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Perceived Benefits and Challenges of Conducting Cultural Due Diligence Prior to a Merger or an Acquisition

A Management Perspective

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DEGREE THESIS	
Arcada	
Degree Programme:	International Business Management
Identification number:	
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Abstract:

Recent studies have linked low success rates of M&A transactions worldwide to cultural differences between the acquiring and target companies, and the failure to address those differences. To address the problem, Cultural Due Diligence (CDD) has been proposed as a tool to uncover potential cultural issues arising between the merging organizations. The aim of the present study was to investigate how common is the use of CDD amongst Finnish companies and what is the management's perception of how cultures of companies should be addressed prior to closing an M&A transaction. For this study, an inductive approach and a qualitative method of data collection was used. To answer the research question, in-depth interviews were held with Finnish managers responsible for implementing M&A transactions at their companies. In addition, a pilot interview with an M&A professional adviser was conducted. It was discovered that there is an increased awareness of the importance of CDD amongst professionals involved in M&A transactions. However, there is yet no established model of conducting CDD amongst the Finnish companies interviewed. Given that the sample consisted of executives having been involved in the significant M&A activity in Finland, the results suggest that the formal use of CDD remains rather uncommon practice in Finland despite the increased awareness of its utility.

Keywords:	M&A, cultural due diligence (CDD), corporate culture, change management, change leadership, executive perspective
Number of pages:	59
Language:	English
Date of acceptance:	

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1 INTRODUCTION

Mergers and acquisitions (M&A) are an interesting example of organizational change from the human perspective and can be seen as a regular and natural phenomenon in the business world. Mergers and acquisitions have been studied for decades from various perspectives and researchers have been trying to identify factors influencing success and failure of M&A deals. Given their importance in both large and small economies, it may seem surprising that the cultural side of the deal has only recently become a focus of attention.

Several studies have been conducted to determine the success rate of M&A deals worldwide and while the percentage and the criteria for deals considered non-successful varies, most researchers agree on the number being surprisingly high. For instance, Carleton & Lineberry (2004) claim more than half fail to achieve organizational success and most acquiring organizations fail to deliver the financial results intended by the transaction. The failure rate between 55 and 70 percent has been estimated by other researchers as well (e.g. Schraeder and Self, 2003).

According to Carleton & Lineberry (2004, p. 56) even though organizational culture has been studied extensively, there remain several blind spots in understanding of mechanisms behind cultural development in the field of M&A. Fortunately, the climate is now changing. As opposed to traditional focus area in the field, such as strategy, financials, operations and technology, much greater emphasis is presently being paid to the corporate culture and human resource management as important factors of a successful merger and acquisition.

McKinsey & Company (2010), in their research have discovered that executives understand the importance of corporate culture when capturing value from M&A. Their survey showed that 50 percent of the respondents perceived 'cultural fit' as a vital ingredient of a value-enhancing merger, and 25 percent proclaimed its absence to be the main reason why a merger had failed. At the same time up to 80 percent admitted that culture is hard to define and to grasp.

This study will explore in detail the cultural aspect of a merger or acquisition and how the culture of an acquiring company and a target company are dealt with. The research area of this study was limited to Finland.

1.1 BACKGROUND AND NEED

According to Deloitte (2009), there exists a revenue capacity for three large suppliers in any given market. Whereas in case there are more players on the market, the likelihood for M&A activity will inevitably increase. In the mature economies where the economic growth rate is low, mergers and acquisitions can be one way to gain more market share (Investopedia, 2018).

For smaller economies, mergers and acquisitions may be of even greater interest. Given Finland's low population of 5.5 million, there may be an even greater urge for Finnish companies to aggressively compete for larger market share and expand. Small markets push companies to look for alternative sources of demand, such as by identifying potential mergers (Wee, 2017).

According to various sources M&A activity has been growing in Finland for the past few years. Based on a private legal services provider and a major adviser on the market, Waselius & Wist (2018), the number of registered transactions in Finland increased from 189 to 215, constituting to almost 14 % growth in M&A activity between the second half of 2016 and respective time period in 2017 (as reported by Comset on January 30, 2018). They further explain the increase by low interest rates as well as strong cash position of industrial buyers and investors. Start-up investments and growing interest from Chinese buyers were also mentioned as factors influencing the statistics.

According to the same report, the main industries experiencing significant increase in M&A activity in Finland are the IT industry, healthcare and veterinary services as well as online education solutions. In addition, the real estate market was said to be active for M&A deals. Further, Waselius & Wist predicted that unless interest rates increase, which

would have a dampening effect on international deals, Finland will experience greater M&A activity for the foreseeable future.

Waselius & Wist provides a list of primary elements of a due diligence review in an M&A transaction to be considered in the context of M&A in Finland:

> There is no mandatory requirement to conduct due diligence reviews in M&A transactions, but this has become the norm. Due diligence reviews are typically conducted by the relevant professional advisers (eg, legal, financial, tax and technical advisers) as a combination of document reviews and Q&A sessions with the target's management. (2018)

It can be seen from the above, that traditional areas of due diligence (strategy, financials, operations and technology) were mentioned, but nothing was said on human resource or cultural components of the transaction. Even though the aim of the article seemed to only be familiarizing the reader with main concepts rather than attempting to cover every possible component of M&A, yet this may be an illustration of the level of emphasis put on the human side of the deal.

More recently however, professionals handling M&A in Finland have begun to more openly speak about the need for addressing the cultural component of the M&A. For instance, Carola Lindholm, a partner at Castrén & Snellman, believes that not enough attention is being paid to evaluating the human capital of the acquired organization. In her words: "purchase price adjustment mechanisms tied to retaining 'dream teams' remain rare." (Lindholm, 2018).

The culture of a given corporation includes the incentives it provides to its employees to sustain motivation. Such incentives may be critical to employee retention and motivation. It has been predicted, for example, that companies will have to rethink their HR strategies to make sure they remain attractive to the best talent on the market. (Barraclough, 2015). The above said, the incentives that drive employee motivation can change over time. For instance, there has been a growing demand for working remotely and different employment contract.

As a result, employees have begun demanding flexibility regarding their working hours as well as are more willing to work from their homes. It can thus be assumed that motivational methods will need to be re-evaluated to adjust to the current values of the workforce.

Organizations, too, are perceived differently as a workplace relative to the past. For example, in many instances, there is a greater emphasis on working with a certain individual or teams rather than at a particular company. This has carried over to the M&A environment where there is an increased interest in acquiring individuals with targeted skills. For instance, Lindholm points out that the focus of the M&A activity has shifted from acquiring tangible assets to acquiring talent. If particular individuals are of concern in the M&A transaction, then maintaining key personnel and ensuring they remain committed and motivated must thus be one of the priorities of the executive team of the acquiring company for the transaction to be justified.

For this reason, Carleton & Lineberry (2004, p. 121) also maintains that Cultural Due Diligence is a "must-have" component of an M&A integration plan and cautions senior executives to pay attention to the cultural side of the transaction as they must be held accountable for the successful implementation of the deal.

1.1.1 WHAT IS CULTURAL DUE DILIGENCE (CDD) AND WHY IS IT IMPORTANT?

Carleton & Lineberry (2004) describe cultural due diligence (CDD) as a process designed to uncover to what degree are the merging companies compatible to one another in the cultural sense.

Despite its demonstrated importance, corporations have not yet placed significant resources towards cultural due diligence (Heinonen, 2019). When a company decides to proceed with an M&A transaction, it is easy for the executive team to focus on strategic and financial goals while yet disregard CDD in the traditional due diligence process. Carleton & Lineberry (2004), observing this phenomenon, makes the following statement:

However, even in the face of a dismal M&A track record, a decade of indisputable evidence documenting that culture clash problems are the cause of most M&A failure or poor performance, and a known body of knowledge on organizational culture, the due diligence process rarely, if ever, takes into consideration the dynamics of the two organizations' cultures, their degree of compatibility, or the potential culture clashes that are almost sure to arise after the deal is done. Because of this, we believe that cultural due diligence can and should be a part of the due diligence process in any merger or acquisition. (p. 53)

The same research has demonstrated the high costs of M&A failure to the involved organizations. In particular, consequences of a poorly executed M&A transaction include lower share price, excessive acquisition premiums, decreased profitability, changes in productivity, loss of market share, low staff motivation and morale, loss of key staff (many long-serving high performers and informal leaders), brand confusion and decreased customer service levels and satisfaction (Carleton & Lineberry, 2004, pp. 9-12).

In view of the above, companies attempting to engage in an M&A transaction should pay close attention to the human side of it. Based on the above arguments in favour of CDD, managers of an acquiring company should thoroughly review the cultural compatibility with the company to be acquired.

However, recognizing this need for CDD is insufficient to solve the problem of integration of corporations with different cultures. May knowing the right steps to avoid or at least manage the culture clash be the key to successfully integrating cultures? How can a manager of a certain company know which steps are applicable to his/her company and its culture? Are there any differences between industries? Should there be different approaches on conducting CDD in different countries? There are currently insufficient resources available within Finland and globally to provide answers to these questions.

1.2 STATEMENT OF THE PROBLEM

While describing how things should work for merger or acquisition to be considered a success, Hakutizwi (2017) stresses that merger or acquisition should be perceived as a growth fuelling strategy. In particular, in the aftermath the newly created company should be in a better position than the two merging companies were before the transaction took place. To accomplish that, Hakutizwi urges the remaining company to focus on retaining

the best talent as well as releasing those employees who are likely to resist that planned growth.

Attempts have been made to study the high rates of failure of the transactions. Günter K. Stahl and Mark E. Mendenhall (2001) concluded that regardless of M&A being studied extensively for over thirty years, the key factors for M&A success and failure are yet poorly understood. The following themes, commonly being neglected in prior literature were highlighted: "managing the transition phase of M&A; social and cultural integration processes; leadership; trust building; retention and motivation of key talent; interorganizational knowledge transfer and learning" (Stahl, G., Mendenhall, M., 2001, p. xiii).

Some researchers are convinced that the reason behind most failures lies in the shortcomings of the traditional due diligence. According to Deloitte report (2018), understanding the human side of the M&A is crucial to execution and successful completion of the deal as there can be large financial implications such as expenses of having to hire new personnel, the cost of hiring new employees, the knowledge or intellectual capital lost due to attrition or any negative changes in the relationships with clients.

There seems to be an increase in awareness of the importance of CDD as several professionals in the field began to speak openly about the problem. But even then, little has been said about what concrete steps have to be made and what are the guidelines for managers trying to minimize culture clash after an acquisition.

The literature written on the subject often provides very generic guidelines and little information has been found on the CDD tailored to corporate cultures in certain countries. Even the manager fully understanding the significance of a CDD on the outcome of an acquisition may be lost as to where to begin and how to apply such general guidelines and tailor those to any particular situation.

Furthermore, the availability of literature on the subject of mergers and acquisitions and cultural due diligence relates primarily to the US market. According to Catrwight (2005), M&A studies have been focusing mainly on US and UK geographies. Yet there seems to be a need for evidence-based literature tailored to managers in Finland to aid them lead

their employees through the change resulting from an M&A deal, in accordance with local realities.

The increased awareness of the importance of CDD as well as limited amount of information on the cultural differences in the M&A activity clearly points to a need for further research. It is a good opportunity to look at the problem in the context of Finnish M&A deals.

1.3 PURPOSE OF THE STUDY AND THE RESEARCH QUESTION

In response to the challenges discussed, the purpose of this study was to investigate the overall awareness and understanding of the problem in Finland on a managerial level and what is currently being done to improve the situation. In particular, opinions of the managers having gone through M&A integration process were collected with the goal to find out any practical advice to provide to those implementing M&A transactions in Finland in future.

Furthermore, the study seeks to shed light on the following: what are the common practices with respect to the human side of M&A in Finland? How much emphasis is put on reviewing and implementing cultural due diligence in Finland? What practical insight can be gained from managers of companies that underwent merger or acquisition in the past several years?

Taking a close look at the above questions is crucial for understanding the environment of the phenomenon being studied. All the above questions have been examined from the managerial perspective and led to the ultimate question and theme of the subject research:

> What are the perceived benefits and challenges of conducting Cultural Due Diligence prior to a merger/acquisition for the acquiring company?

To answer the research question, in-depth interviews were held with managers responsible for implementing M&A transactions at their companies.

1.4 DEFINITIONS, DELIMITATIONS AND ETHICAL CONSIDERATIONS

The following definitions are useful to outline for the sake of understanding of the central concepts related to the subject study:

MERGERS & ACQUISITIONS – Mergers and acquisitions (M&A) is a general term that refers to the consolidation of companies or assets through various types of financial transactions. M&A can include a number of different transactions, such as mergers, acquisitions, consolidations, tender offers, purchase of assets and management acquisitions. In all cases, two companies are involved. (Investopedia)

DUE DILIGENCE – research and analysis of a company or organization done in preparation for a business transaction (such as a corporate merger or purchase of securities). (Merriam-Webster dictionary, online)

CULTURAL DUE DILIGENCE – is a diagnostic process conducted to ascertain the degree of cultural alignment or compatibility between companies that are party to a merger or acquisition. (Carleton & Lineberry, 2004, p.53).

CHANGE MANAGEMENT – is managing the process of implementing major changes in information technology, business processes, organizational structures and job assignments to reduce the risks and costs of change and optimise its benefits. (Murthy, 2007, p.22)

CHANGE LEADERSHIP – is the ability to influence and enthuse others through personal advocacy, vision and drive, and to access resources to build a solid platform for change. (Higgs, M. and Rowland, D., 2008, p.15)

CULTURE – is the multifaceted learned structure and practice of the people who lead and people who follow, people who work together and build a history that shapes the future. (Schein, E. and Schein, P., 2019, p. 4)

CULTURE CLASH – The disagreements that occur when two or more groups of people have different views as to what behaviour or action is appropriate in any given situation. (Carleton and Lineberry, 2004, p.194)

DELIMITATIONS AND ETHICAL CONSIDERATIONS

It was decided to limit the scope of the problem area to Finland and observe how the management of acquiring companies address the cultural side of the transaction. The focus of the study is limited to the pre-merger phase.

There are no specific ethical issues relating to this thesis. The opinions provided by the interviewees are being presented anonymously and any information that would enable identification of the participants or their companies were omitted.

2 LITERATURE REVIEW

Mergers and acquisitions (M&A) have been studied for decades from various angles and the cultural side of this complex form of organizational change has more recently attracted researchers worldwide to even look into the sociocultural integration in M&A from different perspectives. By way of example, Stahl et al. (2005, p. 401) mentions that the "softer" aspects of M&A, such as social, cultural, and psychological sides of a transaction have been increasingly looked at by the scholars in recent years.

The motivation behind such research is often to seek understanding of what factors and managerial behavior influence post-acquisition or merger performance, and in what way. When talking about the cultural side of M&A, there particularly seems to be an interest in studying the process of a post-merger integration. For instance, Cameron and Green (2015) suggest that it is necessary to look into what the motivation behind making a deal was to better understand and guide the following integration process. In particular, if the company is to acquire tangible assets, the culture integration may be required only at the senior level. Whereas in case economies of scale is the reason for merger, a cultural integration becomes essential for the success of an M&A.

According to Hewitt (2011), M&A activity is becoming more focused on growth rather than cost savings lately. However, it is imperative that senior management has a clear understanding of their motives to be able to evaluate whether the target company is a good fit for their strategy. Similarly, Studer and Thomas (2016) recommend focusing on the underlying reason for making the deal when trying to predict the amount of gain from the deal. Studer and Thomas explain that while the cost reduction is relatively easy to calculate, revenue enhancing synergies are hard to forecast due to dependence on external factors. Finally, it has been pointed out that senior managers need to ask themselves whether the deal is indeed a strategic move or whether the motivation behind M&A is ego related (Studer and Thomas, 2016).

Another approach adopted while seeking underlying reasons for M&A success is to examine the most distinctive variables (such as industry, size etc.) to gain an understanding as to which variables influence post-deal integration success. For example, a study on six alternative determinants of achieved acculturation in fifty M&A was conducted by Larsson and Lubatkin in 2001, and the following findings were made:

> None of the four selection-based determinants of relatedness, relative size, domestic versus cross-border, and acquirer nationality were found to have statistically significant effects. Nor had the imposition of formal controls through autonomy removal [provide] a necessary negative impact. Instead, the only strong determinant for achieving acculturation was "social controls," that is, socialization and coordination efforts like cross-visits, introduction and training programs, joint social events, celebrations, transition teams, job rotation, and other motivational human resource exchanges between the joining firms. (Stahl et al, 2005, p. 190).

Other researchers have identified trust as an important element in the integration process and advocate for the role of trust in the post-acquisition phase. These findings are presented by Kaltiainen et al. (2018), who focus on the concept of trust between individuals, groups and organizations. In an attempt to summarize recent research on the dynamics of trust in Finnish organizations Kaltiainen et al. present trust as a relevant factor in the context of M&A, and in particular suggest that it can be achieved through co-operation as well as positive and collaborative intergroup contact experiences. It was further shown by Kaltiainen et al. (2018) that collaboration, even on a small scale, would boost the trust levels between organizations during the integration phase.

It has been suggested that although integration phase of the deal is crucial for M&A sustainable success, there needs to be better understanding of the pre-deal phase as well. For example, Stahl et al. in providing suggestions for future research claims that M&A failure is closely related to problems arising during the integration phase. However, he sees agreement in the prior research that there is a need to consider cultural and people issues as early as during the evaluation and selection of potential targets (2005, p.403).

Indeed, several studies have been conducted on the cultural issues arising before the merger or acquisition takes place in order to avoid or at least predict the earlier described culture clashes between organizations (e.g. Carleton & Lineberry, 2004; Hewitt, 2011; Deloitte, 2018). The common thread within the research in the field appears to be an understanding of the target company's culture is critical to even begin to predict its compatibility with that of the acquirer's culture.

2.1 WHAT IS CORPORATE CULTURE AND HOW CAN IT BE ASSESSED

In order to discuss cultural implications on M&A, it is necessary to fully understand what is encompassed by the term "corporate culture" in the research literature. Gaining this understanding is critical in completing a Cultural Due Diligence process for the parties of an M&A.

Cameron and Green (2015) summarize corporate culture to be "the way things are done around here," while at the same time stating that it is a complex combination of elements that are difficult to grasp. Culture is said to be a dimension that influences just about everything within an organization, from corporate strategy to individual behavior of an employee. Recognizing corporate culture's tendency to affect everything within a company, two merging companies undoubtedly face a significant change in daily dynamics before and after a new culture replaces the old ones. Consequently, cultural differences are reasonably expected to have an effect on the outcome of the subject M&A deal.

Hirsch (2015) views corporate culture as including a spectrum between very specific and easy to understand elements such as 'whether the company closes between Christmas and new year' to almost indescribable 'psychological and emotional states' that are attempted to be explained with words such as flexibility and/or optimism. Given their subjectivity, the latter elements may be understood very differently by different individuals.

Returning to Cameron and Green (2015), the authors recite several frameworks designed to understand corporate culture by unifying the prior research on the matter. These include studies by: Schein (who views culture as set of different layers defining company's structure, strategies and values); Deal and Kennedy (seeing culture as rituals and ceremonies that build up over time to determine behavior); Harrisson and Handy (each viewing culture through Formal/Informal and Centralized control/Distributed authority matrix); and Cameron and Quinn (looking at culture through such dimensions as flexibility vs control and internal vs external orientation) (2005, pp. 304-307). Ultimately, as these frameworks are based upon simplifications and generalizations as a means to understand broad patterns in employee behavior, utilizing these frameworks will not necessarily provide exhaustive picture of any given company's culture.

If an entity's corporate culture is so difficult to grasp, managing it may become a real challenge for practitioners who must take concrete steps and make tangible managerial decisions in the midst of M&A activity. However, some researchers, e.g. Carleton and Lineberry (2004) suggest that gaining understanding of a target company's culture may be approached by comparing it to the acquiring company itself.

In view of the above, in order to understand a target company's corporate culture and predict potential issues in post-merger integration, one needs to have a good understanding of their own culture. Further, having an understanding about what the acquiring company wants to achieve by making a deal, it is imperative to make sure that both companies are heading in the same direction in terms of strategy.

Evaluating company's own culture prior to engaging in the M&A activity is something that several advisors recommend as one of the steps of due diligence process. Namely, Carleton and Lineberry (2004) present a strong case for cultural due diligence as a

necessary part of the due diligence practice and recommend beginning the broader due diligence process with acquirer self-assessment of corporate culture.

Cultural Due Diligence is a fairly new concept introduced by several business advisors as an assessment tool to be added to a traditionally rather quantifiable due diligence process, however, the importance of intangible aspects of the target company was recognised for at least twenty years. For instance, Marks (1999) suggests seeking understanding of cultural differences between merging organizations in order to develop a plan on addressing these differences in a post-combination phase.

Human resource specialists have begun to be invited as part of the M&A strategic team more often lately (Rodríguez-Sánchez et al., 2018). Cianni (Milligan, S., 2014), when explaining why involving HR before the deal is closed is important, says:

> "A lot of our clients are starting to think about culture as part of the due diligence stage. They're not saying, 'We're not going to go through with this deal,' but they are starting earlier and saying, 'This deal's going to be successful if we get the culture right.'"

2.2 CURRENT UNDERSTANDING OF THE CULTURE'S INFLUENCE ON THE M&A OUTCOME

In reviewing prior research, Stahl et al. (2005) discusses major trends in the field and summarizes various points of agreement in the existing literature alongside points of inconsistency in research findings. In particular, while most researchers seem to agree upon the importance of corporate culture in M&A, trying to determine when, how, and under what conditions has provided contradictory findings.

Stahl et al. (2015) outlines the following four points of agreement between scholars working on the cultural side of M&A (pp. 402-403): management efficacy trumps precombination factors; level of integration influences criticality of sociocultural process; basic personnel practices make a difference; and extension of sociocultural factors into the Due Diligence process.

However, Stahl et al. (2015) otherwise lists four "paradoxes" where research has not yet reached consensus due to the controversial findings in prior studies. These are: "culture matters/culture does not matter; experience matters/experience doesn't matter; imperialism is bad/imperialism is good; speed saves/speed kills." From these so-called paradoxes the first two are relevant to the subject study and should partially justify the exploratory need thereof.

As it can be seen, there are many gaps in the understanding of the mechanisms behind corporate culture in M&A process. More studies will have to be conducted to address the cultural side of M&A and their participant organizations in order to understand its components and its relevance to M&A outcome.

While studying the cultures of the companies involved is essential for successful integration, one must also be cognizant of issues that may arise during the process and ways to avoid initiating new areas of conflict. For example, Stahl et al. (2005) also found that juxtaposing corporate cultures of the target and the acquirer as well as focusing on cultural differences can be counterproductive due to a risk of strengthening nationalism. Further, feeding belief in the existence of "fundamental" cultural differences between the organizations may become an obstacle to integration. It has thus been proposed that one should focus on the development of a "new corporate culture" rather than concentrating on the initial differences between the merging organizations. (Stahl et al, 2005, p.168). Thus, one question may be: to what extent is it worth focusing on distinguishing between acquirer's and target's culture(s) or is it more beneficial to focus on developing a new corporate culture and integration therein?

Some researchers (e.g. Preston and Teerikangas, 2014) have pointed out that engagement of the target company's personnel in a "pre-deal" phase can be more fruitful than juxtaposition between the cultures. Their study showed that engagement of the participating organizations could result in creating trust and thus be a catalyst for the development of a better business relationship. This aligns with Kaltiainen et al. (2018), who also brought up the concept of trust as a powerful tool in the cultural integration process. Moreover, the study stated that building a collaborative relationship through engagement in the pre-

deal phase enabled more efficient problem solving in challenging situations and knowledge transfer.

Even though engagement of key professionals from the target company was found to be beneficial, it is often impossible for the acquiring company to access the target company's personnel before an M&A deal is closed (or at least made official), which makes some of the Cultural Due Diligence activities explained above challenging, if not impossible (Carleton and Lineberry, 2004).

The above suggests that only a few key executives from the target company are typically available for gathering data on the corporate culture in question and are thus greatly responsible for providing reliable and actual information on their company's corporate culture. Perhaps one prerequisite of signing a deal could be providing the acquiring company with a truthful, thorough, and detailed report on their understanding of their own corporate culture. On the other hand, Engert (2010) suggests that management style of the companies can be evident from public domains such as: corporate websites, annual reports, public speeches, news and blog articles, stock market documents, recruiting, company vision and mission statements. The question remains whether such data gives a reliable interpretation of the target's culture and could be utilized when deciding on the target company's compatibility for a merger or acquisition.

Accordingly, a study on culture integration in M&A (Hewitt 2011) found that almost half of organizations position culture assessment and integration to be one of the top three areas of importance in due diligence and 30% rank in top two priorities. However, the study shows a drop in prioritization during integration phase (only 24% rank cultural integration in top two priorities), even though at that stage organizations should have more access to information and employees. It may be explained by the vagueness of the discovered information on cultural aspects that may prevent the management from undertaking tangible steps in addressing cultural issues in M&A.

Further, attempts to address culture during negotiation phase may not lead to increasing value of the deal as the result of lack of clear strategy. Engert et al. (2010) have found that executives often rely on the perceived similarity between the merging companies as

a recipe for a M&A success and therefore may miss the opportunity to fuel growth by shifting the existing cultures to another level.

Ultimately, the vague nature of 'corporate culture' as a concept makes it difficult to address. As a solution to this issue, Engert et al. (2010) recommends looking at culture as an outcome of certain management practices in order to make it more tangible and actionable. It may thus be assumed that changing the term "culture" into a set of tangible criteria could improve attitude on CDD from senior management and lead to action.

2.3 EXISTING LITERATURE FOR PRACTITIONERS

Following the increasing interest of researchers, the cultural side of the mergers and acquisitions has received attention from the business world. Numerous articles and books on managing the change in corporate culture and targeting senior management have been written (e.g. Bouchard, P.J. and Pellet, L., 2002; Panda, A., 2013), and several models presented, (e.g. Lewin's model, Jick's model). One of the most renowned researchers in the field of change management is John Kotter, who has developed a practical guide for management named *Kotter's 8 Step Model*. The eight steps described in the model are: Create urgency; Form a powerful coalition; Create a vision for change; Communicate the Vision; Remove Obstacles; Create Short-term Wins; Build on the Change; Anchor the Changes in Corporate Culture (strategies-for-managing-change.com). These steps are designed to guide the management team through the so-called soft side of organizational change, such as the cultural side of an M&A.

Kotter's Eight Step model can be perceived as fairly easy to understand and implement. In a study by Rajan and Ganesan (2017), 40 out of 65 approached CEO's of SME's in the Chennai area voted for Kotter's model among seven different change management frameworks as having the best potential framework to follow when undergoing organizational change.

Despite being perceived logical by practitioners, several gaps in the model were pointed out by the participants of the study. In particular, after familiarizing themselves thoroughly with the framework, the subject CEO's found that the Kotter's model was lacking

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illustrations of concrete easy-to-follow tools or templates required at every stage. Rajan and Ganesan (2017) thus concluded that the framework is theoretical and lacks step-by-step implementation methods sought by the practitioners. The study illustrates that although managers appreciated the existence of such a framework, the practitioners' needs for a clear execution method were not fully met.

There are several other frameworks available, some more explicitly addressing the human side of a merger; and they range from models helping to assess the target company to those which deal with post-merger integration. One model designed specifically for conducting assessment of a target company, i.e. a framework for conducting a Cultural Due Diligence, was presented by Carleton and Lineberry (2004, p.55). The authors claim that performing Cultural Due Diligence requires the following four steps: Acquirer self-assessment; Assessment of potential target companies; Detailed cultural assessment of the target company; and Alignment/integration planning. As opposed to Kotter's model, the approach is fairly detailed and attempts to analyse and organize obtained quantitative and qualitative data within the twelve domains of the CDD process, as indicated in the Table 1 below:

|	
1. Intended direction and results	7. Supervisory practices
2. Key measures	8. Work practices
3. Key business drivers	9. Technology use
4. Infrastructure	10. Physical environment
5. Organizational practices	11. Perceptions and expectations
6. Leadership/management practices	12. Cultural indicators and artifacts

Table 1. CDD Cultural Domains. (adopted from Carleton & Lineberry, 2004, p.59)

The above list represents an example of a customized CDD model, and the authors of the model justify its superiority over other existing attributional models due to their reliance on a quantitative measurement of a set of attributes, which may be insufficient to interpret and explain actual work behaviour. Carleton and Lineberry (2004) argue that the only

way to obtain reliable cultural data is to conduct the qualitative research by engaging in detailed interviews, focus groups and observations.

It remains unclear though how much time such practice would require and what is perceived reasonable by M&A practitioners. Carleton and Lineberry (2004) suggest that the results thereof will offset the investment in time required, but admit it being a substantial commitment of resources.

Panda, A. (2013) agrees that detailed diligence requires a significantly large commitment of time. In a response to the dilemma, Panda has introduced a concept of "cultural due diligence in a hurry." The proposed model provides a range of options for the management of the acquiring organization, depending on time and access available to conduct Cultural Due Diligence of a target company. Panda identifies five sources of information: searching for information in public domain; observing behavior; listening to what employees are saying about an organization; asking employees how they feel about an organization; and reading and analyzing documents. The management may choose to look into just once source or several sources, as illustrated in Figure 1:

TIME AVAILABLE

	MINIMAL	SOME	PLENTY
NO	S	S	S
PART	S/O	S/O	S/O/L
FULL	S/O/L	S/O/L/A	S/O/L/A/R

Quick and Dirty (Sensing and Inferring)

EXTENT OF ACCESS

Detailed (Hard Documentary Evidence)
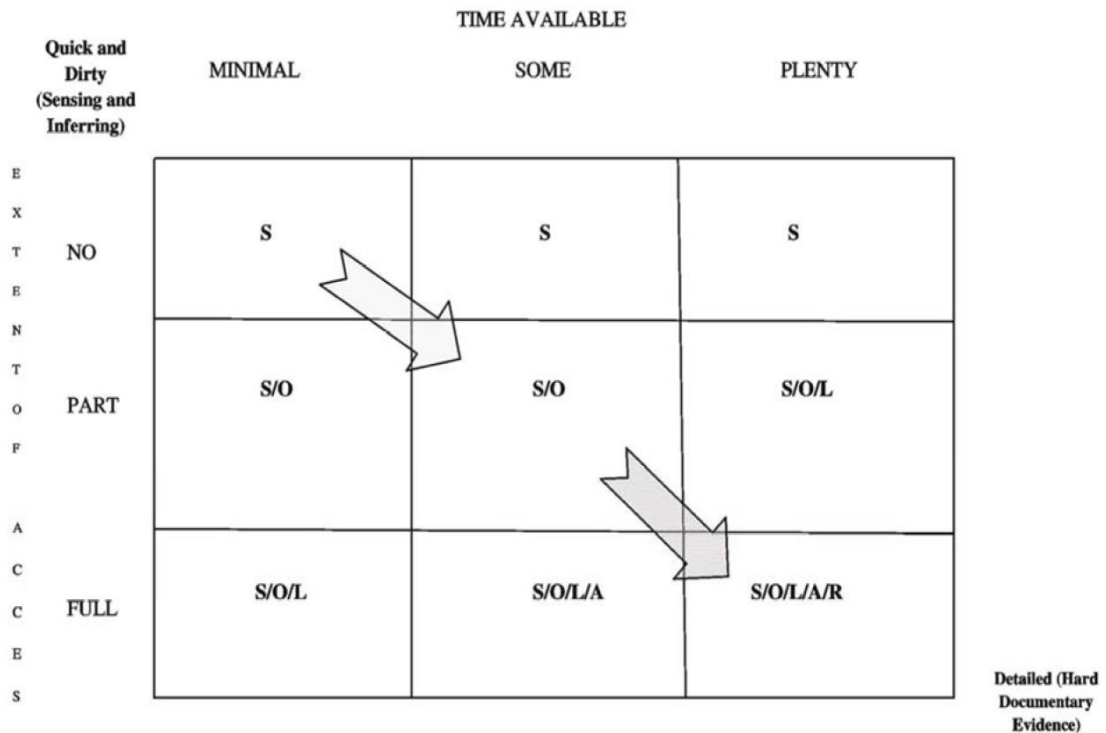
Note: S: Searching information available in public domain; O: Observing behaviour of the employees at the workplace; L: Listening to employees through interviews, discussions (formal, informal, focus group); A: Asking employees how they feel and think the way organization does things; R: Reading and analysing organizational documents.

Figure 1. The SOLAR Approach. (Panda, A., 2013, p.17)

Regardless of what method of obtaining and analysing relevant information is chosen, Rodríguez-Sánchez et al. (2018) argue that as the result of advances in technology available as well as the consultancy sector companies have all the necessary capabilities to manage large amounts of information available for decision-making, but at the same time the information obtained requires a skilled HR team to effectively process it. This would speak for the need for HR department to be actively engaged during the earliest stages of M&A planning.

There are also several models describing stages of the entire M&A process, typically consisting of three main stages: pre-merger, integration, and stabilization (Milligan, 2014). Similarly, Rodríguez-Sánchez et al. (2018) identify three fundamental stages in the M&A process from the HR perspective, namely a planning stage, an integration stage and an implementation stage. The planning stage is said to entail any activities before the agreement has been finalized. CDD would thus take place at this phase.

Carleton & Lineberry (2004) further identify the timeline of the acquisition/merger process. The following diagram illustrates different phases of the pre-deal stage of an M&A:

Figure 2. Achieving Post-Merger Success. (adopted from Carleton & Lineberry, 2004, p.3)

It should be noted here that deals may vary greatly in terms of the time between the beginning and end of the above presented figure. For instance, the following chart was introduced by Investment Bank.com as an illustration and proposes a timeframe for every step of the cultural integration process:
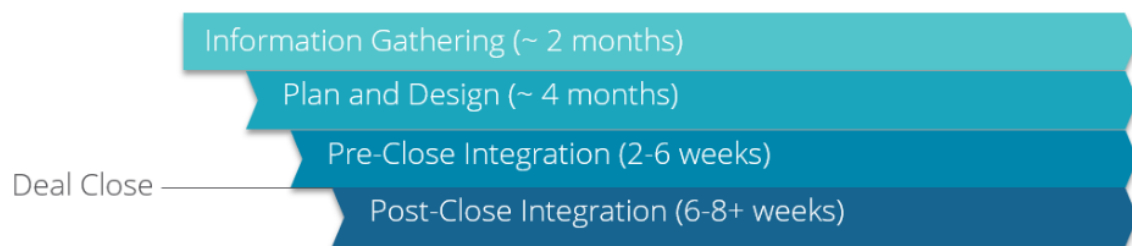
Figure 3. Cultural integration timeline. (Investmentbank.com)

It is essential to note though, that it may require considerably longer time for the full integration of the target company´s personnel to take place, given the necessity to evaluate how the integration of a new structure and a new culture are being adopted. (Rodríguez-Sánchez et al., 2018)

2.4 SUMMARY

Some researchers (e.g. Denison et al., 2016) recommend further empirical case studies to gain better perspective on the phenomenon of cultural due diligence practices. However, the abundance of variables and the inconsistency of findings (Stahl et al., 2005) in prior research suggest that there exists a need for an exploratory study to establish priorities of the business leaders engaging in M&A activity. The paradoxes provided by Stahl et al. (2005) represent a challenge for M&A practitioners in terms of what factors need to be

considered before the deal is closed and how to prioritize those given the time constraints during the due diligence period.

Therefore, Stahl et al. (2005) suggest future research that isolates culture as a relevant factor in the due diligence process both from the theoretical perspective as well as practical implications thereof for the executives seeking better understanding of how culture affects their M&A performance.

3 METHODS

On the basis of proposition for further research it was decided to focus on the earliest stage of M&A process, namely, cultural due diligence and explore the professionals' involvement in such a practice in Finland. In particular, the subject study is intended to help better understand the attitudes towards CDD among the top management of the companies involved in M&A, propose a solution to address their needs and thus try to minimize the gap in the previous research.

As Preston and Teerikangas (2014) propose, more qualitative research is needed to understand and explain professionals' involvement in M&A. The aim of this study is to discover what challenges managers responsible for the pre-deal phase are facing during the negotiations process. Through conducting several semi-structured interviews with the managers, better understanding of the critical elements and challenges of the CDD process from the practitioners' perspective will be approached. Ultimately, through collecting the viewpoints on CDD from managerial perspective, the aim is to propose a summary on potential challenges within the cultural aspect before and during due diligence phase.

It is thus being proposed to carry out research to collect a list of possible issues practitioners face based on the suggestions from the prior research literature (discussed above). The following aspects were looked at during the interviews and the opinions of managers were then collected and analyzed:

- NO ACCESS TO PERSONNEL PRE-PURCHASE AND OTHER CONSTRAINS

- AVAILABILITY OF TIME AS A POSSIBLE CONSTRAINT
- UNDERSTANDING OF OWN CULTURE, TARGET'S CULTURE AND STRATEGY ALIGNMENT
- ATTITUDES TOWARDS CONDUCTING CDD
- AVAILABILITY/AWARENESS OF TOOLS FOR PRACTITIONERS TO CONDUCT CDD

In accordance with the suggestions of Preston and Teerikangas (2014) as well as Stahl et al. (2005), an inductive approach and a qualitative method of data collection was selected. A clear distinction between advisors and managers was made due to the assumption that each group has their own agenda in the M&A process (Heinonen, 2019). In particular, the opinions of managers of companies that underwent merger or acquisition in the past several years on what practices have been successful and what could have been done differently were collected and analyzed.

According to Carleton and Lineberry (2004, p.89) any merger or acquisition is very unique in its nature. It can therefore be particularly valuable to gather the thoughts of executives to add value to the existing studies.

The purpose of the interviews was to collect as many insights as possible on cultural due diligence and integration process from the respondents. It can be described as exploratory as the main goal was to reveal human factors that may be neglected in the theories as well as how these theories may be interpreted depending on the position in a company.

However, prior to interviewing managers it was decided to get a perspective on the matter from a professional working with M&A deals in Finland. In order to investigate the effectiveness of the interview questions, it was decided to discuss central topics with an experienced specialist as preparation to the major study in a pilot interview. A professional who had seen numerous transactions over the past years and could shed some light on any recognized trends and patterns was consulted to gain a better understanding on what employee retention practices are commonly used in Finland, how CDD is perceived and whether approach on human side of M&A varies in different industries, among company sizes etc.

A telephone interview was conducted since this form of communication has been suggested by the interviewee. The questions were sent in advance, so the interviewee had an opportunity to prepare. The chosen method did not affect the outcome and the quality of gathered data since there were no major recording problems, the interviewee appeared comfortable, and the interviewee demonstrated a willingness to provide insightful answers.

3.1 SAMPLE SELECTION

The purposive sampling was used in this research. The sample was selected based on the interviewee's relevance to the study. Namely, managers involved in a decision and/or implementation of M&A were chosen from those companies which demonstrated cultural awareness in public disclosures. It was also intended to gain an amount of variety in terms of industry, size, and ownership type. Further, it was decided to include top management of the acquiring companies, and exclude other parties involved in the process of M&A, such as advisors or board members not having a position within the subject companies.

Such delimitation was made to maximise the relevance of the participants' experience to the research question. It was suggested by Heinonen (2019) that different groups involved in the M&A process may have different goals and motives. For example, it can be claimed that advisors offering due diligence services are interested in advertising their services, and there can be a certain degree of bias in their responses. The more enthusiastic responses of advisors as a group were evident in Heinonen's study. On the other hand, the group of CEOs and other c-suite executives are often the ultimate decision makers within the M&A process and retain responsibility for the outcome of the transaction (Bridge, 2019). It was assumed this group would be primarily interested in the successful closure of the merger or acquisition, and thus actively looking for methodologies helping to achieve this goal.

According to Mäkisalo (2009), multiple acquirers seem to outperform companies that practice M&A only occasionally, regardless of any negative impact due to the number of transactions on performance. Mäkisalo explains this by the experience serial acquirers accumulate over time that allows gradually growing their acquisition capacity. There

were several multiple acquirers in the sample, as this group was believed to provide fuller insights on the topics discussed.

According to Investopedia (2018), the following industries are usually more prone to M&A activity: health care, technology, financial services, retail and, lately, the utilities sectors. It was earlier mentioned that in Finland IT industry, real estate as well as in the areas of healthcare, veterinary services and online education-related solutions are active in M&A. Companies in some of these sectors were contacted for the study and ultimately the professionals from the following companies were interviewed:

COMPANY A: A large Finnish corporation listed on Nasdaq Helsinki, operating in the industrial sector, in a manufacturing and service industry. Approximately half of total revenue derives from Asia, with the remainder split between Europe, the Americas, and other nations. Employs ab. 20.000 people, has conducted several acquisitions over the years, including international deals.

COMPANY B: A Finnish family company employing about 1000 people with business units in 12 countries. Family-owned business operating in the chemical industry with an ambitious growth and acquisition strategy.

COMPANY C: Another listed company, involved in manufacturing and selling its products within the basic materials sector. It operates its business across Europe, USA, Asia and South America. Employs ab. 10.000 people. Has conducted several acquisitions throughout its existence.

COMPANY D: A Finnish family company operating in more than 30 countries. An active acquirer operating in the industrial sector, in particular, the construction industry, offering its customers a full key service support for their products and seeking growth from adjacent markets.

COMPANY E: A Finnish company with more than 7.000 employees operating in the consumer goods sector. A serial acquirer with more than 5 completed acquisitions in the last 10 years. The firm derives the majority of its revenue from sales in Europe and the Americas, with overall sales fairly evenly split between the two.

3.2 DATA COLLECTION AND ANALYSIS

To reiterate, the research question of the subject study is: What are the perceived benefits and challenges of conducting Cultural Due Diligence prior to a merger/acquisition for the acquiring company?

To answer the research question, a qualitative study was chosen, and semi-structured in-depth interviews were selected as a method of gathering data. Semi-structured interview enables respondents to have flexibility to discuss what they personally believed is relevant and important in his or her answers. In turn, the level of flexibility enables more detailed answers and these opinions were collected. However, owing to the very specific research topic there was the need to guide respondents to follow a script to make sure the central topics are covered and as many specific issues as possible are addressed, in line with recommendations by Patton (2014), who suggests using open-ended questions on a small, purposeful sample for inductive analysis.

Further, the questions had a degree a broadness so as to be careful not to limit or lead the interviewee given the exploratory nature of the research question while enabling maximum exploration of the subject matter. To maximize the exploratory nature of the interview, Bryman (2012) recommends considering carefully what subject matter needs to be covered and what questions need to be answered.

Thus, turning now to the exploratory questions developed for interviewees on the subject of CDD, existing literature on the topic has suggested several aspects that may or may not be affecting the process of CDD in the merging companies in Finland. The semi-structured interviews should thus shed light on the following main topics within the CDD:

- M&A STRATEGY AND DURATION OF PROCESS
- UNDERSTANDING OF CULTURE
- PERCEPTION ON IMPORTANCE OF CDD IN ONE'S INDUSTRY
- WHETHER CDD IS A SYSTEMATIC PART OF THE PROCESS
- PERCEIVED BENEFITS OF CONDUCTING CDD
- OBSTACLES/CHALLENGES TO CONDUCTING CDD
- IF NOT CDD, WHAT INSTRUMENTS/TOOLS USED

There were five participants in this sample. Additionally, prior to conducting interviews with the top managers from the studied companies, one more interview was conducted as part of the pilot study. Face-to face interviews and, in some cases, telephone interviews were conducted between March and October 2019 and lasted from 45 minutes to one hour. Pilot interview was conducted in February 2019. The interviews were transcribed and coded using the content analysis method.

In accordance with Bryman's suggestion, when developing questions from these topics, it was necessary to keep in mind that the studied mergers and acquisitions vary in size, industry and timing. Interviewees were encouraged to elaborate on these topics from their perspective.

3.3 INTERVIEW GUIDE

The interview questions were divided into three parts: background information, the process of the CDD, and learning outcomes. Below the reasoning behind answering each question is explained.

BACKGROUND INFORMATION:

The interviews began by asking introductory questions about interviewee's background: e.g., their experience, position, and level of responsibility/involvement in M&A. The introductory questions improved understanding of the interviewee's perspective better as well as were useful for contextualizing people's answers.

It was also helpful to know whether the respondent has been more involved in the decision process of an M&A, implementation thereof, or both in order to better understand any attitudes and background when analysing the answers.

In many instances, the degree of success of a merger or acquisition (as perceived by the associated management team) may vary depending on what was the motivation for merger or acquisition in the first place. Therefore, it made sense to understand the motives and what management (of the interviewed companies) hoped to achieve when making a transaction.

The following classification of most common reasons for M&A was suggested by Cameron & Green (2004, pp. 266-268): growth; synergy; diversification; horizontal integration; defensive measures; pressure to do a deal.

Depending on the reason behind the transaction, CDD may be perceived differently as well. The intent of the introductory questions was also to understand the background of the company that has conducted CDD, and what interviewees found most important before and during the integration process.

Understanding reasons behind an M&A transaction was helpful when determining whether the transaction turned out to be a success or not and why. Further, it was easier to understand any attitudes of the interviewees during the interview and enabled to ask more precise questions about what factors drove decision making at the time.

PROCESS OF CDD:

The "Process of CDD" questions focused on the actual implementation of the CDD process. By way of example, one topic related to conducting CDD is the general attitude toward the overall importance of such practice from the management perspective. In the previous chapters, the importance of CDD was explained through looking at change management literature, as well as articles written by business advisors. Several researchers and M&A advisors presented solid arguments in favour thereof and recommend including CDD practices in the integration process of a merger or acquisition. However, the burden

of the decision on whether or not to follow the recommendations lies on the management's shoulders.

As earlier discussed above, it was discovered that there were obstacles that prevented managers from fully implementing CDD, such as limited resources or serious problems that needed to be prioritized instead. M&A integration can be a complex process and as important CDD may be for the success of the deal, it is still one part of due diligence process and can only be addressed alongside other parts of due diligence. Interviewees were asked whether the idea of conducting the cultural due diligence was taken well by the remainder of the management team. Keeping the above-mentioned aspects in mind, their answers aided in understanding motivation for or against CDD within their respective management team.

The time pressure and a limited amount of time available were discussed in the previous chapter as potential obstacles to conducting the CDD. In a situation where such concepts as culture are being discussed, it was important to try to identify any quantifiable aspects to compare and analyse. Thus, the interviewees were asked how much time was spent on evaluating cultural differences between the relevant companies before moving forward with the M&A.

It was interesting to hear the interviewee's approaches on the subject of culture, as well as their view on evaluating both the acquiring company's own culture and the one being acquired before moving forward. Further, any core differences spotted during the CDD that needed to be addressed were discussed.

In another aspect, the PROCESS OF CDD questions included one aimed at gathering information on potential / actual culture clashes since culture clash has been shown to have a significant influence on productivity. In fact, Cameron & Green (2015, p.277) refers to Roffey Park research (Devine, 1999), which shows that culture clash may cause up to 30% loss in performance. The following signs of a culture clash were also mentioned in Cameron & Green: people talk in terms of them and us; people glorify the past, talking of the good old days; newcomers are vilified; there is obvious conflict – arguments, refusal to share information, forming coalitions; one party in the merger is

portrayed as stronger and the other as weaker. The interviewees were encouraged to openly discuss such potential clashes and provide examples.

In particular, whether any of these "culture clash" signs were spotted by the interviewees during the integration process and how were they addressed. The interviewee's view on cultural differences and ways to minimize their impact on a merger/acquisition was a key to answering the research question.

According to Cameron & Green (2015), examining the cultures of the merging companies is useful even if there is a slightest chance of cultural issues affecting the outcome of a transaction. Cameron & Green recommend carrying out workshops and involve teams at all levels if possible when studying cultures. It has been suggested to start paying attention to cultural issues early on into the integration process, and that is a recommendation several other researchers and practitioners seem to suggest (e.g. Carleton and Lineberry, 2004).

However, the abundance of literature on how to tackle cultural issues may present a problem of choice and leave managers overwhelmed. The aim of the subject research is to shed some light onto the practical side of the issue, as the researcher believes there is value in what real life managers have to say on the subject. What instruments/tools managers end up using (or recommend using) when identifying cultural differences, identifying key talent, and initiating integration process?

Again, it was essential to find out not only what tools were used, but also how they were chosen to be utilized in the integration process. Interviewees were thus asked how the results of CDD were used in their merger/acquisition.

Finally, interviewees were asked to provide their opinion as to CDD's importance within the industry they operate in with the aim to get more perspective.

LEARNING OUTCOMES:

The interviewees were then asked to elaborate on what learning outcomes they had after the M&A process was completed.

It was important to obtain interviewees' opinions on what CDD instruments/tools worked especially well to gain a deeper understanding of the CDD process and its effectiveness. During the pilot stage, the importance of interview as the most effective tool for gathering valuable data on key employees and prevalent culture were brought up. It was beneficial to observe if any other tools were named. Further, it was asked if availability of various sorts of data online and presence on social media were seen as useful when analysing target company's culture.

Finally, the interviewees were invited to elaborate on the perceived usefulness of the CDD as a tool in the entire M&A process. The interviewees were asked to provide their opinion on the benefits of conducting CDD and how they would go about determining the degree of success of conducting CDD. Depending on the amount of time passed after the merger or acquisition took place, any valuable insights from the CDD were discussed.

4 RESULTS

4.1 PILOT EXPERT INTERVIEW

Prior to gathering the principal data for the qualitative study, a professional in the field of M&A in Finland was consulted for the pilot interview. The pilot interview was useful in providing better understanding of the overall picture of M&A in Finland from a business point of view. In particular, the pilot interview yielded the following key learning points.

When being asked to share any particularly interesting aspects of M&A, the interviewee noted that Finland doesn't differ significantly from other developed countries when it comes to M&A core processes. However, according to the interviewee, there are certain peculiarities that can be identified:

> "What has happened between and that has been going, [M&A procedure has] aligned on a global basis, so the process is more or less the same in most countries

and where there are variations that really on the details etcetera. And in how they are negotiated."

"I think, there is a very sort of something also called as a Nordic way of doing things, which is a very pragmatic, straightforward way to really try to focus on making the deal, maybe instead of bargaining on every single detail in an attempt to try to gain every point that is to be negotiated, but rather try to focus on the really important stuff."

The above described "Nordic" approach could explain to some extent how CDD is viewed within Finland, namely that CDD is not perceived as a very important aspect of the merger or acquisition and need not be dealt with until other aspects of the transaction (perceived as being more important) have been addressed. The key to the issue may thus lie in convincing all parties to an M&A of the overall importance of CDD and/or its importance at earlier stages in the process.

Second, the pilot interview confirmed that there is an increasing awareness of CDD, but there remain obstacles to its actual implementation. The Interviewee opined on the topic by stating:

"I would say there is certainly an increased awareness about the relevance of understanding the cultures in the acquiring company and the target company."

"And that being said, now I'm only talking about the awareness, and that is not the same thing as what should they actually do about it. And… and the awareness, as we could report it means: In many, fairly many deals you would have the HR department of the acquiring company involved at some point of the transaction."

The above comments highlight the increasing interest in the topic on one end, and its juxtaposition to the actual steps taken to implement the CDD on the other end. There may be several obstacles on the way, however, and thus the semi-structured interviews identified elements that stand in the way of successful implementation CDD in merging organizations.

In order to further understand the environment of CDD in M&A, the interviewee in the pilot interview was asked to provide comment on the roles of various players in the M&A market, such as external advisors etc.

> "It's still fairly rare for some reason that you would have external advisors performing cultural due diligence. I've only come across one every now and then sometimes, but not, not very often."

The above statement was further explained by the fact that certain aspects of company's corporate culture can only be learned from within the company, and given the increasing pace of closing deals (Panda, 2013), an external advisor may not have enough time to learn the culture and thus CDD would be incomplete. On the other hand, as explained by Kotter (2007), sometimes it may be necessary for an external help to step in and establish a sense of urgency, as there might be "an almost universal human tendency to shoot the bearer of bad news," and managers may feel uneasy about taking the change initiative.

Kotter further explains his findings: "whether the starting point is good performance or bad, in the more successful cases I have witnessed, an individual or a group always facilitates a frank discussion of potentially unpleasant facts about new competition, shrinking margins, decreasing market share, flat earnings, a lack of revenue growth, or other relevant indices of a declining competitive position." It may thus be psychologically easier to have an external advisor to help with CDD as an adjunct to an internal M&A strategic group.

Third, the pilot interview confirmed that there is an element of intangibility when referring to or understanding an entity's corporate culture. To this point, the interviewee made an interesting point on the concept of understanding corporate culture, which reflects what was earlier discussed on the matter (see chapter 2):

> "You don't have a document, where it reads what is our culture. You have of course, you have the strategy, you have your mission, you have the company vision, you may have some policies, but what company's culture is it's honestly never seen or written down anywhere."

As a result, it was then later interesting to hear the opinions of managers (who execute M&A transactions within their organizations) as to the degree of their understanding of their own culture. In particular, whereas it is still important for answering the research question to see whether it is common for an acquiring company to assess a target

company's culture, it was also interesting for pivot study interviewees to elaborate on assessing their company's own culture before starting the M&A process.

Fourth, the pilot interview confirmed that there are obstacles (e.g., accessibility, willingness or ability to share information) to obtaining information on the company being acquired. To this point, the interviewee in the pilot program commented on the lack of involvement of the target company in sharing information about their corporate culture systematically:

> "The seller prepares a lot of financial reports, tax reports, legal report in order.. a technical report, business due diligence review in order to make it as easy as possible for the buyer and as fast as possible for the buyer to make a bid on the company that is on sale. But I have never ever seen a cultural due diligence report made by the seller side."

As mentioned earlier, one challenge of conducting CDD may be limited access to the target company's employees, and thus to conduct a valuable CDD, management of the company being acquired may need to be proactive in informing the buyer of any important aspect of their own culture during negotiation process. The interviewee, however, sounded rather optimistic about the future and predicted that a development will inevitably happen in that area:

> "but I think that is something that will eventually change because little that I mentioned also in my article because it you are more and more you're not acquiring fixed assets and a or that you acquire a business, but either you're acquiring technology or more and more people skills"

Fifth, the pilot interview demonstrated that the importance of CDD has become evident in many industries, even though it was earlier and primarily considered to be part of information technology (IT) world. According to the interviewee:

> "I think that's where it [IT] started, but then, at the moment considering the digitalization that's going over in most industries, and I mean within the financial sector or within the very traditional heavy industry sectors."

> "So that has changed. It started within the IT sector, but today it's relevant almost within any sector because, or at least should be. If it's not, then you are maybe you are maybe already falling out of the business."

A sixth learning point that didn't come up in the previously reviewed literature was the ownership type should be considered in M&A transactions. For example, it is not uncommon for family-owned companies to be involved in M&A activity in Finland. According to the interviewee, there is a higher potential of a cultural clash when one side of the deal is a family-owned company due to significantly different values and management style:

> "completely different kind of management that you would have in a family-owned company. And that may be something that you, that can say clash of cultures."

Lastly, the pilot interview underscored the importance of interviews for identifying key employees and the company's corporate culture. To this point, the interviewee in the pilot interview stated that some information on competitive advantage of the company cannot be seen from someone outside the company, and thus has to be sought from within by talking to people:

> "It is critical, of course, to understand, what the target company does, which are the critical functions, where does the money come from and why do the customers pay"

> "Typically, you don't find it in any paper, so you have to ask, and you have to understand the business model, you have to understand, what people there are"

> "To find this type of 'silent information', there's no other way than the interview […] because these key employees they may not be involved in the transaction in any way"

Overall, "interviewing the management, and the people, asking and asking the right questions" was said to be the most efficient and effective way to access such information.

The interviewee further added, that "sometimes the target company themselves hasn't paid attention to who the critical persons are." It may thus be essential for the management of any company to have an understanding of their culture, their key employees and perform a regular audit in order to be prepared in case being involved in an M&A becomes a timely strategic solution.

4.2 MAIN THEMES AND FINDINGS

Persistent themes to emerge from the interviews were strategy and culture's role in it, the importance of CDD, as well as its benefits and challenges, as perceived by the practitioners. Main themes were divided into seven categories and the coding table was created (please see appendix 2.)

It is important to note that each interviewee had a history of more than one M&A either in the same company or in his/her previous employment history and were thus able to provide insight on several transactions experienced in different managerial roles.

Mäkisalo (2009) concludes that active serial acquirers are capable of accomplishing several acquisitions throughout all economic cycles as the result of constantly developing acquisition routines and capabilities over time. Since the individuals participated in the subject study possess vast experience in the field of M&A, their capabilities are important in answering the research question.

4.2.1 THEME 1: STRATEGY AND DURATION OF PROCESS

DURATION

The companies included in the sample varied in size and industry, as well as the circumstances behind the deal and the size of the transactions discussed. It was necessary to indicate the timeframe, because it can be helpful to understand how the available time was allocated during the preparation phase and whether discussed transactions differ in the time available for planning.

The estimated time used on the planning stage ranged from just a few months to over a year, however, respondents were usually estimating it to be months, not years, in most cases. Such understanding is crucial to have a realistic picture on how and when could the CDD be applied in the planning stage. "This whole process was about four months" – as one respondent recalled. It was further explained by one manager, what that time is spent on:

"It is typically several months that we spend on the case. And that is of course not even by the due diligence as such, which is often performed quite fast, but it is then the negotiations and of course tactics involved and so on."

One interviewee presented the case where it was required to have a close cooperation with the potential target companies before the initial offer was made. Such process can be argued to substitute the cultural due diligence as it meets the same goals as CDD, i.e. gathering information on the targets, but is notably lengthier:

"And in both cases it took at least a year to have the dialogue, step by step with the owner about the possibility to, you know, that they could join *company*".

The interviewee than added that such approach, though very effective, cannot always be implemented as it requires a long-term planning and needs to be strategically justified. Some respondents were then juxtaposing the relatively short period of pre-deal phase to an integration phase and integrating cultures in particular:

"Of course, creating culture and developing culture always takes time, so it should be at least couple of years."

Therefore, there has been an agreement among the respondents that M&A is a lengthy process: even if the transaction is completed fast, an integration, that follows, always takes time. On the other hand, many agreed that if the management has done their home-work, the first signs of culture alignment have to be evident early on. A following example supports this statement:

"You can perhaps see, we can see already this year. Actually, even before the deal was done with this Dutch company, we saw that the work that our people and their people did together, started to make a difference to some customers. So, you see some signs of that quite fast."

The same respondent has suggested that introducing new personnel after the transaction is finalized can speed up the integration process:

"So, of course, those people come to the company, they start living the company culture without any baggage. So, back to your question, yes, in two-three years in best teams, people start to be one team. But what facilitates that a lot: if you start getting people from outside, so the new thing is kind of growing or being

able to hire people from outside, that is facilitating it."

STRATEGIC AIMS

The interviewees often returned to the theme of strategy behind the M&A. Sometimes it emerged in the interview as a mere statement of the reason behind the transaction:

> "We have an ambitious growth strategy and one way to reach the ambitious growth levels is M&A."

For serial acquirers, it is not uncommon to have a dedicated team conducting data collection on the potential acquisition targets (corporatefinanceinstitute.com, 2019). As one interviewee describes it:

> "It is good to know what's happening in the market, depending on whether we're actively looking for companies to buy, but that yet is one of the possibilities for the company to grow and to expand."

However, it was discovered that sometimes the culture of the target company may be exactly the sought element in the transaction. In such cases, the target company's culture is the one of the main reasons behind making the deal. This is what one respondent explained on the transaction of a few years ago, where the management team was seeking ways to execute changes in the strategy and target company's role in it:

> "The timing of the acquisition happened to coincide with the change we had ongoing for the rest of the *company*, where we were moving for more smaller entity responsibility and so-called end-to-end responsibility thinking. Dividing profit and loss responsibility for a smaller and more clear structures. And the culture at *target* before we acquired was definitely built that way."

Thus, the target company was meant to serve as a facilitator for the desired change. Another interviewee stated they were interested in the expertise of the target companies' personnel and that had driven the deals. It can be argued that again, a target company's culture presented an interest to the acquirer in this case as well:

> "So, we went after making small targeting acquisitions to bring in, you know, knowledge and competence on doing that type of business and offering that kind of business model to our customers. So that's the logic and we've done now two of these, and we're going to do more."

Regardless of the M&A strategy of the companies involved in the study, all respondents brought up culture when discussing strategy even though the actual approaches varied. One of the interviewees revealed that for the management of her company culture is seen to be as important as strategy:

> "There are two focus areas: one is strategy and the other is our common culture. So, creating it also very actionable, that what we need to do as leaders together to create a unified common culture for the company."

As evident from the comment, there's an attempt to do more than mere acknowledgement of the culture, but rather create an actionable plan, a strategy to implement. In that sense culture may be seen as a strategy. On that note, the respondent further added:

> "So, it's just really involving the people, taking people with you in developing as much as possible and different cultural elements, for example recognition tools or something that you're planning to be implementing within the whole company."

The theme of strategy took many forms, and it is worth noting that the respondents were very open about how the decisions were made before, during and after the transaction was completed. For example, one of the respondents admitted applying a very agile approach in several M&As. In particular, the management was prepared to make decisions based on the real-time situation:

> "In my view we always have to little bit wait and see and decide as we go."

The interviewee has advocated for the importance of staying alert, in addition to extensive preparation in advance, and to be ready to make adjustments to the plan at any time.

A great deal has been said on how the success in M&A can be measured. Indeed, if culture is to be examined as an element of strategy, there needs to be a way to measure the outcomes. A view supported by this respondent's interview comment:

> "And of course, if you have a plan, you need to measure what the successes are."

The manager then added, that oftentimes, the measure is the financial outcome:

> "If the ultimate testimonial is the financial equation, then I would say that I need to wait two to three years to start seeing that is this coming together."

According to another respondent, it is also important to keep re-evaluating progress after each milestone has been reached:

> "Re-evaluate, exactly! You know, in each milestone you realize, where are we with this? […] Do we need to put up more resources here, because this is not working and so on?"

Sometimes, the measurement of a successful culture integration is not as much the financial indicators, but rather the company brand from as well as added value as a result of a successful post-merger or post-acquisition integration. One interviewee revealed the next step the company is moving towards in their integration process:

> "We are now starting to work on the employer branding which is about creating the visibility and having the stories out there in our chosen social media channels."

It can be argued that brand value is as important as other financial indicators and can further justify paying attention to cultural alignment. As one respondent put it:

> "Culture is really the key for everything within the company, the company's success or results."

This is consistent with Bouchard and Pellet (2002), who stress that financial indicators do not show the whole picture and such critical elements of the business as core competencies and retaining the talent, as well as costs associated with loss of such competitive advantage in the long run are no less important than what can be spotted from the financial statements.

4.2.2 THEME 2: UNDERSTANDING OF CULTURE

The respondents were asked to elaborate on their understanding of culture as one evaluation criteria of the target companies. It can be argued that the respondents were to a certain

degree pressured to admit culture's importance as the study so suggested. However, many interviewees were able to provide detailed examples of how the cultural aspects were addressed in the M&A process they were a part of. The results varied from the rather general statements like:

> "We have a pretty good understanding, of course, about our values and the way of thinking";

> "of course, we had it on the table knowing that it's crucial part of any mergers and acquisitions"

to the more detailed responses:

> "We had a feel on the corporate company culture of *target*. We as a family-owned business and being a culture where the values are based on the fact that we do the things sustainably, through sustainable choices, so that we're here for the long-term and don't maximize the short-term profits and so on. And this was sort of the mindset that we thought that *target* might have in the DNA."

> "Whether the deal is either a success or not, is very much dependent on how well the culture, or cultural integration is done, so in that very/having that in mind it was one thing that was on the table from the very beginning. Something that we discussed with the core team but as well in the board, and with other key people."

Interestingly, several respondents mentioned family business as an important aspect when evaluating a target company, which is though consistent with the pilot interview findings:

> "We have a strong value base, we're also a family company, so we have certain family company values, we have very strong mission: our mission is to enable people's wellbeing in demanding indoor environments."

> "So, our evaluation was that if and when the merger would go through, it would create a positive opportunity from cultural point of view because of the fact that these companies, or at least couple of them, had a long family owned history."

It seems that respondents were unanimous about the positive impact of family values when evaluating the potential targets. Ceja et al (2010) explain that family-owned businesses usually share three main characteristics when it comes to values: they have a long-term perspective, put emphasis on collectivism and demonstrate a sense of stewardship. It can be argued that long-term orientation is crucial in the M&A context as transactions

may be viewed as a long-term commitment from the acquirer perspective and same should be expected from the target, making family-owned history an asset when evaluating the targets.

Although most agreed on the importance of understanding culture, cultural fit is often not the starting point in the negotiation process. As one respondent puts it:

> "The companies easily and most often start with, of course, if it's a strategic fit. I mean that how well the acquired company fits to the strategy you are pursuing, or you are trying to achieve in your company."

The respondent then further added:

> "And of course, as I said, cultural fit is important element strategically as well so in that sense your study is very interesting in my view."

There can be two extreme approaches of cultural integration, as explained by one of the respondents, i.e. "*letting the purchased company run as they have always done*" and *"imposing your ways of doing things immediately and 100 %"* as two ends of a spectrum of possibilities. According to the interviewee, this observation is important to keep in mind, since deciding on how much to force acquirer's culture and way of doing things on the target can be tricky and there are risks involved, especially with a more forceful approach:

> "If you do the latter one, you most probably will kill whatever is the culture in the company."

Including personnel of both acquiring and target companies in the decision making, i.e. letting the people decide what processes work best may be one way to navigate through resistance and achieve the 'best of two' equilibrium, as one other respondent has suggested:

> "On top of being a great place to work for employees where people really want to join and work for, is that they actually create the strategy together with the employees. So, it's not something that is defined in board meetings, but it's really something that again the talents are driving the strategy creation as well. So, they are very much linked – the strategy, and also the culture."

The perceived value of culture, and a desired end-state with such approach lies in keeping and attracting talent as one indication of a successful integration. This is evident from the following comments as shared by several interviewees:

> "And I think it's especially in today's world the culture is more and more important. I mean there's kind of a, you probably have heard that there is a discussion about talent war. [...] So you really need to be a company that shows that you have a strong positive culture, there's a purpose in your company. [...] When people are deciding if they want to invest their talent and time into your company. So, you really need to take these things seriously. Otherwise people might easily go someplace else."

> "Imagine yourself being in a company, which is being acquired. And you know that company's reputation as a company with good values and brilliant culture. Versus it being a company that you don't really know, what the company cultural values are. That will make a difference in how you will feel about the acquisition."

Understanding of acquirer's culture and putting emphasis on it prior to considering M&A transactions can thus be a powerful tool in facilitating the integration process if the transaction is to take place. As one respondent has added on acquirer's culture: "If a company has good culture and good values, that should be made an asset. In the integration as well." It was further described, that the personnel of the target company will be more prone to think positively about the acquisition if they believe the acquiring company has good culture and values. "So, culture certainly matters, and it matters a lot."

When talking about evaluating potential fit between the acquiring company and the target, several respondents have stated that differences in cultures seldom become a deal-breaker. However, there was a consensus that it can be more challenging to integrate a company with significantly different corporate culture. One of the respondents provided an example of the ways in which two cultures can differ from one another:

> "And these were sort of two kind of starting points that very nicely visualized the differences of the company cultures: there's X, much more informal, much more sort of agile, sometimes, you know, agile to the extent that it was not even good because you know, you didn't get the previous thing done before you were already going for the next one. So… and on the other hand there's Y, you know, big massive machine, which is not easy kind of make change the direction or stop doing something."

Such differences in operating styles may indeed be challenging to navigate through. It took years in the above case to digest the integration phase. Regardless of the initial resistance between teams, eventually the equilibrium is reached and only then is it safe to say whether the integration was successful. Here is an example of a successful integration of another company as shared by an interviewee:

> "But past five years it seems to have, you know, people have sort of fitted together and nowadays I couldn't know, unless I knew the history, I wouldn't know that, well, these guys are somehow different. They are somewhat different because they are from different country, they have whatever else different, but not from the kind of company spirit, values and culture perspective."

Interestingly, the above comment mentions country as one factor that could cause dissimilarities in companies' cultures, but this is not always the case, as same core values seem to be spread evenly between the acquiring company and target company upon integration regardless of initial country origin. However, it is worth noting that introducing employees from another country may change the culture dynamics in the acquirer's culture, as illustrated in the comment below:

> "Say, you're a company that is only based in Finland. And you acquire a company which gives you a global footprint. With brands, for instance. It will eventually, you know, create a different culture because of the fact that the diversity will change. Totally. And it might be that what you had here wouldn't work going forward."

4.2.3   THEME 3: IMPORTANCE OF CDD IN THE INTERVIEWEE'S INDUSTRY

Previous studies have investigated the use of cultural due diligence (e.g. Heinonen, 2019) and some of the findings in this research turned out to be consistent with them. The respondents were unanimous when it came to evaluating importance of CDD in the industry they operate in:

> "I think it's very important. The more understanding there is, in that phase, it's the better."

> "Definitely, I see that it will be beneficial to pay more attention to that."

> "I think it's important in this industry."

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Based on the responses, the understanding of CDD also doesn't seem to be an industry-specific question as perceived by the executives. One of the respondents summarized it as follows:

> "I would say that it's no matter what industry you're in, it's always an important question. It's not industry specific, it's always when you have people involved. As there are people in companies, there are also cultures. So, I don't see that as a, say, industry specific question."

As there were several industries represented in the study, the responses suggest that CDD could be utilized in any transaction regardless of the industry in question. However, the interviewees were seldom comparing their industry to other industries, so it can be argued there was a degree of bias in the responses.

One of the interviewees, who spoke in favor of conducting CDD to facilitate the post-merger integration (PMI), was doubtful about the strategy of not paying attention to culture as part of due diligence process:

> "I don't know how successful they [companies that don't look into cultural aspects] are in longer term. I don't know. Maybe in some industries it might be possible."

Further, none of the respondents provided insight on their industry's specific needs for CDD or what exactly they would be looking for culture-wise. Thus, no information was provided by the respondents to draw any assumptions on why CDD would be more important in their industry vs. other industries.

4.2.4 THEME 4: ON CONDUCTING CDD

Consistent with prior studies (e.g., Heinonen, 2019), systematic cultural due diligence was not a common practice among the studied companies. However, in most cases cultural fit was discussed in one or all phases of the M&A process, though not in a very systematic manner. This is how interviewees have described the seemingly common approach:

> "But I think even though we are not very systematic in capturing those cultural

differences, they come up in the discussions and then, for example, when doing the management meetings and presentations before the acquisition or during the process, definite there are elements that fall under this cultural header."

"Well, if we look at specifics on the cultural differences between these companies, of course, the first that was we didn't do a specific cultural due diligence. It was sort of a part of or embedded in the other areas of the due diligence."

"At least at that time and I'm not quite sure if it's a particular point in our due diligence or any kind of a study process still today to … at least to study things or investigate things under the cultural due diligence header. Of course, during the process we always look at it and things of course come up. It is, and it has not been a systematic area of focus, if I put it that way."

"But that said [...] we didn't do a specific cultural DDs, but embedded in the other parts of the DD and it was something that we discussed or had on a table, all the time in our minds. But not like a systematic in that sense systematic approach to doing a cultural DD."

Most of the interviewed executives expressed their increased interest in the concept of cultural fit. Lack of systematic approach was compensated by the overall awareness of cultural issues and willingness to ask questions to grasp the target company's culture in one way or another. Such questions were, for example:

"So, you really have to understand what, how is this company and what makes sense. How ready are the people here and what should you start with first? And then what could be the next step."

Some CDD frameworks (e.g. Carleton and Lineberry) suggest it is essential to analyze the culture of acquiring company prior to assessing potential targets. One respondent has agreed with such approach and demonstrated high cultural self-awareness when evaluating the cultural fit. It was perceived as a matter of high importance to have answers to the following questions, preferably already before evaluating the targets:

"Then the communication is also something: how do we communicate? Are we open, are we transparent? Are we sharing information, are we inviting people to join, to share their views? Is it in a way an open environment that we want to build? So that's also something that we have been trying to understand and are also further building of course the decision making, setting priorities, there's quite a lot of things that are under culture."

At the time interviews took place, the transactions being discussed were at different stages, from recently signed deals to acquisitions completed many years ago. In such cases, where companies were in the middle of the integration phase, respondents were reflecting on what could have been done during the planning phase to facilitate the integration process better. It was expressed by an interviewee that the cultural alignment needed more attention than previously received:

> "And this is now really the focus for us, also for me now for the couple of next years is to develop the common culture for the company. This is something that hasn't been done actively during the past couple of years."

Some answers suggest that cultural due diligence could be embedded in a strategic due diligence in order to be better understood from the business perspective. According to several respondents, culture was constantly discussed as a core element of the strategy evaluation:

> "So certainly, you need to do that, but I think trying to understand the logic of the deal – strategic logic and strategic fit of the deal is an early stage thing. [...] So that's one part, and then understanding the cultural fit and this kind of values fit – is second part of the early stage."

> "It was an easy to see: this mission alignment was there, but of course values alignment you needed to sort of observe, and observe by, you know, not only one person but few people."

Finally, it was expressed by one respondent that some information within the range of CDD may already be available when discussing potential targets. The key seems to be keeping fingers on the pulse in relation to the market, the competitors, the target customers and their needs, or to what is happening in the industry in general. Here is how this view is further explained:

> "If you buy somebody from the same sector, the companies are known, the companies´ ways of working are somehow known, so you can obtain information by perhaps interviewing some ex-employees, if you pick a contractor, you have in your network people who have been working in the company. "

It can thus be argued that sometimes information on a target company's culture can be gathered by paying close attention to the market and gathering companies' profiles could

be a part of the M&A capabilities - at least for the serial acquirers. Advantageously, Finland's small market size can make it easier to gather such cultural information.

4.2.5 THEME 5: PERCEIVED BENEFITS OF CDD

Generally, the idea of conducting CDD was taken well by the respondents and was met with enthusiasm. When asked to elaborate on what would be the main benefits of CDD, the following reflections were provided:

> "Well I mean, as at early stage, before you make the deal, then, you know, stay observant to those things exactly as you suggested. And theory suggested that, you know, have that as one of the evaluation criteria in your DD."

> "Yeah, but I think your sort of basic starting point, and theory starting point – I do agree with, you know, you need to do cultural due diligence. How cognizant you are or how specific you are on that one probably varies a lot. I mean, whether you don't talk about, but you actually… intuitively you do it."

> "It will make it very difficult for the new leader to lead with two legacy systems. But when you know that there is a plan to mitigate that, it makes it easier."

One of the respondents has confirmed that although no specific CDD framework was utilized, the target company's culture was discussed and studied and that provided positive result:

> "I think it gave us, or the conclusion that we came to, gave us at least the comfort that there are no bigger obstacles or no bigger differences that we couldn't get over in the culture of a target company."

Some examples were provided on the cases where the company decided to abstain from making the transaction based on the uncovered ethical differences:

> "We have not pursued in some cases where we have seen that the ways of doing business are not in line with our values. But it has been that mostly ethical or regulatory point of view than culture, cultural things themselves. But of course, they are quite closely related."

However, to the majority of the respondents, apart from ethical and safety issues, cultural differences were seldom considered to be a deal breaker. This is how some executives explain it further:

> "And maybe it's not a deal killer if the culture is not fitting, but something you just understand early enough that there might be a lot of work that needs to be done. In order to create the common culture. [...] I see it only as a positive thing. To know it early enough."

> "Factually, if a company plans to acquire another company, the decision will probably not be based on cultural fit only. But that will hopefully be a consideration upon the decision-making."

As the result of discussions, some interviewees have expressed interest in developing a simplified CDD framework internally given its obvious advantages:

> "But it would be really good now maybe for the next one to develop something."

The interviewees were rather unanimous about what approach would work best from the practitioners' point of view. The common inclination was towards a simplified and not a time-consuming framework for conducting CDD:

> "I mean we don't need to kind of make it more scientific."

> "If it's not something that is too complicated, I think it would be something that would be welcomed."

Based on the responses, the framework proposed by Carleton and Lineberry (2004) may be perceived as too time-consuming. On the other hand, practitioners would prefer a tool that would uncover the target's culture in detail:

> "So of course, if there are tools that can help in understanding the culture of the target company more thoroughly, that is something that would be very valuable."

Further, it was well acknowledged among the respondents that resources need to be consciously allocated to evaluating the cultural aspects of the transaction as well as planning the integration phase:

"If culture is important and you really believe in having a solid good culture which helps to attract people and retain people and also develop people which is the key that should be for all the companies to be successful in any marketplace. Then you just should ensure that you have also the resource, or the person in the due diligence phase that is focusing on these topics."

"You need to work on it, not only before, in assessing, but then thereafter. Especially in a case of you want to really create a kind of new company out of two companies."

Overall the respondents voiced high rate of M&A failure as the result of poor cultural compatibility/integration to be one of the main motivators for actively looking into cultural issues.

4.2.6 THEME 6: OBSTACLES/CHALLENGES TO CONDUCTING CDD

When the concept of CDD was brought up during the interviews, respondents were encouraged to openly discuss what has prevented them from fully conducting the CDD for their latest transactions. It turned out that certain themes prevailed in the responses. In particular, one of the main reasons was claimed to be difficulty to access the information required. The following comments were received:

"The problem is that when you are in an acquisition process you don't have an access. Yes of course you need to maintain the confidentiality, especially if the acquired company is listed, and since we are listed, so you don't have the… and of course, from the tactical and purely from the antitrust regulation point of view you do not have the full access to the acquired personnel before day one."

"It's very restricted, yes, what information you can share and what information you can give prior the deal is closed. But those I think would be questions that is something that you can still address or ask before."

"Obviously in a merger like that you will have a certain amount of people who are under the NDAs and so on, unable to work on, you know, preparations. Cause you can't involve everybody."

As further described by one respondent, the information that can be gathered before the deal is closed is often insufficient to uncover the intangible cultural elements regardless of the efforts put into gathering data:

"But then of course in many cases we really start to know the company only after we have acquired it and we open the front door. So, the everything so far has been based on desktop studies, the yes meeting two key individuals in a company, and maybe seeing them behaving on a market but what and how is the culture really in a company, real realization of that only starts from day one."

Another theme that appeared was the uncertainty about the tools or framework to be used for the CDD, which could explain why some respondents admitted they had no systematic approach to this day:

"To be honest, I haven't considered which kind of framework could it be done under. I mean that what type of aspects should be taken, because of course we are paying quite a lot of attention to HR issues in general but it's more regulatory and compensation and benefits related aspects than cultural or more soft aspects."

"But I'm not sure if there is a tool that can help in that or is that just something that you need to dig out when having the discussions with the management. And the reports that you see, trying to understand from putting those pieces together and trying to understand who are the key people to bear in mind when we start moving forward with the process. But I don't know if there's tool for that."

According to Panda (2013), it is fairly common for practitioners to rely on their intuition when assessing the cultural aspects. Panda concluded this is partially due to absence of a systematic knowledge about the cultural diligence process. However, the importance of the intuition should not be overlooked. Successful cultural integration is only partially skill-dependent (Bridge, 2018), and would suggest the increased importance of the leadership's capabilities in the evaluation and decision-making process.

In some instances, however, the very idea of conducting the CDD has yet to be adopted by the relevant executive team:

"For example, for the question four (how much time would you estimate was spent on evaluating?), I don't think this is yet highly on the agenda. I don't think it's enough time that is been spent on understanding what the cultural differences are. Because it's also mostly the people that are running the M&A are very financial focused and are very kind of in that way strategic focused."

"So, I think you really have to have somebody who believes that it has to be on the agenda and can take it into an actionable plan. That you really start doing different actions and have the culture as part of the agenda."

Ultimately, based on the responses, there seems to be a unified perception that every transaction has to be approached in an individual manner. As stated by one of the respondents:

"There is no one-size-fits-all. It's really something that you have to tailor."

It is up to the company's management how much effort will be put into tailoring an actionable plan to evaluate the cultural side of the transaction.

4.2.7 THEME 7: INSTRUMENTS/TOOLS USED

Cultural data can be gathered using various tools, such as observation, interview, focus group discussion etc. (Panda, 2013). Additionally, information available in public domain can be used to amplify the findings. Such information will have to be obtained through desk research and internet search. The respondents provided several approaches towards managing the post-merger integration, but also gave insight on what can be done in advance at the pre-purchase stage to facilitate the integration process. Interestingly, thus far, rather similar responses were received from the interviewees across other themes (themes 1-6 above), however, when asked to share useful tools, respondents revealed a wide range of techniques that may be useful for other practitioners to consider. These tools can be divided into the following subsections: evaluating the target; communicating change; leadership and vision; and involving people.

EVALUATING THE TARGET

The subject study asked respondents to indicate what tools and frameworks were used in evaluation of target company's culture. The following insights were obtained:

"If you take a bit of time to understand how the company is in different channels, where every company should be today. To get a good feel."

"I think you could easily build some key questions around the different cultural aspects or topics: which is building on the feedback, which is openness on the transparency, which is also maybe onboarding new employees, reasons for exit."

"The main source for trying to understand culture was of course the management

presentations and then the meetings with the management of *target* to understand culture, because to be able to understand culture there you will need to see the people."

As evident from the above comments, data was mainly obtained from public domains as well as from management of the target company. It is important to note that oftentimes executives could not name any specific frameworks that were used while evaluating the target companies during the interviews. However, there seemed to be an understanding regarding what is the sought information these various tools were used to unveil. Executives provided the following insights regarding the matter:

"I can't remember, you know, exact tools per say, what they were called. But there were various ones: cultural diagnostics, cultural workshops and integration workshops, understanding where are we now, where do we wanna be, what do we need to have ready by certain dates. In order to facilitate this whole transition."

"So, we should identify those opinion leaders. So, in any change, and in mergers and acquisitions we should be mindful of the fact of who are the opinion leaders in an organization and really engage with them. And convert them into believers, if they're not, if possible."

One interesting instrument for comparing the cultures of the acquiring and target companies was explained by a respondent. Namely, during one of the workshops management teams of merging companies were asked to draw a picture of their companies' cultures. These pictures were then compared and discussed. According to the manager involved in the workshop, the outcome of such practice was valuable in bringing up the differences and similarities of the examined cultures. When asked if the subject tool is worth using again, the respondent admitted considering the tool for future cases as well due to its demonstrativeness:

"But the methodology itself is worth considering, because it's kind of fun way of picturing how are we, how are they, and you know, then you can perhaps start to think about making a picture that ok, how would we be like when we then are together. As you know, visual images are actually powerful to kind of convey the message to people in both companies and the new company."

Finally, as brought up by one executive, it is crucial to maintain a true and fair view of the obtained data during the transaction. It was explained that the management of the

acquiring company may feel pressured to execute the deal and, as a result, act intuitively. The following comment illustrates the fact that regardless of what research says about best due diligence practices, transactions are executed by humans and the decisions will be subjected to human factor:

> "What however happens often is that then the appetites or eagerness to close the deal gets bigger and bigger and bigger the closer we get, and then there is temptation to become a little bit blind on issues you will start seeing or hearing, so being honest to yourself… That ok, is that what you see, what you… find out still fitting the deal. And then then also not overloading the expectations once you have known more for under the pressure of your management or your board."

COMMUNICATING CHANGE

Respondents were asked to specify the types of activities intended to facilitate the integration process. A great deal was said on the importance of communication. As one executive put it:

> "It is important to demonstrate that the things are going to change once the acquisition has happened."

Amongst others, communication was said to be an important tool in engaging the personnel of both companies and demonstrating the new common ways of doing things. It was said that tailoring the message to fit the audience is something that would make new practices more understandable throughout organizations and departments. Communication was further claimed to be the main tool in involving the target company's employees in building new common culture:

> "Communicate as actively as possible internally for all the employees involved within target as well as in on our side."

> "And it's very important that we will tailor the message to fit the audience."

To enable familiarization of the target company's employees to the acquirer's culture, one practitioner has introduced a concept of "cultural ambassador" – a manager who is sent to be part of the target company to help smoothen the integration and represent the acquiring company's way of doing things.

It's worth noting that communication does not have to be verbal to be effectively utilized as a facilitator of change. According to Gkorezis et al. (2015), nonverbal communication represents one of the core elements of the interactions between leader and follower in an organization. In support of the findings of Gkorezis et al., one interviewee suggested the following approach that has been proven effective in her organization:

> "I would also encourage that you would want to give people a signal about something changes also in the physical workplace. Say, as an example, on the day of the integration that there is a ceremony or something in the physical locations where people are at. And that will make it positive and somehow that the organization sees that this is now a beginning of something new."

While many of the comments relating to communication referred to the integration phase, one respondent advocated for using communication in building trust between the management teams prior to completing the deal:

> "Build trust. It's the owner, it's the entrepreneur whose life worth is down there. [...] So, you know, he needs to have trust that *company* will then treat his company well."

LEADERSHIP + CREATING VISION

The importance of leadership was evident from the responses. The interviewees shared successful techniques for leading change in their organizations, which can be implemented to some extent already during the planning stage. Some of the described techniques used by the interviewees in their transactions resemble Kotter's steps of leading change. For instance, the below comments fit under the following steps of Kotter's model:

Form a powerful coalition: "Starting with the leaders. The new leaders of the new company, who will have to cast the right kind of shadow. So, you first start involving the leadership, the new leadership, showing the example."

Create a vision for change: "So, values that were created then might be very valid still from what they intend, but since then we've acquired X, we've acquired Y and so on. It makes sense. The world has also changed. So, it makes sense to actually have a look at. I'm not encouraging to change the values very frequently, but when it makes sense." And "it's not that you take away old values saying that they were bad. By no means. Usually, there's nothing wrong with the old values, but just maybe the wording, or how they've been described, no longer fits."

Communicate the vision: "And I think culture is very easy, because there we don't require, you know, technical knowledge or know-how from people, but you know, engage people in discussions about what being in the new company about. Bring people together, facilitate those discussions, facilitate the cultural integration process."

Remove obstacles: "The top management showing face to the people, creating confidence" and "make sure that there is no room for rumors and things like that."

Create short-term wins: "And then I think focusing on positives. I think it's good to really share short wins or best practices and focus on positives that are happening because then you get to also have the people that are not so much supportive for changes" and "whenever there is something positive that happens, you know, make that known. And I think there are really good tools there like, you know, companies nowadays use a lot of yammer, and this kind of company internal social media platforms for communications where people can be sharing."

Additionally, one respondent has mentioned benchmarking companies that earned "best place to work" award to be a good practice when evaluating or developing culture of the company:

> "There's a process, and there's some criteria that you select the best place to work. And that is something you can use when attracting employees to work for you. And that's actually a really nice way of putting it in a very concrete way and showing and seeing examples, how the companies that have been identified as really a great place to work. What they have done in terms of developing the culture."

INVOLVING PEOPLE

Some researchers (e.g. Panda, 2013) further spoke in favor of continuously engaging key talent of the target company as one of the most effective ways to deal with culture clash or any resistance. The similar view was shared by all interviewees, as the practitioners have faith in the method of putting people to work in common projects, if they haven't done that already before. This can be achieved by staying alert to what are the expectations of the employees. In order to gain better understanding thereof, surveys and questionnaires have been used as brought up by one executive:

> "We've just run a culture survey asking from all our employees input where are we today in terms of our common culture. And what should the culture for *company* look like."

One respondent spoke in favor of encouraging employees to share positive experiences with peers and argued that peer-to-peer communication may be perceived as more credible and thus more effective than the communication received from the top management:

> "When employees are engaged in promoting the new values, the new culture, the positives, then that's when we start getting momentum and credibility."

Involving people can be achieved in different ways and as one executive has pointed out, people work with systems, and thus systems play a vital role in communicating the change after the transaction is completed:

> "And in my view, one of the key things for a successful integration is related to systems. [...] Obviously, you know that the people part is very important. But then, you know, since we on a day to day basis, we work with systems, whether that's an intranet, or a phone book, mailing system. If you're left without that integration for a long time, the integration doesn't happen properly."

4.3 SUMMARY OF FINDINGS

Interrelation between the culture and the strategy was evident from the responses of the executives interviewed. The best M&A results were obtained by the interviewees when culture was perceived as part of the strategy for an acquisition or merger. Oftentimes this has had a positive effect on the integration phase as well.

Duration of the process was reported to have an impact on the amount of attention paid to the cultural aspect of the transaction. The more time was available prior to closing a deal, the more detailed insights on the target's culture were obtained by the respondents. As reported, depending on the strategy chosen, the extensive amount of time was not available to the executives in some cases. However, routinely conducting data collection on the potential targets was suggested as one way to reduce the time required to make a decision when M&A becomes a timely strategic move for an organization.

Based on the obtained responses, CDD doesn't seem to be an industry-specific question to executives. Further, culture is not perceived as a deal-breaker, but interviewees have

agreed on the importance of addressing it early on in the M&A activity to ensure a better outcome of the transaction.

Respondents shared a wide range of techniques and tools on evaluating the target, communicating change, leadership and creating vision, as well as involving people of both acquiring and target organizations. These tools were utilized in the studied organizations and were designed to serve as a substitute to a formal cultural due diligence practice. Actionable examples of what has been done at the pre-purchase stage to facilitate the integration process were provided.

4.3.1 RECOMMENDATIONS TO PRACTITIONERS

Mergers and acquisitions being discussed in the interviews have all followed individual paths in terms of how the cultures of these companies were identified and addressed. The variety of techniques shared by the respondents can be explained by arguing that every case is individual but may also indicate that there is yet no established model of conducting CDD amongst the Finnish companies interviewed. Some successful practices, however, have been suggested by the interviewees, namely:

- Target company's profile can be gathered by paying close attention to the market;
- CDD could become a part of M&A capabilities for serial acquirers;
- Making culture part of the strategy makes it more tangible and actionable;
- Turning acquirer's culture into an asset facilitates integration;
- Paying attention to systems integration is helpful in communicating the change to the employees and facilitates the cultural integration;
- Including personnel of both acquiring and target companies in the decision-making helps lessen resistance;
- Introducing new personnel after the transaction is finalized can speed up the integration process; and
- Building trust as early as feasible may lessen the hostility between the employees.

The above list, though not exhaustive, may serve as a memo and a base for a more extensive actionable plan for the practitioners to develop considering the effective practices during the pre-purchase stage.

5 DISCUSSION

Many of the findings of the present study are consistent with prior research. In particular, Panda (2013) suggests that since cultural problems usually arise only after the transaction is completed, more emphasis is being put on integration phase than preparation phase as it may be easy to underestimate the amount of effort and resources needed to unveil major potential issues and plan for addressing them than to deal with issues when they arise. It can also be argued that, like Stahl et al. (2005) has pointed out, focusing on cultural differences may serve as an obstacle to integration. It seems that development of a 'new corporate culture' is still a priority among the practitioners interviewed for this study.

Giessner et al. (2012) further argues that identification with pre-merger organization has a tendency to hinder the integration process and therefore it is recommended to encourage a unified post-merger identification across the employees of both companies. Some of the practices shared by the respondents (e.g. engaging people in common projects, creating updated common values, making physical changes in the workspace etc.) intuitively follow this proposition. This can partially explain why cultural due diligence is perceived less important than tools targeted at facilitating integration process.

According to Webster, K.M. (2010) organizational culture is perceived as less relevant from the employee perspective because only tangible, direct and personal aspects of the organizational change will make a difference to the personnel. Webster, K.M. suggests that cultural due diligence alone won't ensure successful post-merger integration, but practitioners should be paying attention to tools and methods that are designed to address employee engagement. It is recommended to communicate and engage line managers at all levels early on.

Respondents of the subject study who had a background in human resource management appeared to be most motivated and prepared to utilize such tools. Interestingly, those same

respondents were also the ones advocating for use of CDD the most. This is consistent with the proposition of Rodríguez-Sánchez et al. (2018) to include HR professionals as part of the M&A strategic team in the earliest stages of M&A.

Denison, et al. (2011, p.102) proposed that the first step of the entire M&A process should be an understanding of how well does the proposed transaction fit with the culture and growth strategy of the company. According to Denison, et al. such approach ensures that cultural issues are being addressed throughout the entire process – from evaluating potential targets to integration phase. It is evident from the results of the study that culture and strategy are dependent on one another for the majority of the interviewees.

The impact of family values when evaluating the potential targets was brought up initially in the pilot interview. According to a study conducted by Small Business Institute of the Turku School of Economics and Business Administration in 2003, being a family business could provide a competitive advantage among the Finnish SMEs (Elo-Pärssinen, 2004). Such observation can be valuable for the M&A activity in Finland and can be supported by the interviewees, who have either identified themselves as a company with family values or favored those when identifying the target companies or both.

The limitations of the present study naturally include a small sample size of participants and therefore do not allow one to generalize the findings to a population. Nevertheless, the scope of M&A activity in Finland is limited as well, which enables to spot trends even from a small sample of the respondents.

It can be argued however, that the responses were subject to social desirability bias which thus may have interfered with the interpretation of average tendencies to some degree.

One of the main issues of conducting Cultural Due Diligence from the practitioner's viewpoint appears to be finding a balance between wanting detailed report with minimum time invested. Further studies may be necessary to identify the optimal level of involvement in the cultural due diligence process by the practitioners to efficiently allocate time during the pre-deal phase.

Another suggestion for future research can be applying social identity analysis (SIA) to the Finnish companies undergoing post-merger integration process. It would be particularly interesting to study the serial acquirers and how do the employees of such organizations identify themselves throughout several mergers or acquisitions.

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APPENDICES

APPENDIX 1. Interview guide.

RESEARCH QUESTION: **What are the perceived benefits and challenges of conducting Cultural Due Diligence prior to a merger/acquisition for the acquiring company?**

INTERVIEW QUESTIONS:

BACKGROUND

1. Who: experience, position, level of responsibility/involvement in M&A?
2. Were you more involved in the decision process of an M&A, implementation thereof, or both?
3. What was the motivation for making the transaction? For example, did the motivation relate to Growth/Synergy/Diversification/Horizontal integration/Defensive measures/Pressure to do a transaction/other?

PROCESS OF CDD

4. Was the idea of conducting the cultural due diligence taken well by the remainder of the management team?
5. How much time was spent on evaluating cultural differences between the relevant companies before moving forward with the M&A?
6. What is your view on evaluating both the acquiring company's own culture as well as the one being acquired before moving forward? Based on your experience, were there core differences spotted during the CDD that needed to be addressed?
7. CULTURE CLASH: What is your view on cultural differences, and what is one way to minimize their impact on a merger/acquisition?
8. What instruments/tools were used (or do you recommend using) when identifying cultural differences, identifying key talent, and initiating integration process?
9. What is your opinion as to CDD's importance within your industry?
10. How were the results of CDD used in your merger/acquisition?

LEARNING OUTCOMES

11. What CDD instruments/tools worked especially well?
12. What were the benefits of conducting the CDD prior to the merger/acquisition? (OR In what ways was the merger/acquisition improved as a result of conducting the CDD?)
13. What were the most challenging issues in the CDD and/or what could have been done differently in the CDD?
14. Did you gain any valuable insights from the CDD after time passed? When is it safe to say whether the subject merger/acquisition was a success or not?
15. How would you go about determining the degree of success of conducting CDD during a merger/acquisition?

APPENDIX 2. Coding table.

	STRATEGY AND DURATION OF PROCESS
IW1	"It is typically several months that we spend on the case. And that is of course not even by the due diligence as such, which is often performed quite fast, but it is then the negotiations and and of course tactics involved and so on." "The timing of the acquisition happened to coincide with the change we had ongoing for the rest of the *company*, where we were moving for more smaller entity responsibility and so-called end-to-end responsibility thinking. Dividing profit and loss responsibility for a smaller and more clear structures. And the culture at *target* before we acquired was definitely built that way." "In my view we always have to little bit wait and see and decide as we go."
IW2	"This whole process was about four months" "We have an ambitious growth strategy and one way to reach the ambitious growth levels is M&A."
IW3	"There are two focus areas: one is strategy and the other is our common culture. So, creating it also very actionable, that what we need to do as leaders together to create a unified common culture for the company." "So, it's just really involving the people, taking people with you in developing as much as possible and different cultural elements, for example recognition tools or something that you're planning to be implementing within the whole company." "And of course, if you have a plan, you need to measure what the successes are." "Of course, creating culture and developing culture always takes time, so it should be at least couple of years." "We are now starting to work on the employer branding which is about creating the visibility and having the stories out there in our chosen social media channels."
IW4	"So, we went after making small targeting acquisitions to bring in, you know, knowledge and competence on doing that type of business and offering that kind of business model to our customers. So that's the logic and we've done now two of these, and we're going to do more." "And in both cases, it took at least a year to have the dialogue, step by step with the owner about the possibility to, you know, that they could join *company*" "So those then, you know, you can perhaps see, we can see already this year. Actually, even before the deal was done with this Dutch company, we saw that the work that our people and their people did together started to make a difference

	to some customers. So, you see some signs of that quite fast, but of course the… if the ultimate testimonial is the financial equation, then I would say that I need to wait two to three years to start seeing that is this coming together." "So, of course, those people come to the company, they start living the company culture without any baggage. So, back to your question, yeah, in two-three years in best teams people start to be one team. But what facilitates that is a lot: if you start getting people from outside, so the new thing is kind of growing or being able to hire people from outside, that is facilitating it. "
IW5	"It is good to know what's happening in the market, depending on whether we're actively looking for companies to buy, but that yet is one of the possibilities for the company to grow and to expand. Obviously, following our strategy, you know, following and the thinking of where do we want to play. Which are possibly new categories that we want to enter, or what is complementing our existing portfolio." "We started really actively, um, it was even longer than six months I have to say." "You will start seeing signs of certain parts being successful, you will start seeing signs – others not really. Cause you will set yourself certain targets along the way. So, what do we wanna achieve by when? And what do we consider being successful and what not. And there will be surprises along the way. There will be people who choose to leave, there will be people who will, you know, change jobs, and so on. " "And in my view, one of the key things for a successful integration is related to systems. [...] Obviously, you know that the people part is very important. But then, you know, since we on a day to day basis, we work with systems, whether that's an intranet, or a phone book, mailing system. If you're left without that integration for a long time, the integration doesn't happen properly."

	UNDERSTANDING OF CULTURE
IW1	"We have a pretty good understanding, of course, about our values and the way of thinking" "The companies easily and most often start with, of course, if it's a strategic fit. I mean that how well the acquired company fits to the strategy you are pursuing, or you are trying to achieve in your company." "And of course, as I said, cultural fit is important element strategically as well so in that sense your study is very interesting in my view." On two opposite approaches, "letting the purchased company run as they have always done" and "imposing your ways of doing things immediately and 100 %": "If you do the latter one, you most probably will kill whatever is the culture in the company."

IW2	"Whether the deal is either a success or not, is very much dependent on how well the culture, or cultural integration is done, so in that very/having that in mind it was one thing that was on the table from the very beginning. Something that we discussed with the core team but as well in the board and with other key people as well." "Of course, we had it on the table knowing that it's crucial part of any mergers and acquisitions." "We had a feel on the corporate company culture of *target*. We as a family-owned business and being a culture where the values are based on the fact that we do the things sustainably, through sustainable choices, so that we're here for the long-term and don't maximize the short-term profits and so on. And this was sort of the mindset that we thought that *target* might have in the DNA." "So, our evaluation was that if and when the merger would go through, it would create a positive opportunity from cultural point of view because of the fact that these companies, or at least couple of them, had a long family owned history."
IW3	"On top of being a great place to work for employees where people really want to join and work for, is that they actually create the strategy together with the employees. So, it's not something that is defined in board meetings, but it's really something that again the talents are driving the strategy creation as well. So, they are very much linked – the strategy, and also the culture." "Because culture is enabler, and it's helping you to get where you want to go." "I think culture is really the key for everything within the company, the company's success or results." "It is embedded in everything."
IW4	"We have a strong value base, we're also a family company, so we have certain family company values, we have very strong mission: our mission is to enable people's wellbeing in demanding indoor environments." "And these were sort of two kind of starting points that very nicely visualized the differences of the company cultures: there's X, much more informal, much more sort of agile, sometimes, you know, agile to the extent that it was not even good because you know, you didn't get the previous thing done before you were already going for the next one. So… and on the other hand there's Y, you know, big massive machine, which is not easy kind of make change the direction or stop doing something." "But past five years it seems to have, you know, people have sort of fitted together and nowadays I couldn't know, unless I knew the history, I wouldn't know that, well, these guys are somehow different. They are somewhat different because they are from different country, they have whatever else different, but not from the kind of company spirit, values and culture perspective."
IW5	"And I think culture is very easy, because there we don't require, you know, technical knowledge or know-how from people, but you know, engage people in discussions about what being in the new company about. Bring people together, facilitate those discussions, facilitate the cultural integration process."

	"So, culture certainly matters, and it matters a lot." "I believe nowadays more and more companies have understood the power of and the importance of values and culture." "The company cultures and values, and that fit with the employee and so on is becoming more and more important in the race for, you know, top talent. And people's contribution." "Imagine yourself being in a company, which is being acquired. And you know that company's reputation as a company with good values and brilliant culture. Versus it being a company that you don't really know, what the company cultural values are. That will make a difference in how you will feel about the acquisition." "If a company has good culture and good values, that should be made an asset. In the integration as well."

	IMPORTANCE OF CDD IN INTERVIEWEE'S INDUSTRY
IW1	"Definitely, I see that it will be beneficial to pay more attention to that."
IW2	"I would say that it's no matter what industry you're in, it's always an important question. It's not industry specific, it's always when you have people involved. As there are people in companies, there are also cultures. So, I don't see that as a, say, industry specific question."
IW3	"I think it's very important. The more understanding there is, in that phase, it's the better." "I don't know how successful they [companies that don't look into cultural aspects] are in longer term. I don't know. Maybe in some industries it might be possible."
IW4	"I'm not sure in my own mind if that is really industry dependent. I think it's important in this industry." "It is important, it is one of the catalysts for, you know, that can then mean failure or success."
IW5	"If you want to make people feel that they're part of something, you have to bring them in and think about what does it mean to your culture, what's the desired culture did you wanna have. Absolutely. I don't think there's any industry that shouldn't think about it, because I think culture is about people. And any business is about people."

	ON CONDUCTING CDD
IW1	"At least at that time and I'm not quite sure if it's a particular point in our due diligence or any kind of a study errr process still today to … at least to study things or investigate things under the cultural due diligence header. Of course, during the process we always look at it and things of course come up. It is, and it has not been a systematic area of focus, if I put it that way."

	"But I think even though we are not very systematic in capturing those cultural differences, they come up in the discussions and then, for example, when doing the management meetings and presentations before the acquisition or during the process, definite there are elements that fall under this cultural header."
IW2	"Well, if we look at specifics on the cultural differences between these companies, of course the first that was we didn't do specifically errr… a specific cultural due diligence. It was sort of a part of, or imbedded in the other areas of the due diligence." "But that said [...] we didn't do a specific cultural DDs, but embedded in the other parts of the DD and it was something that we discussed or had on a table, all the time in our minds. But not like a systematic in that sense systematic approach to doing a cultural DD."
IW3	"So, you really have to understand what, how is this company and what makes sense. How ready are the people here and what should you start with first? And then what could be the next step." "And this is now really the focus for us, also for me now for the couple of next years is to develop the common culture for the company. This is something that hasn't been done actively during the past couple of years." "Then the communication is also something: how do we communicate? Are we open, are we transparent? Are we sharing information, are we inviting people to join, to share their views? Is it in a way an open environment that we want to build? So that's also something that we have been trying to understand and are also further building of course the decision making, setting priorities, there's quite a lot of things that are under culture. "
IW4	"So certainly, you need to do that, but I think trying to understand the logic of the deal – strategic logic and strategic fit of the deal is an early stage thing. [...] So that's one part, and then understanding the cultural fit and this kind of values fit – is second part of the early stage." "It was an easy to see this mission alignment was there, but of course values alignment you needed to sort of observe, and observe by, you know, not only one person but few people." "If you buy somebody from the same sector, the companies are known, the companies ways of working are somehow known, so you can obtain information by perhaps interviewing some ex-employees, if you pick a contractor, you have in your network people who have been working in the company. "
IW5	"It will make it very difficult for the new leader to lead with two legacy systems. But when you know that there is a plan to mitigate that, it makes it easier." "Obviously we're constantly looking at companies that are on sale and whether they're interesting and whether we have now the need or possibility, you know, the same resource wise and so on to make such a decision." "So, we should identify those opinion leaders. So, in any change, and in mergers and acquisitions we should be mindful of the fact of who are the opinion leaders in an organization and really engage with them. And convert them into believers, if they're not, if possible."

	"So, we should count on having top management, key opinion leaders in the organization, on both sides, engaged and committed to the program. " "There is no one-size-fits-all. It's really something that you have to tailor."

	BENEFITS PERCEIVED OF CDD
IW1	"Potentially yes! It definitely would add value, but that then depends on which way that will be conducted." "We have not pursued in some cases where we have seen that the ways of doing business are not in line with our values. But it has been that mostly ethical or regulatory point of view than culture, cultural things themselves. But of course, they are quite closely related."
IW2	"I think it gave us, or the conclusion that we came to, gave us at least the comfort that there are no bigger obstacles or no bigger differences that we couldn't get over in the culture of a target company." "So of course, if there are tools that can help in understanding the culture of the target company more thoroughly, that is something that would be very valuable."
IW3	"And many of the mergers fail because of the culture. Because the culture is not maybe being evaluated when the decisions are… before the decisions are made. Or after the decisions are made it's not something that is acted on to create the common culture." "But it would be really good now maybe for the next one to develop something." "If it's not something that is too complicated, I think it would be something that would be welcomed." "And maybe it's not a deal killer if the culture is not fitting, but something you just understand early enough that there might be a lot of work that needs to be done. In order to create the common culture. [...] I see it only as a positive thing. To know it early enough." "If culture is important and you really believe in having a solid good culture which helps to attract people and retain people and also develop people which is the key that should be for all the companies to be successful in any marketplace. Then you just should ensure that you have also the resource, or the person in the due diligence phase that is focusing on these topics." "And I think it's especially in today's world the culture is more and more important. I mean there's kind of a, you probably have heard that there is a discussion about talent war. [...] So you really need to be a company that shows that you have a strong positive culture, there's a purpose in your company. [...] When people are deciding if they want to invest their talent and time into your company. So, you really need to take these things seriously. Otherwise people might easily go someplace else."

IW4	"I mean we don't need to kind of make it more scientific."
	"Yeah, but I think your sort of basic starting point, and theory starting point – I do agree with, you know, you need to do cultural due diligence. How cognizant you are or how specific you are on that one probably varies a lot. I mean, whether you don't talk about, but you actually… intuitively you do it."
	"So, from that perspective I'd say absolutely – do execute consciously cultural due diligence, have that a key part of your checklist. How you do it depends then a lot, you know what's the kind of ... case in hand."
	"you need to work on it, not only before, in assessing, but then thereafter. Especially in a case of you wanna really create a kind of new company out of two companies."
	"Well I mean, as at early stage, before you make the deal, then, you know, stay observant to those things exactly as you suggested. And theory suggested that, you know, have that as one of the evaluation criteria in your DD."
IW5	"Absolutely! I think, the cultural bit is becoming more and more important. For a company to succeed, or not to succeed. Factually, if a company plans to acquire another company, the decision will probably not be based on cultural fit only. But that will hopefully be a consideration upon the decision-making."
	"A lot of effort has to be put into that anyways, the people bit. But if you know that we're talking about, say, historical clashes between cultures, due to wars and other factors. And then plus, you know, the different heritages of the companies, very different, the values being very different, the management culture being very different: other one being very flat and other one hierarchical."
	"Say, you're a company that is only based in Finland. And you acquire a company which gives you a global footprint. With brands, for instance. It will eventually, you know, create a different culture because of the fact that the diversity will change. Totally. And it might be that what you had here wouldn't work going forward."
	"Your question about cultural due diligence in the decision making. I'm, I would say that that has to be considered. And the risk and the benefits should be thought of."

	OBSTACLES/CHALLENGES TO CONDUCTING CDD
IW1	"Yeah, but that the problem is that when you are in an acquisition process you don't have an access. Yes of course you need to maintain the confidentiality, especially if the acquired company is listed, and since we are listed, so you don't have the… and of course from the tactical and purely from the antitrust regulation point of view you do not have the full access to the acquired personnel before day one."
	"But then of course in many cases we really start to know the company only after we have acquired it and we open the front door. So the everything so far has been based on desktop studies, the yes meeting two key individuals in a company,"

	and maybe seeing them behaving on a market but what and how is the culture really in a company, errr real realization of that only starts from day one." "To be honest, I haven't considered which kind of framework could it be done under. I mean that what type of aspects should be taken, because of course we are paying quite a lot of attention to HR issues in general but it's more regulatory and compensation and benefits related aspects than cultural or more soft aspects."
IW2	"But I'm not sure if there is a tool that can help in that or is that just something that you need to dig out when having the discussions with the management. And the reports that you see, trying to understand from putting those pieces together and trying to understand who are the key people to bear in mind when we start moving forward with the process. But I don't know if there's tool for that." "In order to understand a culture thoroughly you need to discuss and get the feelings of the people not only on the presentations and on the materials from the mouths of the management, but also on other levels."
IW3	"For example, for the question four how much time would you estimate was spent on evaluating, I don't think this is yet highly on the agenda. I don't think it's enough time that is been spent on understanding what the cultural differences are. Because it's also mostly the people that are running the M&A are very financial focused and are very kind of in that way strategic focused." "So, I think you really have to have somebody who believes that it has to be on the agenda and can take it into an actionable plan. That you really start doing different actions and have the culture as part of the agenda." "It's very restricted, yes, what information you can share and what information you can give prior the deal is closed. But those I think would be questions that is something that you can still address or ask before."
IW4	"You could obtain information from by talking to people who've been their customers, or their employees, and kind of getting the feel that how they do the business. Of course, how to get to those people it would be of course things are typically under NDA and are confidential etcetera at that stage. So, it may not be easy." "But of course, that's a huge case and they were able to put big amount of resources supporting this cultural evolution. In the smaller cases, let's say if we think about this, you know, this kind of small companies that join us, it's really challenging assuming that from value standpoint and from cultural standpoint there's enough fit that they are not totally against each other."
IW5	"Obviously in a merger like that you will have a certain amount of people who are under the NDAs and so on, unable to work on, you know, preparations. Cause you can't involve everybody."

	INSTRUMENTS/TOOLS USED
IW1	"Communication and involve the acquired company personnel as much as possible."

	"It is important to demonstrate that the things are going to change once the acquisition has happened." "It's very much about the communication, I guess, and listening people and trying to involve people as much as possible from the very beginning. That DO NOT leave them alone living in the form or company structure ways of doing business." "What however happens often is that then the appetites or eagerness to close the deal gets bigger and bigger and bigger the closer we get, and then there is temptation to become a little bit blind on issues you will start seeing or hearing, so being honest to yourself… That ok, is that what you see, what you… find out still fitting the deal. And then then also not overloading the expectations once you have known more for under the pressure of your management or your board."
IW2	"The main source for trying to understand culture was of course the management presentations and then the meetings with the management of *target* to understand culture, because to be able to understand culture there you will need to see the people." "And to make sure that there is no room for rumors and things like that." "Communicate as actively as possible internally for all the employees involved within target as well as in on our side." "And the other thing is that is to involve people from both companies in the integration process. I would say that's crucial too and in that way get a vibe from both sides and sort of build up a mutual future, a mutual road together."
IW3	"We've just run a culture survey asking from all our employees input where are we today in terms of our common culture. And what should the culture for *company* look like." "It's very much about leadership. And that's something that we have started to also develop, we have started developing the leadership frame for *company*." "And then I think focusing on positives. I think it's good to really share short wins or best practices and focus on positives that are happening because then you get to also have the people that are not so much supportive for changes." "What we're also using is kind of key principles or common ways of working or something that is making it even a bit more understandable." "I think you could easily build some key questions around the different cultural aspects or topics: which is building on the feedback, which is openness on the transparency, which is also maybe onboarding new employees, reasons for exit." "If you take a bit of time to understand how the company is in different channels, where every company should be today. To get a good feel." On benchmarking companies that earned "best place to work" award: "There's a process, and there's some criteria that you select the best place to work. And that is something you can use when attracting employees to work for you. And that's actually a really nice way of putting it in a very concrete way and showing and seeing examples, how the companies that have been identified as really a great place to work. What they have done in terms of developing the culture."

IW4	"Build trust. It's the owner, it's the entrepreneur whose life worth is down there. [...] So, you know, he needs to have trust that *company* will then treat his company well." "So, in that sense, building the trust to the owner and seeing how and learning to understand how the owner thinks is one process. And the other process is that putting people work in common projects, if they haven't done that already before, in order to see how things go." "I would say, the most simplistic advice or idea: say, I buy a company. And I want that to start connecting in cultural way, but also in operationally and communication-wise into mother-*company*. I send some suitable person to be part of that company. [...] To help smoothening the connectivity. [...] Your own cultural ambassador there, who's able to, let's say, represent *company* way of doing things." "But the methodology itself is worth considering, because it's kind of fun way of picturing how are we, how are they, and you know, then you can perhaps start to think about making a picture that ok, how would we be like when we then are together. As you know, visual images are actually powerful to kind of convey the message to people in both companies and the new company."
IW5	"I can't remember, you know, exact tools per say, what they were called. But there were various ones: cultural diagnostics, cultural workshops and integration workshops, understanding where are we now, where do we wanna be, what do we need to have ready by certain dates. In order to facilitate this whole transition." "Starting with the leaders. The new leaders of the new company, who will have to cast the right kind of shadow. So, you first start involving the leadership, the new leadership, showing the example." "Communication is absolutely important. So, keeping also, you know, since the point that we have announced an acquisition, regular communication has to happen on both sides." "The top management showing face to the people, creating confidence." "Whenever there is something positive that happens, you know, make that known. And I think there are really good tools there like, you know, companies nowadays use a lot of yammer, and this kind of company internal social media platforms for communications where people can be sharing." "When employees are engaged in promoting the new values, the new culture, the positives, then that's when we start getting momentum and credibility. " "And it's not that you take away old values saying that they were bad. By no means. Usually, there's nothing wrong with the old values, but just maybe the wording, or how they've been described, no longer fits." "So, values that were created then might be very valid still from what they intend, but since then we've acquired X, we've acquired Y and so on. It makes sense. The world has also changed. So, it makes sense to actually have a look at. I'm not encouraging to change the values very frequently, but when it makes sense." "And it's very important that we will tailor the message to fit the audience."
IW4	

"I would also encourage that you would want to give people a signal about something changes also in the physical workplace. Say, as an example, on the day of the integration that there is a ceremony or something in the physical locations where people are at. And that will make it positive and somehow that the organization sees that this is now a beginning of something new."