Deloitte.

The path to greater distinction:

How Canada's Best Managed Companies can build successful M&A transactions around trust

For any merger and acquisition (M&A) transaction to be successful, it has to make financial and strategic sense. However, those aren't the only critical factors. Something else can matter even more: trust.

For Canada's Best Managed companies who may be navigating their way through M&A transactions, incorporating trust through every phase of the M&A lifecycle will provide an additional, distinct advantage, helping to boost early buy-in, ensure stability, propel economic growth, and drive value at every turn. Trust can be the real asset when it comes to mergers, acquisitions, joint ventures, equity investments, and divestitures transactions. Without it, any upside value could potentially be derailed.

Research shows that 70% of international merger projects fail due to culture factors. Moreover, 70% of M&A deals fail to create value, according to one study, and half even destroy value[1]. Why? Too often, a focus on financial quick wins and product portfolio alone takes priority over shared objectives and transparency.

Best Managed companies pride themselves on their leadership, commitment to people and community, and the impact they've made on Canada. So when an owner or executive is exploring a transaction—beyond understanding the M&A lifecycle—we encourage them to be proactive about thinking through a deal with our trust framework to enable better outcomes for all stakeholders involved.

Improving outcomes

M&A transactions are a time of high uncertainty. A lack of trust can undermine everything. Consider how employees, for one, might:

- Frame the transaction as something gained or lost
- See the entities as equals or as us vs. them
- Feel whether or not information is flowing openly to all sides
- Share or hoard knowledge and experiences (e.g., depending on concern about job security)

Trust increases when leadership on both sides of an M&A transaction focus on cultural sensitivity, job security, other rewards of integration, morale, the quality of communications, and the strength of governance.

By placing authentic, stakeholder-focused intent behind key categories of trust-driving actions, organizations on both sides of the transaction can improve their post-integration outcomes.

[1]Heather R. Parola, *The role of interorganizational trust in the merger and acquisition process*, Florida Atlantic University, December 2015.

Dimensions of trust

Trust is a human experience. We help our M&A clients apply a trust lens to their decision-making from the onset. This enables different, and vital, conversations about the nature and rationale of transactions.
In order to build trust with employees, customers, shareholders/investors and others, leaders need to understand the four human dimensions of trust: physical, emotional, financial and digital.

Think of how many domains of trust relate directly and profoundly to M&A transactions:

- Employee engagement
- Workforce experience
- Authentic and resilient leadership
- Culture and purpose
- Compliance
- Strategic governance
- Customer experience

Trust gets at the heart of M&A processes. Balancing the trust equation serves all stakeholders throughout the lifecycle of a transaction. By understanding the values of our Best Managed clients, the M&A landscape, and where any gaps or potential hotspots can erupt, we can support our clients in taking decisive action to strengthen trust, and ensure a more successful transaction, regardless of whether they're on the buy- or sell-side. It's essential to go beyond the playbook.

Contact

Nick Galletto
Partner
ngalletto@deloitte.ca

Fatima Laher
Partner
flaher@deloitte.ca

Michael Cherny
Senior Manager
micherny@deloitte.ca

deloitte.ca/trust