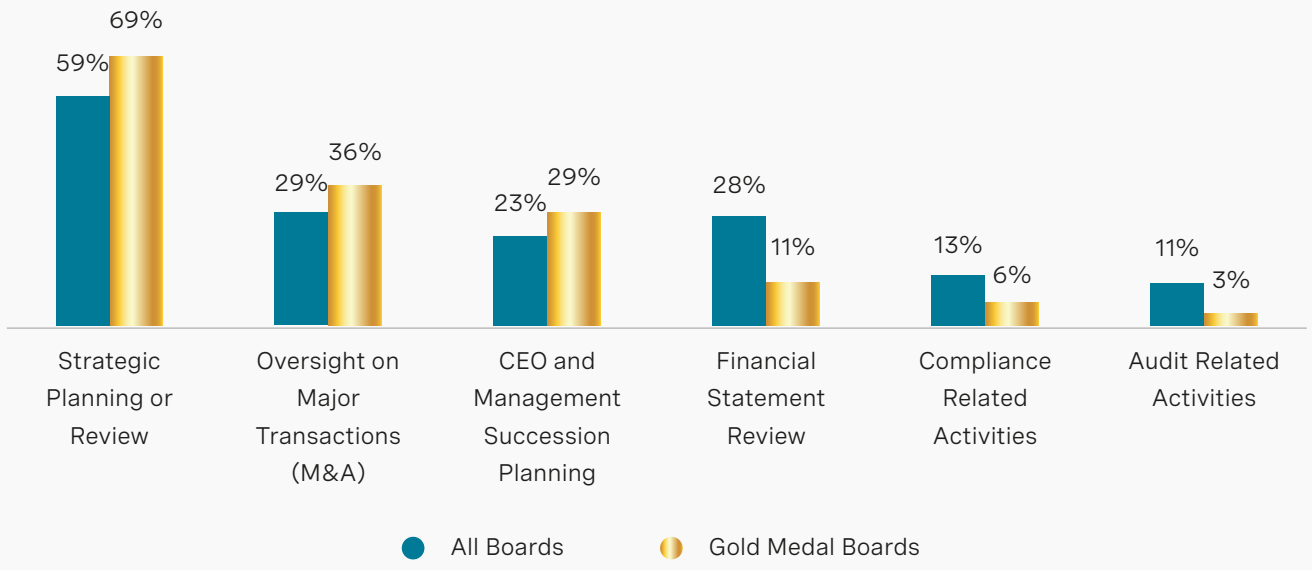
Why the Best Boards Focus on M&A

The average director spends 200 hours a year on board activities per company (excluding travel), but not all directors spend those hours the same way. There are a set of directors who serve on the boards of high-performing companies (exceeding total shareholder return compared to relevant benchmarks for two or more years in a row) and also identify their board as operating in a highly effective manner. We call these "Gold Medal Boards," and they operate quite differently than other boards while focusing on very different topics.[1]

Top priority topics for the best boards

These are the areas where the best boards focus their attention—and where they do not



When asked to identify the areas where they spend the most time, these high performing boards overwhelmingly focus on topics that create value: strategic planning or review (69 percent versus just 59 percent of typical boards), oversight on major transactions (M&A) (36 percent versus 29 percent), and CEO and management succession planning (29 percent versus 23 percent).

In parallel to that, they also spend less time and energy on financial statement review (11 percent versus 28 percent), compliance related activities (6 percent vs 13 percent), and audit related activities (3 percent vs 11 percent). These are all backwards-looking activities, which, while important to do, do not in and of themselves create value for the business or for shareholders.

It is no surprise that mergers and acquisition are a top focus area for high performing boards, as M&A is inherently about creating value. From start to finish, boards will have a seemingly endless number of issues to address during M&A activities, but talent should always remain top of mind. Here are six specific areas where boards should focus:

1. **Building an executive talent bench for today's challenges and tomorrow's opportunities:**

A cohesive integration requires a commitment to rigorous self-examination, great timing and exceptional leaders. Make leadership a priority during your diligence process to pinpoint the executives who can steer the company through the integration. But selecting the leaders based solely on the integration needs may mean risking the organization's longer-term success at the expense of a successful integration. To mitigate this risk, identify leaders who are not only exceptional at navigating through change and ambiguity, but who also have the potential to drive new areas of growth and development for the business' longer-term needs.

2. **Assessing with a fresh lens:**

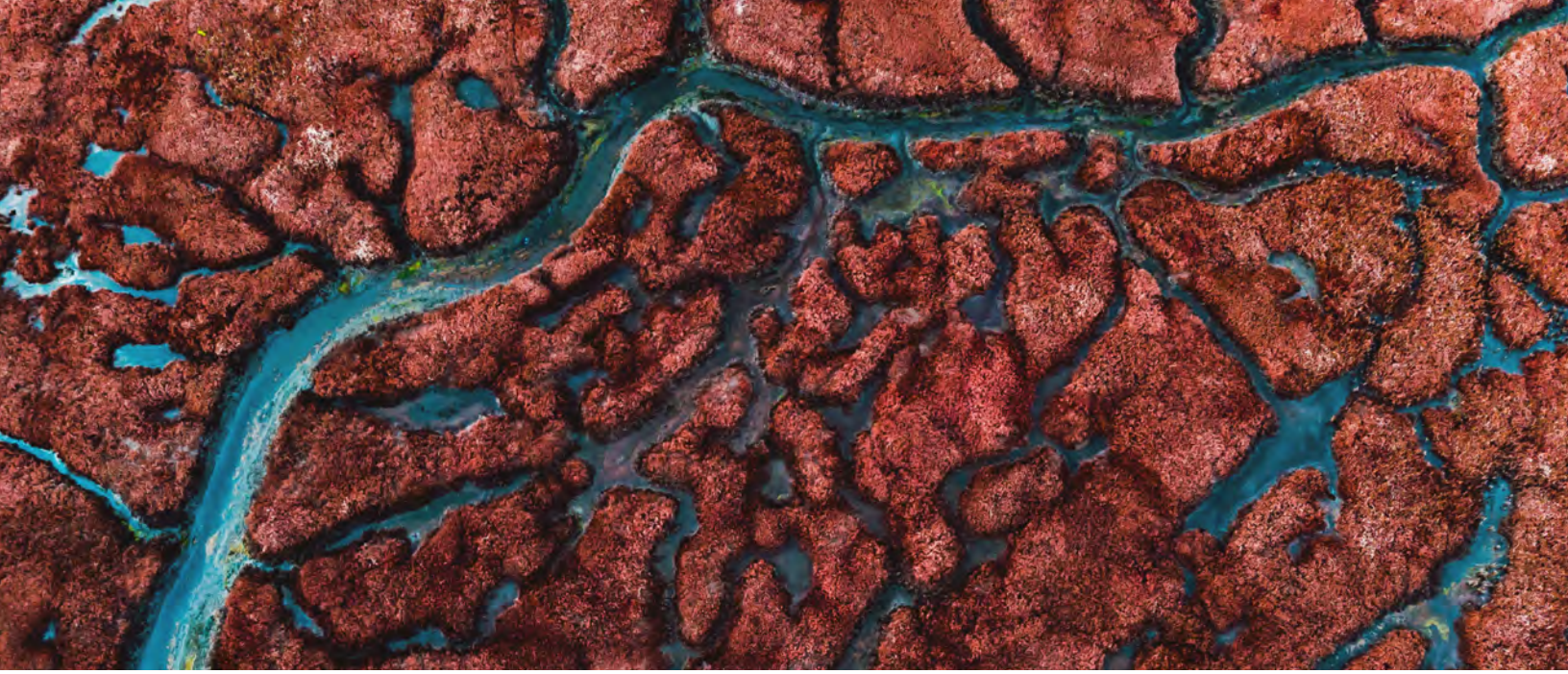
Do not assume the current executive teams from either legacy organization are the teams you will need for the new entity. Leaving this unaddressed is one of the top reasons that integrations fall short, so it is important to define the type of leadership the organization will require. This could mean orienting towards finding exceptional operational leadership, the "talent magnets" that inspire followership or innovative thinkers who will disrupt each legacy organization's products and services. Once these requirements are defined, this becomes the criteria against which you should begin assessing talent.

3. **Defining clear roles:**

A lack of clear roles can significantly slow down the leadership integration process. After all, how can stakeholders make decisions if they do not know who is responsible for interviewing and selecting candidates? To help your team get on the same page, clarify decision-making rights upfront and establish the role of the board, CEO, HR, others. Who will be responsible for recommendations vs. providing input? It is important to make sure that the interview and selection process is the same for all candidates.

4. **Communication, communication, communication:**

In times of uncertainty, under-communicating can be a pitfall. An end-to-end communication plan is a great way to combat this. It can provide transparency into the selection process and clarify the ins and outs of talent selection. Develop your communication plan early and revisit it often. Be sure to convey how hiring decisions are made and what is being done to ensure equity and objectivity. Most of all, be prepared to reiterate these messages and have them reflect your overarching vision. Messages often need to be shared in multiple forums, multiple times in order to be heard.



5. **Understanding and managing the risks:**

Failure to successfully transition into an executive role can significantly impact the integration's success, including missing critical integration KPIs, diminished board confidence in the CEO's leadership and low employee morale. To combat this, ensure clear transition plans are in place to set up executives for success in their new, complex, larger, and more demanding roles. This can include providing clarity on their new stakeholder environment, being clear about their strategic priorities, and ensuring the teams underneath them include exceptional performers. A lack of focus on diversity can also present significant challenges for the organization. These challenges can include not adequately prioritizing diversity, equity and inclusion (DE&I) investments, failure to create a culture where differing opinions are welcome, or simply having an executive team that lacks a diversity of talent.

6. **Prioritizing candidate care:**

Identifying the best talent is only half the battle. The key to building the right executive teams is recruiting and retaining top talent. This is where a white-glove experience can make a big difference. It is easy to forget that an integration selection process, which often includes choosing between two executives for one role, is actually an executive recruitment exercise. Leaders need to understand the NewCo vision, aspirational culture of the CEO, and opportunities for him/her going forward within the current and future roles. Focus on "re-recruiting" current executives through a personalized approach that takes their skills and experience into account. This should include highlighting their long-term succession potential within the organization and their ability to shape its success.

M&A is inherently challenging, even under the best of circumstances. By keeping talent top of mind, building a strong executive leadership team, and focusing on the future of the company, boards can give themselves the best chance of long-term success.

Authors

PJ Neal leads Russell Reynolds Associates' Center for Leadership Insight. He is based in Boston.

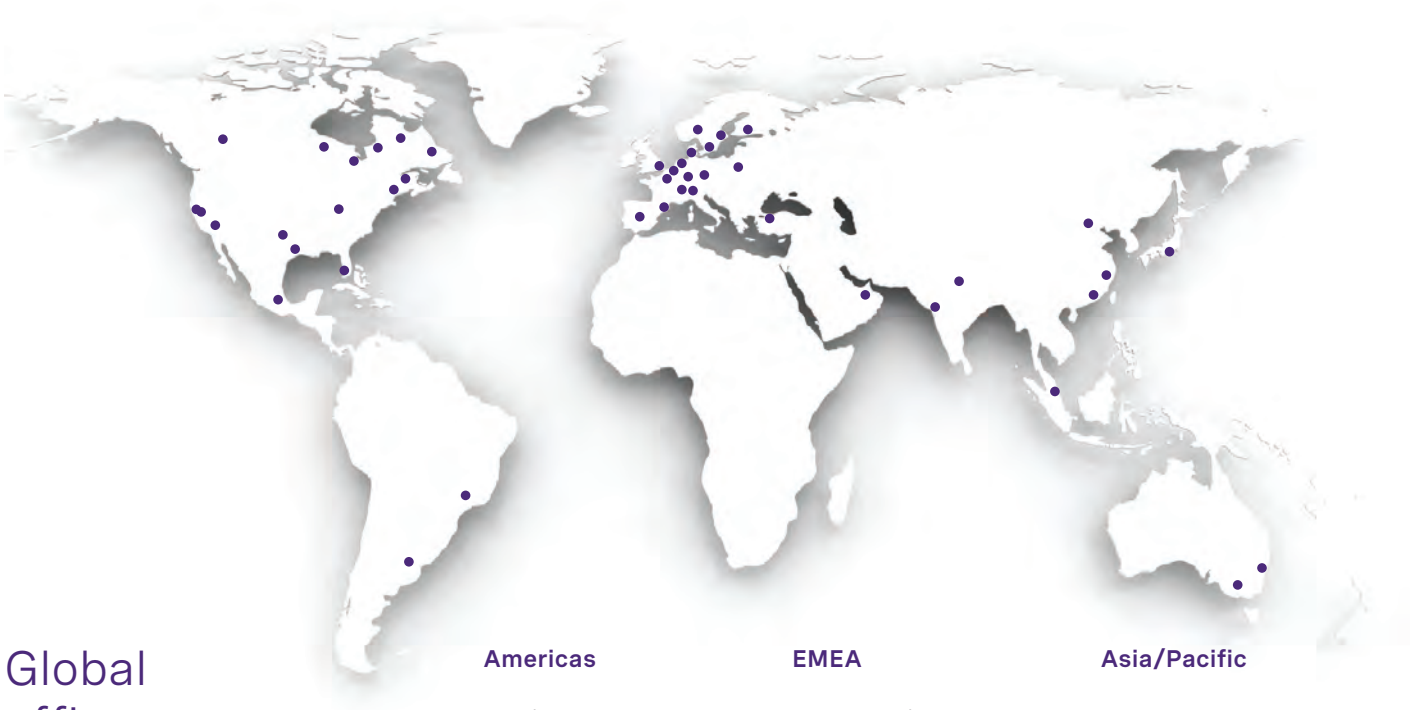
References

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

About Russell Reynolds Associates

Russell Reynolds Associates is a global leadership advisory and search firm. Our 470+ consultants in 46 offices work with public, private and nonprofit organizations across all industries and regions. We help our clients build teams of transformational leaders who can meet today's challenges and anticipate the digital, economic and political trends that are reshaping the global business environment. From helping boards with their structure, culture and effectiveness to identifying, assessing and defining the best leadership for organizations, our teams bring their decades of expertise to help clients address their most complex leadership issues. We exist to improve the way the world is led.

www.russellreynolds.com



Global offices

Americas

- Atlanta
- Boston
- Buenos Aires
- Calgary
- Chicago
- Dallas
- Houston
- Los Angeles
- Mexico City
- Miami
- Minneapolis/St.Paul
- Montreal
- New York
- Palo Alto
- San Francisco
- São Paulo
- Stamford
- Toronto
- Washington, D.C.

EMEA

- Amsterdam
- Barcelona
- Brussels
- Copenhagen
- Dubai
- Frankfurt
- Hamburg
- Helsinki
- Istanbul
- London
- Madrid
- Milan
- Munich
- Oslo
- Paris
- Stockholm
- Warsaw
- Zürich

Asia/Pacific

- Beijing
- Hong Kong
- Melbourne
- Mumbai
- New Delhi
- Shanghai
- Singapore
- Sydney
- Tokyo