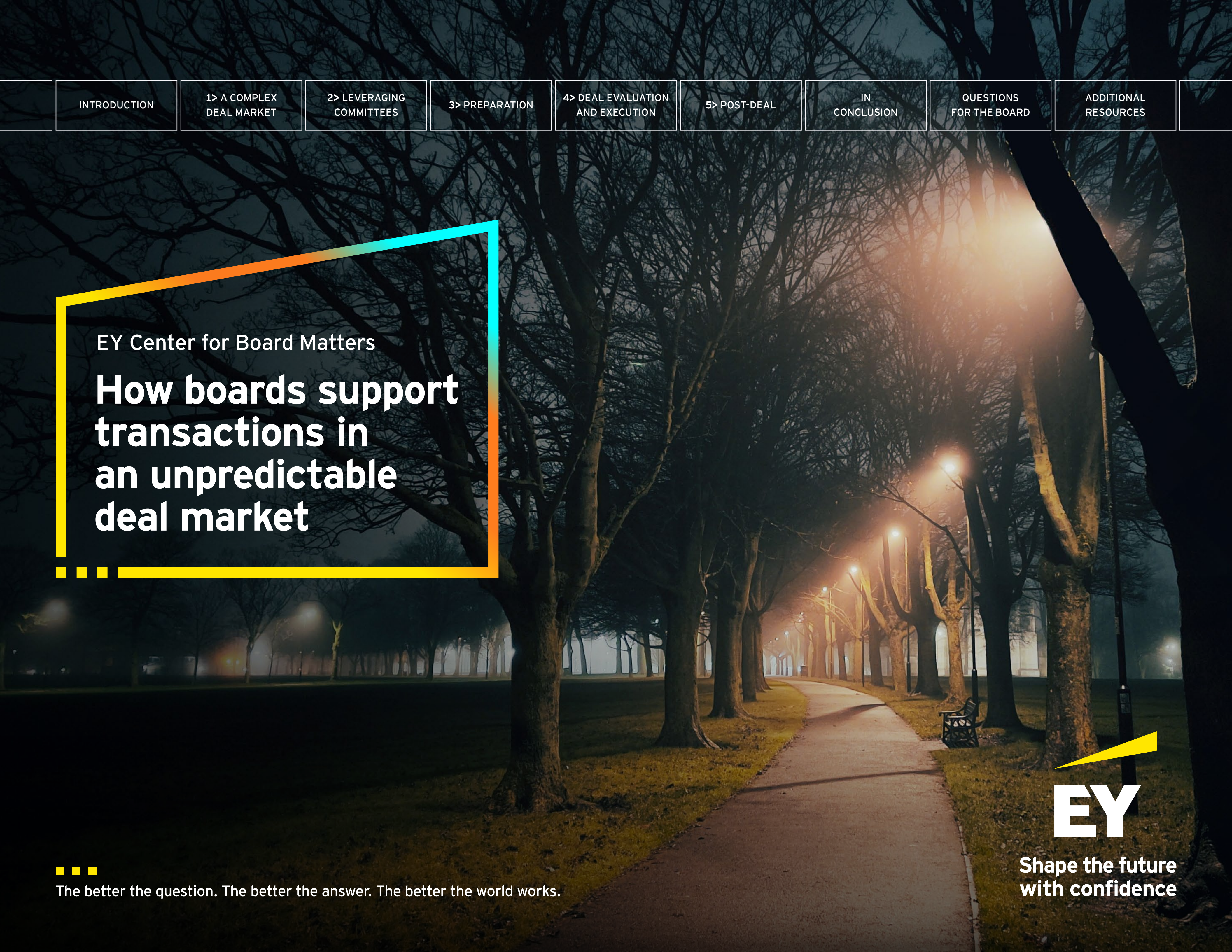

EY Center for Board Matters

How boards support transactions in an unpredictable deal market

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Introduction

Boards play an important role in overseeing transactions that achieve strategic business outcomes.

Strategic transactions can be catalysts for innovation and growth. Whether through acquisitions, joint ventures or other deals, transactions can ignite fresh ideas, unlock new talent and redefine the future trajectory of a company. Savvy companies seize opportunities during market downturns, while others stay ahead by meticulously planning their transaction strategies and identifying key execution triggers.

However, the path to transformation is fraught with risks, especially in our complex and uncertain environment. This is where boards play a pivotal role.

With nearly half of transaction leaders admitting they often miss the mark on delivering intended value, the need for robust board oversight has never been greater. Boards have the unique ability to steer companies through these challenges and drive superior business outcomes through their oversight.

To support boards in this critical role during uncertain times, the EY Center for Board Matters team engaged with directors, subject matter experts, and relied on research and survey data from across its network. Our work uncovered important considerations for directors as they guide management through the risks and opportunities at each stage of deal making, including various types of transactions companies may pursue, such as mergers and acquisitions (M&A), joint ventures, strategic partnerships, divestments and corporate venture building. What follows are strategies that can help integrate transaction oversight responsibilities across board committees and deepen the board's engagement in all phases of the strategic deal lifecycle.

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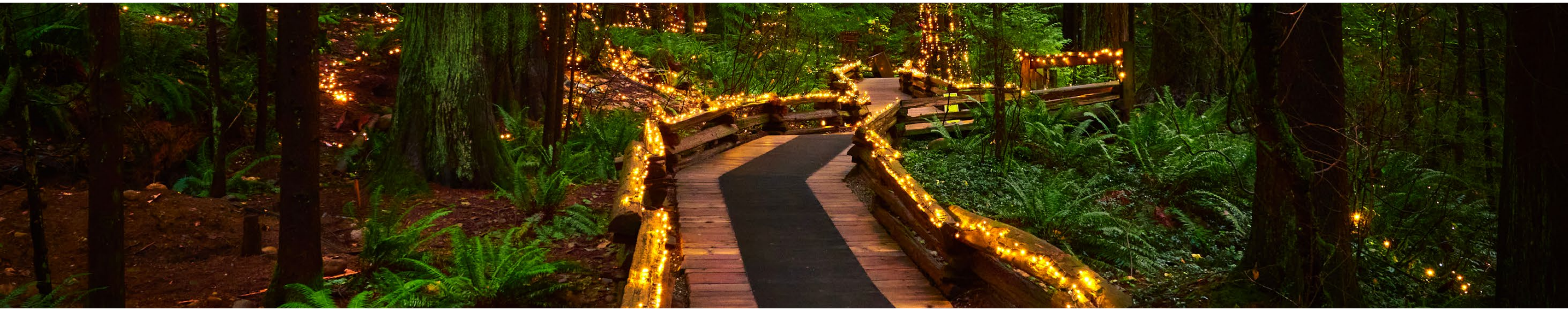

1 A complex deal market compounds risk

The deal market has become much more complex and uncertain in a short time.

The start of 2025 saw exceptional enthusiasm for a robust deal market. An EY survey of CEOs in the final months of 2024 found that nearly all CEOs (96%) anticipated pursuing some form of a transaction in 2025.

However, over the first quarter, a number of headwinds have diminished the excitement. In the near term, the continued reshaping of global trade, driven by protectionist trade and industrial policies with populist influences, have led many to question whether the deals they hoped for would materialize.

Nonetheless, there are reasons to be optimistic. Key deal drivers are not going away. Transactions will continue to be a significant mechanism for companies to efficiently deploy capital, improve product and process innovation, and boost customer and employee engagement and retention. They can also optimize operations and productivity, accelerate top-line growth and address sector-specific dynamics.

Indeed, companies may be acquisitive in this environment as a matter of necessity to remain competitive. Additionally, smaller transactions that stay under the radar of regulators and are easier to finance are moving forward, and venture-based deals that bring new skills or technologies in-house can take advantage of a wide variety of different market environments.

Ultimately, companies cannot stand still or cost-cut their way to success. They will need to keep evolving and transforming to match and exceed competitive threats. As companies look to deploy capital and seize opportunities amid the uncertainty, boards are in a unique position to help management teams look past the daily headlines and separate signals from noise to help find durable value in the deal market and be ready to strike when the time is right.

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2 Leveraging committees to deepen deal oversight

Boards can leverage their committee structure to deepen oversight of transaction activities by strategically distributing responsibilities across various committees.

This supports comprehensive evaluation and oversight of the deal, while addressing specific risks and opportunities associated with the transaction.

For many boards, the audit committee plays a pivotal role in overseeing financial due diligence and the accuracy of financial statements, evaluating liabilities, and assessing the overall financial health of a target company. By focusing on these areas, the audit committee helps to mitigate financial risks and provide a solid foundation for transactions.

Some boards have additional committees that can take on some aspects of transaction-related oversight and reduce the burden on the audit committee. For example, some S&P 500 boards (31%) have finance committees that may assess transaction financing options and evaluate impacts on the balance sheet, cash flows and overall financial stability. Similarly, some have technology (13%) or risk (11%) committees that may oversee transaction-related cybersecurity and other technology risks.

The compensation committee can assess any potential impacts of a transaction on employee compensation, benefits and morale, overseeing talent retention and smooth integration of key personnel from the target company. Addressing these talent concerns is vital to transaction success, which we explore in more detail later in this article.

The nominating and governance committee may review how the governance structure of a target company aligns with the acquiring company's practices. Additionally, given that most S&P 500 nominating and governance committees (68%) now oversee sustainability, they may also evaluate how a transaction supports the company's long-term sustainability objectives and initiatives.

Many boards form a temporary independent committee to provide an unbiased evaluation of potential deals and confirm the independence of advisors, enhancing the credibility of the transaction process. An independent board leader facilitates communication across committees, supporting seamless information flow and fostering collaboration and transparency.

Effective use of committees requires that board and committee leaders:

- Review board and committee responsibilities in the transaction process to determine whether committee resources are optimized and well coordinated.
- Clearly articulate committee roles to board members and management to ensure that everyone knows their responsibilities.
- Evaluate board information flows to provide that transaction details reach the board and its committees effectively.

3 Preparation: Build agility and make no-regret moves

Board oversight of strategic portfolio reviews and capital allocation can help management prepare and build the agility to act when the time is right, while making no-regret moves in the meantime.

This proactive approach sets the stage for a transaction well before a target is within sights. Boards can focus on four areas:

- **Strategic portfolio reviews.** Boards can press the management team for details on how they are evaluating underperforming business units, non-strategic assets, or business units that don't warrant additional capital. This scrutiny allows directors to challenge management to either optimize or exit underperforming business lines. Through divestments, management can unlock additional capital, positioning the company for strength and increasing options for future deals or returning capital to shareholders. Additionally, such actions may enable the company to preempt activist threats, addressing vulnerabilities in capital allocation – a focus area for investors this year.
- **Financial discipline.** Boards can challenge management to make other "no regret" moves that enhance financial discipline and enable deal-making agility, such as targeted cost reductions and monitoring a watch list of potential targets and their valuations. When it comes to cost cutting, the board plays a pivotal role in guiding management to fully consider the downstream implications of cost reductions and the trade-offs involved between such actions and other levers the company may have at its disposal.
- **Comprehensive approach to scenario planning.** Boards can encourage management to use scenario planning to test the impact of a wider range of geopolitical or economic changes on transaction strategy and monitor triggers requiring action. The volume of swings in the current environment makes scenario planning challenging, emphasizing the need to optimize cash flows and address controllable factors. Longer-term trends, such as deglobalization, may continue, changing the calculus on the type or structure of deals pursued. Strategic partnerships or joint ventures offering flexible exit strategies could be more attractive in high-risk regions.
- **Future-back strategy development.** Boards are uniquely positioned to guide management, and to participate themselves, in future-mapping exercises. Such exercises use scenario planning and predictive analytics to challenge management to consider the second-, third- and even fourth-level impacts of disruptive forces in and adjacent to the company's industry. For instance, how might new prescription weight-loss drugs that alter the food tastes and preferences of patients, impact the packaged-foods business, particularly if those drugs become cheaper and more widely used? These futurist exercises can help executives and directors see around corners, informing portfolio repositioning and transaction strategy.

Finally, the board can guide management in evaluating the benefits of different approaches, given the strategic intent. The form of the transaction should follow its function. For example, a company seeking to grow its core business or enter an adjacent business might pursue M&A, whereas a company integrating generative AI into its operations and offerings may seek to create a partner ecosystem to access technology and talent. Through its oversight, the board can continually ground the discussion in strategy and what the company is trying to accomplish.

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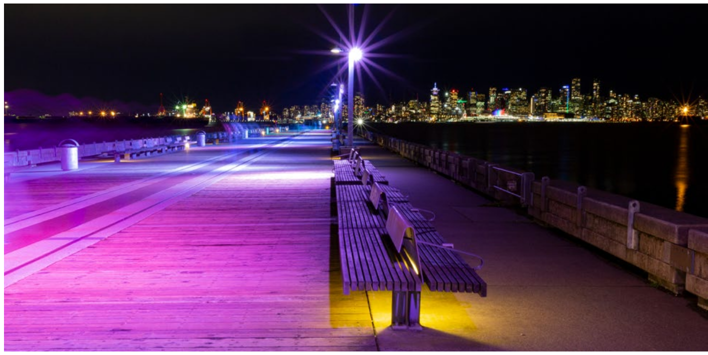
4 Deal evaluation and execution: Overcome common pitfalls

Once a company has identified a strategically-aligned target, the board supervises a comprehensive due diligence process to identify and assess any risks associated with the target company.

The board may define the negotiation strategy and provide management with guidance on key terms and conditions, ultimately approving the final contract to ensure alignment with company objectives. Our research found that directors are increasingly less deferential to management regarding due diligence findings than they may have been in the past, and are asking more probing questions.

Many directors, and the management teams they oversee, have significant experience in the deal process – often from the perspective of both the acquiring and the acquired company. Yet, this experience does not guarantee deal success. When a deal fails or the implementation is rocky, it can be easy to look back and see where the hiccups occurred. However, these issues are often difficult to see in the moment. Leading boards are improving their oversight in four areas:

- **Premortem – surfacing known problems before it's too late.** During premortem exercises, a group pretends it is at the end of a failed project. For example, each board member could spend 10 minutes writing a fictitious history of the failure and then stories would be compared and discussed. This can often help identify known but uncomfortable risks, such as unrealistic expectations about a business unit's ability to manage an integration or turf battles among executives in the new combined company.
- **Identifying specific deal stoppers or rollback triggers in advance.** While premortem exercises often focus on what could go wrong in the execution of the deal, boards can also direct management to consider what conditions and assumptions are necessary for a deal to succeed. It can be difficult to stop a transaction once it gets the green light but may be necessary when key assumptions are upended. The board can play an important role in helping to identify trigger-based indicators from the start and regularly evaluate the assumptions on which the deal is based. This should be an imperative, especially given current volatility and uncertainty in the business environment.
- **Postmortem – identifying and fixing past failures.** Nearly every company has a robust transaction playbook and a rich history of transactions. Reviewing past deals and identifying common failures can help identify places in the deal book that need to be modified and updated to avoid similar problems in future deals. The board can play a unique role here by encouraging the management team to perform a clear eyed data-driven review of its own mistakes, which it might otherwise be hesitant to explore. Common areas of difficulty include cultural integration, too much cost rationalization, and overestimating synergies.
- **Supercharge critical thinking.** While most directors are aware of errors in reasoning such as the confirmation or overconfidence bias, leading directors take time to reflect on common biases, which is often enough to help mitigate them. Outstanding board or committee chairs can often help colleagues steer clear from these biases by ensuring that dominant voices on a topic are heard last, pushing back on group consensus and encouraging devil's advocates to thwart groupthink.



5 Post-deal: Monitor integration and change management

The reality is that many transactions fail to deliver their intended value. According to EY research, less than half (46%) of transactions achieve their innovation key performance indicators (KPIs).

A successful deal boosts the combined enterprise beyond its purchase price, aiming for strategic benefits and transformation. Leading boards focus on how management achieves strategic value by requesting key financial and nonfinancial performance indicators and regularly reviewing related performance.

Often those strategic value levers depend on cultural integration and leadership quality – the human side of transactions. The global EY organization's recent research in collaboration with the University of Oxford's Saïd Business School seemed to confirm that prioritizing the human elements of the deal alongside the strategic rationale is key to increasing transaction value.

The research revealed that addressing six key human drivers – leadership, vision, emotional support, technology, process and culture – more than doubles the chance for transformation success (73% vs. 28%). This focus helps avoid the negative cultural, interpersonal and team dynamics that can plague companies long after a failed transformation.

Through its oversight, the board can play a critical role in guiding management to focus on the human element. This should be part of the board's due diligence prior to the transaction (e.g., considering organizational structure, strength of leadership teams, culture and ways of working) as well its oversight after close, holding leaders accountable for the challenging and important work of change management.

Importantly, boards should guide management to focus on long-term transaction success. Initial milestones often don't capture full benefits, which can take years to realize. Rather than returning to business as usual (which can stifle innovation and growth), ongoing board oversight can foster the investment and dedication needed for the intended transformation. Continued board oversight can also support regular consideration of how assumptions and conditions may have changed, enabling strategic pivots and ongoing agility as needed.

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In conclusion

Transactions remain a critical tool for companies to drive innovation, access new capabilities, and achieve long-term growth despite market complexities. By leveraging the work of their committees, boards can provide comprehensive evaluation and oversight of transactions, addressing specific risks and opportunities more proactively. Robust oversight by the board across the full transaction lifecycle is vital to support agility and diligence, surface and address problems quickly, and provide that the intended value is realized.

Questions for the board to consider

- How is management using strategic portfolio reviews to enable the right deployment of capital?
- What geopolitical and economic scenarios is the management team considering as it assesses the firm's portfolio strategy and the pros and cons of different levers, including transactions, partnerships, joint ventures and so on? How is management monitoring related triggers that will require the company to act, especially a change in direction?
- How is board oversight enabling a future-back view of how the company's competitive landscape might change over the long term given emerging trends? How are related discussions informing the company's transaction strategy?
- Does the management team have the skills and capabilities to lead the company through the transaction? How are company leaders embracing the change and providing a compelling vision for the workforce?
- What are the core assumptions that must be true for a deal to succeed? What is management's plan if facts change?
- How will the board maintain robust oversight of the transaction after the close, both in the near and longer term, to consider how the transaction is delivering its intended value?
- What should the board do to optimize committee work on transactions? What is in place to ensure that the right information is shared across committees?
- How can the board and management use the success or failures of deals in the past to mitigate common missteps in the transaction process?
- What expectations has the board given management about evaluating post-deal and integration measures?

Appendix

Additional resources for boards

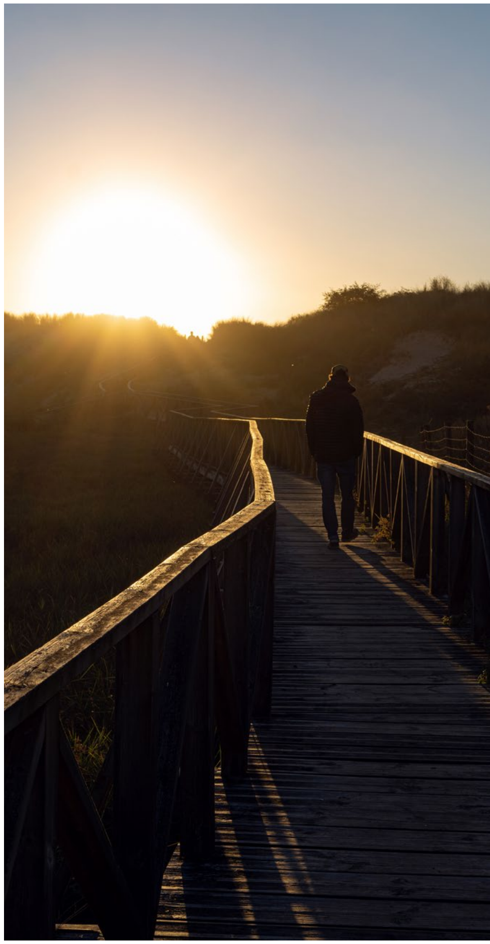
Common biases in the transaction process and how to overcome them

Type	Description	How to overcome
Confirmation bias	Tendency to seek out information that confirms pre-existing beliefs or decisions.	Encourage diverse perspectives and rigorous due diligence to challenge assumptions.
Overconfidence bias	Overestimating one's own abilities or the accuracy of one's predictions.	Implement phased decision-making and seek external expert opinions for validation.
Anchoring bias	Relying too heavily on the first piece of information encountered.	Use multiple valuation methods and continuously reassess initial assumptions.
Herding bias	Following the actions of others rather than making independent decisions.	Foster a culture of independent thinking and critical analysis within the board.
Sunk cost fallacy	Continuing a project based on the amount already invested rather than its future value.	Regularly review project viability and be willing to cut losses if necessary.
Shiny-object syndrome	Pursuing new and exciting opportunities without strategic alignment.	Develop a clear M&A strategy and evaluate deal alignment with long-term objectives.
Maslow's hammer	Using a familiar approach for all problems, regardless of its suitability.	Encourage diverse problem-solving techniques and tailor strategies to specific situations.

Sources: *Thinking Fast and Slow* by Daniel Kahneman; *Wiser: Getting Beyond Groupthink to Make Groups Smarter* by Cass R. Sunstein and Reid Hastie

Questions boards can use to go deeper on the key human drivers of transaction success

Lead – adapting and nurturing the necessary leadership skills	▪ Does the management team recognize its current limitations in terms of mindset and capabilities? How is it addressing those limitations? ▪ How is management fostering collaboration, building consensus and creating a two-way communication to raise challenges and opportunities from workers driving the execution?
Inspire – creating a vision for all to believe in	▪ Has management clearly articulated to the workforce why change is needed? Is that "why" compelling for both leaders and workers? ▪ How are senior leaders fostering a true belief in the vision?
Care – building a culture that embraces and encourages everyone's opinion	▪ How is management painting a realistic picture of what the transformation will bring? Are leaders normalizing anticipated stumbling blocks to prepare the workforce and create trust? ▪ Do workers feel safe to raise concerns? How are leaders creating alignment through listening?
Empower – setting clear responsibilities and being prepared for change	▪ How is the management team evolving and adapting to deliver success? How far down into the organization is decision-making authority delegated to enable quick decisions and pivots when needed? ▪ What are management's expectations for experimentation? How are leaders communicating a culture of acceptance around failure and learning within clear boundaries?
Build – using technology and capabilities to drive visible action	▪ How is management deploying technology in a way that engages the workforce and supports skill building and new capabilities? ▪ How is management acknowledging and addressing some of the fears that new technology brings around job security?
Collaborate – finding the best ways to connect and co-create	▪ How is management getting input from the workforce around new ways of working? ▪ How is management fostering a culture that encourages new thinking, ideas and perspectives in the implementation process?



Based on "The future of transformation is human," a research collaboration between the global EY organization and the University of Oxford's Saïd Business School, 2022

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Effective corporate governance is an important element in building a better working world. The EY Center for Board Matters supports boards, committees and directors in their oversight role by providing content, insights and education to help them address complex boardroom issues. Using our professional competencies, relationships and proprietary corporate governance database, we are able to identify trends and emerging governance issues. This allows us to deliver timely and balanced insights, data-rich content, and practical tools and analysis for directors, institutional investors and other governance stakeholders.

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