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The Key to Successful Operational Due Diligence: The right data, at the right time, analysed in the right way

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The Key to Successful Operational Due Diligence: The right data, at the right time, analysed in the right way

Purpose:

The purpose of this paper is to describe both qualitative and quantitative operational determinants influencing the acquisition decision in the due diligence phase of a Merger & acquisition (M&A). The operational due diligence (ODD) process is largely unexplored in extant literature and only fragmented and unexhaustive literature exist. This research focuses on developing a dynamic end-to-end framework for conducting an ODD. The framework is structured around each area of the supply chain and help practitioners obtain key insights in the acquisition target, based on a range of key questions, data points and analyses.

Methodology:

Due to the complex nature of the research objective, a qualitative approach is used to provide rich and in-depth data. The explorative approach of the study allows for thorough understanding of the research area. Therefore, the case-study approach is the most appropriate research methodology (Yin, 1989; Oakley, 1999).

In-depth data from multiple cases were selected and analyzed based on interviews – and in some cases workshops - with private equity professionals (acquirer) and private equity advisors. To ensure a sufficient empirical foundation, an online survey will also be developed.

The research is divided into five key phases (i) an extensive literature review of research papers and industry publications; (ii) survey design and analysis of the responses (iii) semi-structured interviews, and workshops in the case companies; (iv) structured comparison of the literature review and the empirical data; and (v) development of a novel and dynamic framework that assists the performing acquires and advisors that conducts operational due diligence.

Findings:

A first important finding from the literature review is the research gap concerning operational due diligence. In addition, a structured normative framework is lacking. Collectively the literature review and the empirical studies revealed following operational due diligence determinants assessed across all supply chain components (Recardo 2014):

- People & Organization – Capabilities and competencies, corporate culture, organizational structure and personnel infrastructure.
- Facilities - Factory, machinery, human resources, capex requirements.
- IT & System – Data, Systems, Tools and documentation
- Operating Cost & Capital – Cost and capital structure: fixed costs, variable costs and asset.
- Scalability & Risk – Capabilities, technologies and external environment.
- Improvement Potentials – Rationalization and Efficiency.

- Synergies - Facility consolidation, Overhead reduction, purchasing power, other redundancies.

Each of these areas is supported by a range of underlying data points that are utilised to conduct a sufficient analyses leading to key insights for the acquirer.

Value:

The paper contributes with empirical research within M&As and specifically ODD, which has not been well-researched. In addition, the paper provides results which can be useful for both due diligence practitioners and researchers by (i) identifying operational determinants influencing the acquisition decision in the due diligence phase, and (ii) structuring a practical end-to-end framework which incorporates all supply chain elements, ensuring a comprehensive ODD.

Practical implications:

The research is focused around industrial applicability and the proposed framework can serve as support to practitioners who perform ODD.

References:

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