

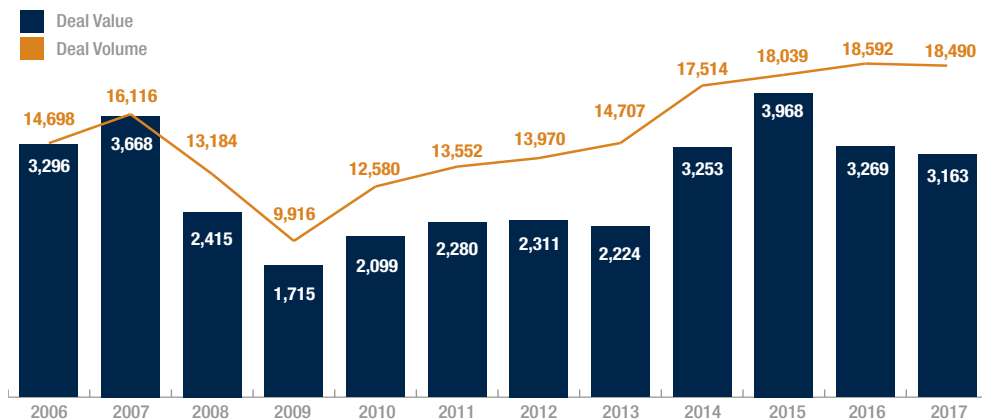


# M&A AS A CORE COMPETENCY

Amid a post-recovery economy characterized by slow growth, easy access to capital and significant corporate and private equity cash reserves, management teams and boards increasingly rely upon merger and acquisition (M&A) strategy as a critical lever to boost bottom-line performance, achieve growth goals and produce value for stakeholders. Whether or not a company can deliver that value largely depends on its ability to execute M&A processes with consistency and excellence from Origination to Optimization. By viewing M&A as a Core Competency and proactively strengthening internal capabilities, organizations can reduce risk, increase the speed and value of their transactions and create competitive advantage.

As depicted in the chart below, global M&A activity has been on the rise since 2009. In 2016 and 2017, total deal value saw a decline after reaching record highs in 2015. However, heading into 2018, many analysts, investors and corporate executives believe that the growing global economy, healthy deal flow and reduced policy uncertainties will drive an increase in global deal volume. With M&A continuing to serve as a crucial tool for growth, it is likely that being “good” at both making and executing transactions will be a major determinant of success in today’s market.

Global M&A Deals — by Deal Value and Volume (\$ billion, Number of Deals, 2006-2017)



(Source: The White & Case M&A Explorer (Merger Market); 'Monthly M&A Insider', Merger Market (December 2017, January 2017, January 2016, January 2014, January 2013); Global & Regional M&A Report Q4 2017, Merger Market)



Research tells us that roughly 50 percent of deals still fail to fully deliver on their expected value. One of the ways to stack the deck in your favor is to proactively develop your organization's end-to-end M&A capabilities. Remaining competitive means no longer viewing M&A as an ad hoc or siloed activity, but instead honing this collection of capabilities as a sustained and permanent lever for growth.

When M&A is viewed and nurtured as an organizational core competency, you do more than just "not fail." In our experience, companies who view M&A in this way not only deliver the expected value of the deal but do so with significantly lower risk.

### **Proactively approach M&A as an organizational core competency**

An organization's individual M&A growth strategy is highly dependent on its size, competitive position within its industry, access to capital, risk tolerance and growth goals. In other words, different buyers endeavor to accomplish different goals through their individual M&A growth strategies. For example, some are strategic buyers, while others are purely financial investors. Some are seeking to rapidly make a series of similar transactions to consolidate an industry, while others are seeking larger transactions that will create competitive disruption and /or enable transformative growth.

But to achieve their unique M&A strategies, all buyers fundamentally execute the same general steps in the M&A lifecycle. They all originate and qualify deals, conduct due diligence and plan and execute integration, stabilization and optimization activities. We call this the "Origination to Optimization" process. And just like any other core business process (e.g., order to cash, procure to pay, hire to retire, etc.), your Origination to Optimization business process can be evaluated and fine-tuned to improve results and support your specific M&A strategies and goals.

When we help companies proactively develop or improve their organizational M&A capabilities, there are five competency elements that we find most influence the performance of the Origination to Optimization business process:

- Leadership, Experience and Expertise
- Organization Structure and Governance
- Repeatable Methods and Tools
- Disciplined Approach to Change Management
- Information Technology Platform

The following table provides a summary-level comparison of each of the core competency elements, along with directional guidance on getting started.

COMPETENCY ELEMENTS	EXAMPLE COMPETENCY RANGE		GETTING STARTED
	REACTIVE / AD HOC	PROACTIVE CORE COMPETENCY	
<b>LEADERSHIP, EXPERIENCE AND EXPERTISE</b>	<ul style="list-style-type: none"> <li>▪ Ad hoc assignment of top performers to deal stages as needs arise</li> <li>▪ Significant long-term reliance on external advisers</li> </ul>	<ul style="list-style-type: none"> <li>▪ Broad awareness of M&amp;A stages and acquisition strategy</li> <li>▪ Deliberate use of transactions as tools to develop and grow top talent across multiple deals</li> </ul>	<ul style="list-style-type: none"> <li>▪ Include M&amp;A skills in career development frameworks and hiring plans</li> <li>▪ Designate M&amp;A SMEs within business functions (e.g., Ops, F&amp;A, IT, etc.)</li> </ul>
<b>ORGANIZATION STRUCTURE AND GOVERNANCE</b>	<ul style="list-style-type: none"> <li>▪ Excessive consensus-based problem solving and rework</li> <li>▪ Inconsistent resolution channels for decisions, issues and risks</li> </ul>	<ul style="list-style-type: none"> <li>▪ Tailored governance and decision making protocols and processes based on deal size and type</li> <li>▪ Ability to structure ambiguity and communicate well across deal stages and functions</li> </ul>	<ul style="list-style-type: none"> <li>▪ Define roles, responsibilities and hand-offs across each stage of the M&amp;A lifecycle</li> <li>▪ Design governance to flex with deal complexity and stage and operate cross-functionally</li> </ul>
<b>REPEATABLE METHODS AND TOOLS</b>	<ul style="list-style-type: none"> <li>▪ Disconnected processes and information flow across deal stages</li> <li>▪ Tools are deal specific and difficult to leverage</li> </ul>	<ul style="list-style-type: none"> <li>▪ Core methodology and tools readily available enabling focus on unique deal considerations</li> <li>▪ Methods align transaction strategy to operative plans</li> </ul>	<ul style="list-style-type: none"> <li>▪ Build core processes and tools by M&amp;A stage with linkages to downstream information needs</li> <li>▪ Tailor tools with functional content and lessons learned</li> </ul>
<b>DISCIPLINED APPROACH TO CHANGE MANAGEMENT</b>	<ul style="list-style-type: none"> <li>▪ Inconsistent processes and approach to change</li> <li>▪ Scope limited to basic communications and training considerations</li> </ul>	<ul style="list-style-type: none"> <li>▪ Defined pragmatic approach to the behavioral changes triggered by acquisition</li> <li>▪ Change practices applied at the operational level to support synergy capture and optimization</li> </ul>	<ul style="list-style-type: none"> <li>▪ Establish awareness and skills around the business impact of change management in M&amp;A</li> <li>▪ Incorporate change management planning and key activities in early planning stages</li> </ul>
<b>INFORMATION TECHNOLOGY PLATFORM</b>	<ul style="list-style-type: none"> <li>▪ Multiple data repositories across teams, M&amp;A stages and deals</li> <li>▪ New approach/ setup every deal</li> </ul>	<ul style="list-style-type: none"> <li>▪ Secure, turnkey solution for documents, tools and collaboration across all M&amp;A stages</li> <li>▪ Continuous improvement platform</li> </ul>	<ul style="list-style-type: none"> <li>▪ Standardize on a proven/fit for purpose integration platform with alignment across stages</li> <li>▪ Develop a base deal template</li> </ul>

## Evaluate your current M&A organizational capabilities and build a performance improvement roadmap

To evaluate the overall strength of your organization's M&A capabilities, it is necessary to define the current strengths and weaknesses within your existing Origination to Optimization process. Begin by ensuring that your unique M&A growth strategy is clearly defined, understood and well-articulated. Second, consider each of the five elements of a strong M&A organizational competency, outlined in the table on the previous page. And lastly, determine both the performance and the importance of each of the five elements at each stage in the M&A deal lifecycle. Going through this exercise should give a company a good idea of where its current M&A strengths are and where gaps and opportunities to improve might exist. This in turn lays the foundation from which a performance improvement roadmap can be developed. A good roadmap identifies the process gaps, priorities, activities, resources and timing necessary to drive improvement in your organizational M&A competency.

On the next page, we have included a Sample M&A Competency Scorecard that we use with clients to evaluate current capabilities against each of the five elements. The Sample Scorecard features two client profiles as outlined below. Each client profile provides context for how its capabilities were assessed in the Scorecard along with highlights from its tailored performance improvement roadmaps.

### Example A: Industry Consolidation

Example A represents a company that is an industry consolidator that places a high importance on originating and qualifying multiple deals at once, with both speed and quality. In this example, the company identified the greatest opportunity to strengthen its overall M&A competency was to enhance its internal M&A organization structure/governance and to invest in the methods and tools utilized specifically during the Origination and Qualification stages of the M&A lifecycle. Its improvement roadmap defined the steps, timing and resources necessary to proactively address each of these areas. The results of these efforts enabled deal-oriented decision making with greater speed and quality, improvement in the communication across deal stages and stakeholders and the creation of a repeatable methodology and standard toolkit from which the company more consistently executes M&A work.

### Example B: Strategic Buyer

Alternatively, the company in Example B is a strategic buyer that was contemplating a large and complex transaction that would result in enhanced market share and one-time transformative growth. This company had never completed an acquisition of this size and complexity and was concerned about its lack of organizational leadership, experience and bench strength to execute the due diligence and pre/post-integration planning and execution stages of the M&A lifecycle. The company was also concerned with the change management and cultural challenges that would be presented by the potential deal and its lack of a secure information management platform from which the integration planning teams would conduct their work. In this scenario, the company's performance improvement roadmap defined the opportunities to augment its internal M&A leadership capacity with external advisers in key leadership and change management roles as well as the opportunity to grow and develop the M&A capabilities of its internal management team. The roadmap also included the selection of a secure collaboration technology to enable compliance with anti-trust protocols related to data sharing between the buyer and seller during the integration planning and execution stages of the M&A lifecycle.

## SAMPLE M&A Competency Scorecard

### INSTRUCTIONS

- Rank the importance of a given competency for each stage in the M&A lifecycle as low, medium or high.
- Rank your organization's performance against a given competency for each stage in the M&A lifecycle as low, medium or high.
- Identify gaps/priority areas where importance is high and performance is low or medium.

COMPETENCY	STAGES OF THE M&A CYCLE							
	ORIGINATING		QUALIFYING		DUE DILIGENCE & INTEGRATION PLANNING		INTEGRATION EXECUTION & OPTIMIZATION	
	Importance	Performance	Importance	Performance	Importance	Performance	Importance	Performance
<b>LEADERSHIP, EXPERIENCE AND EXPERTISE</b> <ul style="list-style-type: none"> <li>Does your organization have the leadership capacity and deal experience/expertise to successfully execute your M&amp;A strategy?</li> </ul>	MEDIUM	MEDIUM	MEDIUM	MEDIUM	HIGH	LOW	HIGH	LOW
<b>M&amp;A ORGANIZATION STRUCTURE/ GOVERNANCE</b> <ul style="list-style-type: none"> <li>Are roles and responsibilities clear at each stage in the M&amp;A lifecycle?</li> <li>Is it clear who has decision making authority at each stage?</li> </ul>	HIGH	LOW	HIGH	LOW	HIGH	HIGH	HIGH	HIGH
<b>REPEATABLE METHODS AND TOOLS</b> <ul style="list-style-type: none"> <li>Are the core M&amp;A processes, checklists, reporting and tools defined and documented?</li> <li>Is there a process for continuous improvement across deals?</li> </ul>	HIGH	LOW	HIGH	LOW	HIGH	MEDIUM	HIGH	MEDIUM
<b>APPROACH TO CHANGE MANAGEMENT</b> <ul style="list-style-type: none"> <li>Is there a defined approach to identifying the behavioral changes and impacts of the deal supported by the required processes, tools and skills?</li> </ul>	LOW	LOW	LOW	LOW	MEDIUM	LOW	HIGH	LOW
<b>INFORMATION TECHNOLOGY PLATFORM</b> <ul style="list-style-type: none"> <li>Is there a secure data management platform for regulatory compliance?</li> <li>Do roles and workflows support cross-functional and cross-enterprise collaboration?</li> </ul>	LOW	LOW	LOW	HIGH	HIGH	LOW	MEDIUM	LOW



## Summary

By proactively building greater M&A capabilities, you equip your organization to tackle the complexity and challenges associated with each unique transaction. In addition, you improve the likelihood that the value of the deal will meet or exceed targeted objectives and lay the foundation for significant improvement to occur from one transaction to the next.

Remember:

- **Proactively approach M&A as an organizational core competency.** View the entire Origination to Optimization lifecycle as a connected end-to-end process. Target performance improvement and competency development in advance of your next transaction.
- **Evaluate your current capabilities.** Consider how you currently perform at each stage of the M&A lifecycle. Utilize your unique M&A strategy, industry, resources and skills to further define areas of emphasis in the evaluation process.
- **Build a roadmap for improving your M&A competency.** Prioritize opportunities/ gaps and define a structured performance improvement roadmap to develop capabilities and competencies from Origination to Optimization.

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## ABOUT ALVAREZ & MARSAL

Companies, investors and government entities around the world turn to Alvarez & Marsal (A&M) when conventional approaches are not enough to make change and achieve results. Privately held since its founding in 1983, A&M is a leading global professional services firm that provides advisory, business performance improvement and turnaround management services.

With over 5,000 people across four continents, we deliver tangible results for corporates, boards, private equity firms, law firms and government agencies facing complex challenges. Our senior leaders, and their teams, help organizations transform operations, catapult growth and accelerate results through decisive action. Comprised of experienced operators, world-class consultants, former regulators and industry authorities, A&M leverages its restructuring heritage to turn change into a strategic business asset, manage risk and unlock value at every stage of growth.

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