Rapid Evolution

The changing face of M&A in 2020
“It is not the strongest of the species that survives, nor the most intelligent that survives. It is the one that is most adaptable to change.”

This quote from Charles Darwin applies as much to organisations as species. And just as in the living world, evolution takes place not at a steady, gradual pace but rather in uneven leaps driven by shocks to the environment. Survivors are those who have the ability to rapidly understand and adapt to the new conditions.

While the long-term post-pandemic future for M&A remains unclear, a few hints into what the new world will look like are already beginning to emerge. As with any economic downturn, those with strong balance sheets and clear strategies will be best placed to acquire those for whom the climate has made a weak position untenable. An extended recession – as the economists are saying is increasingly likely – will offer up a cornucopia of distressed and insolvent businesses in the coming months or possibly even years; the challenge will be how to increase the speed of acquisition and integration (to snap up the struggling gems before someone else does, and turn them around), without ending up owning the proverbial ‘pig with lipstick’ that becomes a dead weight to your own business at a point when you can least afford it. In the past, quicker, more superficial assessment and planning of potential deal benefits rarely led to better outcomes. Going forward, acquirers and integrators will need to find a way to achieve both.

We also predict an increase in the use of more flexible, less risky vehicles for capability enhancement and inorganic growth: JVs, alliances and partnerships. Expectations of such alliances to deliver for their businesses ‘the way M&A used to’ may shift considerably, and the role of alliance management will only become more important, and challenging, as a result.

In this issue, we will explore some of the ways in which we believe the world of M&A will change in the coming years, and how businesses will need to lean on three key traits if their M&A, integration, divestments and alliances are to succeed: focus, agility and leadership. We look forward to joining you on this journey.
THINKING BEYOND
May 2020

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M&A AND INTEGRATION IN 2020 – CAPITALISING ON TURBULENT TIMES?

Covid-19 has already hit global economies hard, and will cause more damage still before the worst is over. How might this impact your M&A strategy in 2020, and is there anything you can do to make the most of the opportunity it will bring to the prepared acquirer?

So, the big question is now, “Will the worldwide economic disruption caused by Covid-19 seriously impact your M&A plans for 2020?” The short, easy answer is probably ‘yes’, at least in terms of how you consider and value the deals you make. While some (ourselves included) hope that some form of M&A ‘bounceback’ will occur later this year or next, others are considering M&A activity ‘dead’ for the foreseeable future. Who to believe?

Back to basics: As the saying (should) go, ‘an acquisition is for life, not just for Christmas’. Rather than simply reacting to the market, all good deals (i.e. those that deliver long-term benefit) are predicated on three fundamental questions:

- Does the acquisition support your long-term strategy?
- Is the price right?
- Can you make it work post-close, and so deliver the anticipated benefits?

While the coronavirus outbreak will most certainly have a significant material impact on global economies in 2020, it is unlikely to impact two of the three above questions: The strategic rationale for the deal and your ability to make it work ‘beyond the deal’ will not change.
And herein lies the opportunity: just as during the Great Recession of 2007-9, markets and general economic conditions may make this an extremely fruitful opportunity to accelerate your M&A strategy, provided you’re in the right position to do so. Low interest rates, depressed valuations, and stressed acquisition targets can all help 'make the price right’, but a low acquisition price does not – and should never – compensate for a weak strategic rationale or a high-risk integration. Unless you have somehow managed to negotiate a price significantly below the target’s true, current market value, you remain likely to pay a price indicative of the inherent ability to generate acceptable cashflow returns.

During any challenging economic environment – whatever the cause – some questions asked before formal pursuit of a target become even more important:

1. **Is your business ready** to acquire and integrate? How is the capacity and scalability of your teams, processes and systems?

2. **Are your leaders prepared** and supportive of your acquisition plans?

3. **Are you clear on the current position, strengths and weaknesses of the target?** Are their own struggles (revenue cashflow, operations) and your ability to address them, understood and accepted? Will their position have changed significantly by the time any deal goes through and you take control?

4. **How will their prospects (and the competition) change once the storm has passed?** Would they most likely lead, survive, or get left behind in better times?

...alongside key topics to discuss for any acquisition:

5. **Do you have sufficient understanding of the benefits to be achieved** through the acquisition, and what it will take to do so?

6. **Are you clear (if only as an early hypothesis) on the likely areas and degree of integration** appropriate to support benefits delivery and your long-term strategy?

7. **And one of my favourites in summary:** In the long-term, *would you be the best owner* of this business? Could you achieve more with their assets and capabilities than other groups?
FOCUS ON PURPOSE

There needs to be a shared ambition and a view of what the future holds, and without purpose there is no meaning. Toby Tester describes the importance of purpose when it comes to M&A.

A deal must be defined by purpose. Purpose is important; purpose is powerful. For anyone charged with the responsibility for driving a transformational initiative through M&A, they’d want to make damned sure the deal is defined by purpose.

Perhaps it was Simon Sinek’s best-selling book “Start with Why” that has a lot of people talking about purpose these days. It certainly got me thinking, and it’s a good thing that purpose is the talk of the town. When I look back on the dozens of deals I’ve worked on over the last 20 years, I’ve noticed the abundance of time spent on what needs to be done to complete the deal. Even the how part, in terms of integration and synergy delivery, gets plenty of attention. But I have personally found the why part of a deal to be occasionally lacking; receiving only superficial treatment at best. This is lamentable as being able to understand, communicate and commit to the why part of a deal can be the most powerful motivator of all.

Explaining the ‘why’ can be the most powerful motivator of all.

The why part of a deal needs to convey a deeply felt sense of purpose, a shared ambition, and a seductive view on what the future holds. This provides the much needed emotional and intellectual energy from the team, staff and stakeholders to fuel M&A success. This isn’t about today’s problems, money, economics or shareholders. Instead, it needs to reflect something more aspirational in a way that creates shared meaning; a kind of purpose capable of transcending the demands of daily business. Without purpose there is no meaning; that’s why it’s so important.

Without purpose there is no meaning.
The three properties of purpose

The deal’s purpose needs to be far more sophisticated than a vision statement, slogan or financial goal. It needs to be a form of narrative that animates and motivates. Purpose represents a distillation of the following kind of properties: direction, discovery and destiny.

Purpose needs to provide a sense of **direction** with a particular point of view about the long term market or competitive position once the full potential of a deal has been realised.

Purpose needs to provide a sense of **discovery** insofar it holds the promise of new opportunities to learn, new ways of working with enticing changes both in structure and roles.

Purpose needs to provide a sense of **destiny** that makes the exercise as something that’s larger than the individual, and therefore worthy of personal commitment.

**Purpose is direction, discovery and destiny**

The four steps to bring purpose to life

Those leading the M&A transformation effort are accountable for crafting a compelling narrative that engages employees on an emotional level, helping them connect to the organisation’s purpose and thereby making their work personally meaningful.

The key steps are as follows:

1. **Discover.** Do sufficient logical analysis to define the end state in terms of the target operating model, customer experience, product portfolio and desired organisational capabilities. This provides the necessary left-brained logic, reason and proof before taking a more emotive approach. This is akin to Logos in Aristotle’s art of rhetoric.

2. **Craft.** Now develop the Pathos or passion. Craft the purpose, stories and simple rules into an overall narrative with the desired three properties: direction, discovery and destiny. Creative messaging within an emotionally powerful narrative is crucial to articulating purpose effectively.
3. **Activate.** Enlist leaders who have earned credibility and trust from their teams. This is the Ethos or character that acts as the bridge from one person to the next. As communicators of purpose, they will need to take a walking and talking approach that embodies the transformational change ahead. Moreover, they need to be personally invested and be prepared to correct those exhibiting a behaviour that conflicts or undermines purpose.

4. **Sustain.** Leaders must continue to walk the talk so that focus on purpose is energised and sustained throughout the transformation. They need to serve as role-models ensuring their own behaviours remain consistent with the words they communicate. This is critical during those inevitable occasions when spirits flag and engagement drops.

**Go deep – surface purpose is not purpose**

Purpose is important. Purpose is powerful. Make sure if you are driving transformation through M&A you have that special focus on purpose. Don’t be like other organisations who give it the superficial treatment. What’s needed is a deliberate, authentic and well-articulated narrative that defines deal purpose. Enlist the leaders and advocates throughout the organisation to find enduring ways to communicate and inculcate. Not only are the odds for success significantly increased, it will also be a good deal more fun.

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**M&A AND INTEGRATION IN THE TIME OF CORONAVIRUS: CHANGING PRACTICES IN LOCKDOWN**

Webinar Round Table 1 April 2020 – Emerging Advice & New Practices

- Keep it simple: Be ready to adopt heuristical approaches to decision-making
- Go back to basics: Focus relentlessly on the fundamental benefits of the deal and look to ‘triage’ unnecessary aspects of the ‘traditional’ M&A deal
- Don’t do M&A ‘linearly’; be agile and flexible
- Look for acquisition target operating model resilience and flexibility
- Look for the opportunity, take risks on technology and business models, doing the same thing in this environment will not get the expected outcome
- Focus on understanding/maintaining the flow of networks and associated information
- Be mindful of the people issues; bring calm and reassurance to everyone around you, including the target leadership
GOODWILL ACCOUNTING AND WASTEFUL M&A

David Olsson shares his insights into goodwill accounting, wasteful M&A and value creation.

I recently read with much interest an article on how the existing system lacks prudence and encourages wasteful M&A. The gist of the piece was around how the FASB has and is struggling to come to terms with the now $3.5tn that exists on US balance sheets as goodwill, particularly as the report says, ‘it’s not really an asset, being both unsaleable and almost certainly worthless in a liquidation. Nor does it have anything useful to say about the current valuation of a company’.

The piece, and subsequent commentary, goes on to talk about where there is heightened emotion in M&A, there are higher amounts of goodwill priced in and that it represents little more than the conjectural profits that an acquiring manager hopes to realise through the acquisition.

It’s this last line that prompts the killer question: how much value do you have to create post-deal to pay for all that goodwill? Should this surely be a question which boards should be asking in their role as M&A moderators and should there be a follow-on question that is ‘how are you going to create said value, when, by whom and at what cost?’ There may be an argument that goodwill is a costless item but achieving value is not.

It is this secondary question that many a deal maker will be afraid to be asked pre-deal in case the answer is that by linking future economic value to post-deal activities, said activities may not justify it. Even if this question is asked, if it is not answered correctly then the pressure on the acquiring manager to deliver will mount.

So, until the rules on goodwill recognition better suit investors, what’s to be done?
Where excessive value is to be created, it is clear that post-deal change activities (integration) have to be more than simple change of control. It must answer four key questions:

- What are your net measurable objectives and benefits for this deal, and do they justify the price paid?
- How and when will your business need to change to support realisation?
- What is your plan and who will be accountable for delivering it?
- Is your business and its leadership ready?

It must be efficient, culturally mindful, well communicated, have change management at its heart and be delivered by professionals who are able to motivate the correct leadership behaviours to realise synergies.

Goodwill is more than just a balance sheet question and how many more impairment cases will it take such as Carillion, GE or Glencore for boards to insist on a fully thought through post-deal change plan as part of the deal business case.
SEIZE THE DAY! THE TIME TO ACT IS NOW

With the pause button pressed for so many businesses, it's a unique time to reflect and rethink the way business is conducted. Toby Tester talks about agile M&A as one aspect of this shift.

As of this moment, M&A activity has come to a shuddering halt as COVID-19 makes us aware of stark choices between life, death and the economy. But once the worst of this pandemic is over, M&A activity will surely return with a vengeance as organisations start repairing the damage this virus has wrought on business models and balance-sheets.

This health-driven crisis, one way or another, will inevitably rewrite the long-standing rules of business in almost every industry. With the pause button pressed on so many businesses, it represents a unique point in time for executives to reflect and rethink the way business is conducted. Many big questions leap into the mind:

▪ What are the industry trends that have now been accelerated by this virus?
▪ What are the likely changes to customer behaviour?
▪ How should operating models be revamped to meet the new normal?
▪ How can we be more adaptable and resilient in our strategy and operations?
▪ What lessons can we learn during this crisis that we should preserve and build upon?
▪ What assets are draining the balance sheet or no longer strategic?

It may be tempting to wait out the crisis, hold onto cash and not make any moves until all the answers come in. But this can be a mistake. History has shown that the risks and costs of doing nothing are always far greater.

*History has shown that the risks and costs of doing nothing are always far greater*

While there are many difficulties, there are also many unique opportunities to seize the day, go beyond survival mode, and take action now in readiness for the future upturn. Indeed, this is a unique moment in history for organisations to use the pandemic as the great catalyst for innovative and transformational change.

*This pandemic is the great catalyst for innovative and transformational change*
As executives are all far too aware, it takes too long to internally transform the things that matter most to performance – digital, technology, people, products and services. The cheaper, faster and more powerful alternative is to use M&A to buy them and bring them in. Indeed, M&A can be the big answer when it comes to turning adversity into opportunity. To get prepared a few things can get started now.

*Get ready to turn Adversity into Opportunity*

1. **Carve-out non-strategic assets**

Executives may find it surprising what a business division, a technology or a certain capability might actually be worth. Buyers are often quite prepared to pay far more for a business than the seller’s own estimate. The reasons why a buyer would pay a premium are wide and varied; too many to list out here, but in general they revolve around a buyer’s ability to exploit value from the business in ways the seller simply can’t; making them the better owner.

Organisations might have buried treasure in their own backyard without perhaps realising it. This can give a significant cash stimulus to the balance-sheet for future investing. However, achieving a premium for a divestment requires plenty of preparation. This is the time to decide what assets should go for the chopping block and start the necessary carve-out in readiness for sale. [Take a look at our paper on this topic here.](#) This describes how organisations can go beyond the traditional carve-out approach and profit significantly. The time to do this is now.

*Every divestment has buried treasure*

2. **Reconfigure your Operating Model**

The great lesson from this pandemic is that organisations must become more agile, adaptable and resilient. They need to have more sustainable revenues, lower fixed costs and stronger value propositions. To do this requires a good hard look at the operating model – the firm’s engine of growth.

This is the time to put on the engineering hat and go for a deeper and more granular understanding of how the interaction of people, processes, and technology affects the bottom line. What’s called for is a deconstruction of the operating model down to its...
essential nuts and bolts. In doing so the goal is to seek out structure and connections in a way that logically explains the way value is delivered. Moreover, there needs to be a forensic assessment on the way this crisis has impacted value propositions and customer demand. This is followed by the reconstruction of a working model that helps translate understanding into meaningful, decisive and ultimately more successful strategies on the way M&A can be used to propel the organisation forward.

BTD can help facilitate a collaborative operating model design process. In addition, it represents an excellent way to build the team that will be responsible for taking a business forward.

*The operating model is the firm’s engine of growth*

3. Reassess your Capabilities

If a firm’s engine of growth is the operating model then capabilities is the fuel. A capability is the combination of people, tools, processes and organisation design that deliver value propositions to the customer. Organisations have hundreds of ‘things’ that they do, but there will only be a handful that are distinctive enough to stand out from everything else. These are the signature capabilities that truly matter when it comes to creating value. While products and services may come and go, it’s these underlying capabilities that prevail over time providing ultimate advantage. In other words, for a resilient and sustainable future, it matters more what an organisation does rather than what it sells.

The time is now to take a capability perspective; understand what capabilities exist and remain strong, and importantly the capabilities that have become weakened, fragmented or missing all together. To prosper into the future, an organisation must identify, understand and create a capability-driven agenda to help it combat against future political, economic and technological disruption. Any organisation that doesn’t have such an agenda is effectively mortgaging its own future.

BTD can provide the thought leadership, tools and techniques to facilitate a team-based, capability-driven M&A agenda. While many receive advice, this is the time for the wise executives to use capabilities as the fuel for future growth.

*Use capabilities as the fuel for future growth*
IS YOUR INTEGRATION MANAGER HELPING YOU DESTROY DEAL VALUE?

Deals often fail to deliver because the acquirer stuck to the original integration plan despite new or unanticipated circumstances. Carlos Keener outlines ways to avoid plan continuation bias in M&A.

In clear weather, the pilot of a perfectly-functioning Embraer EMB-505 landed his light aircraft at excess speed with over 70% of the runway behind his touchdown point; the plane overran the runway and hit a number of parked cars, killing himself and his three passengers immediately*. While the pilot, plan and weather were all in good shape, the pilot wasn’t used to landing at a small but busy non-commercial airport where manual (non-instrument guided) landing procedures were required. Summarising the accident report, the investigation concluded that the combination of unfamiliar factors created a very high workload for the pilot and “may have saturated his mental capacity, impeding his ability to handle new information and adapt his mental model”, leading to his continuation of a highly unstable approach. Malcolm Gladwell take note: Rather than this tragedy taking place despite his 11,000 hours of flight experience, the accident was in many ways caused because of them.

Plan-continuation bias is increasingly recognised as a primary factor not only in safety incidents worldwide, but also in business more generally. The American Psychological Association describes it as ‘the tendency of people to continue with an original course of action that is no longer viable. Plan-continuation bias appears to be particularly strong toward the end of the activity and has been theorized to result from the interaction of such factors as cognitive load, task demands, and social influences’. How many times at that point of maximum programme pressure have we heard someone say, ‘I don’t care, we must stick to the plan’, ‘we just need to stay focused, keep our heads down, and press on and everything will turn out alright’. Not to be confused with ‘white line fever’ (or ‘just get it done’-itis), plan-continuation bias encourages people to focus on an inflexible route or journey to success, rather than an obsession with the end-goal itself (did someone just say ‘deal momentum’?).

In the post-close world, we regularly observe plan-continuation bias, especially in cases where experienced project managers (deeply experienced in, say, technology implementations) have been tasked with delivering with an integration programme in which (as is almost always the case) the objectives and context are different from ‘the last one’, ambiguity and uncertainty are rife, time is short, and new discoveries emerge and
priorities change the landscape along the way. Plan-continuation bias can also be culturally-driven if integration is taking place in an organisation where course-changes are interpreted as career-limiting mistakes. Just as adopting a standard ‘checklist’ approach to integration can be incredibly dangerous, bringing an inflexible mindset to leading or sponsoring integration can lead to disaster.

Studies into plan-continuation bias can help your integration teams, managers and sponsors. Spot the signs and work hard to mitigate them:

Assess and test your organisation’s agility

One recent M&A executive told us of a major business initiative that almost killed the organisation, not because of too little support from the CEO, but from too much as he insisted on driving the plan to completion at huge cost and disruption even when it no longer suited business priorities. Are individuals who make mistakes or change plans in the business supported, tolerated or punished? If you see ‘safe’ opportunities to change something that clearly isn’t working or is no longer appropriate, try and change it and see what the organisational reaction is.

Use your integration playbook and checklists with caution, thought and active adjustment

The more detailed the ‘plan’ and the more invested the team is in the creation of that plan (either for this deal or past ones), the more likely they will interpret any deviation from the plan as a personal challenge. To be useful, M&A integration playbooks, guides and checklists must be treated as instructive and optional, not fixed and mandatory. Assess and test your organisation’s agility.

Appoint solid programme, not project managers to your integration

Perhaps counter-intuitively, those in your organisation with a reputation for their ability to consistently deliver change on-time and in-budget ‘come hell or high water’ may not be right for this particular job. Conversely, look instead for individuals who are comfortable with ambiguity and change, those who will work with and through others to deliver the end goals, even if those goals – or the best way to get there – change over time.
Understand the hard connections between the ‘whys’ and the ‘hows’ of your integration programme

If your actions (e.g. changes to your firms post-close operating model) are prioritised based on clear, objective and well-understood goals or conditions (e.g. your SMART acquisition objectives), then a change to those goals or conditions will make it easier to identify and justify any course corrections.

Give someone formal accountability to challenge conventional wisdom

Alongside your formal programme structure of workstream leads, PMO, communications group etc, appoint one individual – part or full time – to simply wander ‘without portfolio or agenda’ across the programme to ask awkward questions once in a while. Doing so in our experience has saved millions in post-close programme budgets and avoided several cliff edges.

Avoid emotional or time-pressured decision-making

Yes, easy to say, harder during integration! Nevertheless, nothing encourages plan-continuation bias like aggressive timescales and high-pressure team environments. Ask yourself and your teams:

▪ How much time is being allowed to review key deliverables or organisational changes?
▪ If those deliverables or changes are found to need further work, has time been allocated in advance to adjust them?
▪ Does your plan more generally have ‘process checkpoints’ and similar padding (contingency) to allow team members periodic breathing space to assess whether the right things are being done and change course if not?

As ever, integration programmes – and the businesses in which they occur – succeed when they can easily, regularly spot and adapt to changes in their environment or priorities. So in short, be less dinosaur; instead, think bacteria. After all, isn’t integration all about change?
When it comes to M&A, one of the most complex corporate activities, simplicity is key! In the 5th of his ten tips for Driving Transformation through M&A, Toby Tester reveals how creating and testing simple rules will help simplify the complexities of M&A whilst keeping meaning and purpose intact. You can read all ten tips at btd.consulting/news-insights/.

Complexity wears people down!

Mergers and Acquisitions (M&A) are seismic life-changing events capable of rocking the very foundations of a company. They not only determine who controls the company but also what direction it will take. M&A is also wildly complex – strategy, legal structures, agreements, financing, communication, valuation, integration; it’s a never-ending set of demands requiring detail, decisions and actions. When it comes to size and complexity, no other corporate activity comes close!

Confronted by both size and complexity, people can easily get confused and somewhat disheartened. This is followed by a reluctant acceptance of the situation with people retreating to their silos; coping as best they can. Complexity wears people down!

People love simplicity...

It was Albert Einstein who was quoted as saying: “Everything should be made as simple as possible, but not simpler”. It’s a great quote, but I did a little research and it’s not exactly what he said but the sentiment is pretty clear: we need to make complex things as simple as they can be without compromising their meaning.

So when it comes to M&A – one of the most complex things in corporate history, we must seek out simplicity wherever whilst keeping meaning and purpose intact.
We need simple rules to drive complex work!

I have personally referred to these rules in the past as: guiding principles, codes of conduct, business maxims or boundary rules. I’m sure you have too. They all do the same thing: simple, direct statements used to provide the contextual understanding, empowerment and direction on what needs to be done. I always go out of my way to get almost everything down to just a handful of statements to guide the course of work. It works! people love it, and suggest others do likewise.

How to create simple rules

1. **Understand the vision, purpose and goals.** As integration manager, sponsor, or business lead, think about what really matters. With the team and stakeholders in mind answer this:
   - What needs to be achieved?
   - How should it be achieved? And the killer question...
   - Why is it so important?

2. **Identify the barriers.** What are the pain points, constraints and bottlenecks that stand in the way of goals? Make sure the rules address these barriers and how people should overcome them.

3. **Create the rules.** Get a team together and a whiteboard. Write them down. Remember:
   - Don’t have too many
   - Make them specific to the situation
   - Make them short, simple and clear
   - Don’t need to call them ‘rules’. I usually call them guiding principles, codes of conduct, protocols or “dos and don’ts”
4. Test the rules.

- Is there any way they can be misinterpreted?
- Are they simple?
- Are they empowering?
- Do they convey meaning?
- Check with others and see if they can find holes, then improve upon them

I was recently managing a divestiture for a manufacturing firm with operations in North America, Europe and the Far East. The business was core to their operations, nearly 150 years old, and a significant portion of their entire revenue. The carve-out and separation from the rest of the organisation was logistically and technically challenging, and as you’d expect, emotionally charged. Moreover, while the firm were regular acquirers, this was the first divestiture in corporate history!

**Challenge.** With a multitude of business, technology and people activities to co-ordinate, they needed a guiding hand and mature approach to close the deal and transfer the 150 year old business to the new owners. These sort of deals have a way of creating a lot of legal, financial, business and planning documentation. All-in-all it can get incredibly confusing, bewildering and just plain frustrating.

**Task.** I got a team (HR, Legal, Finance etc.) together to help me simplify the work ahead. It took effort alright but good fun creating simple irreducible statements that helped define the why, what and how of the divestiture.

Through a number of sessions with the team we came up with a number of simple one-line statements for the following: a) Communication protocols between buyer and seller, b) Buyer/Seller relationship principles c) Boundary rules on what the seller will/won’t do post-deal d) Billing rules: what is/is not permissible billing between buyer/seller e) Top priorities for deal close f) How-to rules on post-deal service delivery g) Code of conduct rules on how we work together post-close.

**Result.** The rules became the messaging, mantra, taglines we’d use when communicating to staff, stakeholders and the team. The messages were delivered in town hall sessions, governance meetings and working groups. With both buyer and seller sides struggling with information overload, these simple rules gave meaning, empowerment and direction. It worked.

**Simple rules work. People love it. Do likewise!**
ARE ALL SILOS BAD?

"I'm locked down. In MBA-speak, I'm, siloed." Ugh. Must be bad. I need to tear down that silo, right? Or... maybe it's not such a bad silo after all? A torn-down silo might expose someone to potential death. Nick Palmer considers why the business world, too, might want to see 'silo-isation' as a trade-off, not an unmitigated 'evil'.

There’s an awful lot of anti-farm bias in business. Executives lament ‘siloe’d’ organizations. “Silo” has become a verb. Consultants “dare” to break down silos. The noun, I hope. I’ve even heard the term ‘siloized’!

Why this animus? How did these otherwise reasonable executives allow silos to spring up in their Edenic gardens?

At the most basic level: Is there anything good about silos?

Pity the poor executive. While a good farmer invests in building and maintaining silos, the exec is excoriated for doing the same. Perhaps we should investigate whether those execs deserve a bit more credit.

Business-school logic circa 1985 emphasized ‘focus’ as critical to business success, pace Harold Geneen’s ITT. By the late 1990s we learned that “The Internet changes everything,” and now widespread diversification (i.e. ill focus) was back in vogue. Then that darned Dot-Com Bubble burst. Not to worry, for bad ideas never truly die. Jack Welch’s GE became the poster-child for diversification – the sole thread being “become number one or number two in your segment.” Now, there’s a “synergy” I can put my finger on!

In a great Wall St. Journal piece Andy Kessler writes: “I had only one question after seeing General Electric tossed from the Dow Jones Industrial Average: What took so long?” The piece is subtitled: The company turned out to be a hedge fund masquerading as an industrial giant (24 June 2018). Another WSJ piece from the same day proclaims, “GE’s Plan Rests on Promises and Some Sleight of Hand.”

Focus still matters, and always will. Just as good fences make good neighbours, well-structured organizational silos allow workers to focus, achieve efficiencies, and scale.

Taken to extremes, silos can breed insularity and inhibit business-wide effectiveness. Yet done well, specialized focus enhances performance. Ask yourself: How frequently should an insurance company’s call-centre supervisor speak with one of the actuaries or with someone in the Controller’s office?
The crux of the silo-management challenge is to define and manage the interactions between well-designed and run silos. Between Marketing and Product Design – frequent and rich connections. Between Accounts Receivable and Procurement – next to none.

Managers must answer both architectural and day-to-day questions about their silos. Eliminating silos is neither wise nor feasible. Those silos create the efficiencies and focus underpinning competitive success. The best-designed organisational architecture, however, will not manage itself. Skilled managers understand and step-up to the challenges of ensuring the right kinds and frequency of interaction between smooth-running silos.

Management Matters Most

**KEEP EXERCISING:**
WAYS TO STRENGTHEN YOUR FIRM’S INTERNAL M&A AND INTEGRATION CAPABILITY DURING THE PANDEMIC

Webinar Round Table 8 April 2020 – Key Learnings

- Internal teams should consider spending time strengthening the consistency of their M&A and integration processes, and improving supporting tools and databases;
- Rather than a focus solely on M&A and/or integration training, a potentially better use of time is in reviewing past deals to assess performance and capturing lessons learned;
- This is a good opportunity to work on establishing/improving the learning culture within your organisation; this will help teams understand best practices and get involved earlier in the M&A process;
- An important question to ask is “What decisions could have been made differently with the data we had available?” This will help ensure more realistic, applicable learnings emerge beyond the merely well-intentioned;
- M&A and integration will likely become faster post-crisis and focused much more heavily on the required task of value creation rather than the ritual of traditional ‘cover every angle’ processes; Now is a good time to assess, adjust and prepare for this new mindset and approach.
- Top 3 capabilities roundtable participants would prioritise for improvement: Communications, Influencing Skills, Cultural Assessment & Alignment, and Agility
David Olsson reflects on organisational inertia, explores why combining great planning plus authority is insufficient, and explains how transformational change through M&A can only succeed with the effective use of influence.

A recent article in the FT on Organisational Inertia highlights one of the greatest challenges of businesses trying to effect transformational change: the ability to lead through influence rather than authority. The article uses the struggle between Dominic Cummings and the UK Civil Service as its example, we have chosen M&A, as for many the changes to the businesses will be the catalyst to create the value required to achieve the return on investment.

For those who are directly responsible for change or its output, the consequences are not purely financial they are reputational also.

In the case of post-acquisition integration, it is the acquired business that either has to change, or at least align, to realise deal synergies. It is here where the pain of change is most keenly felt by those who do not directly benefit from the change. It’s the ‘what about me’ moment.

An acquiring company leadership will assume authority exists but will not want to get drawn into the weeds of the change. The integration lead who is in the weeds will not feel the comfort of authority. The integration lead will be alone and probably facing organised resistance to change. The ability to influence without authority is, as they say in the US ‘where the rubber meets the road’ in M&A.

How then do you act effectively? Gravitas, charm or fear are all tactics that do not last much beyond the first week – yes you should be personable, yes you should always be true to yourself, but charm alone is baseless, and you run the risk of looking less than credible. Fear or straight up bullying may be a choice for some, but does this really work in a modern business? Does it really bring people with you? I think not. My thesis is thus: transformational change can only succeed through effective use of influence; merely combining great planning plus authority is insufficient.

An added complication is that companies have lots of experience, tools and advice available to help with planning and governance of such initiatives. Unfortunately, great plans plus clear authority, while necessary, are insufficient to drive success. Indeed, an
excessive focus on detailed planning and governance rules/authorities can actually lead to the collapse of a PMI transformation. ‘You cannot demand that a person or company change, and a more detailed demand is no more likely to succeed than a less detailed one.’

Leading change without authority requires a proven process that is defensible and supported by leadership with an underlying mantra that preplanning and preparation prevent **** poor performance. The clue in this statement is ‘pre’.

Design and plan your integration pre-deal. Yes, make sure it’s SMART but also make sure it is aligned to the deal rationale and make the process planning inclusive. Use professionals, use workshops and other tools to drive alignment and commitment and ensure a clearly defined communications plan is also created, agreed and executed to ensure constituency and clarity.

Having experienced professionals applying the most up-to-date methods, tools and templates will help ensure that this complex task does not end up being co-ordinated from the side of someone’s desk on evenings and weekends. In all of this detail, what should your leaders do? Where do they fit in? You can outsource the task but not the leadership, the organisation still has to ‘own’ the task.

Simply put, a leader’s role remains the same as ever: set a clear vision and direction; create the right environment and culture to allow change to happen; encourage inclusivity and collaboration; publicly support the change from the front and get in the fight. Fence sitting is not a luxury that can be afforded during change. An example is in project governance; leaders should encourage and structure a ‘fast and frugal’ set of indicators and decision criteria to guide their exercise of influence and enable correct thinking under pressure.

At BTD we make use of some of the concepts discussed by William Bridges (Managing Transitions, 2003): his four Ps (Purpose, Picture, Plan, Part) and translate them into four key questions that help bridge the gap between acquisition and integration:

▪ What are your measurable objectives and benefits of this deal?
▪ How and when will your business need to change to support these?
▪ What is your plan to get there, and who will be accountable for delivering it?
▪ Is your business and its leadership ready?
If you can answer these questions, develop your integration plan in collaboration with a broad set of stakeholders, and have leaders who will properly fulfil their role, then your integration manager and team will be able to sustainably lead change.

To quote the leader of our US business, Nick Palmer, “Judgement and leadership cannot be systematized, they can only be supported.”

PREPARING FOR LIFE ‘BEYOND THE VIRUS’: NAVIGATING M&A POST-CRISIS

Webinar Round Table 15 April 2020 – Key Thoughts for the Future

Collaboration is likely to increase, driving innovation and alliances, partnerships and joint ventures:

▪ Closing M&A transactions will become much more difficult until major uncertainties resolve
▪ Reduced restrictions on sharing assets, IP, intelligence and knowledge with “near competitors”
▪ These collaborations are likely to drive innovative products and services AND business models

Increased pressure on firms to divest non-core and underperforming units/assets:

▪ Skilled management time is likely to be the most critical bottleneck for firms exiting the coronavirus shutdowns; there will simply not be enough management attention to “do everything”
▪ Funding, too, may be limited
▪ Some geographies, particularly far from corporate core operations, may be seen as riskier and less attractive for a significant length of time
▪ Boards will pressure management to focus more tightly

Executives must (and ought to) consider corporate social responsibility (CSR) in planning and prioritisation. Perhaps as part of larger industry groups, they should also enter into a dialogue with governments and regulators regarding relaxing regulatory barriers.
MOVING BEYOND A TRANSACTIONAL MINDSET

A Head of M&A for a Global100 travel and leisure business once told us, “Integration is a transformational project requiring inspiration; a goal that makes the difficulties and disruption worthwhile. It’s so much more than simply achieving synergies!” In the 1st of his ten tips for Driving Transformation through M&A, Toby Tester considers.

Let me ask you... have you experienced this before?

Your organisation has just acquired a new business. Behind it all is an exciting strategy to build a better business with new capabilities in digital, products and customer experience.

It's tantalising, career enhancing; it's your chance to play your own part in making an enduring difference in the firm you work with.

Yet, somehow, once post-deal activities kicked off, the original intent and proclamations about the future, start disappearing into the ether (sometimes referred to as the ‘too hard basket’). In the end, the business was integrated; some cost synergies were delivered, and ‘success’ was claimed. The team moved on. However, all the things said about new capabilities, and long term growth opportunities never got a look in. There's a sense of disappointment with hopes dashed. It could have been better.

I'm sure many of you will have experienced this before. I certainly have, and similarly wonder what happened to those original dreams and aspirations. I believe it comes down to a mindset – a kind of group-think that infects all those performing the work. It’s called The Transactional Mindset.

The transactional mindset is a way of thinking and behaving that looks at M&A as cutting deals, buying and selling companies, hiring and laying off people – make a deal, get it closed, hire & fire. It’s a management paradigm that seeks efficiency, standardisation and continuity. There's no inherent problem with this approach; that's how transactions work. The problem is that it's common to see this transactional way of thinking and behaving infiltrating the rest of the M&A process: from initial strategy through to integration. When this occurs, M&A becomes a reductionist exercise that shrinks the scope of work to what
must be done to complete the deal and combine the business. It has a way of diminishing understanding, eliminating complexity and reducing the quality of decisions.

Let me be clear! If M&A is being used to achieve transformational goals, whether it's in existing operations, products or customer experience, the transactional approach will almost certainly guarantee failure from the very start.

**The transactional approach to M&A will not deliver transformational results.**

I get it. There’s a natural desire to keep things simple and not screw it up. The focus is narrowed to just getting the combinational basics right from a deal. However, this is unfortunate as the strategic purpose of the deal can be easily lost within a plan driven by time and tactics. While the pre-deal synergies to get the deal across the line may have been realised, the opportunity to dramatically transform future growth prospects are left wanting.

**The Transformational Mindset**

The transformational mindset, on the other hand, represents a more expansive view of M&A. It’s much like widening the aperture of a camera.

When we widen aperture more light comes in. This provides a greater awareness of the surroundings; enhancing the ability to see new perspectives and different shades. More light allows you and others to see opportunities that would otherwise be shrouded in darkness.

**By widening the aperture and taking a more expansive view of M&A the mind is illuminated by new possibilities**

The transformational mindset is a way of thinking and doing that sees M&A as an opportunity to deliver both short-term, and long-term value. It’s eclectic in its approach and aspirational in its goals. It’s about creating value – not just capturing it.

**Transformational M&A is about creating value – not just capturing it.**

To better understand the transformational mindset let’s do a comparison with the more traditional alternative. Consider the table on the following page:
Take a look at each line in this table and see the difference in mindset and leadership behaviours. It’s quite distinct. It also highlights that driving transformation through M&A is a far more challenging and nuanced exercise. So it’s understandable that organisations prefer to take the transactional approach at the expense of the transformational.

I appreciate that none of this is easy. However, the rewards are extreme. To be successful requires deeper, stronger integration skills and intense management commitment. The integration approach also needs to be flexible enough to allow leadership to create value beyond the transaction itself. Driving transformation through M&A really is an experience-driven skill set – the more you do the better you get.

Transformational M&A is an experience-driven skill set – the more you do the better you get.

It therefore requires leadership, courage and boldness to play a long term game that goes beyond what the transaction itself delivers.

Transformational M&A success means playing the long term game.
“OK, great, thanks for the meeting everyone; it looks like we’re ‘green’ across the board for completing this deal next Tuesday. I just need to pop into the board meeting this afternoon and get the official rubber stamp, then we can tell the banks to prepare the funds transfer. Let’s take the next few days to really make sure we’re ready for Day 1 and integration kick-off.”

…and I bet you can guess what happened next: The one-hour board session became two…then three…until finally the Director of Strategy and M&A emerged ashen-faced to say, “Sorry everyone, it’s all off: even though nothing’s changed since our last presentation to them, the board now tell me they ‘still just don’t get it’. But thanks for all your hard work over the past 6-9 months. Er, um, that’s it.”

Not a direct transcript of course, but nevertheless close enough to not one but several instances we’ve observed over recent years: ones in which, despite rigorous, comprehensive efforts to keep boards fully and objectively appraised of an upcoming acquisition and pushing hard to get their open input and approval to proceed at every step of the way, rejection only came at the very last moment. The question is not, “Should these deals have gone ahead?” but rather “If they were going to fail anyway, why was it at the last hurdle rather than the first or even second?”

Boards have a difficult role to play when evaluating M&A; objectively evaluating the merits of the transaction is the least of their challenges. Most try hard to support the executive team while at the same time ensuring deal momentum doesn’t overwhelm the process. Rejecting a CEO ‘pet project’ can undermine his or her credibility in the business, even though that may ultimately be what’s needed to protect long-term shareholder interest. Killing a deal early is especially difficult when data is scarce and the debate remains largely driven by assumption and gut feel.

Harder still is the challenge from the other side as CEOs and Heads of M&A work to understand and navigate the different perspectives and agendas of individual board members. While we at BTD are first to highlight the value to businesses of not doing the wrong deals, the worst outcome is for this decision to come later than it had to, typically after months and millions have already been expended. If M&A is to fail, it needs to fail fast pre-close.
To help your board get to the right decision not just at the final review point but at every step along the pre-deal process, here are a few thoughts to consider:

**Start with strategy**

An obvious point perhaps, but we find this problem most prevalent in organisations where the growth strategy of the business remains unclear or undecided. Using a deal on the table to ‘force the issue’ usually fails in our experience. If the board can’t even agree on how this acquisition might support or distract from their strategic goals, it’s likely that the goals themselves are the problem; take a step back and get clarity on ‘question o’ first.

**Understand individual board member priorities and influence up-front**

Some on the board may be looking for opportunity, others for security. Their individual approach to risk and reward will have an ultimate impact on their views on M&A, especially when combined with an understanding of where power and influence lies within the group. If the most influential voices around the table are also those most likely to go for the safe incremental option where risk is all downside and no upside, flush this out at the first, second and every opportunity you have with them. Regardless of whether it’s right or wrong in your view, do what you can to force an opinion from them as early as possible. Which leads to the second consideration...

**Provide a detailed view of the likely post-close challenges and opportunities**

Even if presented as hypotheses, drawing a clear picture of what the future might look like – good and bad – will make it easier for individuals around the boardroom to voice their hopes and fears around the deal.

**Insist on active support at each stage gate review**

Many M&A groups have come out of a board meeting saying, “Well, they’re not openly against us continuing, so let’s proceed; we’ll get them across the line eventually as more detail emerges”. Whether it’s by linking funding of your pre-deal activities to each review point, or insisting on a formal vote on each occasion, insist on overt commitment – or rejection – at each stage.
Demonstrate your own objectivity

Board members are people too. Some may have a tendency to withhold their views if they feel they are being ‘pitched’ to or if the mood of the room is heading in the other direction. While there’s no problem demonstrating a clear point of view to the board, make sure they are aware of your openness to different perspectives by providing some of your own.

M&A AND INTEGRATION IN THE TIME OF CORONAVIRUS: GET BACK TO BASICS AND LEAD, BUT WHAT DOES THAT ACTUALLY MEAN?

Webinar Round Table 22 April 2020 – Key Learnings on Leadership

Leadership strategies in times of crisis will be different than “business as usual”:

- Creating a broader network of teams to allow decisions to be made at different levels of the organisation can be an effective, resilient strategy. These smaller teams are far more effective in triage situations when combined with short decision-making times and a ‘beachhead’ strategy
- Finding the right individuals throughout the organisation’s hierarchy will help create effective tactical teams in emergencies. These individuals should be calm and decisive under pressure
- Executives should “lead from beneath” to allow their teams to make better, timely decisions which will help organisations navigate difficult times
- Sometimes inaction can be the best approach. Trying to look useful can sometimes get in the way of important decisions. “The best leaders are those the people hardly know exist” – Tao
- The success of a plan could be thought of as an equation: E = Q x A, or Excellence = Quality x Acceptance. If there is no acceptance of a plan, no matter how good it is, it will not be effective
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