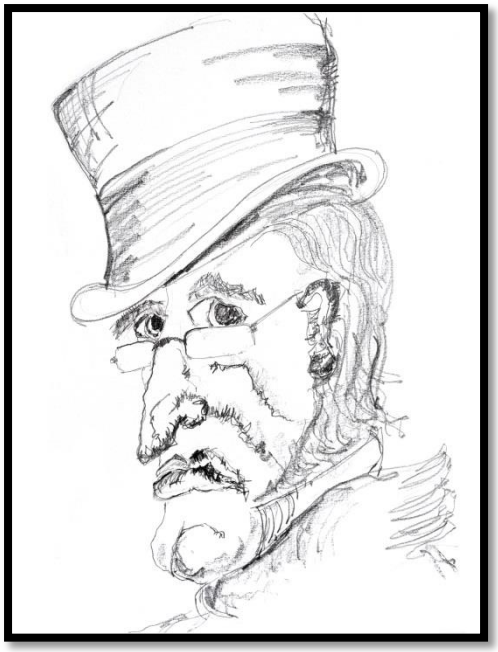
(Due Diligence Team Member 2 – hereinafter referred to as DD2)

Interviewee three – lawyer for target company

(Due Diligence Team Member 3 – hereinafter referred to as DD3)

Interviewee four – accountant for acquirer company

(Due Diligence Team Member 4 – hereinafter referred to as DD4)



Interviewee five – senior management for target

(Due Diligence Team Member 5 – hereinafter referred to as DD5)

4.3 Summary Answers to Structured Questions

"By method and discipline are to be understood the marshalling of the army it its proper subdivisions, the graduations of rank among the officers, the maintenance of roads by which supplies may reach the army, and the control of military discipline."
Sun Tzu. The Art of War. Laying the plans.

1. In your own words can you describe to me the DD process that should be carried out on any M or A?

DD1	DD2	DD3	DD4	DD5
				
This depends on the type of deal. If it is friendly scheme this is different to hostile takeover. We were setting out the process and the traditional role we would take in a deal. I think normally you'd probably have a longer gestation period than we've gone through. A lot more pre work with our client. We probably only had half of what we would normally do on that.	*You put a DD team together and that made of a financial advisor, the accounting and legal and might have an auditor as well too actually, I don't know. Its through those working as a team and understanding what each other are finding that you actually understand what the culture of the organisation is like.*	*Our role is very different in an acquiree capacity. We don't really care if the thing fails afterwards, in a cash transaction. We just do what is necessary to get the deal done. We give them the information they need to make decisions.*	*No comment on this question*	*No comment on this question*

Observations on Answers to question 1

The answers were brief and not very informative in response to this question. The focus of the interviewees was on their individual role in the due diligence process as none of them were responsible for putting together a due diligence team or dictating the due diligence process. It became evident that this question would be better answered by the individuals in the acquirer company who were instigating the due diligence process.

"A wise General makes a point of foraging on the enemy. One cartload of the enemy's provisions is equivalent to twenty of one's own and likewise a single picul of his provender is equivalent to twenty from one's own store."
Sun Tzu. The Art of War. Waging War.

2. In the Due Diligence process what was your role?

				
We were advisors to the acquirer company. They approached us with their interest in building a global business. We helped them find a target. Once we found that target we looked at alternatives and then assisted in a step acquisition. They needed to gain scale and fast so they probably paid over the odds. Our role was advisory and we were there from the start. We were heavily involved in the negotiation but we had plenty of discussion before the target was approached. So where our role	*I was the lead legal advisor from an Australian point of view. We have contacts in an Asian law company where this company is and they got us involved.* *Because of the high level of confidentiality they needed to work with people they could trust and having worked with them before and visited their country in a business capacity many times I was approached.* *I was involved to negotiate all legal matters for the acquirer. This involved many negotiations and communications*	*We give them the information they need. What they ask for. Access to information. Of course positive information that will not come back to bite us. We want to make sure we disclose properly and fairly.* *We negotiate the terms of the agreement. We satisfy regulatory requirements with ASX, ASIC ACCC.*	*So we were responsible for financial and tax and to a degree IT in the DD and there were some elements not captured in this report. We generated three comprehensive reports.* *The reports were on everything that we considered important for the transaction from the aspect of financial, tax and IT. We had a large team up to 20 working on this for about three months. IT in particular was critical and we spent a lot of resources analysing this.*	*So my primary role is I like to coordinate a lot of the work going on within our company to support things like valuation by our investment bank to perform the assessment of whether the bid was at the right price compared to what we thought fundamental value was at. To support the DD exercise around financial for our CFO. TO assist with coordinating legal review of the contracts so that we could explain change of control issues, things like that.* *I spent a lot of time with the lawyers and our*

starts and stops is really on negotiation point, the process, the due diligence, the execution, getting to sign definitive agreements and announcement and then I guess we still involved until the deal was settled.	*with the lawyer for the target and also discussions with our client on the aspects of the transaction.*			*investment bankers along with our management team.* *The investment banker comes on board later. We do a lot internal before having to bring them on. Same with lawyers.*

Observations to answers on Question 2

The parties were clear on their individual roles and responsibilities. There was no mention by any of them on the role or responsibility of any other party on the due diligence team. Certainly, there was an impression that they did operate independently but also at times worked closely with the other advisors for their respective client. Certainly the process outlined by these parties was analysis and collection of data, information, valuation and legal documentation that would allow the decision maker to decide whether to proceed with the transaction.

The interviewees addressed the formal requirements or hard factors outlined in Boateng and Lodorfos's model in phase 1 at Table 8 above (Boateng and Lodorfos 2006). However there was no discussion of the cultural aspects as discussed by Lodorfos in phase 2. This approach by this due diligence team followed closely the traditional approach as outlined by Kissin (Kissin and Herrera 1990) and Collins (Collins, Holcomb et al. 2009). Operations, financials, tax matters and asset valuation were all being considered by this team. There did not appear to be anyone considering the soft intangible dimensions such as culture, as discussed by various researchers, as considered to be so essential in an M &A (Cartwright and Cooper 1995, Harvey and Lusch 1995, Weber Yaakov and Adi 1996, Angwin and Savill 1997, Angwin 2001, Cartwright and Schoenberg 2006, Angwin 2007, Barkema and Schijven 2008, Weber, Blkin et al. 2011, Weber, Rachman-Moore et al. 2011, Weber, Teerikangas et al. 2011, Angwin 2012, Weber and Tarba 2012, Weber, Christina et al. 2014, Volpe and Caiazza 2015). Despite the voluminous amount of research done on the importance of culture in M & A's, it wasn't considered at all by any of the professionals on this due diligence team other than some cursory observations made by members of the team that are qualified in other areas.

"While healing the profit of my counsel, avail yourself also of any helpful circumstances over and beyond the ordinary rules.

According as circumstances are favourable, one should modify ones plans.

All war is based on deception."
Sun Tzu. The Art of War.

3. Can you describe to me the ideal Due Diligence team to do the DD job well? In the process you were involved in did you think the appropriate people were involved and if not who was missing?

DD1	DD2	DD3	DD4	DD5
				
You would expect to have an investment banker on each side. Further each side would have a lawyer. We had an accountant firm advising us as well. Ideally you would have a specialist firm – an independent industry consultant – an HR consultant to analyse issues such as culture and develop a strategy. We did have such a firm involved for a short period who looked at organizational	*In general it was imperative that primarily confidentiality was maintained but at the same time the team members would access the required information from a DD perspective to satisfy themselves that they should actually proceed with the transaction. As a lawyer we understand the requirements to comply with the rules and regulations and this is a big part of what I do.*	*As a lawyer our focus is pretty narrow and we focus on legal risks, we focus on selling the transaction, locking down any shareholders and we are not really focussed on what the company is worth or how it should run after. That is up to others.*	*A CEO drives a transaction. In vulgar parlance it is what we call them being really horny for the deal. Strategy gets in the way. For example if the CEO says we are going to be number one or two in the market and you are currently number four then you have to buy three to become number one or two. Some CEO's will at any price effect an acquisition. Way over what*	*It is interesting. There are really two lenses. One is our sole obligation is to deliver or create value for our shareholders the rest of the register was open and so for all of those shareholders who would have nothing to do with our company going forward it was important to get the right share price for them and the right returns for them. The second lens is when you know or think*

culture specifically but not so much corporate or country culture. They assessed the management team on the target company but no strategy was formulated. However their involvement did finish fairly early. They analysed the supervisory board and management structure.			*is sensible value.*	*the deal is going ahead or you feel confident that the deal is going to go ahead you turn your mind to okay well what does this mean for our company on an ongoing basis? Putting the shareholder decision to one side and that is around what is the story for employees and other stakeholders such as Australian public, Australian Government, community.*

General Observations on Answers to Question 3

The investment banker did recognize the need at this stage to have a party considering culture. This was done by another firm for a short period but no strategy development was evolved. The lawyers, in particular the lawyer for the target company, were very clear that their role was limited to the legal aspects and the other aspects of due diligence was up to others. Compliance for them with Rules, Regulations and Agreements was their main and possibly only role. The accountant certainly had a similar view as the lawyers but added commentary, as did the senior management for the target company, that the M & A is driven by the CEO and the due diligence team is there a lot for compliance rather than development of strategy and advice on the soft intangible dimensions of the transaction.

"Hold out bait to entice the enemy. Feign disorder, and crush him.

Thus it may be known that the leader of armies is the arbiter of the people's fate, the man on whom it depends whether the nation shall be in peace or in peril."

Sun Tzu. The Art of War.

4. In your opinion what role do you think Culture consideration plays in the due diligence phase? Do you think consideration of culture at this stage is important?

DD1	DD2	DD3	DD4	DD5
				
My personal view is I think culture is incredibly important and I think there's a general recognition – its incredibly important and not only in the acquisition because culture was very obvious there because there was no real national culture issue and it was quite stark so you had to think about it. With cross border	*One thing to consider in this particular case that there is a significant cultural difference and business difference in the way in which things are done here and the way in which things are done there. So we actually spent a fair bit of time explaining to them as to what was required for them to do business here.*	*From our perspective it is not up to us to consider this.* *Culture is driven by CEO and board. It should be considered more at DD but it is not always important.* *Consideration of culture at DD phase will vary depending on the type of company. When we merged with an another law*	*We are building now in our firm "human capital practices" and I think the evolution of that will be not just helping clients with their management of their human capital but we lever off that into being able to bring in and use it on an evaluation of a transaction.* *So a lot of these human capital practices*	*We don't look at cultural compatibility or their intentions for the business in the future – any of those things they get shelved for the valuation for shareholders, it is literally just price and terms so……..* *If we were looking at a major acquisition though we would look closely at the culture. That*

acquisitions culture is extreme. And this will vary too depending on the culture of the country of the target and acquirer. You mentioned three types of culture. But just dealing with cross border issue, I think. *We know there is a difference in the culture of a company in Asia but we said we don't want to change it. We know there is a cultural difference and we're not going to escape that but we need to preserve the corporate culture that the target has.*	*Speaking from our point of view culture was uppermost. I have had the advantage of travelling there and met with lawyers in (Asia) over 30 odd years – so I am accustomed to there being a cultural difference. I am very mindful of this.* *It is not just a language thing. It is an understanding that the person you are dealing with in (Asia) might be a particular level but they report to somebody higher and that is hierarchical structure in some Asian countries.* *I do not know whether any one else considers culture important but it is something that is uppermost in my mind. It's about the cultural fit of an organisation and if that cultural fit is not*	*firm consideration of culture was very important. We considered "do we have similar values? How do they work, are they really one team, are they a bunch of individuals, how do they deal with their staff, how do they deal with their clients. Is that how we do it. Yeah, its very important.* *But with this transaction it is of a different type of business dealing in commodities and culture is not so important. If it is a product, a good, a commodity as opposed to a service then culture is not so important.*	*actually go how does the company deal with that as opposed to what is the company's HR strategy and how do they make sure that they are looking after all the things that they need to be.*	*sits somewhere between the hard DD on the legal side and the softer stuff around what is the actual culture here for a country representative and from you know our company that we are looking at buying doing business. We would look at the culture of the management team is like so will that culture fit in.* *If we were buying, say a company in USA the CEO is on $10M a year. How is that guy going to fit into our company? Our current CEO does not even earn those sort of dollars. This is an example of management culture around you know they are very performance oriented, very rem focussed, you know that it is all good and fine but we*

	right the merger is not going to work. Why? Because you take culture A and try to put it with Culture C and it just ends up with potential fighting. *To me if the cultures are not capable of being put together and developed then as one you have got not an acquisition, you have got a disaster in the making and it may not manifest itself for a year or two years but it will manifest itself.* *As a team you become aware of what is going on and you work with the accountant for example and s/he gets different stuff than us and then I ask "hey, are we in the same boat?".* *From a due diligence perspective culture is not given enough*			*would need to consider how that fits in with us.* *But if it is a Swiss company or a German company then it is different again. A German company is very processed. How is that going to fit into an Australian culture?* *Also with family businesses, say , in North America it is different again.*

	priority. You know it is almost like, just tick the boxes and that's all we worry about. *There were clearly cultural differences between the two companies. But that does not mean do not go ahead. Its where you have dysfunctionality as it were of such a nature that you don't believe that you can manage that then you say. With no strategy though it will not work.*			

General Observations of Answers to Question 4.

The views of the interviewees were actually quite strong in response to this question. DD1 and DD2 considered culture to be of extreme importance but *how* it was considered was still problematic. The lawyer for the target company (DD3) along with the senior management (DD5) suggested that culture was not so important but for different reasons. The lawyer suggested that that was not his role or position to consider it but in any event it was not important considering the type of company it was and what it did. However he said that if it had been a service company like a law firm then culture was extremely important. As far as management of the target company was concerned (DD5) the priority was creating value to shareholders and to them culture was irrelevant. Culture was only considered for those staying on after the merger, but it was still incidental and was driven by the acquirer firm. For the accountant (DD4) they had tried to "sell" their services based on strategy including culture merging but this was rejected. He certainly considered culture and human resources from their perspective from service offered was still inadequately considered and they were working on developing this area of their practice.

"Sun Tzu said: In the practical art of war, the best thing of all is to take the enemy's country whole and intact: to shatter and destroy it is not so good. So too, it is better to recapture an army entire than to destroy it, to capture a regiment, a detachment or a company entire than to destroy them."
Sun Tzu. The Art of War.

5. What do you think could have been done better in the due diligence phase in your transaction? Is this as a result of pressures of time, resources or other reasons?

DD1	DD2	DD3	DD4	DD5
				
Just in terms of culture being important in a transaction, I can't say it enough, I think the idea of merging two organizations that have very different cultures just because you see financial benefits to doing that, unless you deal with how those businesses are going to come together in a corporate culture sense your just never going to get an	*A good example is the accountants were having trouble aligning the information they were given form the management reports with what was in the published reports and we were having some difficulty in getting information on a broad range of areas because there seemed to be a reluctance to disclose. This in itself indicated to me there were*	*Not much. We act for target company. So the result is satisfactory. Confidentiality was important and paramount in this transaction.*	*I have been doing this work for a long time. We always make sure we tick off the numbers, we always make sure we tick off the legals. If there are technical aspects to the business, it is a mining business or an insurance business, you bring in the right technicians to tick off the technical aspects of things but it is almost never*	*Nothing really. We achieved a good outcome for our stakeholders.*

ideal outcome. You are never going to get the synergies you are expecting, or the merger benefits, short term and longer term So I think culture is very important. I think people pay a bit of lip service to culture so it comes up a lot and its come up a lot more in the last probably 5 to 10 years as being central part of an M & A strategy culture. However it is not always planned for well. *Culture is not often the thing that stops a deal but it is often the thing hinders the success of it.* *People have the impression they can handle the cultural differences and it gets ignored. They believe they will manage the business to perform and crash through the culture*	*issues in their management and reporting systems.* *It was tricky dealing with so many external forces too such as unions and some of them very aggressive. A level of dysfunctionality became evident and it made the deal more difficult.* *We were taken through a presentation by the CFO and by the Company secretary and the in house lawyers and so forth and explained a whole range of things. You know your radar goes up or your antenna goes up and you go no, hang on a minute, that what he said but he didn't way that and he sort of said it but differently. There is a disconnect between the three. Is the disconnect*		*the case that we say you know what is the company's major asset and outside of really heavy capital in terms of business, most company's major asset are its people. We never really get into that. To me it's just been a bit of a gaping hole in the way that transactions have been approached.* *What a lawyer does or a technical person does is very definable, its black and white. If you are thinking about culture and you could ask any CEO explain your culture you would get the usual go and look at my vision statement. This has not been pinned down on culture in a way that you can really assess DD is, I think, that nut has not been cracked.*	

point.	*important? Yes.*			

Observations on Answers to Question 5

"Culture is not the thing that stops the deal but is often the thing that will hinder it being successful". As Hopkins stated (Hopkins 1999, p. 224) "You really have to do more than adequate due diligence. You have to do an incredibly in depth due diligence……but if you can't do the due diligence adequately then my view has always been to recommend to a client to walk away from the deal". Perry and Herd concur, stating, "Ensuring that an acquisition is a good fit, not just on paper but as an integrated business calls for going beyond performing traditional financial due diligence to performing a detailed value assessment. We call this a pre-assessment or improved due diligence." (Perry and Herd 2004).

This theme was embraced certainly by the investment banker, one of the lawyers and the accountant. This also illustrated the division of the due diligence team quite clearly in this respect. The acquiring firm due diligence advisors considered it very important. The target company advisors did not consider it important at all in the due diligence process. The former group were quite keen to emphasise the importance of culture whereas the latter were dismissive of it and its importance. It is important to note here the pattern that was observed. The culture of the target firm as considered by the acquirer firm was considered important but not the other way around. This concurs with the theory of Jeffrey and Thomas (Jeffrey and Thomas 2004) who stated that it is imperative to consider the culture of both firms. Otherwise there is no opportunity to see how they will be able to be assimilated or combined.

The comments of the acquirer members of the due diligence team showed excitement and they were emotional about the importance of culture in the transaction. There was some commentary also about the relevance and importance of culture of the people involved in the actual due diligence process – not necessarily the acquirer or target companies themselves. This can affect the due diligence process and is an aspect that was not contemplated would be important in the due diligence process. However from the responses it is clear that in particular on a cross border acquisition this can be extremely important and if not handled well can hinder the transaction. For example the need for confidentiality, as mentioned, was very important. Some close thought had to be given as to where and when meetings would be held so as not to raise any suspicions or interest from outsiders.

" When there is dust rising in a high column, it is the sign of chariots advancing: when the dust is low, but spread over a wide area, it betokens the approach of the infantry. When it branches out in different directions, it shows that the parties have been sent to collect firewood. A few clouds of dust moving to and fro signify that the army is encamping."
Sun Tzu. The Art of War.

6. What things are not considered well enough to ensure the DD process is thorough and comprehensive?

DD1	DD2	DD3	DD4	DD5
				
We are corporate financial advisors. We do not have the credentials to consider culture. I would have liked to have seen an expert in such things involved and for a long time developing strategy and assessing the impact. The culture must be assessed by the people who are living the existing culture and have an appreciation for	*We found that there are things that we could have done from a cultural perspective a lot earlier which we did not do. Even translating documents was a problem. In their language the meaning was different after translation.* *The incongruent nature of information became evident. The company appeared dysfunctional. Too many*	*Nothing to offer to this question.*	*Gates. The first gate is preventing us getting access to any information. You have no access to the target. With a public company this is okay but with a private company there is nothing to look at.* *Then you approach the target with a non binding indicative offer that opens the next gate with limited access to financial*	*From our perspective as target company nothing really.*

the culture of the target company. Ie the CEO, the board and management team. *I have never seen a culture expert be involved in a DD. Who is qualified to do this?* *Time and money and in this case need for confidentiality restricted the numbers involved.* *No one looks at aspects of corporate culture at all like vision statements, web sites.* *Ideally we would have had more time and more access to information.* *We would have also liked to stay involved in strategic aspects after the merger. But this rarely happens.* *In my opinion the biggest*	*sections and sectors. Profit was coming from sales of assets – not from operations. Reports were light on and light handed and you would go, hang on a minute, that is not a good thing to have going on in a company.* *We could fly in plane loads of people and say check everything. You have to ask "why are you buying this?". And then address that reason. Things can get missed.* *Time and numbers of people affect DD. Instead of 5 we could have had 20 or 100 and taken 12 months.* *I am passionate about consideration of culture. I am on public boards too. I have sat in boardrooms and that sort of thing as a director and proposals have*		*information and the management team, tax information, IT information.* *Go back to the client, the client is still interested and wants more information. So we go back and ask for more. Next gate opens. We are getting access now to CEO's of each division an their numbers man. We are now meeting head of IT, head of tax, and we are getting information through a data room. Not getting everything we want but we did what we could with that. In a private treaty transaction information is more limited.* *Culture in the transaction itself was interesting. The client would come down and see us then go back home. Then my counterpart*	

reason for failures of M & A's is a lack of appreciation for the challenges in merging two organisations and realising the synergies so this happens most with strategic acquirers	*come forward and we've endorsed the proposal and the bloody thing has fallen apart and the reason why its fallen apart is one is that the cultural fit was not there. In the initial DD someone should have worked out that there was significant cultural conflict and that will take a long time to fix and that also too potentially the management was not up the task as well as we thought. And a lot of that is about culture. Culture is about people and how people interact and you know what are the norms within the organization, what are the standards within the organization, is the organization used to paying corruption payments or something of that or facilitation payments or*		*would ring me saying the client wanted this and I'd say to her have you asked him why and who would say "no. He want.". I would then ring the client and ask are you across this? He would say "jump" to our partner in Asia and they would say "jump" to us. Then I would say to them "I need to know whether it is a long jump or a high jump or a triple jump and by the way my recommendatio n is that we go down this path and the reason that we do it is because…". Then the client was happy. So our own partners and us were on different pages.*	

	something of that nature of providing tickets to the football. They are the sort of things you need to burrow into and go hang on a minute this isn't an organization that is built on normal business principals – its organization is built on something totally foreign so we should not be touching it. This does not happen.			

Observations to the Answers to Question 6

Again, a division into two groups as happened in question 5 answers evolved here. The advisors for the acquirer were quite passionate and verbose about the need and importance of consideration of culture at the due diligence phase. The advisors for the target company were not.

It was the view of the investment banker that no one considers culture appropriately at the due diligence phase. This was leaving the transaction in peril of failure as the due diligence was incomplete. The lawyer for the acquirer was also quite passionate about consideration of culture. "Culture is all about people - the people in the firm. If you do not consider it you risk the whole transaction failing."

The accountant was similarly passionate about consideration of culture. All three advisors for the acquirer appeared frustrated that culture was not addressed adequately, properly or thoroughly and no one was appointed on the due diligence team to do so. As mentioned above, the accountant had tried to sell their services on provision of strategy of the

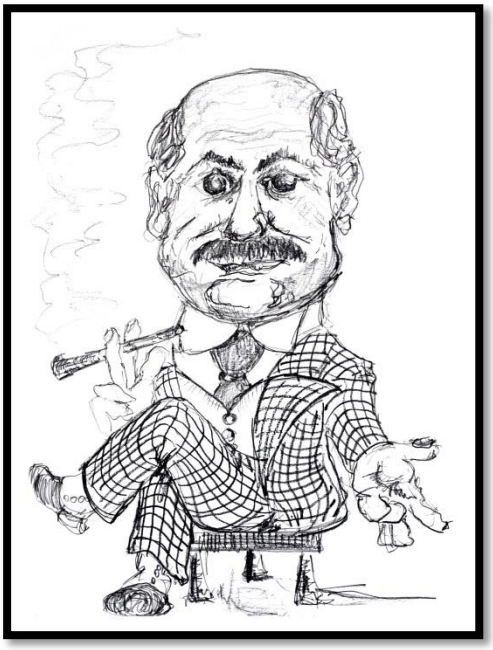
assimilation of the two firms including providing comprehensive strategic advice on aspects of culture but was “shut down” in this respect.

These three parties however had different views on their ability to consider culture. The investment banker believed he did not have the expertise to consider culture, the lawyer believed he could consider culture because of his many years of experience in M & A’s and “you get a feeling on a transaction”. Finally the accountant believes his practice is and has developed the skills to properly consider aspects of culture and provide a strategy on assimilation of the culture but was not commissioned to.

The lawyer for the target company was consistent in saying it was not his role to consider culture and from his perspective an adequate job was done on the due diligence. The senior management of the target company said initially culture was not considered but then once the shareholders were satisfied then culture, especially for those staying on in the merged firm, it was very important and needed to be considered but was not done so adequately.

4.4 Other Relevant Comments and Observations

Interviewee 1 - DD1



Interviewee "There did not seem much resistance from the target? Why was this?

DD1 "I think that was a function of a fairly strong price. Yeah, so it was just shy of 50% premium. In most M & A's you typically would see a range from 30% to 40%. This was at upper end"

"Markets are always more focussed on short term than they should be. Shareholders are focussed on one thing. The numbers. My experience of people dealing with culture is that it does typically come down to the CEO and the direct reports, having probably some historic experience with the counterparty and having a view on the culture of their organisation and the culture of ours and if their competitors – sometimes that view is not necessarily favourable……. Culture is not often the thing that stops the deal happening but it can be the thing that hinders the success."

"So numbers will stop a deal from happening, if the valuation does not stack up and the analysis does not show. Why? Because I think people have the impression that they can manage it and they can work around it and it its being led by a strong team then they will manage the business to perform and they crash through the culture point."

"There are not people who are dedicated to thinking about it in a transaction. Yes it becomes something that is a topic (culture) and the advisory team and the management team

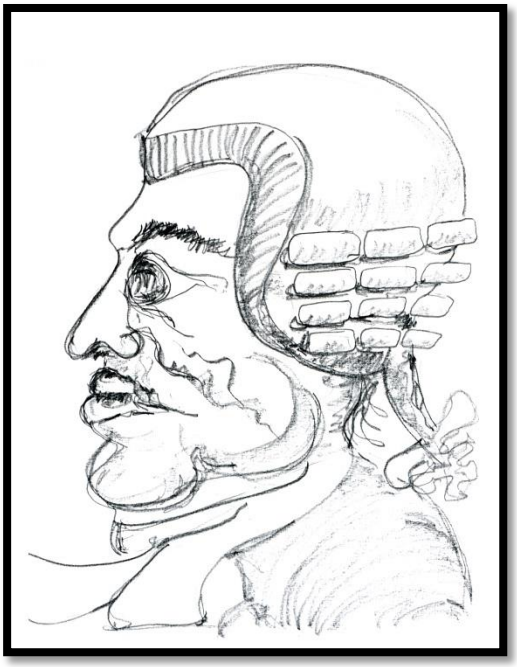
talk about it but there is no one who really is allocated as the person who has to think and opine on the culture. There is no culture person, there is an accountant, there is a legal guy, there is financial advisor but there is not a culture person. Who do you appoint though who is qualified in this? There is not much appreciation of culture although we do have a better sense of culture than an outsider".

General Observations

DD1 did try to address the issue of culture and how it is and is not considered at the due diligence phase. It certainly concerned him but he was not sure how or who could address it and whether the acquirer management team would want it anyway as they believe they can tackle it later.

Certainly DD1 believed that culture was important but he did say he had never really been involved in a due diligence process where culture was considered properly in the due diligence team. So from a practical perspective there is a large difference between the process of culture consideration at due diligence phase, the importance of culture in this phase and the total lack of consideration of it. Theories such as those expounded by Boateng and Lodorfos in the phases of a due diligence process are just not followed in reality (Boateng and Lodorfos 2006). Research, stressing the importance of culture consideration, is just not adhered to at all in practice.

Interviewee 2 - DD2



"The premium paid was a function in being able to ensure that, how do I put it, that one, that confidentiality was maintained but secondly that there was sufficient access to information from a DD perspective to satisfy themselves they should actually proceed with the transaction."

" You know like I have a saying, you know it's the most expensive words in the English language 'we've always done it this way' and you will have the people over here will be saying no we've always done it this way whereas the acquirer says no you've now got to do it differently. So unless you've got a willingness on the part of those that have been acquired to adapt and to innovate and to change you've got a major problem on your hands. And to me the way to actually understand the culture of an organisation to get sort of the pulse of that is to read things like the Directors board papers, the Directors minutes, what are the policies, what's the sort of overall management structure, how does that management structure operate in a practical sense - that's how you get to a point of understanding as of we're of the culture. And in this particular case because of the cross border aspect there's then been an education piece now with the people in Target Company now that they've been acquired as to how they interact with the (sic Asian people)."

Who drives it? Is it the CEO?

*"As an advisor you just advise. THE CEO and management make the decisions. "**The fish rots from the head".***

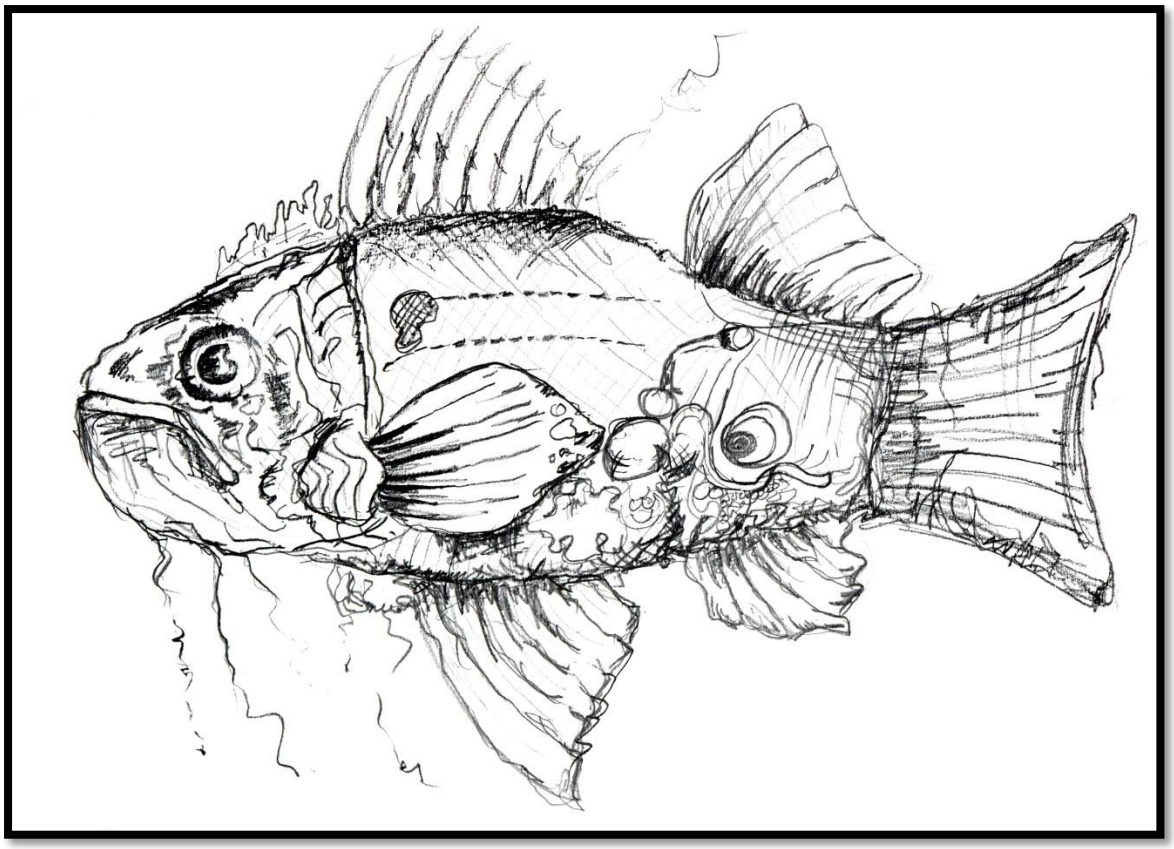


Figure 13 - Does the Fish Rot from the Head?

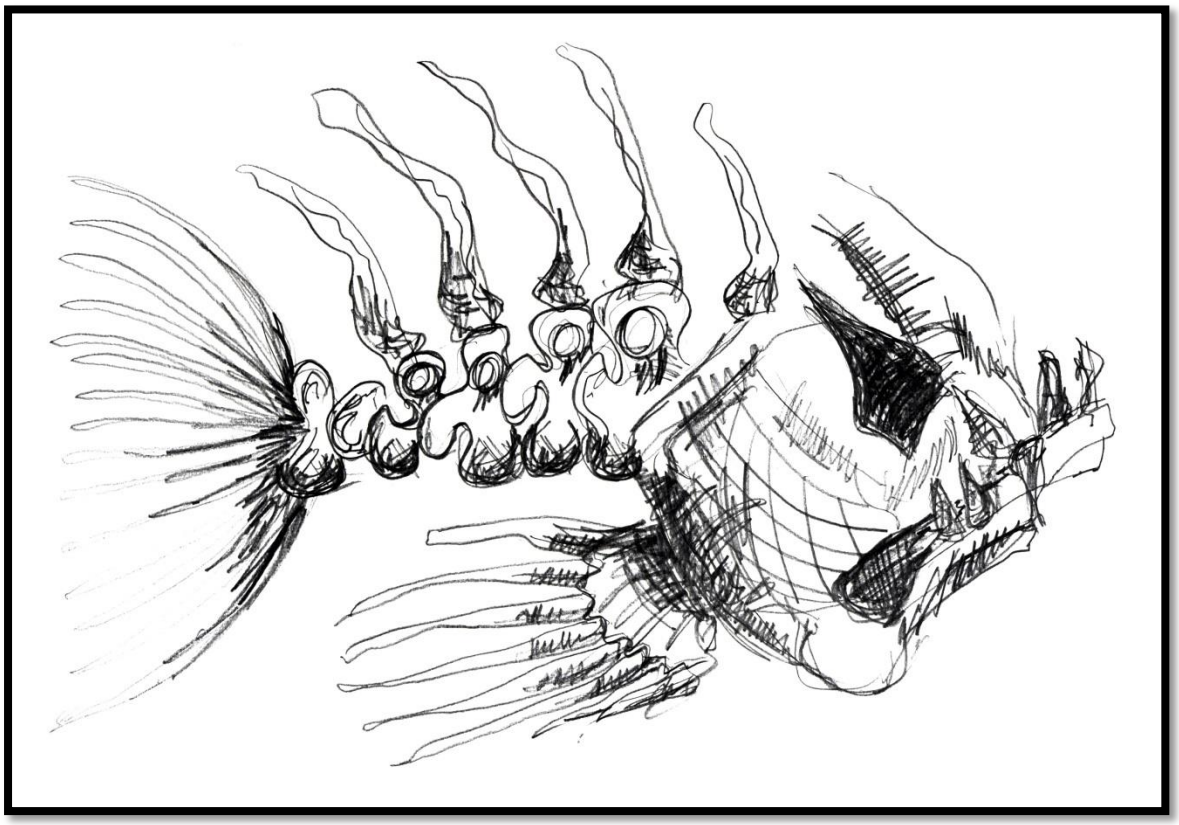


Figure 14 - The Rotted Fish

"You know that where everything gets driven from. Yes, its the CEO and the CFO you have got to understand those. In the past I have said to a CEO you have got rocks in your head but they did not listen. They would say " No, I understand that, but what I will do is I do this this and this" I say " yeah be careful because that may not work." They do not listen.

By the time they see you they have already formulated an opinion they want to go ahead?

"*So when they come to see you they have already got a mindset to go ahead and do it that is exactly right"*

So they are seeing you just to tick boxes?

"*That is right!. No that is exactly right."*

Observations

DD2 had the view that the whole DD process was somewhat flawed at times. The process was being driven by the CEO who had made up his or her mind and the members of the DD team were there merely to tick boxes to justify the CEO's decision. At times there is an element of hubris present with CEO's and blindness to the reality of the transaction and its pitfalls. They just want to do the deal for their own cudos, benefit, reputation and satisfaction. Often times there is a sense that the due diligence team is merely ticking boxes in order to support the decision that has already been made by the CEO. Certainly in the opinion of DD2 he has come across, on many occasions, CEO's who have exhibited an element of hubris (Roll 1986) and he definitely concurs with theorists who propound this (Sharma and Ho 2002, Garrow 2012). This hubris, narcissism and ego which is sometimes present in the CEO will inhibit the ability of the due diligence team from doing a meaningful job beyond "ticking boxes" to support a decision of a CEO and senior management that has already been made.

His view was that culture was not considered appropriately at the due diligence stage and this only leads to problems later. He uses his wealth of experience and instinct to detect whether there are likely cultural issues that will cause problems once the merger or acquisition has been finalised.

Interviewee 3 - DD3

Observations

The lawyer for the target did not believe that culture was a relevant part of a due diligence process at all. He certainly when working as a lawyer consultant to a client adopted the traditional role of due diligence where only those functional hard tangible matters that are quantifiable are important in the due diligence process (Kissin and Herrera 1990, Collins, Holcomb et al. 2009).

However on being questioned on his firms recent merger with another law firm, his view was completely different. They went through a thorough process of analysing the culture of the other firm, looked at their core values, their vision, their mission statement, their personnel. He adopted the more modern approach to due diligence propounded by certain theorists that has as an essential part of due diligence consideration of those soft intangible unquantifiable factors (Cartwright and Cooper 1993, Cartwright and Cooper 1995, Angwin and Savill 1997, Angwin 2007, Barkema and Schijven 2008, Angwin 2012, Volpe and Caiazza 2015). All of these things, he said, were essential in deciding whether the merger would work and concurred closely with Weber's approach in regards to the importance of culture (Weber Yaakov and Adi 1996, Weber, Blkin et al. 2011, Weber, Rachman-Moore et al. 2011, Weber, Teerikangas et al. 2011, Weber and Tarba 2012, Weber, Christina et al. 2014). i.e was there a cultural fit?

However again being asked about the current transaction, he said culture was not important particularly as this was a commodity and logistics and I.T. that was being merged. Therefore

culture was irrelevant. This was an interesting insight in his view of culture when acting as a lawyer compared to when acting on behalf of his own firm with a merger with another firm. Using his words, "We only have our brains. Culture is important in that instance".

Interviewee 4 – DD4

Observations

Where does culture consideration sits in respect to your view of this transaction?:

"Yeah, well I would have thought the cultural bit would be right across everything. It would basically sit everywhere. It would be pervasive, absolutely pervasive, because we have not got on here how am I going to integrate these businesses. Am I going to integrate them and how am I going to integrate them but the integration, how you approach that, that becomes the key to culture. It is interesting because we sold an engagement around integration to our client and it got shut down reasonably quickly which does worry me a bit about – it's what I said before – about where do the client see this into the future and so on, so it does worry me a bit. My view is they have not done this on this transaction. Nobody's done this."

Sometimes it is viewed as too expensive to call in all the required experts in every functional area of an M & A, to render an opinion (Heame and Dean 1989). Sometimes time restrictions play a part in cutting short, literally, analysis of the target acquisition in a proper and timely manner (Crisafio and Schliebs 1989). As Hopkins stated (Hopkins 1999, p. 224), "You really have to do more than adequate due diligence. You have to do an incredibly in

depth due diligence……but if you can't do the due diligence adequately then my view has always been to recommend to a client to walk away from the deal". Perry and Herd concur, stating, "Ensuring that an acquisition is a good fit, not just on paper but as an integrated business, calls for going beyond performing traditional financial due diligence to performing a detailed value assessment. We call this a pre-assessment or improved due diligence". (Perry and Herd 2004). DD4 agrees with the theorists in this respect. A proper due diligence on all aspects should be done and if it is not then the M & A should not be considered. He was frustrated though in that he recognised this and offered this service but the acquirer firm "shut us down" straight away on his proposal to formulate strategy and consideration of the soft intangibles like culture. In his opinion the stumbling block in consideration of culture is commonly the CEO and the management team of the acquirer company.

"The CEO is driving the transaction. They are 'horny' for the deal. There is an element of ego and possibly hubris sometimes there (Roll 1986, Garrow 2012). Sometimes strategy gets in the way of the CEO."

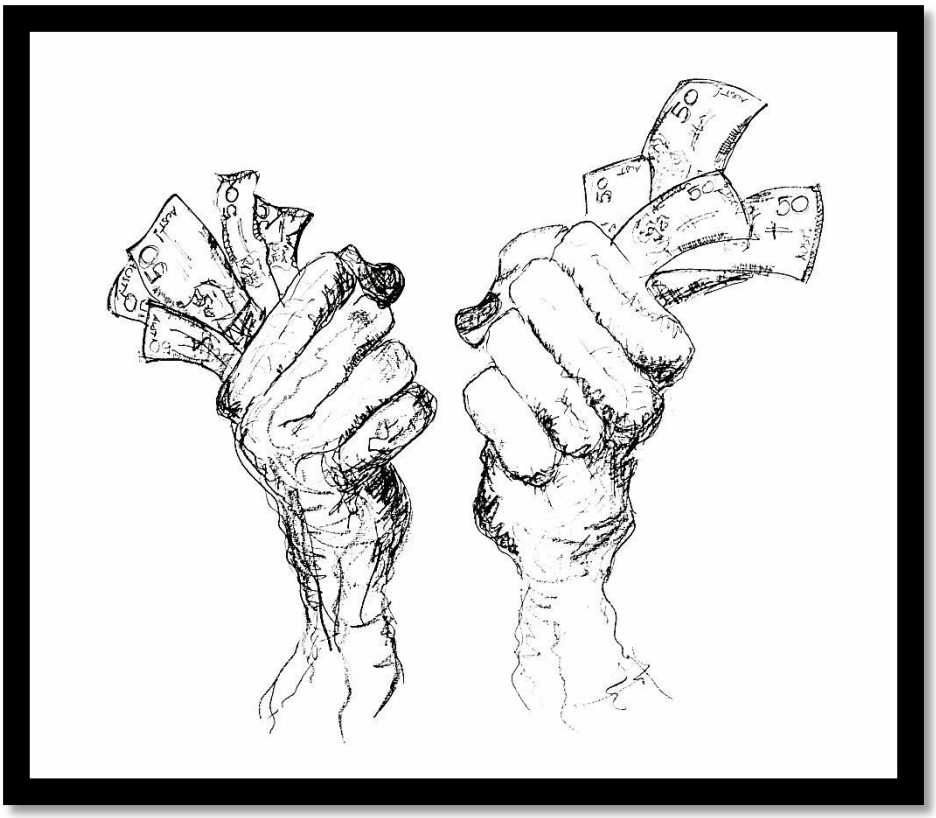


Figure 15 - The Hands of Greed

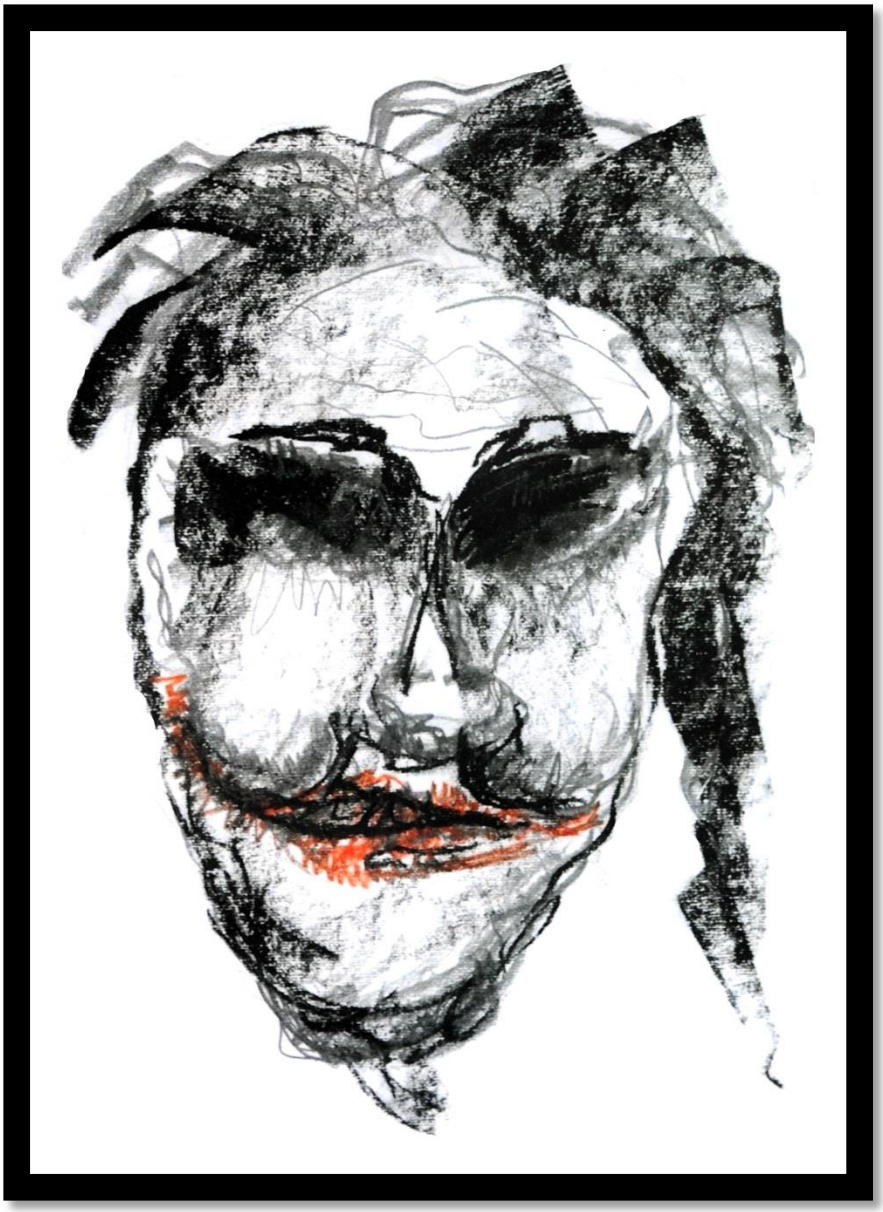
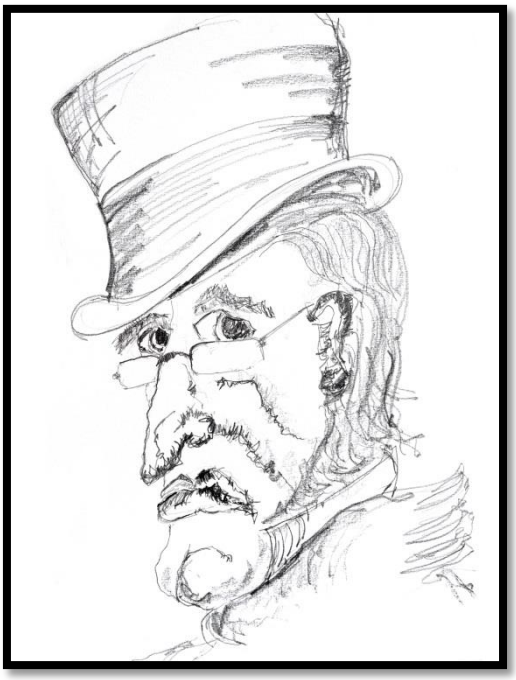


Figure 16 - Hubris

Figure 17 - Hands of Greed and Hubris

Interviewee 5 - DD5



Observations

The senior management for the acquiree did not place much importance in this particular aspect of the transaction initially. Their primary responsibility is to the shareholders and with such an attractive offer on the table it was then up them to provide information to the acquirer so that they would be encouraged to go ahead with the transaction.

The acquirer made the conscious decision to leave much of the management structure of the target company in place. The CEO was retained. However the board of directors was overhauled.

The target company had made numerous acquisitions of recent times and many of them were in foreign countries. When purchasing/taking over the attitude towards culture is much more important and relevant.

The interviewee, when asked about their investment advisor, did make the comment that it was definitely beneficial for the investment bank if the deal proceeded. There was a question whether this clouded the judgement of the advisor who may have been more focussed on a completed transaction which was much more lucrative for him than a transaction that did not proceed. The investment banker's fees are usually based, then, on the successful completion of a transaction. DD5 made the casual comment that a successful banker would make enough to warrant a new sports car which inspired the following series of three sketches. As stated in

the methodology utterances that spill beyond the structure are important and are even sometimes the key to understanding the interviewee's answers to the structured questions (as cited in (Leavy 2014, p. 285). This is an excellent example of such a finding.

The first sketch being the DD team on the way to carrying out due diligence, riding a bicycle. The second sketch the team of professional advisors are joined by the CEO at the boardroom table. The third sketch is of the due diligence team leaving after a successful transaction, riding in a new sports car.

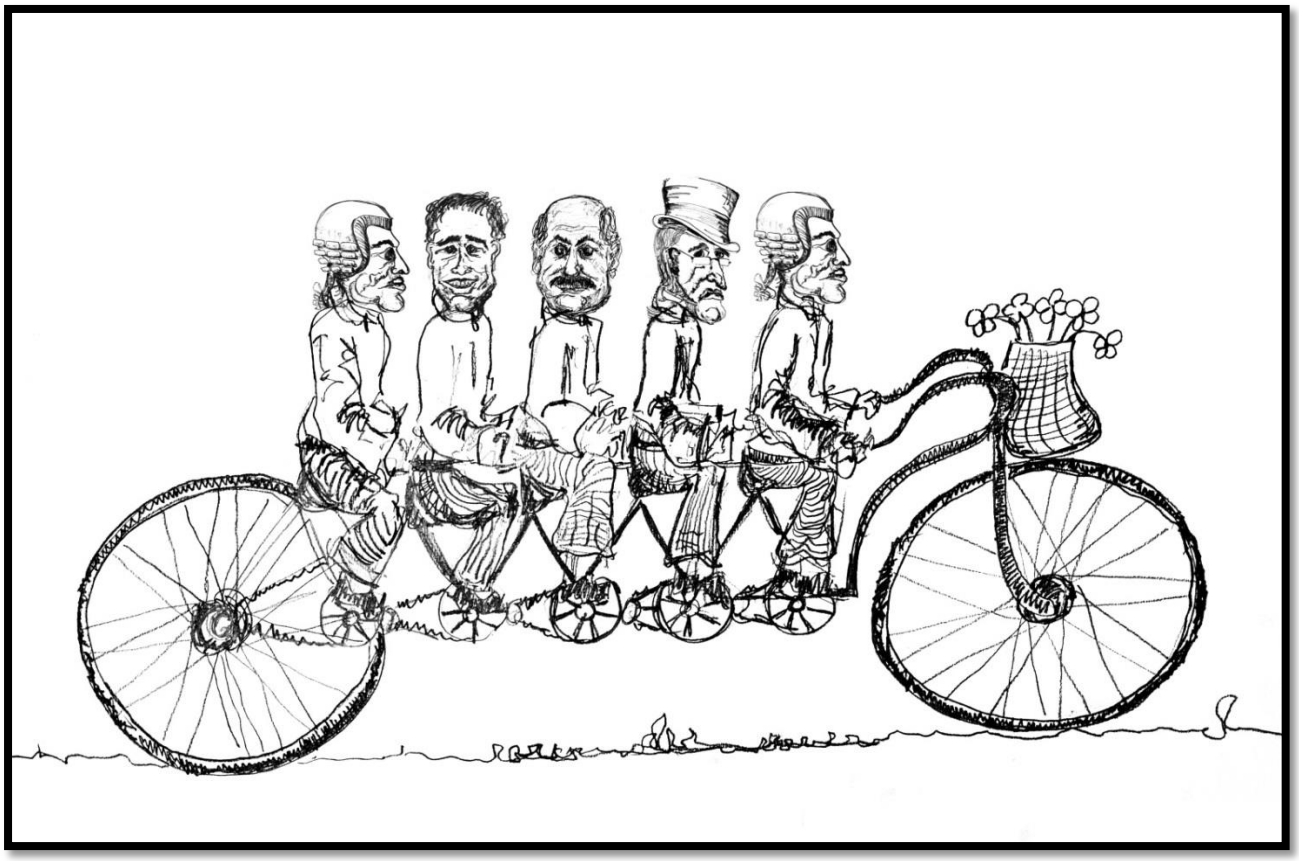


Figure 18 - The Assembling of the Due Diligence Team

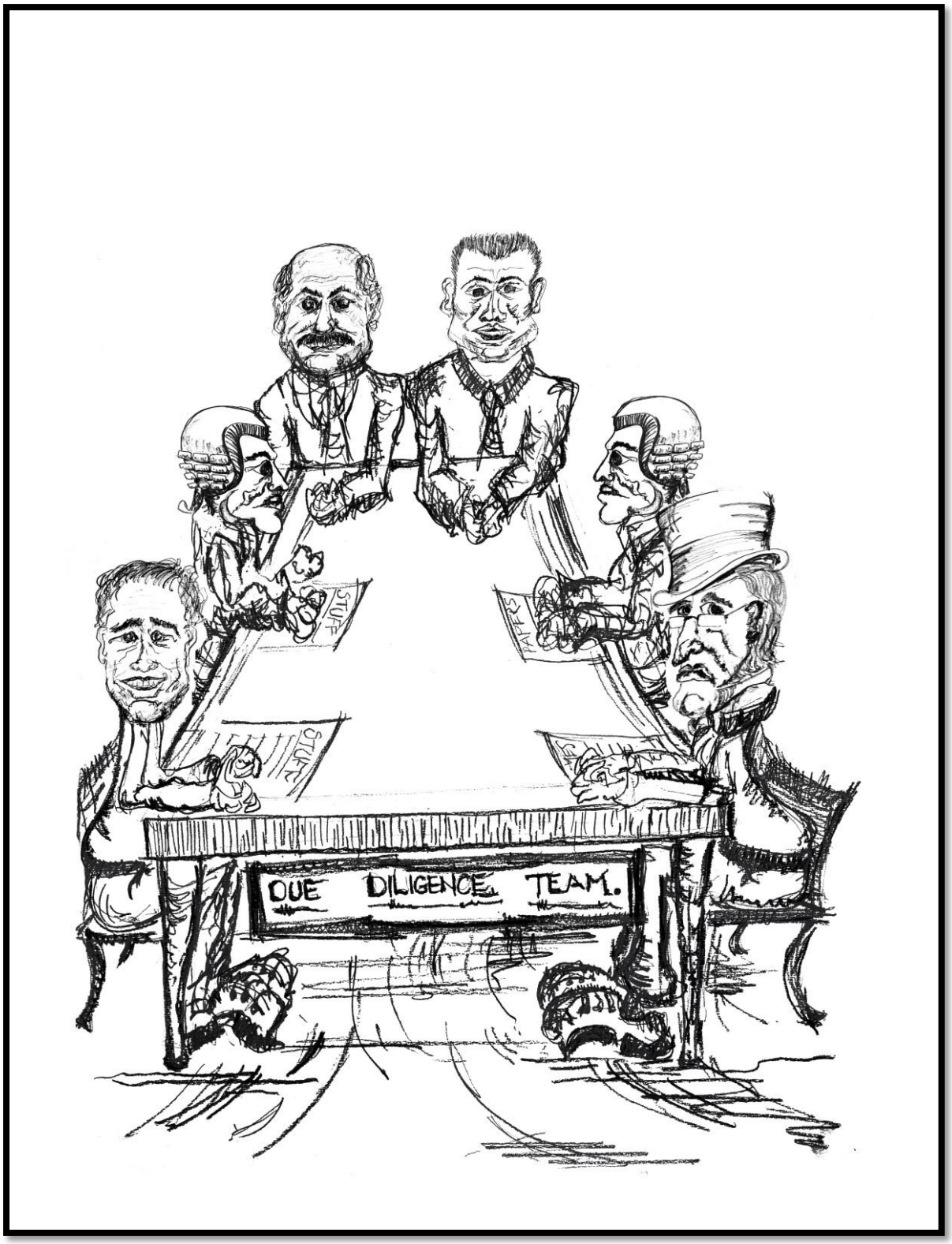


Figure 19 - The Due Diligence Team Doing Their "stuff".

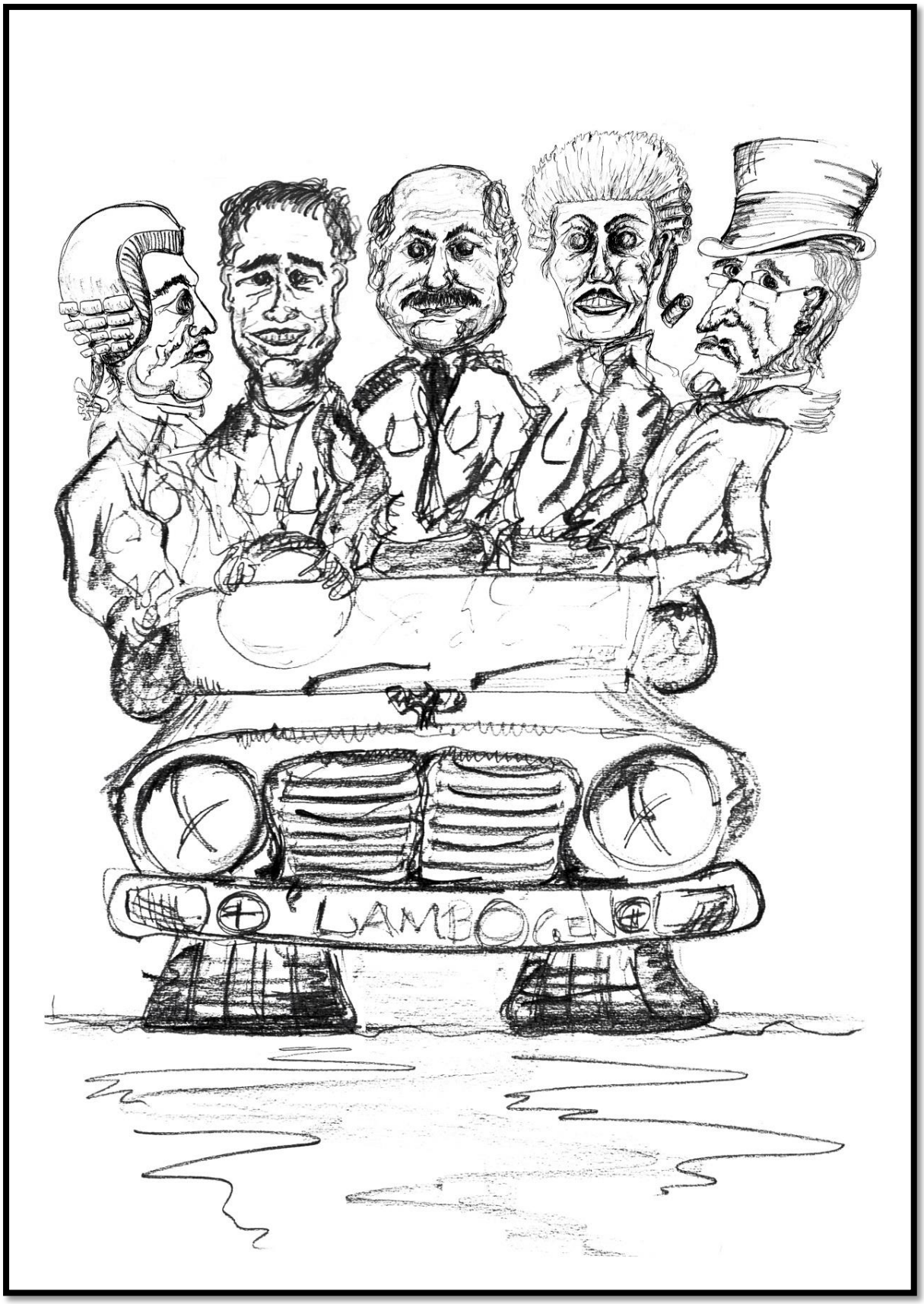


Figure 20 - DD Success and Transaction Completion - The Lamborghini is Better than the Bike.

General Observations

The consensus of most of those interviewed was that culture was very important aspect of M & A's. Without consideration of culture which may be incompatible, the merger will fail now, in a year or three, but it will fail. This concurs closely with the views of modern scholars already mentioned in this section regarding the importance of consideration of culture (Weber Yaakov and Adi 1996, Barkema and Schijven 2008, Weber, Blkin et al. 2011, Weber, Rachman-Moore et al. 2011, Weber and Tarba 2012, Weber, Christina et al. 2014). The majority agree, at least in some mergers or at some time of an M & A, that culture should be considered. Ideally it should be considered at the due diligence phase. Not after the merger has taken place (Horwitz 2002) . However, it is not done. Neglect consideration of culture at the due diligence phase will most likely result in an incompatible marriage of two companies. There has to be strategy to merge the culture evolved at the due diligence phase. Without a strategy for assimilation even compatible cultures are likely to merge poorly.

All interviewees knew their specific roles well. It was important, however, to recognise the different approach of the advisors of the target company compared to the advisors of the acquirer company. There is strong view amongst the interviewees that culture (all aspects of culture) is more important for the acquirer company. Does the culture fit? Does the firm have the same views, ethics, visions? How will the incumbent management team combine with the acquirer team? For the target management team and advisors the role was completely different. This however is inconsistent with the theory that the purpose of considering culture is to then be able to ascertain whether the culture of the two firms are compatible in order not to hinder the success of the M & A. Further, human resource management, which is part of organisational and corporate culture is an oft neglected area in due diligence and in strategic analysis (Faulkner, Ptikethly et al. 2002, Horwitz 2002, Kakkonen and Antila 2008). In this respect the interviewees agree that it is neglected and should not be so as it is important for the likely success of the transaction.

Analysing the culture of only one firm is inadequate and does not provide the information necessary to see whether the two firms will be compatible in this respect. Such a traditional due diligence process is ignoring an examination of the acquirer company as well. Improved due diligence practices have been considered to reduce the incidents of M & A failure and this includes an examination of the culture of the acquirer company as well. It is not possible

to look at a strategy of culture assimilation or compatibility without considering the culture of the acquirer company as well (Jeffrey and Thomas 2004).

From the target firm advisors perspective the main issue was whether the offer was worth considering and was it therefore good for shareholders? This was first and foremost. Culture was irrelevant initially which in itself was interesting in that the management team who were considering the offer were likely to be working with the acquirer company after the completion of the transaction. It was only considered once it was established that the deal was good for shareholders and enough information was provided to support the transaction proceeding. Then, though, the focus shifted to the likely roles and responsibilities of the incumbent management team of the target company with job security being the main concern. But still there was limited consideration of culture of the target company at this stage and how this would assimilate with the acquiring company.

The attitude of the target company's advisors was that culture was not their issue at all. This was a price driven transaction and the most important stakeholder being the shareholder was in some respects the only concern in the M & A. There is no doubt that a significant premium was paid for the target firm and this ensured two things being confidentiality and provision of information to the acquirer company so that they can make informed decisions. However the information was limited to the traditional style of information sought in due diligence. This is inconsistent with the need for proper analysis of all aspects of culture of both companies involved in the transaction to increase the likelihood of success after the M & A proceeds. Such limitations on the due diligence impair the quality of the process (Horwitz 2002, Aguilera and Dencker 2004).

An external human resources advisory firm had a cursory involvement according to the investment banker. However, no one was sure what they had done or what their role was. The accountant had sold his firm's position to the acquirer based on developing strategy for the successful merge. They were "shut down" on this aspect. The investment banker stated he was not qualified to consider culture and the acquirer's lawyer was going on gut instinct for culture consideration based on his many years of experience. Human resources consideration is an element of organizational culture that should be considered in due diligence but oft is not. Ignoring it the acquiring firm does so at their peril and risks an increase in likelihood of failure as a result (Bijlsma-Frankema 2001, Bower 2001, Antila 2006, Boateng and Lodorfos 2006, Budhwar, Katou et al. 2009). Despite the view of these

many scholars it is clear from the interviewees that no analysis of human resources was carried out at all.

Understanding of culture and its three areas by the interviewees was limited. In this respect due to the approach of the interviewees, in the results and observations of this study there has not been an attempt to differentiate in the interviews between the three types. As stated by, in particular Cartwright and Cooper and also other scholars (Cartwright and Cooper 1993, Cartwright and Cooper 1995, Stahl and Voigt 2008, Marks and Mirvis 2011) culture is an integral part of an organization and that culture is to an organization what personality is to an individual. Ignoring this is done at the peril of the two company's future. Financial benefits anticipated from M & A's are often unrealized because of incompatible cultures. (Lodorfos and Boateng 2006, p. 1407, Fralicx and Bolster 1997). Despite this, culture was clearly not considered by any of the team in the due diligence process with views that it was either not their job, not important, did not understand it or not sure who should be considering it.

Another theme that was consistent in the interviews was that the due diligence team in some respects felt like they were "ticking boxes" to support and justify a decision that had already been made by the CEO and team of the acquirer. All agreed that if there was a culture issue discovered and then presented to their client this would never prevent a transaction from going ahead. However an incompatible legal position or document or a valuation that did not stack up or hidden financial issues, and ultimately the price being paid, would stop an M & A immediately.

Most of the interviewees acknowledged how important culture is in general in most M & A's, despite it not being considered at due diligence stage. This ranged from being considered so essential that ignorance of it would result in a guaranteed failure, to culture only being important if the business was based on people – not a commodity. However even with a business based on a commodity, systems and product are important but every business has culture in the people running the business and how, " things are done around here".

It is worth noting that in this transaction the acquirer was paying a 50% premium to the then share market value. This is in excess of what you would expect to see in an M & A. According to the interviewees a premium is acceptable and this may be for a variety of reasons. It may be from expected synergies arising from the merger right through to mere speculation of the open market that M & A's will add value particularly to the target company. However, it is usually in the vicinity of 25% to 30% of market value.

In summary the role of the due diligence team is somewhat confused in respect to consideration of culture. The members of the team certainly carried out their tasks diligently and with expertise. One begs to ask the question though what was the purpose of the due diligence team?

a. Certainly the legal requirements need to be satisfied, particularly in a cross border transaction which requires further government approvals for a foreign investor for example.
b. The accounting generated informative and comprehensive financial, taxation and IT information and reports.
c. The investment bank for the acquirer facilitated the procedure for the transaction to go ahead.
d. The senior management for the target certainly did what was required to ensure the deal was considered favourably by the acquirer
e. The investment bank advisor for the target was not interviewed but was there a view by them that the deal should go ahead to ensure high fees for themselves or should it go ahead on its merits?

No one of those interviewed considered any aspect of culture in this transaction. Certainly the due diligence team have expertise that would allow them to take on board aspects of culture and in some respects they were forced to do so. For example, national culture dealing with overseas due diligence members was at times problematic. However, this is not really consideration of culture of the companies themselves, involved in the merger.

Some members of the team clearly believed culture, whether it be corporate, organisational or country, should be considered but had no idea who should do it. Two of the interviewees stated they had never seen an expert be briefed specifically to attend to and address cultural aspects of a transaction during the due diligence phase. However as stated above in the literature review the incompatibility of culture is so often blamed for the failure of an M & A. Why is culture (any aspect of culture) not considered at the due diligence phase? Members of the due diligence team did not have any answers to this perplexing question. And with so many M & A failure blamed on lack of consideration of culture this becomes even more perplexing.

There was also much discussion from the interviewees as to what the role of the CEO and senior management of the acquirer is. They were involved in the due diligence process. However the opinion of the interviewees was that they had already made up their mind the transaction was to go ahead and the due diligence team was attending to "ticking boxes" to support the decision they had already made. As to what is driving the CEO and management team there was suggestion that there was an element of hubris involved and to use one member's term the CEO was "horny" for the deal. As stated by Roll in his paper entitled Hubris Hypothesis of Corporate Takeovers, CEO's exhibit this hubris which inhibits the consideration of anything that is of importance in the due diligence process (Roll 1986).

Was the CEO and his/her management team making decisions with the right motives? (Garrow 2012, Sharma and Ho 2002). The members of the due diligence team were not there to question this but there were certainly comments that the motives may be driven by the wrong forces at times. Whether that be the presence of hubris, desire for self-profit, personal ego to leave a mark on a company while they were the "captain" all of these things were considered as relevant but not good reasons as to whether an M & A should proceed.

There was also comment made that sometimes advisors on the due diligence team may also be driven by profit before guidance. Support of a transaction that will result in high fees being paid to the advisors may have been driven by the attractiveness of the fees rather than the quality of the transaction. Was the eye on the ball? Is it not the role of the due diligence team to ascertain the merits of a transaction, discover any pitfalls and advise accordingly as first priority? They should not encourage, support or recommend the completion of a transaction based on higher fees being paid to themselves if the transaction proceeded.

The understanding of culture and the role of the due diligence team did not concur with the theoretical views of the scholars as to what is required in good due diligence. Gomes and Angwin professed that this was the case in practitioners and this is the case in this due diligence team (Gomes, Angwin et al. 2012, Gomes, Angwin et al. 2013). Certainly there is a gap in the process and this may explain why culture is often blamed for M & A failures as it appears not to be considered adequately if at all in the due diligence phase of the transaction discussed.

6. Conclusion and Implications.

Why do M & A's fail so regularly, why is culture blamed so much for their failures and is culture considered at the very important stage of a transaction being the due diligence phase? This study has explored the role of the due diligence team of an M & A by considering a recent case study of a high dollar value cross border transaction. Through the semi structured interviews and the creation of a visual journal these issues were considered and the due diligence aspect of the M & A process was explored.

The due diligence process in an M & A is imperative for consideration of all aspects of a transaction so decisions can be made on a transaction. "Due diligence is an objective independent examination of the transaction. It adds a third eye with independent cross border familiarity to look at the transaction form a different vantage point and it examines for example, operations, financials, tax matters, and asset valuation." (Kissin and Herrera 1990, Collins, Holcomb et al. 2009). This is the traditional view of due diligence. These hard or tangible factors are nearly always considered in the due diligence process of an M & A.

However, it is the opinion of many scholars and also some practitioners that this traditional model of due diligence is lacking in that it does not consider the soft intangible aspects of a transaction. It is their opinion that lack of consideration of these matters has led to failures of many M & A's. At the forefront of these soft intangible issues is incompatible cultural fit (Appelbaum, Gandell et al. 2000, Dauber 2011, Dauber 2012) being the single largest cause of lack of projected performance, departure of key executives, and time consuming conflicts in the consolidation of businesses. This has gained credence with many researchers that cultural fit is the major reason for unsuccessful deals (Chatterjee, Lubatkin et al. 1992, Olie 1994, Weber Yaakov and Adi 1996, Larsson and Finkelstein 1999, Hurt and Hurt 2005, Fink and Holden 2007, Rana 2010, Weber, Belkin et al. 2011, Dauber 2012). Despite this ground swell of support for consideration of culture being paramount it was not considered well by the interviewees in the case study.

What is the purpose of due diligence? Is it to support the CEO or his/her senior management team on a decision that has already been made? Is it to find "the skeletons in the closet" just in case? Or is it addressing mere formalities or those hard tangible factors that are quantifiable such as valuations, legal documentation, some negotiation and attending to information gathering and provision?

Kissin (Kissin and Herrera 1990) stated that due diligence scrutinizes such things as

- Company background (history and development)
- Business (products/services, strengths, weaknesses, and segmental profitability analysis)
- Industry and economic sensitivity (Strategy, markets, competitive position, and sensitivity to outside factors)
- Management and personnel (structure and capabilities)
- Financial (historical performance, trend analysis, and asset values)
- Accounting (including information systems)

Kissin makes no mention of what are commonly called the soft or intangible factors that are now considered to be an important part of the due diligence process. This represents the more traditional view of due diligence. But with the increase in numbers and size of M & A and the constantly high failure rate scholars are questioning whether this is an adequate approach. Quite often, after a failure of an M & A, the business executives involved and further scholars who have considered the failed M & A conclude that lack of consideration of soft intangible and less quantifiable factors prior to the finalisation of the transaction is to blame. At the top of this list is the lack of consideration of culture.

As early as 1995 these soft, intangible dimensions were recognized as important in the due diligence phase (Cartwright and Cooper 1995, Harvey and Lusch 1995, Cartwright and Schoenberg 2006). However it appears to still be failing to gain traction in transactions. Weber in his seminal work (Weber, Shenkar, Raveh 1996) found that the greater the cultural differences between the combining top management teams the lower the effectiveness and the lower the financial performance of the finalized merger. Tetenbaum (Tetenbaum 1999) believes culture is at the heart of integration. In 1996 The British Institute of Management surveyed executives involved in a number of acquisitions and concluded that the "major factor in failure was the underestimation of difficulties merging two cultures." (Tetenbaum 1999, p. 23). In 2001 Biljlsma-Frankema stated that in the last 15 years management of the human factor in M & A's has been recognized as an important source of success by an increasing number of authors (Bijlsma-Frankema 2001, Kimberley and Quinn 1984, Kilman, Saxton et al. 1985, Buono and Bowditch 1989, Gilkey 1991, Cartwright and Cooper 1993, Lubatkin and Lane 1996, Buono 2005). Despite all this commentary lack of consideration of culture continues along with no development of a strategy for assimilation. This was illustrated clearly in the outcome of the interviews of the case study herein. The individuals involved who were interviewed certainly thought culture was important and failure to

consider it could and probably would result in the transaction failing. However there was no direct or formal consideration of culture by this due diligence team.

The overall role of the due diligence team was questioned. Maybe they are there to merely support a decision that has already been made by the CEO or senior management of the acquirer company by ticking the right boxes to support the decision. This may result in the lack of consideration of those soft intangible and unquantifiable aspects of the transaction such as culture. Further there was also a belief that there may be an element of hubris from the aspect of the CEO (Roll 1986, Garrow 2012). With the presence of hubris, ego or self-serving attitude of the CEO and/or the senior management team of the acquirer the role of due diligence team may be at times compromised. In other words they were being forced or cajoled to only address those quantifiable hard tangible matters present in a traditional due diligence model. Addressing these things will allow boxes to be ticked and the soft intangible aspects of the transaction that are hard to quantify such as human resources and the three aspects of culture can be ignored.

An unexpected outcome of the interviews was the suggestion that sometimes it may be that some of the members of the due diligence team may have the wrong priorities in their approach to the due diligence process. They, too, may be self-serving in the advice they give, the things they consider and the reports they generate. A completed transaction will result in significantly more fees being generated than a non-completed transaction and the suggestion was made that a completed transaction may be encouraged for this reason rather than the quality of the transaction.

M & A's are increasing in value and size annually. Failure of M & A's is costly and is destroying value for stakeholders and in particular shareholders. Failure rates are too high no matter what criteria are used to consider the success or otherwise of M & A's. The value of M & A's in 2014 was $US 3.5 trillion of which more than a third were cross border transactions. Measuring the success of M & A's varies depending on the criteria used to do so. Acquiring company shareholders find that their company's acquisitions are value destroying in almost half of the cases (Tuch and O'Sullivan 2007, Meglio 2009, Meglio and Risberg 2010, Meglio and Risberg 2011, Very 2011).

Measuring the success or otherwise will depend more than ever on the merged company's ability to create added value (Tetenbaum 1999, p. 25, Agrawal and Jaffe 2000) Some

scholars profess more than just financial results when measuring success of an M & A (Lebedow 1999, Antikainen 2002). Studies show that non-financial benefits might not immediately turn into measurable figures or only several years later. For example some acquirers simple seek to destroy a competitor (Dauber 2011) which may result in deteriorated financial statements initially soon after the deal is done (Dauber 2012, p 392, Harvey and Lusch 1995, Meglio 2009, Meglio and Risberg 2010, Meglio and Risberg 2011).

A multi approach gives a more comprehensive measurement of success. This can be analysed across a range of disciplines. Traditional measures were accounting principles such as ROI, standard costings, shareholder value, variance analysis and profit based methods of measurement (Chenhall and Langfield-Smith 2007). Reasons for failure can be many and varied or one single reason.

Further if culture is considered then there is a clear need for an integration strategy to be developed to enhance the likelihood of success. Without such a strategy the consideration is really not of much value (Koza and Lewin 2000, Krug and Aguilera 2005, Lakshman 2011, Hajro 2015). Incompatible cultures will be recognized early and possibly even prior to a finalisation of a transaction if such a strategy can not be devised. This ultimately may result in the M & A not proceeding and subsequently failing. (Meyer and Alterborg 2008).

Despite these different views and approaches on measuring success of M & A's there is a consistent view that culture is important and lack of consideration of culture prior to the completion of the transaction is fraught with danger and may lead to failure of the M & A. Despite this it appears that M & A's continue to proceed without proper consideration of culture prior to the completion of the transaction.

6. Opportunities for Further Research

From the discussion/interviews it became evident that the CEO is a critical piece in the puzzle. The main flaw in this research paper was that no one was interviewed from the acquirer company. This was as a result of three things being geographical remoteness, time and money and lastly reluctance to be interviewed. An analysis as to what drives CEO's to either merge or acquire and how they address the role of the due diligence team should be considered as this appears to dictate the role and outcome of the due diligence process directly and the likelihood of success of the M & A. The role and attitude of the CEO and/or the senior management team appears to be at times compromising the role of the due diligence team resulting in their role and output being flawed or incomplete.

A comprehensive analysis of each of the different aspects of culture at the due diligence phase is important and could follow on from this study. Further understanding and analysis of other soft, intangible factors which may form aspects of culture such as human resources should be considered. There is a need to develop a strategic plan at due diligence phase on how to address culture of both acquirer and target company, whether it is compatible and how to devise a strategy for it to be evolved. A process for profiling culture that could be applied, would be extremely beneficial to this due diligence process. Despite the copious amount of literature over the last half century looking at M & A's there is limited and compartmentalized understanding of the complex acquisition process, since the various streams of research on acquisition activity are only marginally informed by one another." (Gomes, Angwin et al. 2013, p. 5).

With so much variation in measurement and factors to consider in this exercise it has created great confusion. It could be argued that in fact M & A's have not seen such a high level of failure as suggested by many professionals and researchers just by looking at, for example, a longer horizon or the intangible things such as culture and human resources, lack of combination strategy. A study of aligning the reasons for the M & A with the outcome is worth considering. A universal measurement of the success of an M & A, for example, based on share price alone is irrelevant if the purpose of the M &A was to, say, remove a competitor. It is important to identify the reasons for the M & A and then ascertain whether these goals were achieved. The literature to date measuring the success of a M & A sees the

researcher selecting the measurement criteria for consideration. However, this may overlook the reasons for the actual M & A in the first instance.

How much does the CEO and his/her management team dictate the role, responsibility and content of the due diligence process? Certainly consideration of these soft intangible factors need to be taken into account if the success of M & A's is to improve along the lines as suggested by Epstein (Epstein 2004, Epstein 2005).

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7. Appendices

Appendix 1 - Interview Guide

This research is intended to consider the importance or otherwise of consideration of the corporate culture of the two companies in the due diligence process.

Research Questions

1. When a merger or acquisition is being considered there is always a period termed pre merger which includes the important process of carrying out due diligence of the proposed merger or acquisition. In your words can you describe to me what you think is the due diligence process that should be carried out on any such merger or acquisition.

2. In the due diligence process what is your role? Does that role differ whether you are acting for the acquiree or acquirer?

3. In the due diligence process can you describe to me the members of an ideal due diligence team for the team to do their job well. In your transaction in the due diligence did you consider that the appropriate people were involved in the due diligence process? IF not who do you think could or should have been included in the due diligence team and why?

4. It is commonly considered in research that has been carried out on reasons for failure of mergers or acquisitions is the lack of consideration of culture during the pre merger phase. There are three aspects of culture being corporate culture, organisational culture and country culture. In your opinion what role do you think Culture consideration plays at the due diligence phase? Do you think consideration of culture is important at this stage? Have you been involved in due diligence teams where culture has been considered and if so by whom? What type of background or expertise is required to consider culture in the due diligence phase?

5. In your opinion what do you think could have been done better in the due diligence process in this acquisition? If there are areas that were not addressed properly why do you think this is? Is it time, resources or other reasons that you think are relevant.

6. In your opinion what things are not considered well enough in general to ensure the due diligence process is thorough and comprehensive.

Appendix 2 – Ethics Approval

Dear Professor Rhodes,

Re: 'Consideration of corporate culture at the Due Diligence phase of cross border mergers and acquisitions.'

Reference No.: 5201500602

Thank you for your recent correspondence. Your response has addressed the issues raised by the Faculty of Business & Economics Human Research Ethics
Sub Committee. Approval of the above application is granted, effective "27/07/2015". This email constitutes ethical approval only.

This research meets the requirements of the National Statement on Ethical Conduct in Human Research (2007). The National Statement is available at the following web site:

http://www.nhmrc.gov.au/_files_nhmrc/publications/attachments/e72.pdf.

The following personnel are authorised to conduct this research:

Mr Rod Alexander Smith
Professor Carl Rhodes

NB. STUDENTS: IT IS YOUR RESPONSIBILITY TO KEEP A COPY OF THIS APPROVAL
EMAIL TO SUBMIT WITH YOUR THESIS.

Please note the following standard requirements of approval:

1. The approval of this project is conditional upon your continuing compliance with the National Statement on Ethical Conduct in Human Research
(2007).

2. Approval will be for a period of five (5) years subject to the provision of annual reports.

Progress Report 1 Due: 27th Jul 2016
Progress Report 2 Due: 27th Jul 2017
Progress Report 3 Due: 27th Jul 2018
Progress Report 4 Due: 27th Jul 2019

Final Report Due: 27th Jul 2020

NB. If you complete the work earlier than you had planned you must submit a Final Report as soon as the work is completed. If the project has been discontinued or not commenced for any reason, you are also required to submit a Final Report for the project.

Progress reports and Final Reports are available at the following website:

http://www.research.mq.edu.au/for/researchers/how_to_obtain_ethics_approval/
human_research_ethics/forms

3. If the project has run for more than five (5) years you cannot renew approval for the project. You will need to complete and submit a Final Report and submit a new application for the project. (The five year limit on renewal of approvals allows the Committee to fully re-review research in an environment where legislation, guidelines and requirements are continually changing, for example, new child protection and privacy laws).

4. All amendments to the project must be reviewed and approved by the Committee before implementation. Please complete and submit a Request for Amendment Form available at the following website:

http://www.research.mq.edu.au/for/researchers/how_to_obtain_ethics_approval/
human_research_ethics/forms

5. Please notify the Committee immediately in the event of any adverse effects on participants or of any unforeseen events that affect the continued ethical acceptability of the project.

6. At all times you are responsible for the ethical conduct of your research in accordance with the guidelines established by the University. This information is available at the following websites:

http://www.mq.edu.au/policy/
http://www.research.mq.edu.au/for/researchers/how_to_obtain_ethics_approval/
human_research_ethics/policy

If you will be applying for or have applied for internal or external funding for the above project it is your responsibility to provide the Macquarie University's Research Grants Management Assistant with a copy of this email as soon as possible. Internal and External funding agencies will not be informed that you have approval for your project and funds will not

be released until the Research Grants Management Assistant has received a copy of this email.

If you need to provide a hard copy letter of approval to an external organisation as evidence that you have approval, please do not hesitate to contact the FBE Ethics Committee Secretariat, via fbe-ethics@mq.edu.au or 9850 4826.

Please retain a copy of this email as this is your official notification of ethics approval.

Yours sincerely,

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