

Transformational Excellence:

Leveraging M&A, IPOs, and Divestitures as Pivot Points for Success



Introduction.

In the evolution of any company, the **major transformational milestones** include:

- Initial public offerings (IPOs)
- Mergers and acquisitions (M&A)
- Going private
- Spin-offs and divestitures

These events typically serve as the key pivot points in corporate development and can have far-reaching impact on a company's strategic marketplace position; access to and cost of capital; reputation with customers, investors, and business partners; and growth, profitability, and valuation.

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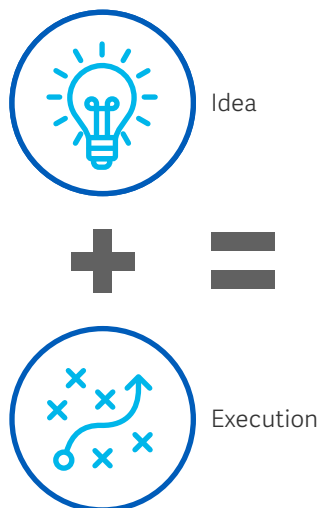
Major transformational milestones can generate nonlinear outcomes—both positive and negative.



As with any business initiative, transformation stems from a combination of ideas, analysis, and execution—before, during, and after the event.

While many companies struggle with an abundance of good ideas for nonlinear change, most are woefully unprepared for such events.

Over 70% of M&A transactions fail to achieve their originally stated goals.



Results

- Market Position
- Customer Satisfaction
- Cost of Capital
- Growth
- Profitability
- Valuation

Most organizations treat a transformational event as an exception rather than a core skill set and capability. There is also a significant bias toward focusing on idea identification and initial analysis, while leaving the execution to take care of itself.

Execution is the key to successful transformation. Companies and investors often publicly hail the signing of a deal, but one rarely hears about celebrations of successfully completing a merger integration. The full implementation of a transformational event is where the risk really lies; where good intentions and billion-dollar spreadsheets collide with the reality of business, technical, organizational, financial, and regulatory constraints. This is the area where dependence on legacy tools, inconsistent data, and lack of best practices in managing human capital become exposed.

Successful execution in transformational events requires a complex cocktail of skill sets, cultural sensitivity, data integrity, realistic expectations and planning, and modern toolsets that amplify organizational agility.

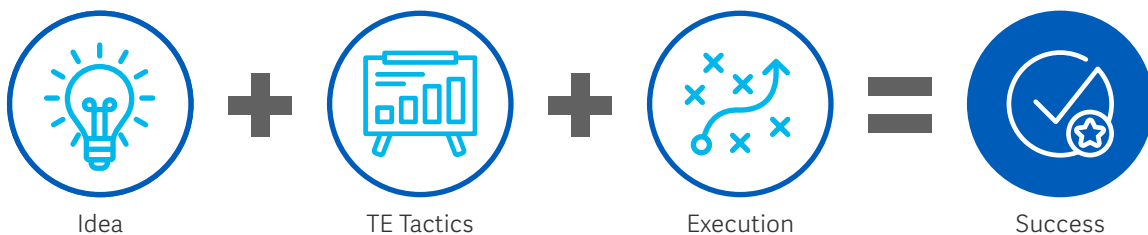


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Predictable and repeatable excellence in transformation separates industry leaders from the average.

Companies that excel at managing change and have achieved transformational excellence (or TE) become adept at maintaining and enhancing their strategic leadership position. These enterprises become agile disruptors that drive innovation in their key markets.

But what is transformational excellence? What are its key elements, metrics, and benchmarks? How can companies measure TE, and what factors separate the leaders in this space from the average? And lastly, how can companies become better at transformational excellence?



In the equation above, each of the three inputs should be given equal weight and consideration to achieve the desired outcome.

Why do transformational events matter?

Events such as M&A, IPO, going private, spin-offs, and divestitures are just a few examples of transformative milestones that can shape strategic outcomes for any organization. Across a spectrum of sizes, industries, and stages of maturity, companies see transformations as pivot points in their evolution. Transformational events by themselves cannot transform companies, but rather serve as catalysts of change.

A transformative event cannot be a substitute for real strategy.

The events themselves are rarely the objective but rather a means to an end—a tool that can have a nonlinear impact on a business. The impact of these transformations can be strategic—a company can enter new markets, change the competitive field through M&A transaction, use an IPO to provide liquidity for its initial investors and create a currency for future acquisitions, gain restructuring flexibility by going private, or create an unexpected shareholder windfall through a divestiture.

While the goals of transformative milestones are nearly always laudable, the results tend to spread across a wide spectrum. Many M&A and going-private transactions fail to generate the promised economic synergies and strategic outcomes. There are numerous examples of organizations whose IPOs fail to fuel the kind of economic escape velocity needed to become a great public company. And spin-offs and divestitures come with their own set of economic, regulatory, and legal hurdles.

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Companies such as Disney, Cisco, Adobe, and many others achieve remarkable outcomes by applying transformative milestones to their strategy.

Conversely, more than 50% of organizations fail to meet their original objectives in undergoing a major transformation. There are numerous examples of organizations whose transformational events turned into value destruction; for example, Daimler-Benz and Chrysler, AOL and Time Warner, Microsoft and Nokia. Firms that lack transformational excellence tend to overestimate the potential outcomes, underestimate the cost and complexity of transformational events, and rely on older, calcified systems that are hard to integrate and evolve.



What characterizes a company that is outstanding at transformation?

Transformational events create massive organizational storms that expose weaknesses in operational resiliency, the ability to rapidly make go or no-go decisions, cultural adaptability, and best practices in finance, HR, IT, and beyond. Companies that demonstrate transformational excellence tend to be great all-around athletes that function well under stress.

If an enterprise finds itself turning to a transformational milestone as a last resort to solve suboptimal elements of its business, it will typically see those weaknesses amplified in the process of transformation. The absence of operational excellence pre-transformation can translate into delays, being forced to divest divisions, and losing staff and/or morale. The cost of rehiring staff can be very high depending on the market, and can throw a wrench into an “all-hands-on-deck” event, such as a major transformation.

Leaders in TE, on the other hand, resemble efficient modern militaries: these organizations are great at strategy and planning, and outstanding at execution. They hone and practice their transformational skill set regularly and tend to treat events such as mergers or divestitures as a normal course of business. They train for it and do practice runs or small transactions just to test how well their organization performs under stress.

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Companies that achieve optimal outcomes from transformational events are well prepared—they have the skills, tools, metrics, and best practices in place well before undergoing a transformation.





Companies that are excellent at transformation can react with agility as both a cultural norm and as the foundation of their core systems. They tend to have modern, cloud-based systems that can be rapidly integrated with new, unfamiliar technologies and absorb human organizations without the struggles often associated with poorly executed acquisitions. These companies can generate holistic transformations that are greater than the sum of their parts, achieving above-average outcomes at or below average unit costs.

If a transformational management meeting is the first time an organization's technology team meets its sales motion, it is likely already too late for them to successfully manage a transformation. The typical corporate organizational structure emphasizes specialization and focus—interactions with people and systems outside of the immediate departmental domain are often an exception. But transformational events are interdisciplinary activities that require good communication across teams of different backgrounds. The chances of achieving excellence are much higher when an organization's front-of-house and back-of-house teams already work together, trust each other, and exchange ideas frequently. An operationally excellent company will have focused HR processes on bolstering cross-departmental knowledge sharing, skills, team building, and shared beliefs and values well before a transformational event is underway.

Success with transformational milestones requires transformational excellence.

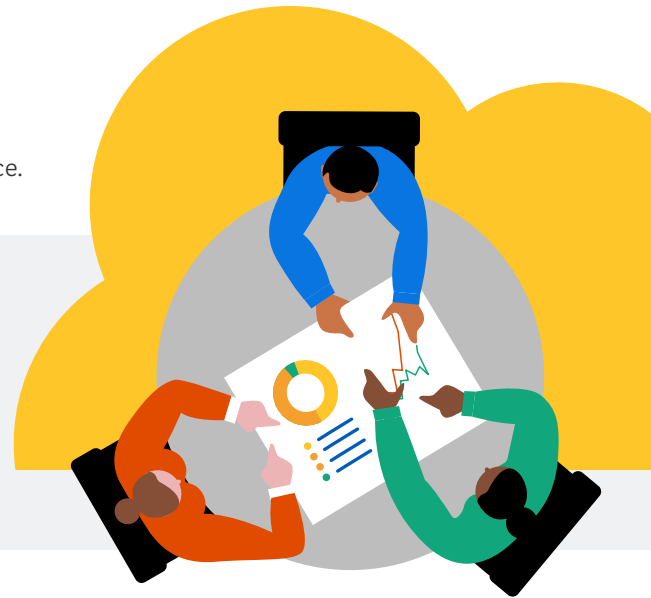
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Typically, organizations cannot achieve consistently above-average outcomes from transformations without extensive preparation.

Industry folklore is replete with stories of deals being made on a bar napkin. What is missing from these anecdotes is the immense amount of planning and practice that precedes the bar napkin moment and the precise execution that needs to follow. The expression “opportunity favors the prepared” is not just a cliché, but a best practice. In most cases, success with transformational events is not merely due to luck but to preparation, transparent and continuous self-assessment, and a culture of getting things done with agility.

What challenges do transformational events bring?

Inserting a transformation into the evolution of any business will create numerous challenges and expose any preexisting weaknesses within the organization's finance, human capital management, and compliance teams; internal culture; and relationships with customers, partners, employees, regulators, and investors. Each type of transformative event brings its own operational and strategic challenges in core finance and accounting, human resources, and financial planning and analysis (FP&A).



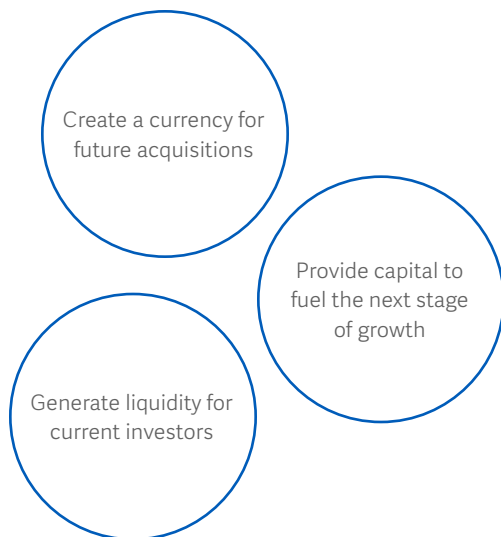
Initial public offerings.

IPOs are driven by the need to generate liquidity for current investors, provide capital to fuel the next stage of growth, and create a currency for future acquisitions.

IPOs force companies to address any gaps in compliance, compensation systems, levels of reporting, policy management, accounting, and financial planning. Organizations contemplating an IPO typically create a roadmap to address the challenges of becoming a public-market-ready company. This often involves a detailed review of core finance, HR, and compliance management capabilities as companies question the ability of their current systems to support the needs of a publicly traded organization. It is no small task to migrate from a privately held company with relatively few private investors and a limited level of public reporting and disclosure to a publicly held company owned by numerous institutional and retail investors with a much higher level of disclosure and public scrutiny.

Often, the pre-IPO review processes uncover gaps in capability and force organizations to upgrade their human resources, compensation, and benefits management systems, as well as tackle core finance and accounting systems, processes, and practices. In a way, the key challenge of becoming a public company is to be prepared to become a much larger, more complex organization that can operate in full view of the public with a much larger, more diverse, and more complex base of customers and employees.

IPO Objectives



IPO Risks



Going-private transactions.

Going-private transactions focus on business restructuring and recapitalization to reenergize growth and/or refocus on new target markets. These transactions tend to be the opposite of an IPO—turning a company from a transparent, publicly traded entity into a private, often opaque organization with limited or no public reporting. This is often done so that an organization can perform a longer-term reorganization, which would be impractical for a public entity.

Yet, going-private transactions have many similarities to IPOs. For example, both types of transactions often involve large institutional investors and require a great deal of due diligence, analysis, planning, representations, and warranties.

Many organizations that have undertaken a going-private transaction eventually come back to public markets with a stronger set of fundamentals. Excellence in this case requires companies to lean in on financial planning and operational scenario simulation, retaining many of the public company capabilities for potential future IPOs, as well as the ability to manage, incentivize, and retain the employee base.

Going-Private Objectives



Going-Private Risks



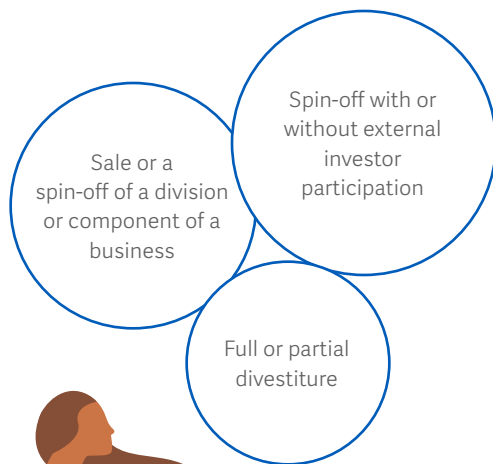
Divestitures and spin-offs.

Divestitures involve a sale or a spin-off of a division or component of a business. In some cases, it is a full divestiture and, in some cases, it includes equity and credit participation from both the original parent as well as new investors. Divestitures can span a spectrum of complexity—from very basic to very complex—and can be undertaken by companies that are either public or private.

A relatively simple example is when a company sells a standalone division with its own management and accounting structure, with an established and audited profit and loss (P&L) statement. Such divisions often come with their own finance, accounting, and HR systems, so a divestiture may only involve some finance planning at the parent level.

A more complex situation is a company that wants to spin out a portion of its business that is tightly intertwined with the rest of the organization—one that may not have its own accounting and HR structure or its own set of systems. This case would involve extensive finance and human resources reorganization and a significant financial planning effort to create its own sets of books, HR systems, policies, and compliance measures.

Divestitures and Spin-Offs Objectives



Divestitures and Spin-Offs Risks



Mergers and acquisitions.

Mergers and acquisitions, or M&A, is in many ways a misnomer as there are very few true mergers. Most are acquisitions where one organization is the dominant driver of the process and key decisions. Yet, while one management team typically dominates the process overall, the companies and their employees, systems, and key finance, HR, sales, and other processes need to come together and function as an integrated whole.

M&A transactions are often predicated and justified as either strategic or economic. The strategic deals aim to transform companies in terms of the key markets they serve and their competitive market position, channels, key geographies, product categories, and eventually their valuation. The economic deals are tactical in nature and promise to generate so-called “synergies” or cost savings. For example, most bank merger transactions are economic deals that aim to capture savings from eliminating duplicate corporate functions in finance, HR, and marketing, as well as consolidating IT systems.

M&A deals often test the ability of companies to rapidly assemble relevant data and generate complex forecast scenarios that describe the characteristics and performance of the combined entity. This applies not only to finance, but across all the core functional areas of a company such as human resources, payroll, benefits and pension management systems, and many others.

If the combined organization is public or even backed by private equity, the difference between an accurate forecast and one that is wildly different from reality can become existential for the management team. To do such analysis as close to reality as possible requires a robust set of planning, finance, and HR tools that can help organizations absorb many data sources and rapidly iterate on possible outcomes.

M&A Objectives



M&A Risks



Timing is key.

It would be a mistake to view both the objectives and the risks and challenges of transformational milestones as static, point-in-time events. Instead, organizations need to consider the full transformation cycle—for example, before, during, and after the transformation. The table below summarizes the key risks and opportunities of various stages of each type of transformation cycle. The common thread across all these transformation types and cycles is the requirement for robust, modern, cloud-based systems that emphasize agility and data quality.

Transformation Cycle

Transformation Type	Before Transformation	During Transformation	After Transformation
IPO	<p>Risks: Gaps in capability, compliance, scalability</p> <p>Opportunities: Orgs are forced to scale up the infrastructure; close capability gaps by upgrading HR, finance, and planning systems; adopt best practices; optimize processes</p>	<p>Risks: Unaddressed oversights become public knowledge and may not hold up to scrutiny; accountability to investors replaced by accountability to shareholders</p> <p>Opportunities: Higher degree of transparency drives organizations to improve or rebuild core structures</p>	<p>Risks: Companies underestimate the growth and corresponding scalability risks, complexity of becoming a multi-product, global company with a diverse set of channels</p> <p>Opportunities: Invest into more sophisticated tools to help expand strategic capabilities in finance, revenue management, human resources, payroll, compensation systems, benefits management, and global taxation</p>
Going Private	<p>Risks: Managing a public company while pursuing a confidential go-private transaction; need to create complex planning scenarios</p> <p>Opportunities: Ability to restructure and recapitalize without public scrutiny</p>	<p>Risks: Accountability to shareholders replaced by accountability to investors; significant public scrutiny of the transaction to ensure fairness and compliance</p> <p>Opportunities: Preserve public company muscle memory in case of potential future IPO</p>	<p>Risks: Efficiency gains proving not to be durable or meaningful; efficiency coming at the expense of efficacy; company unable to retain key employees and provide necessary incentives within a private vehicle</p> <p>Opportunities: Return to market with stronger fundamentals and practices; provide a renewed incentive structure for employees</p>
Divestitures and Spin-Offs	<p>Risks: Lack of clearly identifiable standalone financial statements</p> <p>Opportunities: Ability to quickly generate capital and refocus business on vital, profit-driving divisions; need to invest into standalone systems to support the new entity</p>	<p>Risks: Erroneous assumptions, dirty input data and lack of planning, and simulation tools can lead to a failed transaction or a renegotiation</p> <p>Opportunities: Shedding unnecessary labor and resources can optimize efficiency, lowering costs while keeping profits steady</p>	<p>Risks: With connections between the new entity and parent severed, organizations may have to close gaps in skills and capabilities</p> <p>Opportunities: New capital can be used in part to shore up the business, to refocus on the core opportunity</p>
M&A	<p>Risks: Flawed investment thesis, lack of real synergy between companies, culture clash; financial, organizations, regulatory; lack of transparency between companies in the merger</p> <p>Opportunities: Understand the opportunities for value creation, growth, and near-term savings as well as creating a critical mass in skills, channels, marketing, and so on</p>	<p>Risks: Lack of data hygiene can pollute forecasts and the planning process or lead to a failed transaction</p> <p>Opportunities: Build a valuable skill set for M&A, prove capability to investors and other industry players</p>	<p>Risks: Culture clash, governance issues, leadership conflict, misrepresentations, legal distractions, brain drain, operational and financial underperformance</p> <p>Opportunities: Eliminate duplicate corporate functions; generate savings, create new opportunity areas, build critical mass of skills, leadership, channels, and marketing spend</p>

Focus on technology investments.

As mentioned earlier, transformational events will stress-test an organization's agility, competence of its teams, ability to work together across disciplinary and organizational boundaries, and capacity to rapidly reconfigure its core systems to meet the requirements of the new organizational footprint.

In this context, a technology investment strategy—and particularly an explicit focus on modernizing core systems with cloud-based approaches—becomes critical. Transformational events are not only a team sport but a highly competitive one. Not having the right modern tools and accurate real-time data can translate into lost transactions or results that are highly inconsistent with original forecasts. Whether it comes to planning, modeling, and scenario analysis prior to a transaction, the ability to rapidly consolidate data from newly acquired organizations or to accomplish such tasks rapidly, precisely, and consistently are the factors that will make the difference between average and outstanding results.

Summary.

Transformational events such as mergers and acquisitions, IPOs, going-private transactions, and divestitures represent key pivot points in a company's evolution. What separates those companies able to generate outstanding results with transformations from the average is a focus on transformational excellence—the recognition that such events are routine and require continuous investment in preparation, planning, and self-assessment.

In the context of transformations, a focus on a modern technology investment strategy can spell the difference between success and failure. Companies that achieve transformational excellence tend to have more modern, cloud-based tools for key functions in accounting, revenue management, billing, human resources, and financial planning and analysis. These are the companies that can react to change with agility and execute transformations to achieve above-average outcomes at below-average cost.



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