



Cultural Due Diligence in Chinese-German Mergers

More and more M&A-Experts consider a CDD - as the Cultural Due Diligence is called - as an increasingly important aspect of a successful merger-process.

Put in simple English: The analysts try to evaluate how well the two merging entities might work together or how well the structure of the entity A might be integrated in entity B. Especially in Sino-German deals - which are quite popular these days - the different company structures and cultures are identified as one of the most important deal-breakers.

Scholars are still wrestling with the best approach on how to conduct such a CDD which is why there is still no established standard for doing this. (I am sure some scholars might disagree). But one should ask: Is it actually possible to evaluate within a transaction period of a few weeks/maybe months both companies? To some extent this might possible, to some extent certainly not.

Certainly it is possible to analyze the usual decision-making process and guidelines every employee within the entity has to follow. But some aspects of a company's culture you will not "catch" as an outside analyst, even not through anonymous interviews or surveils. Therefore the data accumulated through the analysis might not be as much a real depiction of the company as one would hope for.

On the other hand it is obvious that cultural differences between nations also might have great - probably negative - effects on the post-merger phase. For example Chinese entrepreneurs as well as their underlings in comparison to German ones have very different approaches on how to conduct negotiations or maintain business relationships. These differences might be overcome for the duration of the actual transaction. But they might break the new union apart once these specialists conduct the next merger.

So although a CDDs results/data might have to be treated with care, its purpose is very clear and the parties are certainly better off with it than without it:

Its purpose cannot be to provide a simple yes and no to very complicated question, whether or not the parties to a merger might fit culturally. But its

purpose is to identify the critical differences and develop a strategy on how to overcome them. In other words: It is the preparation for the post-merger phase.

Whether or not this preparation has any meaning and leads to a long and fruitful union depends on the data, that both companies provide. Therefore this new instrument, despite its ambivalence, should be taken seriously.

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