

Pearl Predict[®] Change Adaptability Index



Thousands of articles and books have been written about M&A's and the insights of what makes them work. Yet with all this wisdom only 30 to 40 percent of all strategic deals ultimately achieve financial success. The magnitude of this issue was quantified by Thomas, Reuters and Freeman in 2012. In their report, global deal value of publicly traded acquisitions in 2013 will surge to \$2 trillion. Using simple math, over \$1 trillion in deal value will fail to meet its first year financial objectives. Additionally, this number does not consider the privately traded deals which could significantly increase the impact of the problem.

Specifically, when the experts focused on strategic acquisitions (versus asset acquisitions or technology transfers) where the talent equation is critically important to achieving deal success, culture came up as a key variable. In fact experts suggest many tools from cultural surveys to cultural mapping to understand the target company's culture in an effort to improve the chances of success.

Of course, given the legal constraints of M&A's these processes and the data that comes from them occur after the deal is inked. This lag in critical information puts the acquiring company in a very high risk situation giving rise to why the success numbers are low.

Additionally, the tendency has been to look with incredible rigor at the target company which provides half the picture. After all, by the very name "integration", this implies the combining of two separate entities into one organization that is more capable of achieving financial and operational outcomes versus just layering-in the acquired company.

After leading 50 acquisitions (\$5B in deal value) in several industries, we initially saw failure after failure. Even with tremendous due diligence regarding the technology, market, finances, and culture we still saw financial and operational outcomes being missed. Frustrated over these deals not achieving what we had hoped, we conducted a thorough post mortem analysis. It became clear we needed to understand what was going wrong and fix it quickly.

We spoke with world renowned experts in the field who had participated in and written about 100's of deals. Many of them pointed to cultural implications so we peeled the onion on every cultural assessment tool available to understand their secrets. Even after this it wasn't clear how "culture" assessment would help us improve the success rate. Additionally, the term "culture" seemed to be a catch-all for many different items that defied measurement or quantification linkage to financial or operational success of the deal.

Finally, after reexamining our own experience we stumbled on an insight. Originally, we focused only on the target companies and what was successful and what was missing in one or more of their critical business enablers.

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We thought if we could fix these deficiencies we could achieve financial success quickly and simply. It was just a matter of putting the two organizations together smartly which the experts pointed to as careful and intelligent integration.

After further examination we began to see a gap in our own thinking--we were only looking at half the equation. As the acquirers, we were focused externally and didn't really look at ourselves with the same rigor. We didn't understand our own CHANGE ADAPTABILITY INDEX® (CAI).

So what is CAI? CAI is a very fast quantification of your own and the target company's culture with a different eye. It asks the question, on a scale of 1-10 with 10 being high, how flexible is the target company's culture and how capable is their leadership in facilitating major change? Of course, evidence-based investigation and a methodology were used to determine this quickly, efficiently, and stealthily pre-deal. The critical data that came from this could then be used before the deal was inked to determine deal risk and predict deal success.

Additionally, we asked this same question of ourselves to understand the second half of the equation. A complete picture was then formed which provided invaluable insights we just couldn't see before. This breakthrough enabled our track record to move from the norm, 30 percent, to an astonishing 80 percent success rate.

Example: A most admired Fortune 500 firm had a solidified culture that had been in place for 100 years. Their change adaptability was 5 on the 10 scale. They did numerous deals. As they integrated these new companies, the deals failed to achieve financial or operational success more often than not. After significant write-downs and self-examination they realized from their own CIA they could correct this trend and be highly successful when doing certain types of deals. They could do technology transfers where they quickly moved the core elements tied to this unique technology into their existing R&D organization.

When it came to strategic deals, they looked at CIA of the target companies and made decisions. If the target had a high CIA, 7 or higher, they moved to integrate the organization fairly quickly. If the Index was low, less than 5, they asked several more questions: *How critical to our future business success is this deal? Can this company operate as a standalone where we enable their future success through those areas where we can provide competitive advantages?* Key here was that the standalone had to meet their strategic and financial obligations. If the answer above was "yes," the deal was completed and the parent company realized a new capability in their ability to complete strategic deals. On the other hand if it was no, the deal was aborted.

With this new assessment capability added to their already rigorous financial and market analysis they improved their success rate in achieving financial outcomes to a staggering 90%.

In today's dynamic economy where acquisitions are on the rise, having the best insights pre-deal are critical in this high risk high reward business decision. Gaining those insights through efficient tools such as Change Adaptability Index will paint a clear, efficient picture of the risks and predict deal success.

To learn more about Pearl Predict:

- View our website www.pearlHPS.com.
- Ask for our 2 minute flash overview.

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