# Board Perspectives Supplement: Once the Acquisition Is Consummated

*Issue 175 of* Board Perspectives, *"Sharpening the Board's Focus on M&A Due Diligence," concentrates on shifts in the due diligence process that are generating the need for more focused questions in specific areas. Whether an acquisition is a stand-alone, complementary entity or an integration, the due diligence process is undergoing a paradigm shift due to the higher cost of funding and the historical impact of failed transactions on valuations. As a result, boards should expect a more aggressive focus on due diligence.*

The intent of Issue 175 is to point out the most important, fundamental questions directors should ask during the due diligence process in certain areas. It focuses on the "primary asset" question: *What are we actually buying?* It summarises questions during due diligence in the following areas:

- Supply chain resilience
- Talent pipeline and retention
- Environmental, social and governance (ESG)
- Cybersecurity and data privacy
- Compliance with laws and regulations
- Integration effectiveness

While the due diligence process focuses on identifying risks, confirming financial information and relevant facts, verifying critical deal points underpinning an investment opportunity, reviewing existing contracts, and establishing a road map to address a transaction's core issues via integration or separation planning, there are important questions and activities to address after the deal is completed.

This post-acquisition agenda includes such considerations as how the merger or acquisition is communicated to key external and internal stakeholders, execution of the integration or separation plan and keeping that plan on track, realisation of planned synergies, impact on and evolution of the culture, and appropriate reporting to senior leaders and the board.

That said, our intention in this supplement is to focus on key questions related to the areas discussed above (and as introduced in Issue 175 of *Board Perspectives*) to help directors continue their engagement with management on key areas *after* the deal is consummated.

These questions present opportunities for post-acquisition follow-up:

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| **Supply chain resilience** | What are the worst-case scenarios pertaining to the acquiree's supply chain and third-party dependencies?<br>Are documented response plans in place and periodically evaluated with responsible leaders accountable to act should any of these scenarios transpire?<br>Given the above, what actions should we take to enhance our resilience in the face of the unexpected? |
| **Talent pipeline and retention** | What are the most important aspects of the acquired operations and who are the leaders — in both the front office and back office — supporting them?<br>What specific actions do we undertake to retain these leaders, including the "hidden players" that make the organisation valuable?<br>What should we do to prepare should key leaders or "hidden players" leave despite our efforts to retain them? (See comments later in this document regarding cross-training.) |
| **ESG** | Are the acquired entity's ESG strategy, core values, risk profile and growth opportunities compatible with ours? If not, what adjustments do we need to make to achieve alignment?<br>How will the acquired entity's ESG strategy and initiatives impact our external ESG reporting and the post-acquisition narrative we intend to share with the street? |
| **Cybersecurity** | How are we integrating the acquired environment? Does our security group have adequate input, involvement, visibility and escalation authority during the post-merger integration process?<br>In integrating the technologies between the two environments, are we ensuring that we have addressed security risks *before* we "plug in" the acquired systems to prevent potential contamination? If not, are there any "stopgap" measures we should undertake to secure the acquired environment before we begin the transition and integration process? Otherwise, is it possible our approach will create any "gaps in coverage" from a security perspective?<br>Did the acquiree underinvest in security before the acquisition? If so, in which areas – prevention, detection and incident response – and how does that impact our integration approach?<br>Given the above, how are we addressing the risk that active threats remain in the acquired environment? Have we performed threat-hunting exercises? |

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| **Data privacy** | Is the acquired entity's data governance and management programme compatible with ours?<br>Is the acquired entity compliant with applicable data privacy laws and regulations? How do we know?<br>Is there a clear view as to why the acquired entity obtains and retains the data used in its business? Is it limiting data collection and retention only to the specific data points needed to drive its strategy and business model while ensuring compliance with applicable privacy laws and regulations? |
| **Compliance with laws and regulations** | Have we aligned the acquired entity's compliance policies with ours?<br>What training and reinforcement are needed to inculcate our compliance culture into the acquired organisation (e.g., ethical behaviour and code of conduct, anti-corruption policies, data management and governance policies, and third-party risk management)?<br>Does the acquired entity have any pending significant control deficiencies and new regulatory improvements that require immediate attention?<br>How are we ensuring compliance with all applicable laws and regulations post-acquisition? |

As for integration effectiveness post-acquisition, a key priority is empowering a cross-functional leadership "tiger team" to review and resolve inevitable integration problems that arise from day one following deal consummation. This team is in place to quickly address issues with actionable solutions.

Following are some first-things-first questions for directors to kick off the post-acquisition conversation regarding integration effectiveness:

- Have we updated our due diligence evaluation of the acquired entity's processes, inputs and outputs for each critical functional area that is expected to continue post-acquisition? (Note: Process maps and narratives and discussions with key internal stakeholders who own critical processes and systems and/or are responsible for people and critical assets can facilitate evaluation of the fit and focus of the integration plan and cross-training efforts to enhance process maturity and build bench strength.)
- Do the individuals supporting the newly acquired operation understand our company's goals and objectives? Are our post-acquisition communications and messaging sufficiently focused on retaining valuable employees and emphasising company goals and objectives?
- How are we measuring the transaction's success? What integration key performance indicators (KPIs) are we using? Is a dashboard periodically reviewed by management and the board to monitor progress, depending on the significance of the deal? Are applicable timelines, milestones and critical diligence follow-up priorities defined and tracked? (Note: An organisation cannot properly manage the integration process without metrics to track progress.)

- Have we established actionable plans to address the top concerns and risks identified during due diligence to both manage risk and achieve maximum efficiency?
- Does the board and executive management have visibility into the extent and nature of the acquired entity's technical debt? Does integrating the acquired systems and infrastructure into our environment increase our technical debt? Is there active governance in place to ensure that effective trade-off decisions are made and an actionable road map exists to mitigate the risk and cost?

Acquisitions are challenging and stressful for companies, even in the best of circumstances. The due diligence questions provided in Issue 175 of *Board Perspectives* and the above questions once the deal is consummated provide directors with a framework for engaging in strategic pre- and post-deal conversations with management regarding important risk areas.