A Framework for Operational Due Diligence in Mergers and Acquisitions

The number of mergers and acquisitions (M&As) has over the last five years increased greatly (Institute of Mergers, Acquisitions and Alliances, 2016). Furthermore, private equity professionals point to operational performance gains to drive an acquisition decision and attribute cost reductions as the most important lever for value creation, after a private equity firm acquires a company (PwC, 2016). However, the overall success rate of M&A activity remains low and the approach to understand an acquisition target's operating model remains non-exhaustive and unstandardized. This paper investigates the pivotal determinants for assessing operational performance and identifying improvement potentials in an acquisition target. The research question is: “What are the fundamental operational determinants influencing the acquisition decision for private equity firms in the due diligence phase?” This paper presents an end-to-end framework which functions as a dynamic platform that simplifies the approach to conducting an operational due diligence (ODD). The framework focuses on identification and assessment of current operational performance and improvement drivers in the pre-acquisition phase.

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