

Managing risk in the M&A box

Broaden your approach or keep it contained?



Mergers and acquisitions can be risky. A Deloitte study shows that less than half of M&A transactions deliver the value that investors and analyst expected.¹ That's why it's important to make informed decisions about how to manage M&A risk. Some companies are choosing an integrated approach that gets everyone from the board to business unit and functional leaders involved in identifying and managing the risks associated with M&A. Others limit the responsibility for managing these risks to a specialized deal group that owns and drives the process. Which approach works better?

	Point	Counterpoint
Go broad and deep <i>"Manage M&A risk using a structured approach with broad involvement across the entire enterprise."</i>	Broad and deep enables better informed decisions. When more people are empowered to monitor risk, it can reduce the likelihood of issues slipping through the cracks — and you can more effectively assess the value of a deal.	M&A deals can happen fast. Hold out for fully informed decisions and opportunities may be lost.
	This is how you work to avoid surprises. If you don't sweat the details until later, you're less likely to make the deal pay off.	It's impossible to anticipate every problem, so why try? Better to focus on responding to problems quickly.
	If your whole organization knows what you're looking for in terms of M&A risk, you're more likely to uncover more issues.	Executive leadership, the deal teams and board should manage M&A risk. The fewer people involved the better.
	Broader involvement helps create a seamless transition from the deal phase to execution, which is where many acquisitions fall down.	Business unit and functional leaders should focus on their day-to-day operations and not get distracted by M&A until a deal is fully integrated/divested.

¹ "Solving the merger mystery: Maximizing the payoff of mergers & acquisitions," Deloitte, February 2000.

	Point	Counterpoint
<p>Keep it contained.</p> <p><i>“Leave M&A to the deal team. Don’t get business units and functions involved until the deal is done.”</i></p>	Deals require speed and flexibility. A structured, enterprise-wide approach to managing M&A risk sounds bureaucratic and slow.	With a risk-intelligence approach you could save time because you aren’t constantly reinventing the wheel. You get both speed and rigor while helping you to worry less about missing something important.
	M&A deals are a distraction. Let the business units and functions focus on their day-to-day operations until the last possible moment.	Acquisitions have a huge impact on businesses, no matter how you slice it. Getting the business units and functions involved early can help you avoid mistakes and establish a price that makes sense.
	Companies that consistently meet their synergy targets don’t need a new approach. The traditional approach is good enough.	Just because you’re hitting your synergy targets doesn’t mean the deal is a success. If you always take a nonconventional approach, you’ll likely need to manage M&A risk differently.
	Some companies don’t do enough deals to justify a structured, comprehensive approach to M&A risk.	Every company can benefit from becoming more risk intelligent. It starts with focusing on a framework.

Our take



René Hoffman, Principal, Deloitte & Touche LLP, and Mark Sirower, Principal, Deloitte Consulting LLP

Companies can benefit from planting risk intelligence deep inside their organizations — especially when it comes to M&A. That’s because M&A brings everything into play, a microcosm of broader operations. All the moving parts matter, but when things start heating up it can be easy to lose sight of them. In our experience, the more eyes and ears on the job, the better. Using a risk-intelligent approach to M&A helps companies work toward some of the following benefits:

- Visibility to better deals. Instead of swinging at whatever shows up in the pipeline, more leaders can be actively involved in ferreting out deals that make sense.
- Deals that fit the business better. Ask your board to consider a broad definition of M&A risk within a consistent risk framework.
- More confidence in your valuation estimates of target companies. In addition, understanding the issues you’re likely to face once a deal is done (including side effects such as market cannibalization) can help you make more informed determinations of what the acquisition or divestiture is worth.
- Due diligence that is more comprehensive. A broad and deep approach that takes a holistic view of an organization’s overall operational and governance risk framework and potential impacts. It doesn’t just focus on financial risks and validating numbers.
- Better integration. Business units and functions can better understand integration issues and assumptions so they can hit the ground running. Also, they may feel more personally invested and therefore more responsible for delivering expected benefits.
- Fewer surprises. You have a better chance of knowing the target company’s organizational risk framework going in, so you’re less likely to run into land mines later.
- Speed and discipline. A structured approach can accelerate the process because everyone knows exactly what to do, when to do it, and how. At the same time, important things don’t fall through the cracks.

In the “contained” approach to risk management (as opposed to the more comprehensive concept of Risk Intelligence across the lifecycle), the deal team focuses on closing the deal while the Business Units and functions are responsible for achieving the synergies proposed. The concept of Risk Intelligence in M&A allows for a consistent measurable framework that would be evaluated when the deal commences and with minor refinements can bring you through integration.

A view from the financial services sector

Clint Stinger, Principal, Deloitte Financial Advisory Services LLP

When it comes to M&A in financial services there's no question to me that a broad and deep approach to assessing [the target organization's approach to compliance and integrity] risk is preferable. It's especially valuable in the area of compliance and integrity risks which can have a direct impact on deal pricing, structure and terms and conditions. Narrowly focused deal teams don't always have the resources and expertise to assess potentially complex risks, such as money laundering, economic and trade sanctions, fraud and corruption — and quantify their possible impact on the transaction.

The cost of overlooking such risks can be substantial, especially in today's environment where these issues can seriously undermine a financial services firm's reputation. More to the point, without a detailed understanding of compliance and integrity risks, it's more difficult to know what price is appropriate — and what it might take to achieve effective integration.

One banking client recently asked us to supplement their due diligence team on an international acquisition. We helped them discover that one high risk business unit within the target bank lacked robust controls to mitigate money laundering risks. This broad and deep approach to diligence in this situation resulted in a conclusion that acquiring that business would require the exit of certain client relationships, and the layering of more than a million dollars in new compliance costs.

Some companies try to address compliance and integrity risks through a last minute "check the box" approach. That may be better than nothing — but not by much. In financial services M&A, risk intelligence means addressing all kinds of risks — including compliance and integrity risks — as a central element of decision-making throughout the deal lifecycle.

A view from the oil and gas sector

Jim Dillavou, Partner, Deloitte & Touche LLP

By its nature, oil and gas is generally a higher-risk industry. Industry executives face business risks every day — and they're good at it. But there's a difference between the operating risks companies routinely face and the unique challenges that come with significant mergers and acquisitions. If anything, oil and gas executives may be overconfident going into big deals.

"We buy and sell properties all the time," one CEO said to me. And that's certainly true. Yet buying a business has many different aspects than buying properties, and I think the broad range of M&A risks should be analyzed. People issues, benefits, technology integration, tax matters, and legacy environmental issues — the list goes on.

We sometimes see deal teams that aren't sufficiently broad to work through these kinds of risks, even when the issue is core to the oil and gas industry itself. For example, we recently worked with a company that was evaluating the reserves of an acquisition target. As it turns out, the information provided to the reserve engineers was inaccurate, which significantly affected the company's related estimates for production, operating costs and revenue differentials. Our team was able to help the client dig into the underlying financial records, identify the inconsistent information and set things straight, so they were able to make a smarter offer.

Due diligence in oil and gas is often executed by operating and engineering people. By broadening your acquisition team to include specialists in technology, HR, compliance, tax, and accounting, I believe you'll be able to take a more risk-intelligent approach to M&A. That means you'll have a clearer idea of what you're buying — and what it's really worth.

For more information, please visit: www.deloitte.com/us/debates/managingrisk.

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