

# Due Diligence

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**B**efore we dive into cultural assessments in general and Cultural Due Diligence™ in particular, it is important for you to have a general understanding of the due-diligence process. Due diligence is one of the methods used to study, investigate, and evaluate business opportunities. Although the term was popularized in the 1980s, the activity has been a part of business transactions for years. It is basically a well-defined procedure for data collection and analysis that uses audit tools and techniques, including financial tests and ratios. According to Gordon Bing in his book *Due Diligence Techniques and Analysis: Critical Questions for Business Decisions*, the main objectives for performing due diligence are:

- Verification that the business is essentially what it seems to be.
- Verification that an investment complies with investors' criteria. (1)

which in turn becomes the cornerstone of how all of the business decisions are made and how potential conflicts are resolved. Using the score-card approach to values and culture, there is a direct correlation between conducting Cultural Due Diligence™, or knowing your culture, and hard-dollar costs.

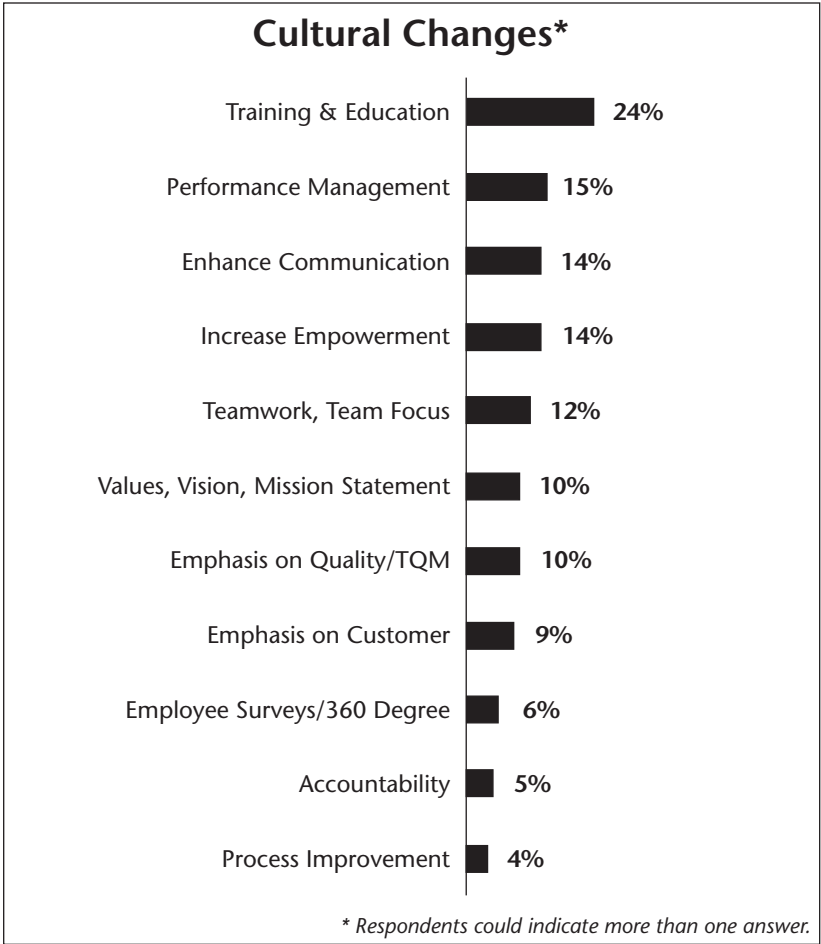
## Survey Says

Our research has told us that when it comes to any change initiative, organizations are focusing on the wrong things. According to Watson Wyatt: “Around the world, retention of key talent (intellectual capital), communication, and integration of cultures were most often rated as critical activities in the integration plan for mergers and acquisitions. Yet only eight percent of respondents stated that human-resources management issues were a top priority during integration. And, just four percent of respondents said communication was a priority.” (15)

In a 1994 survey of more than two hundred companies conducted by Amherst Consulting Group, “a high percentage of these companies reported that changing culture to support change initiatives was critical for success.” (16) The chart on the next page indicates the different approaches taken to link culture and change initiatives.

Training was the primary approach to bring about cultural change, encompassing all levels of management. There was an emphasis on executive and leadership development. Cultural change was focused on encouraging continuous learning, fostering empowerment, and increasing communication. (17)

We implore you to not fall prey to the training trap. Training **is not** the answer. We repeat **training is not the answer**. First, we need to agree that you can train a dog or a cat, but you educate people. You can't train someone how to believe in something. What we're talking about is changing human behavior, and as we discussed in “The Change Game,” this is no easy feat.



(18)

## Internal and External Shifts

As a leader, you must take a systemic and systematic approach to any and all business change strategies, and you must pay significant attention to culture. Based on the available information about culture’s impact on business, to focus strictly on financial statements would be foolhardy. Financial statements **do not** tell us the whole story. Financial statements are results. This is not enough. You must start paying

attention to how those results are achieved. Furthermore, financial statements **do not** tell you about some of the most critical factors that affect your business, such as management competence and continuity, potential loss of intellectual capital, and the costs associated with that loss over the long haul.

Here are some equations that financial statements don't spell out for us:

- Increase in waste = \$
- Loss in production time = \$
- Decrease in employee energy levels = \$
- Potential for cultural clash = \$
- Rise in employee turnover = \$
- Potential for employee sabotage = \$
- Effectiveness and efficiency of how things get done = \$
- Validation of our organizational purpose = \$

In fact, there's a host of other critical elements that affect your bottom line that aren't reflected by the financials. These "non-financial/human" factors determine the future structure and viability of your company. For this reason, as a leader, you must pay careful attention during the entire due-diligence phase and use an assessment tool like Cultural Due Diligence™.

## Risk Quotient

What are the risks involved in not conducting Cultural Due Diligence™? There are no satisfactory alternatives to a comprehensive, systematic, and systemic due-diligence process. Risk multiplies when **all** aspects of the business are not objectively reviewed. You cannot rest on your laurels. You cannot rely strictly on results. It is imperative that you begin to examine HOW these results are being achieved. You must understand how your culture is working for you or against you.