



The role of the CEO in Mergers and Acquisitions

The last 18 months will likely go down as one of the most disruptive - and likely most difficult - periods leaders will face in their careers.

Yet despite all the challenges this year, there are signs of an improving economy. Unemployment numbers are decreasing after a substantial increase earlier this year. Many companies are increasing output. And mergers and acquisitions are bouncing back - perhaps not surprisingly, given the number of companies which have become attractive targets as a result of a challenging operating environment.

In response to the increasing interest in M&A, we wanted to write to CEOs about their role in this, based on advice other CEOs have shared with us after having gone through the process themselves.





Be mindful of the odds

No CEO has ever launched an M&A effort hoping it would ultimately fail, yet we know they often do. According to research, half of M&A activities fail to generate the value expected at the start of the process. There are many reasons why. When asked, just under half (47 percent) of executives cited a lack of understanding of both cultures as a key point of failure. And just over a quarter (27 percent) pointed to a lack of a clear and consistent strategic vision at the board level.

While those risks come from to how you conduct M&A, there is also a significant risk from who conducts it. An astonishing 44 percent of M&A efforts fail as a result of poor leadership.

What's a CEO to do? Successful M&A leaders mitigate these risks by focusing on three core areas:



#1

Executive Talent



#2

Board Effectiveness



#3

Organizational Culture



#1 Executive Talent

It is easy to overvalue an executive's strengths and overlook their weaknesses, and often hard to get a true understanding of how good someone is relative to the available talent pool. CEOs who successfully undertake M&A activities use objective insights to select leaders from both legacy organizations who can successfully lead in the new, combined company's operating environment.

Approach the work from three perspectives:

1. **Competency-based interviews** to get honest, insightful data from the candidate
2. **Scientific psychometric assessments** that give detailed insights into the individual
3. **Structured referencing** to get outside perspective to confirm or refute the information

The data you collect can be used in multiple ways, and should help you answer multiple questions. You will want to benchmark your candidates against the broader talent market, evaluate them against well-defined success profiles, and assess them for cultural fit. Additionally, it is critical to objectively estimate their future growth potential, identify any potential leadership risk factors, and gauge their retention risk.

The last item is important: It will take a significant amount of work to build your new executive team - you want to make sure you get it right the first time, and don't have to replace anyone too soon.





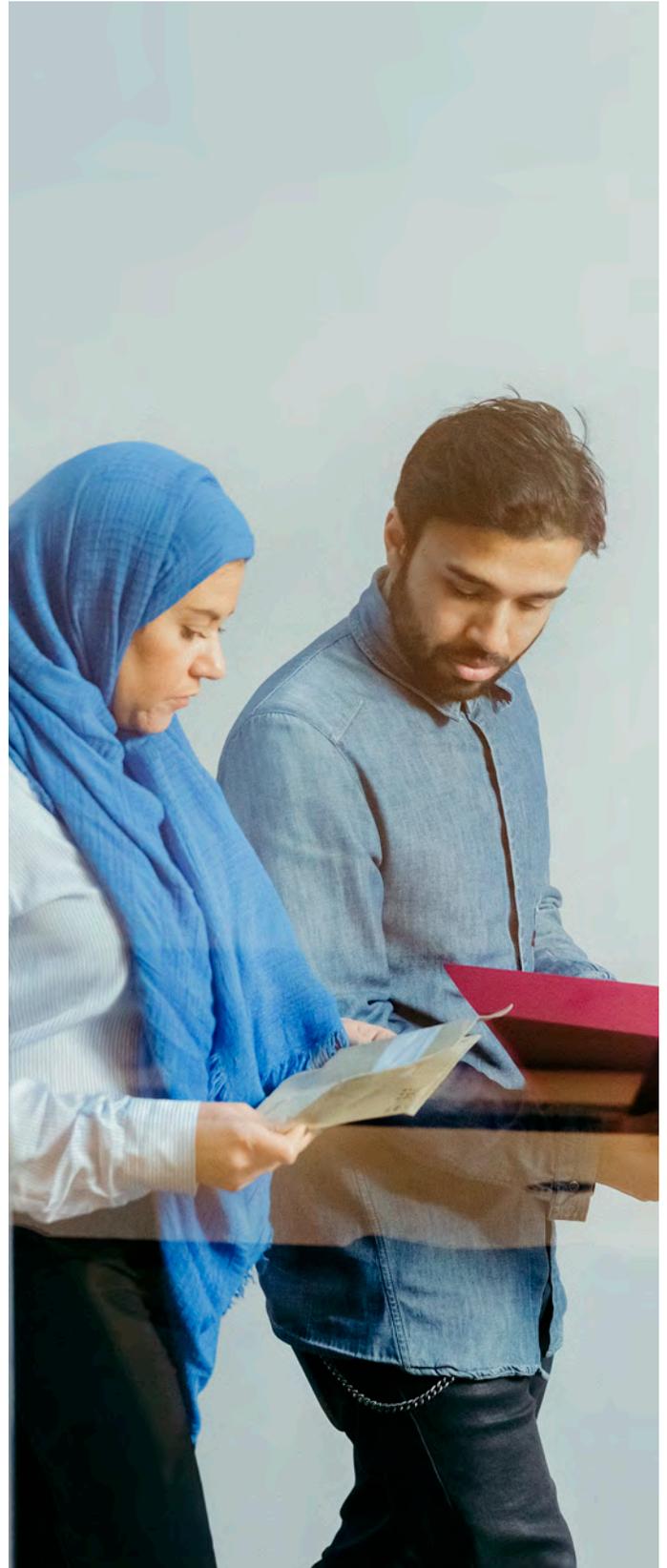
#2 Board Effectiveness

In addition to putting the right management team in place, a new company needs the right board of directors to oversee the enterprise. CEOs who successfully undertake M&A activities design their new, combined company board with the right composition, performance expectations and governance processes to unleash maximum value from the M&A.

When considering candidates for the board, spend time getting to know them well, and making sure they will engage in the boardroom in the most productive ways possible. Specifically, our research has shown¹ that seven boardroom behaviors and activities have an outsized impact on building engaging, effective, and productive supervisory boards:

1. A chair who fosters and facilitates **high-quality debates**
2. A chair who draws out the **relevant expertise** of the independent directors
3. Directors who are open to **new ideas** and ways of doing things
4. Directors who keep the discussion **focused on the matter at hand** and eliminate tangents
5. Non-executive directors who are willing to **constructively challenge management** when it is appropriate to do so
6. Non-executive directors who **build and demonstrate trust** among fellow directors
7. Non-executive directors who are careful and **avoid crossing the line** from oversight into operations or management

By focusing on director candidates who demonstrate these behaviors, you can create a board that maximizes the potential value of the M&A effort.





#3 Organizational Culture

The right leaders and right board aren't enough, of course - you also have to build an organization with the right culture. CEOs who successfully undertake M&A activities identify and accelerate the cultural elements from both legacy organization that will drive the desired behaviors and outcomes in the new, combined company.

What factors should CEOs be thinking about? Focus on the big six:

1. **Values:** What are the core beliefs or principals the company will always follows?
2. **Environment:** What type of workplace will you create, and how will it impact employees?
3. **Management Style:** What management style will the organization recognize, reward, and encourage?
4. **Leadership Behaviors:** What specific behaviors must every leader embody in the organization?
5. **Key Capabilities:** What will all employees know and do, and how will it contribute to the organization?
6. **Communications:** What will be the type and frequency of formal communication used between leaders and employees, and among peers in the new organization?

Getting organizational culture right from the very start sends a message about what matters most, and what kind of organization you are building. It creates a foundation for lasting success.

Your role in all this

Mergers and acquisitions are a team activity - they require significant contributions for every part of the organization to be successful. But you have a critical role to play as CEO in orchestrating the effort, and owning the result. Do it right, and you deserve all the accolades you will receive.



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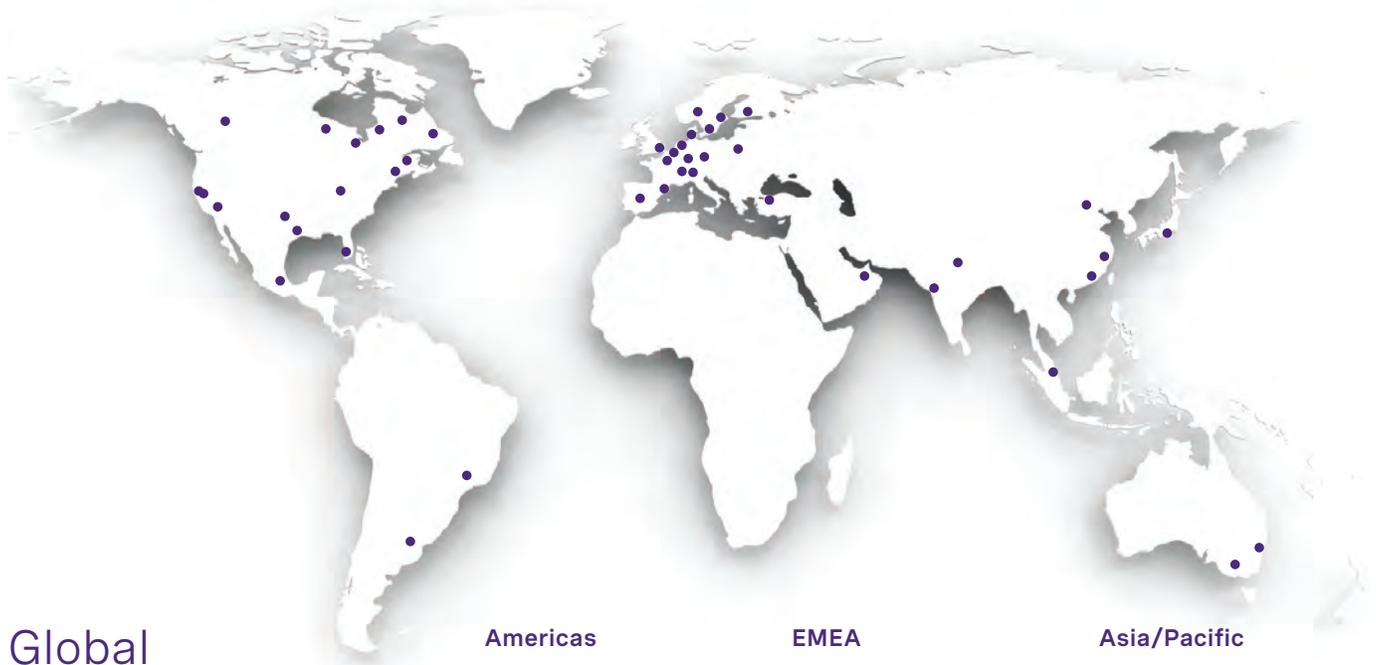
References

1. <https://www.russellreynolds.com/insights/thought-leadership/going-for-gold-the-2019-global-board-culture-and-director-behaviors-survey>

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