

Ashurst Risk Advisory

Risk Navigator

Foreseeable: Rethinking Risk Management in Mergers & Acquisitions

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First Edition



Navigating uncertainty through expert risk insight, building resilience along the way

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Executive Summary

M&A transactions continue to experience high failure rates despite their strategic significance, pointing to a structural gap in how risk is assessed and integrated into the end-to-end deal process.

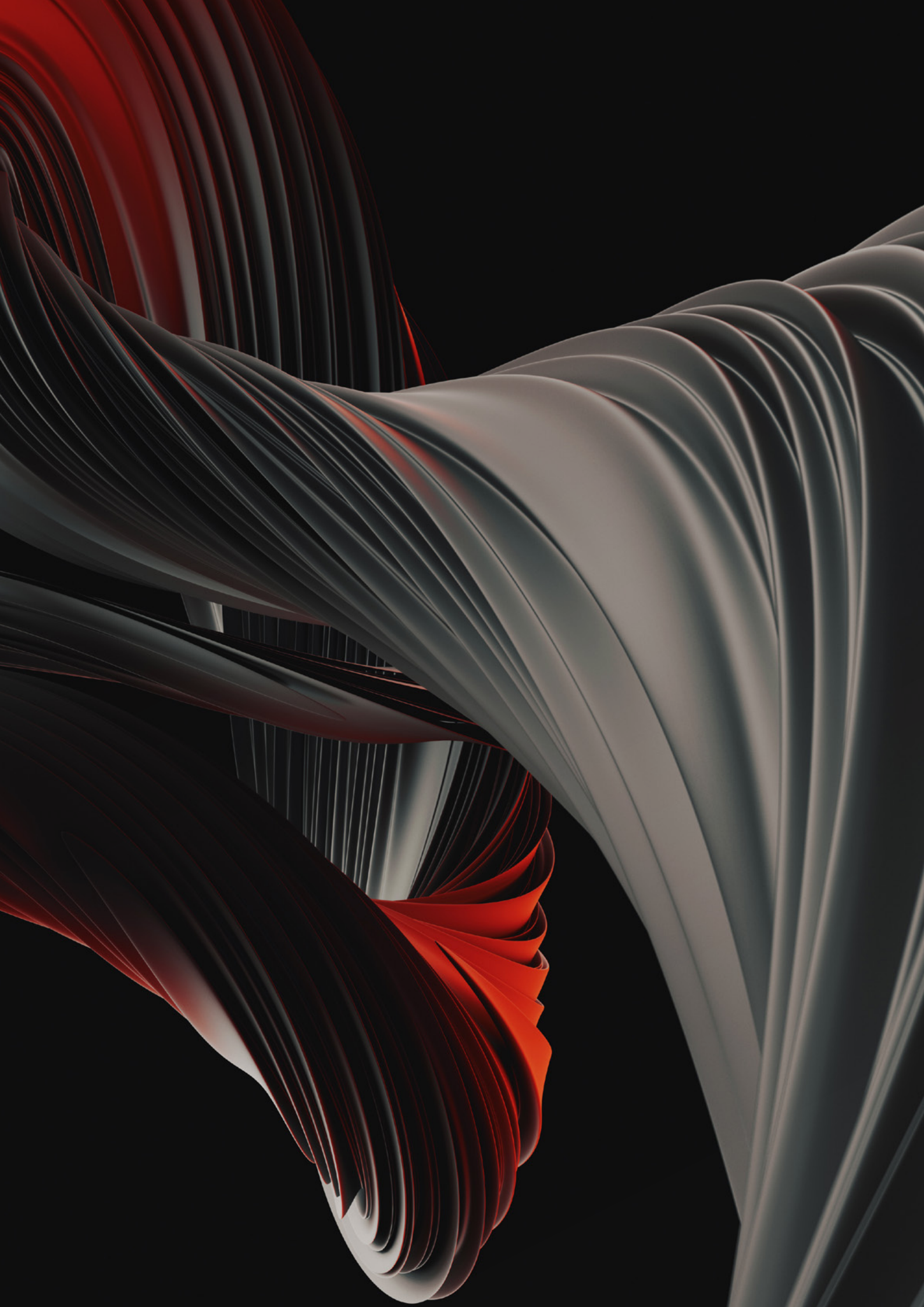
This paper presents a practical framework for boards and executive management that integrates the identification, measurement, and treatment of internal and external risks within Porter's Five Forces framework, illustrating how established risk management tools can be applied to model, prioritise, and attribute risk to deal value, equipping organisations to protect and create value in the context of the competitive forces reshaping their industries. The paper also explores the cognitive and probabilistic biases that contribute to common leadership traps, exposing firms to significant and foreseeable value erosion.

Key points:

- **Between 70% and 90% of M&A transactions fail to achieve their intended objectives**, yet global M&A activity reached USD \$4.0 trillion in 2025, with average deal size rising from \$63 million in 2023 to \$102 million in 2025.
- **The persistence of failure points to a structural gap**: risk management standards and practices applied within each stage of the M&A process have failed to keep pace with the increasing complexity, scope, and interconnectedness of risks that determine whether a transaction creates or erodes value.
- **Conventional risk management frameworks**, as typically applied, are structurally misaligned with the pace, complexity, and purpose of M&A decision-making. The paper proposes a framework that combines proven risk management practices with financial modelling tied to the value of risk in the context of deal

value, including the future value of the combined organisation as the distribution of economic value shifts in response to changes in industry dynamics.

- **Risk management in M&A should be reoriented around competitive forces shaping industry structure.** Porter's Five Forces: substitution, new entrants, buyer power, supplier power, and competitive rivalry, models the dynamics that will shape the future value of the combined organisation, unlike static point-in-time assessments.
- **Three high-profile case studies,** GE-Alstom, Microsoft-Nokia, and RBS-ABN Amro, demonstrate that the risks leading to catastrophic value erosion were foreseeable at the time of each deal. In each instance, the information needed to identify the risks was available; what was absent was a structured, pre-emptive process to act on it.
- **Psychological biases and four common decision-making pitfalls:** Legacy, Blinkered, Pressure, and Denial, systematically undermine deal assessment. Cognitive and probabilistic biases distort judgement under competitive pressure, and deal teams must be empowered to challenge consensus without reputational penalty.
- **The paper proposes the integration of risk management practices within each of the six stages of the deal process:** strategic selection, target selection, due diligence, synergy and cultural analysis, bidding and negotiation, and post-deal integration — with checkpoint summaries at each stage setting out what executive management should be able to demonstrate and articulate to the board, keeping risk analysis visible and accountable as deal momentum builds.
- **The paper advocates moving beyond spreadsheet-based risk inventories** and subjective traffic-light dashboards toward probabilistic, data-driven risk modelling integrated into deal valuation, drawing on established tools including Driver Tree analysis, Monte Carlo simulation, and scenario modelling to provide boards with a probability landscape of outcomes rather than single-point estimates. Critically, risk modelling must account for interdependencies and compounding effects, how the materialisation of one risk may trigger secondary and third-order risks, and must assess whether the combined organisation has sufficient capital and liquidity to withstand tail scenarios, not merely whether the deal is value-accretive in the base case.
- **Cultural compatibility should be treated as a quantifiable factor in synergy realisation,** with synergy estimates adjusted downward where cultural alignment is weak, drawing on tools such as Social Network Analysis, RACI matrices, and the OCAI framework.
- **Risk analysis must translate into tangible deal structure protections,** with risks practically allocated between buyer and seller through warranties, indemnities, escrow provisions, earnouts, and insurance, ensuring that the outputs of the framework inform the contractual mechanisms that govern the transaction.
- **Walk-away discipline is presented as a mark of rigorous governance,** not a failure of ambition. Risk appetite and walk-away criteria should be defined before any transaction is initiated and actively referenced throughout negotiations.
- **Boards must exercise structured, independent governance throughout the deal process,** interrogating the analytical assumptions, risk positions, and deal economics presented by executive management, and ensuring that balanced, evidence-based assessment of both opportunities and risks is maintained against the pressures of deal momentum and cognitive bias. This duty of challenge is not merely best practice; the paper anchors it in directors' legal obligations, including the duties of care, skill, diligence, and independent judgement referenced under the UK Companies Act 2006 (Sections 172, 173, and 174) and US SEC requirements mandating that boards identify and communicate material risks to shareholders.
- **The framework should be scaled to the transaction:** proportionate to its size, complexity, and strategic significance, and stress-tested against the specific factors integral to each deal.
- **This is the first paper in a series.** Companion papers will address the application of the framework in private equity, venture capital, and private capital, as well as a dedicated treatment of post-deal integration.



Preface

Industries are facing increasing disruption as globalisation, digital transformation, artificial intelligence, and geopolitical fragmentation (amongst others) rapidly reshape competitive boundaries.

Mergers and acquisitions (M&A) have become a key strategy for firms to acquire capabilities, scale, and market strength. However, M&A transactions continue to experience high failure rates despite their strategic significance.

This paper examines why. Drawing on business and academic research indicating that 70% to 90% of M&A deals fail to realise their intended value,¹ it argues that the persistence of failure points not to a lack of diligence, but to a structural gap in how risk is assessed and integrated into the deal process. Too often, risks are identified but siloed from valuation, detached from industry dynamics, and eclipsed by deal momentum. The result is foreseeable failure.

The central proposition advanced is that risk management in M&A should be fundamentally reoriented around the competitive forces shaping industry structure. Using Porter's Five Forces framework,² the analysis shows how shifts in product and service substitution, new entrants, and buyer-supplier dynamics can influence industry rivalry, undermining the value a transaction seeks to create. Furthermore, it illustrates how rigorous risk assessment can reveal these dynamics prior to capital commitment.

This paper is designed for boards and executive management responsible for leading and overseeing M&A. It offers a structured framework to identify, quantify, and manage the key risks that determine transaction success or failure. While tools like scenario modelling, Driver Tree analysis, Monte Carlo simulation, and walk-away discipline are established, their integration into a cohesive, stage-gated process is distinctive. This approach ensures risk remains visible throughout the deal lifecycle, from strategic selection to negotiation. At each stage, checkpoint summaries setting out what executive management should be able to demonstrate and articulate to the board are proposed as practical governance tools, keeping risk analysis visible and accountable as deal momentum builds.

Implementing this rigour requires investing in skills, tools, and sometimes culture. The framework is not one-size-fits-all; organisations should tailor these steps by transaction size, complexity, and strategic importance.

For example, a bolt-on deal needs less risk analysis than a large transformational merger. The key is to keep risk management scrutiny aligned with the stakes.

This paper is the first in a series. Whilst the framework presented here is intended to establish the core principles of risk management in M&A, applicable across corporate acquirers of all sizes and sectors, Ashurst Risk Advisory will be publishing a series of companion papers that address how these principles apply in specific transactional contexts and investor structures. Forthcoming papers will examine the application of the framework within private equity, where hold period dynamics, fund structures, Investment Committee governance, and exit-focused risk assessment present distinct challenges; within venture capital, where the pace of sociotechnological disruption is both the source of investment thesis and the primary risk to value creation; and within private capital more broadly, where the growing share of global M&A activity demands a risk management approach calibrated to the governance and accountability frameworks of non-listed entities. Each companion paper will also expand on the practical application of the core concepts introduced in this paper, including the quantitative tools, the stage-gated checkpoint framework, and the Five Forces risk assessment methodology, translating them into the specific process architectures and decision-making structures of each investor type.

The case studies analysed - GE-Alstom, Microsoft-Nokia, and RBS-ABN Amro - are all from the twenty-first century and do not represent historical anomalies or rare occurrences. High-profile, large-scale M&A failures occur with sufficient frequency to warrant significant board attention, especially given the cumulative loss of shareholder and broader stakeholder value involved. In each instance, the risks leading to substantial value erosion were foreseeable at the time of the deal. The central question is whether organisations currently possess the frameworks necessary to identify such risks before capital is committed and value is lost.

“The central risk in any merger or acquisition is not the state of the industry at the moment of transaction, it is how competitive rivalry will evolve during and after integration, and whether the combined entity will be able to protect and grow the value being paid for today.”



A multi-trillion dollar market, and growing

M&A objectives are, at their core, an articulation of expected value creation. By failing to achieve stated objectives, M&A transactions fail to realise the expected levels of shareholder and stakeholder value.

Extensive industry and academic research suggests that between 70% and 90% of mergers and acquisitions fail to achieve their intended objectives. If these odds applied to any other type of capital allocation, would you approve it?

Against these odds, M&A remains a multi-trillion dollar market, and the stakes are rising as the average deal is getting larger. Global M&A activity reached USD \$4.0 trillion in 2025, and average deal size has increased from approximately \$63 million in 2023 to \$102 million in 2025.³ The Institute of Mergers, Acquisitions & Alliances reports that annual global deal activity in 2010–19 was up 131% compared to 1990–99. These figures do not suggest that boards have become more tolerant of risk, nor does the exposed failure rate indicate a lack of diligence or intent. Rather, the persistence of high failure rates despite growing deal activity and rising stakes points to a structural gap: risk management standards and practices applied within each stage of the M&A process have failed to keep pace with the increasing complexity, scope, and interconnectedness of internal and external risks that determine whether a transaction is destined to create or erode value.

The forces shaping the M&A landscape make the need for transforming risk management in M&A all the more pressing. Whilst accommodative global monetary policy following the Global Financial Crisis fuelled over a decade of deal activity, conditions have since tightened, with the US Federal Reserve, Bank of England, and European Central Bank rates rising sharply in 2023, contributing to slowing global deal activity. New tailwinds are now emerging, however: private

capital accounts for 26% of total global M&A activity in 2025,⁴ whilst the rapid advancement of artificial intelligence is driving increasing deal value as firms race to acquire competitive advantage, accumulate scale, and develop the infrastructure and capabilities needed to outperform rivals.

Regulators, too, are recalibrating. US Federal Reserve Vice Chair for Supervision Michelle W. Bowman noted in October 2025 that “...the bank regulatory framework must strike a balance between encouraging economic growth and innovation while guaranteeing the safety, soundness, and stability of the banking system.”⁵ Similarly, Andrew Bailey, Governor of the Bank of England, observed that “...our economies rely on financial risk taking, and that is essential to support investment and growth.”⁶

These conditions underpin the continued emphasis on corporate M&A, as companies increasingly look to acquisitions to secure the capabilities and market positions needed to compete effectively in the current age of disruption. As deal activity accelerates, so too does the imperative for boards to ensure that risk management practices are fit-for-purpose, and commensurate to the complexity of the transactions they are approving.

This paper offers boards and executive management a risk management framework for embedding into their M&A playbooks. Grounded in the relationship between risk and industry rivalry, before and after the transaction, it positions organisations to identify value-eroding risks before they crystallise, negotiate more protective deal structures, and make disciplined deal decisions.



The industry of tomorrow: How competitive forces drive deal risk

Trends in M&A activity are shifting at a rapid pace, led by a myriad of challenges and opportunities, including the emergence of new and disruptive technologies (e.g., artificial intelligence and robotics for industrial systems automation), geopolitical tensions resulting in regional alliances and the fragmentation of international standards and norms, shifting trade policies promoting domestic and regional industry developments and protections, and heightened, yet diversified, focus on environmental policies and protections.

The central risk in any merger or acquisition is not the state of the industry at the moment of transaction, it is how competitive rivalry will evolve during and after integration, and whether the combined entity will be able to protect and grow the value being paid for today. This is the question that Porter's Five Forces framework is uniquely equipped to answer. Unlike PESTLE analysis, which catalogues political, economic, social, technological, legal, and environmental risks at a point in time, Porter's Five Forces maps the structural forces that determine how economic value is created, contested, and distributed among industry participants over time. It does not describe a market; it models the dynamics

that will shape the future value of the combined organisation. This distinction is fundamental. An acquirer that understands only the current state of the industry is equipped to assess the target it is buying. An acquirer that understands the structural forces bearing on the industry, including how the integration of the target into the combined company could influence these forces, is equipped to assess the value it will be able to sustain, or that it risks losing, once the deal is closed. It is for this reason that this paper anchors its risk assessment framework in Porter's Five Forces, applying it across each stage of the deal process to ensure that competitive dynamics remain visible from strategic selection through to bidding and negotiation.

This focus on Porter's Five Forces does not preclude the use of other risk identification and analytical tools, and for many transactions, a range of complementary approaches will be essential. PESTLE analysis supports the structured identification of the macro-environmental risks in which a target operates. Value chain analysis identifies where value is created and how it is eroded across the end-to-end product or service lifecycle, and is particularly valuable in assessing operational and margin risks. Failure Mode and Effect Analysis provides a systematic method for identifying process, product, and operational risks, and is especially relevant in complex industrial or manufacturing acquisitions. The appropriate selection and application of these tools will depend on the industry, product complexity, organisational sophistication, and the depth of due diligence required.⁷ What matters is that whichever tools are deployed, the insights they generate are interpreted through the lens of competitive rivalry, because it is the evolution of industry dynamics, not the static description of them, that will ultimately determine whether the transaction creates or erodes value.

No analytical framework is without limitation, and Porter's Five Forces is no exception. Since its publication in 1979,⁸ the framework has attracted considered critique from scholars and practitioners. Among the most substantive is the argument advanced by Brandenburger and Nalebuff that the framework underweights the role of complementors, meaning industry participants whose products or services increase the value of an industry's own offerings, and that in industries characterised by co-opetition, where firms simultaneously compete and collaborate, the five forces alone may not fully capture the dynamics that determine value creation and distribution.⁹ Others have observed that the framework was developed in the context of relatively stable industry structures and may be less immediately intuitive in highly dynamic, platform-based, or winner-take-all markets, where network effects, ecosystem lock-in, and rapid scaling can concentrate competitive advantage in ways that the traditional forces do not, on their face, address. The Microsoft-Nokia case study examined later in this paper is precisely such a market.

These are legitimate observations, and this paper does not dismiss them. However, neither do they diminish the framework's value when applied with the rigour and dynamism that effective risk management demands. The limitations of the Five Forces framework are, in significant part, limitations of static application, of treating the five forces as a diagnostic snapshot rather than as a dynamic system that must be continuously reassessed as competitive conditions evolve. When risk management is

embedded at each stage of the deal process, as this paper proposes, the framework is not applied once and set aside; it is stress-tested, re-modelled, and interrogated against forward-looking scenarios at every stage from strategic selection to bidding and negotiation. In this context, the role of complementors, the influence of network effects, and the dynamics of platform competition are not external to the analysis, they are surfaced through it, as forces that reshape the bargaining power of suppliers (developers as content suppliers in platform markets), the threat of substitution (ecosystem-level substitution rather than product-level substitution), and the barriers facing new entrants (network effects as structural entry barriers). A risk management function that is alert to these dynamics, and that is empowered to challenge assumptions at



each stage of the deal, will identify where the traditional framing of a force requires adaptation and will model the competitive environment accordingly. It is this integration of rigorous, stage-gated risk management with the analytical architecture of the Five Forces that transforms the framework from a static industry model into a dynamic tool for protecting and creating deal value.

As risks are identified and evaluated, boards should also recognise that additional and deeper analysis may be required to model those risks against the current and future value of the combined organisation, and to inform risk mitigation planning in the context of post-deal integration, business model structure, and governance systems implementation.

Michael Porter, a professor at Harvard University, pioneered the Five Forces framework as a foundational tool for analysing industry structure, competitive pressure, and the distribution of economic value among industry participants. The framework identifies five forces that determine industry profitability and structure: competitive rivalry at its centre, shaped by four additional forces - the threat of substitute products or services; the threat of new entrants; the bargaining power of buyers; and the bargaining power of suppliers. Porter's subsequent work, including his analysis of how smart, connected products reshape competitive advantage (2014), demonstrates that these forces are dynamic and evolve continuously as technology and market conditions change.¹⁰ It is precisely this dynamism that makes the Five Forces framework indispensable in M&A: the combined entity will not compete in the industry that exists today, but in the industry that emerges during and after the deal, including organisational integration. Understanding how each of the five forces will evolve over that period is therefore not an academic exercise, it is a practical imperative for any board seeking to protect the value it is committing capital to create.

“... it is the evolution of industry dynamics, not the static description of them, that will ultimately determine whether the transaction creates or erodes value.”

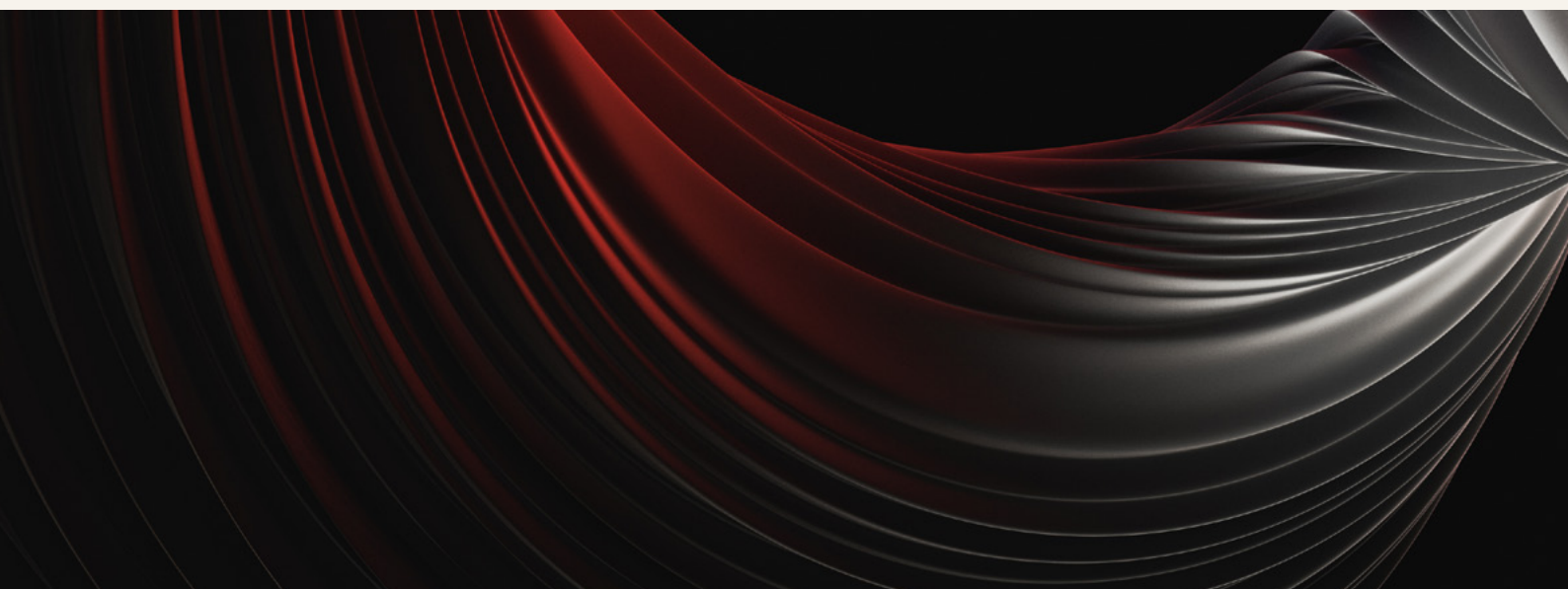


For your industry, which of Porter's Five Forces is currently under the greatest pressure, and has that assessment been formally incorporated into your organisation's M&A risk management framework?

Each of these forces is being disrupted, and each disruption directly affects the risks to value creation in strategic mergers and acquisitions.

Substitute products or services

Product and service substitution has historically been motivated by technological innovation and/or price competition within industry boundaries. Today, however, substitution is increasingly driven by what may be described as sociotechnology, which refers to the intersection between societal evolution, shifting social trends and standards, and technological advancement. As artificial intelligence, digital platforms, and automation reshape how products and services are manufactured and delivered, society's readiness to adopt these alternatives determines the pace of substitution. Intergenerational change is central to this dynamic, as younger, digitally native generations hold fundamentally different expectations for how they consume products, access services, and interact with service providers. This is compounded by rapidly rising technological literacy, which compresses adoption cycles and shortens the window in which incumbent products and services retain their competitive relevance. The result is a substitution environment that is faster, less predictable, and increasingly cross-industry.



Threat of new entrants

Traditional barriers to entry, such as capital intensity, patent protections, regulatory requirements, and physical and logical distribution infrastructure, provided industry participants with a degree of protection against new competitors, which informed the strategic logic of many acquisitions. Today, however, three converging forces are systematically dismantling these barriers.

The first is globalisation and the transfer of intellectual property, whereby international expansion has required Western firms to share proprietary knowledge with foreign partners as a condition of market access, most notably in China, where joint venture requirements have effectively mandated the transfer of intellectual property to a joint-venture entity involving a native China-based company, accelerating the development of local competitors who now challenge the very firms that enabled their creation.

The second is the role of technology in lowering barriers to entry, as advanced automation, artificial intelligence, and robotics reduce the cost and complexity of operations that once required significant capital investment and specialist expertise, enabling smaller, more agile entrants to compete at scale without the legacy cost structures of incumbents.

The third is the deliberate formation of regional alliances and industrial policies designed to build domestic capabilities at the expense of foreign competitors, from state-backed investment programmes, preferential procurement policies (often justified in the context of national security and/or trade policy), and strategic subsidies, which are enabling new entrants to emerge in sectors previously dominated by established international firms. In many respects, these new competitors are not established as a protectionist measure, but as a purposeful effort to build industrial competitiveness expressly intended to displace foreign market leaders.

Bargaining power of buyers

The bargaining power of buyers has traditionally been determined by factors such as buyer concentration, purchase volume, and the availability of alternative suppliers. Today, however, several forces are converging to shift the balance of power decisively toward buyers. Foreign policy and national security considerations are increasingly shaping procurement decisions in critical industries, with governments directing purchasing toward domestic suppliers, effectively constraining a target's addressable market and rendering customer relationships that appeared stable subject to geopolitical realignment. Trade policy is reinforcing this trend, as tariffs, export controls, and preferential procurement frameworks steer buying decisions toward national interests (including the interests of new and emerging geopolitical alliances). At the same time, the emergence of substitute products and new market entrants, as highlighted in the preceding sections, is expanding the range of alternatives available to buyers, strengthening their ability to negotiate on price, terms, and conditions. This effect is amplified by the growing transparency of the digital age, as AI-powered procurement tools, open benchmarking, and price-comparison platforms give buyers unprecedented visibility into supplier cost structures, eroding the information advantages that sellers historically relied on to maintain margins. For industries undergoing large-scale, long-term transformation, buyers are acutely sensitive to the full capital outlay required to support their own innovative developments and transition programmes, and they are leveraging this sensitivity to extract concessions from suppliers who cannot afford to lose major contracts during a period of structural change. The result is an environment in which a target's pricing power, customer retention, and margin resilience may be significantly more fragile than historical performance suggests.

Bargaining power of suppliers

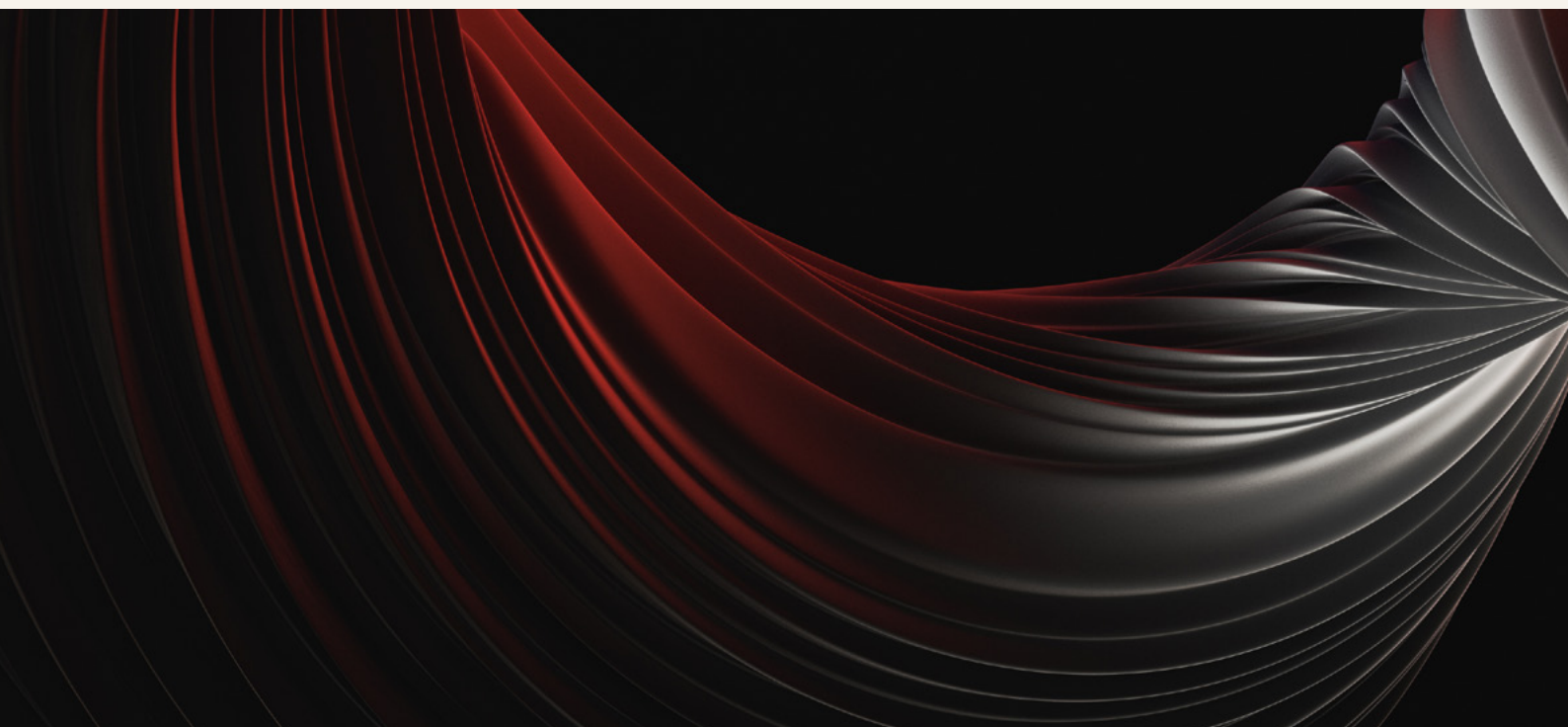
The bargaining power of suppliers has historically been viewed as a function of concentration, differentiation, and switching costs. In recent decades, globalisation and the proliferation of free trade, particularly since the establishment of the World Trade Organisation, have generally diluted supplier power by expanding the pool of available providers and enabling buyers to source competitively across geographies. However, this generalisation obscures a more nuanced reality. Supplier power is not static; it is dynamic, externally influenced, and highly dependent on the category of supply relationship in question.

Three categories warrant distinct consideration. Commoditised suppliers provide interchangeable inputs, where multiple providers compete, and supplier power is typically low; yet this status can shift rapidly, as COVID-19 demonstrated, when basic components such as semiconductors and personal protective equipment became scarce, transforming previously abundant inputs into constrained resources and conferring extraordinary leverage on remaining suppliers. Single source suppliers exist where alternatives are available but the buyer has concentrated supply with a single provider, often for efficiency or integration reasons: cloud platform providers, enterprise software ecosystems, and proprietary technology stacks are good examples of suppliers in this category, creating dependencies that are costly and complex to unwind, and granting suppliers pricing power and contractual leverage that may not be apparent until renegotiation. Sole-source suppliers occupy markets

where no viable alternatives exist, such as advanced semiconductors, rare-earth mineral processing, and specialised pharmaceutical ingredients, where supplier alternatives are either limited or non-existent, allowing suppliers to hold leverage that cannot be mitigated through diversification.

These three categories: commoditised, single-source, and sole-source, are not merely analytical distinctions. They are a practical diagnostic that boards can apply directly to any acquisition target. For every material supplier relationship in the target's business, the question is which category it occupies today, and, given the fragmentation of the free trade environment, the impact of export controls, and the reshaping of supply chains along geopolitical lines (amongst others), which category it could occupy in three, five, or ten years. A supplier that appears commoditised today may become sole-source tomorrow. That trajectory, if unidentified during due diligence, becomes a risk the acquirer inherits without the protections to manage it.

These distinctions are fundamental to assessing any acquisition target and must be included in integration planning. The free trade environment that diluted supplier power is fragmenting, as export controls, geographical decoupling, and national industrial policies reshape supply chains along geopolitical lines. What was once commoditised may become restricted. Boards must assess both a target's current supplier relationships and the potential impact of evolving markets, foreign policy, national security, and a range of geopolitical factors.



Competitive rivalry

The four forces examined above: substitution, new entrants, buyer power, and supplier power, do not operate in isolation. They interconnect, compound, and at times deflect one another, and their combined effect determines the intensity and structure of competitive rivalry within an industry. For boards evaluating M&A opportunities, this interconnectedness is not merely an analytical observation; it is a fundamental risk that must be modelled throughout the M&A deal lifecycle.

The competitive environment at the point of acquisition will not be the environment during post-deal integration, nor will it be the environment that prevails in the medium to long term. Consider an acquisition in an industry undergoing structural transition: suppliers of critical inputs may gain bargaining power precisely when substitution pressures and new entrants are compressing revenues and margins, creating a compounding effect that erodes value far more rapidly than any single-factor analysis would suggest. Conversely, forces may deflect: a new entrant may disrupt buyer concentration, inadvertently weakening buyer power and creating opportunity for incumbents who can adapt. These dynamics will evolve throughout the integration period, and for transformational transactions where integration may extend over several years, the cumulative effect on competitive rivalry can be profound.

A comprehensive understanding of the risks within each of the four forces, and how those risks could interact under different conditions, is therefore essential to rigorous deal assessment. These risks should be modelled and reflected

in deal value (including risk attribution), warranties, indemnifications, and insurance, ensuring that the transaction structure accounts for the range of plausible competitive scenarios. A common pitfall is the failure to assess the effect of the portfolio of risks on the medium to long-term value of the newly combined organisation, leaving executive management and the board without the analytical foundation to explore how different industry rivalry scenarios could necessitate future business model restructuring or even divestments.

The baseline assessment of industry rivalry should guide the strategy development and proposed business model of the combined organisation. It should demonstrate how and where the newly combined organisation expects to extract and realise value, whether through cost synergies, market consolidation, capability acquisition, or access to new customer segments, and it should recognise that the organisation will need to strategically navigate changes in competitive rivalry as the four forces continue to evolve. Boards that embed this dynamic, scenario-based approach into their M&A process will be better positioned to protect and create shareholder value; those that treat competitive rivalry as a static backdrop risk discovering, too late, that the strategic rationale for the deal has been overtaken by forces that were foreseeable, but not foreseen.

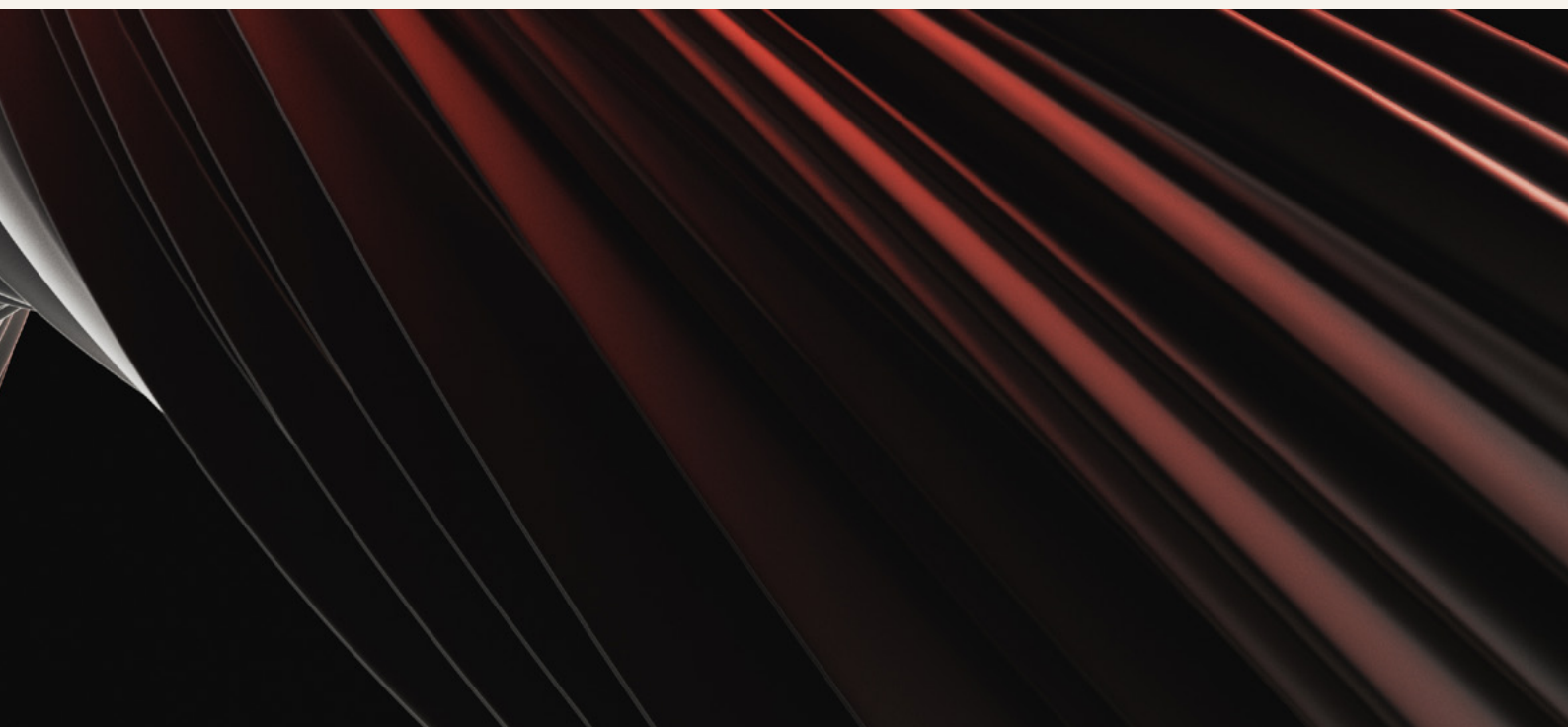


Figure 1 – Examples of the four forces at play

Force	Industry	Impact on industry rivalry
Substitution	Financial Services	Digital and mobile banking platforms displacing traditional branch-based banking models, driven by businesses and consumers greater access and convenience to manage their financial affairs.
Substitution	Retail	Online shopping supported by direct-to-consumer delivery models accelerating the decline of physical retail, with purchasing habits shaped by convenience, personalisation, and accessibility.
Substitution	Energy	Renewable energy generation and distributed solutions substituting fossil fuel demand, with national energy security strategies shaped by sustainability, affordability, and availability.
Substitution	Automotive	Electric vehicle models displacing internal combustion engines, as technological advances converge with consumer sensitivity towards environmental impacts.
New Entrants	Technology	China-based technology firms, initially developed through joint ventures and intellectual property transfer, now competing globally in semiconductors, telecommunications, and AI.
New Entrants	Commercial aerospace	China's COMAC's C919 narrowbody aircraft, developed through decades of joint venture partnerships and supply chain relationships with Western aerospace firms, challenging the Boeing-Airbus duopoly.
New Entrants	Pharmaceuticals	Emerging market manufacturers leveraging patent expiration, regulatory divergence, and lower cost bases to produce generic and similar alternatives drugs at scale.
New Entrants	Automotive	State-backed electric vehicle manufacturers, particularly from China, entering Western markets with cost advantages driven by subsidies and integrated supply chains.

Force	Industry	Impact on industry rivalry
Bargaining power of buyers	Energy	Utilities buyers leveraging the availability of renewable alternatives and the capital demands of energy transition to negotiate more favourable terms with legacy energy suppliers.
Bargaining power of buyers	Automotive	OEMs leveraging the proliferation of component suppliers and the threat of vertical integration to extract concessions from parts manufacturers
Bargaining power of buyers	Defence	National security directives mandating domestic procurement, constraining the addressable market for foreign suppliers.
Bargaining power of suppliers (single sourced)	Technology	Enterprises concentrated on single cloud providers (AWS, Azure) or enterprise platforms (SAP, Oracle), creating integration dependencies and switching costs
Bargaining power of suppliers (sole sourced)	Technology	Advanced chip manufacturing for artificial intelligence dominated by Nvidia, with no viable alternatives.
Bargaining power of suppliers (sole sourced)	Energy	Lithium, cobalt, and rare earth minerals geographically concentrated and facing surging demand from electrification.



Foreseeable risks: three transactions, three failures

The most instructive failures in M&A in recent times are not historical anomalies, they are recent, well-resourced, and foreseeable.

This echoes the paper's own language from the Introduction. The three transactions examined in this section were each approved by experienced boards with access to significant analytical resource. As you read, consider not whether these failures could have happened to your organisation, but whether the systems, processes, and culture of open and unbiased reporting exist within your organisation today to pre-empt the conditions that made the transactions possible, and to ensure that the same mistakes are not repeated.

Strategic Intent

General Electric's (GE) acquisition of Alstom's power and grid business in 2015 for \$10.6 billion¹¹ was intended to consolidate GE's position as the dominant player in the global power generation market. By acquiring Alstom's gas turbine operations, GE sought to expand its installed base, increase aftermarket service revenues, and achieve scale efficiencies that would strengthen its competitive positioning against rivals such as Siemens and Mitsubishi. The deal also carried symbolic significance for GE's leadership. In 2000, under CEO Jack Welch, GE's proposed acquisition of Honeywell had been blocked by European competition authorities, a rare and high-profile defeat for GE. For Jeff Immelt, Welch's successor, the Alstom transaction represented an opportunity to demonstrate GE's ability to execute transformational acquisitions in the European market and secure a strategic win that had eluded his predecessor.

Risks Identified

The deal exposed GE to material risks across multiple dimensions of the competitive landscape:

- **Threat of substitutes:** The energy market was undergoing a structural transition toward renewable generation. Solar, wind, and distributed energy solutions presented a direct substitution risk to heavy industrial gas turbines, a risk that was accelerating faster than historical forecasts suggested. Despite Alstom carrying a reported \$38 billion order backlog at the time of acquisition,¹² this backlog reflected historical demand patterns that were being actively displaced

by substitute energy sources. The decision to ramp up production post-acquisition, rather than calibrating output to align with the industry's energy mix dynamics, resulted in substantial inventory accumulation precisely as market demand was contracting, resulting in substitution risk translating into material financial exposure for GE.

- **Bargaining power of buyers:** Utilities and industrial energy customers were increasingly diversifying towards mixed power generation portfolios, reducing their dependence on any single energy source. As buyers gained access to renewable alternatives, their leverage over gas turbine suppliers increased. This shift presented a material risk to GE's pricing power and margins, as buyers could extract concessions from legacy power generation suppliers competing for a diminishing share of their energy procurement.
- **Competitive rivalry:** The combination of substitution pressure and shifting buyer behaviour fundamentally intensified competitive dynamics within the gas turbine market. As demand contracted, incumbent competitors, including Siemens and Mitsubishi, were forced to compete aggressively for a shrinking pool of orders, accelerating price erosion and margin compression across the industry. This rivalry extended beyond commercial competitors to include state-level actors: the French government, seeking to protect its domestic competitive position in the energy sector, imposed conditions requiring GE to maintain its headquarters and senior leadership positions in France, adding cost, complexity, and operational constraints that altered the deal economics and shaped the terms under which GE could compete in the European market.

The Price Paid

In 2018, GE recorded a goodwill impairment of approximately \$20 billion,¹³ roughly twice the original acquisition price. GE's Power division difficulties contributed to GE's broader financial stress (which was still recovering after the Global Financial Crisis), the removal of CEO John Flannery after just 14 months in the role, and the eventual decision to break up a respected 130-year-old conglomerate.

Example inherent unresolved risks to the success of the transaction.

Competitive Force	Risk Category	Risk Description
Threat of substitutes	Market Risk	Renewable energy displacing gas turbine demand faster than projected, undermining the core strategic rationale.
Threat of substitutes	Operational Risk, Financial Risk	Production ramp-up against deteriorating demand creating inventory accumulation and working capital strain.
Bargaining power of buyers	Financial Risk	Utilities diversifying energy portfolios, gaining leverage to compress supplier margins.
Competitive rivalry	Competition Risk, Financial Risk	Shrinking market intensifying price competition among legacy gas turbine manufacturers.
Competitive rivalry	Governance Risk, Geopolitical Risk	French government conditions adding cost and operational constraints to protect domestic competitive position.

Strategic Intent

In the 1990s and early 2000s, Nokia dominated the global mobile phone market. Its handsets were ubiquitous, so pervasive that, as the BBC observed, “People didn’t talk about what brand, it was just about the number, 3210.”¹⁴ At its peak, Nokia commanded over 40% of the global handset market,¹⁵ and its brand was synonymous with mobile communication itself. Then, in January 2007, Steve Jobs introduced the iPhone and declared “Every once in a while, a revolutionary product comes along that changes everything.”¹⁶ His vision was to transform the smartphone from a communication device into an integrated life platform, combining online banking, navigation, music, photography, and traditional calls and messaging into a single, intuitive experience. Within a few years, Apple and Google’s Android had redefined the industry, and Nokia’s market position had collapsed.

Microsoft’s acquisition of Nokia’s mobile phone business in 2014 for \$7.2 billion¹⁷ was intended to secure a position in the smartphone market before Microsoft itself was marginalised by the shift from desktop to mobile computing. The deal represented the culmination of a partnership initiated in 2011, when Nokia had adopted Windows Phone as its primary smartphone platform. By acquiring Nokia’s devices division, Microsoft sought to replicate the integrated hardware-software model that had proven successful for Apple, gaining control over the end-to-end mobile experience. For CEO Steve Ballmer, who championed the acquisition, the deal was a strategic imperative, without a meaningful mobile presence, Microsoft risked marginalisation as computing shifted decisively from desktops to mobile devices.

Risks Identified

At the time of acquisition, the transaction carried material risks across multiple dimensions of the competitive landscape that warranted rigorous assessment:

- **Threat of substitutes.** By 2014, the smartphone market had evolved into two distinct but equally successful models, neither of which centred on acquiring manufacturing capability. Apple had pursued vertical integration, designing its own software, hardware, and increasingly its own microchips, whilst outsourcing manufacturing to partners such as Foxconn. Google had pursued a horizontal platform model, providing Android as an operating system that third-party manufacturers, such as Samsung, HTC and LG, could adopt, allowing Google to focus on software, services, and ecosystem development. Both models demonstrated that the source of competitive advantage had migrated to software platforms, design innovation, and ecosystem lock-in, not to manufacturing operations. The risk was that Microsoft, in acquiring Nokia’s manufacturing business, was investing in a capability that the market leaders had either outsourced or subordinated to software and design excellence. Nokia’s core asset was its manufacturing and supply chain infrastructure; yet manufacturing was precisely what Apple and Google had demonstrated could be delegated to third parties without sacrificing competitive position. The strategic question that warranted scrutiny was whether Microsoft had a clear vision for the smartphone market, or whether it was a follower attempting to acquire capability in a segment of the value chain that was no longer the basis of competitive differentiation.

- **Bargaining power of buyers.** Consumers who had already invested in iOS or Android ecosystems, purchasing apps, building libraries, and developing platform familiarity, faced not only the financial cost of abandoning those investments, but the time and effort required to familiarise themselves with an entirely new setup. This combination of financial and cognitive switching costs had already made ecosystem lock-in the primary driver of purchasing decisions, irrespective of device quality or price. The risk was that potential customers would be unwilling to abandon their existing ecosystem investments, regardless of Windows Phone device quality, pricing incentives, or Nokia's brand heritage. This was not a risk that would emerge post-acquisition, it was an observable market condition at the time of the deal. Consumer behaviour had already demonstrated that ecosystem lock-in, not device specifications or manufacturing quality, was driving consumer purchasing decisions. The risk of acquiring Nokia without a strategy to overcome this buyer inertia was that market penetration would be structurally constrained from the outset.
- **Bargaining power of suppliers.** In platform economics, app developers function as critical suppliers of content and functionality. At the time of acquisition, Windows Phone commanded minimal market share, offering developers limited commercial return on investment. The risk was that a self-reinforcing cycle had already taken hold: limited app availability reduced consumer appeal, which further discouraged developer investment. This supplier dynamic was observable prior to the acquisition and represented a structural impediment to platform viability. The risk of proceeding without a credible strategy to break this cycle was that financial incentives to developers, however substantial, might prove insufficient to overcome the underlying economics.
- **Threat of new entrants (inverse).** Microsoft was effectively positioning itself as a new entrant into a market where Apple and Google had already established dominant positions, characterised by vast app libraries, developer communities, and deeply embedded consumer behaviours. The risk was that the barriers Microsoft faced were not capital or technology, they were network effects and ecosystem lock-in that historically proved extraordinarily difficult to overcome once established. By 2014, the window for a viable new entrant had arguably closed years before. The risk of proceeding was that Microsoft was entering a market where the structural dynamics had already determined the winners.
- **Competitive rivalry.** The acquisition must be assessed in the context of the broader competitive pressures Microsoft faced across its entire business portfolio. At the time of the Nokia deal, Microsoft's core franchises were under simultaneous assault: Alphabet was offering free alternatives to Microsoft Office through Google Docs; Amazon Web Services, launched in 2006, was accelerating the shift to cloud computing and displacing the on-premise software model that had underpinned Microsoft's dominance; Google had established itself as the dominant force in search and digital advertising. Given the breadth of these challenges, the risk of allocating \$7.2 billion to acquire a mobile phone manufacturer was one of strategic coherence and capital discipline: was the investment aligned with a comprehensive view of Microsoft's competitive position, or was it a reactive move that diverted resources from more critical battlefronts? A further risk was whether Microsoft, a large and complex organisation with legacy structures, had the organisational capacity to absorb and execute a transformational acquisition in a new market while simultaneously responding to disruption across its core businesses. This raises a more fundamental question: whether an acquisition was the right first choice ahead of internal restructuring to align the organisation with its strategic priorities.

The Price Paid

In 2015, just over a year after the acquisition closed, Microsoft recorded an impairment charge of approximately \$7.6 billion,¹⁸ effectively writing off the entire value of the transaction. The company subsequently announced 7,800 job cuts in its phone hardware division.¹⁹ By 2017, Windows Phone's global market share had fallen below 1%,²⁰ and Microsoft had effectively exited the smartphone hardware market.

Example inherent unresolved risks to the success of the transaction.

Competitive Force	Risk Category	Risk Description
Threat of substitutes	Strategic risk	Value had migrated to software platforms and design innovation; manufacturing, Nokia's core capability, was being outsourced by market leaders or subordinated to software excellence.
Threat of substitutes	Strategic risk	Acquiring as a follower rather than a leader, without a differentiated vision for how Microsoft would compete against entrenched platforms that had already redefined the basis of competition.
Bargaining power of buyers	Market Risk, Financial Risk	Consumer switching costs and ecosystem lock-in constraining adoption regardless of device quality or brand heritage, an observable condition at the time of acquisition.
Bargaining power of suppliers	Strategic Risk, Competition Risk	Developers unwilling to invest in a low-share platform, creating a self-reinforcing cycle of limited app availability that was already evident prior to the deal.
Threat of new entrants (inverse)	Strategic Risk	Microsoft entering a market where network effects and ecosystem lock-in had already established dominant incumbents; window for viable entry had closed.
Competitive rivalry	Strategic Risk	Simultaneous competitive pressure across Microsoft's core business lines raising questions about strategic coherence and capital allocation priorities.

Strategic Intent

In the decade leading up to 2007, Royal Bank of Scotland (RBS) underwent one of the most dramatic transformations in British banking history. What had been a regional Scottish bank was transformed into the world's largest bank, with a balance sheet of £2.2 trillion of assets.²¹ At its peak, RBS was earning £1 million every hour.²² The acquisition of NatWest in 2000, then the largest takeover in British banking history, established RBS's reputation for executing complex integrations and extracting value from ambitious deals. The bank's expansion was driven by its CEO, Fred Goodwin, whose appetite for growth and willingness to pursue transactions others considered too risky had become well publicised. Goodwin's ambition and the board's confidence in his ability to deliver underpinned an aggressive expansion strategy that built an institution with a reach across investment banking, retail banking, insurance, and global markets.

The acquisition of ABN Amro, the largest bank in the Netherlands with significant operations across investment banking, retail banking, and asset management globally, represented the peak of this ambition. In 2007, one year before the height of the Global Financial Crisis, RBS led a consortium alongside Fortis and Banco Santander in a hostile takeover bid, paying £57 billion for ABN Amro,²³ in what remains the largest banking acquisition in history. The deal was contested: Barclays had proposed a friendly merger with ABN Amro, and the RBS consortium's hostile bid was explicitly designed to outmanoeuvre a competitor and secure a transformational asset. The strategic intent was to create a global banking powerhouse with diversified revenue streams across geographies and business lines, cementing RBS's position among the world's elite financial institutions and extending its competitive reach into continental Europe and emerging markets where ABN Amro had established a presence. For RBS's leadership, winning this deal, against a strategic competitor and in the face of a complex consortium structure, would validate the strategy that had transformed the bank and demonstrate that RBS could compete at the highest level of global finance.

Risks Identified

At the time of acquisition, the transaction carried material risks across multiple dimensions of the competitive landscape that warranted rigorous assessment:

- **Threat of substitutes.** The global banking industry in 2007 was generating substantial profits from structured credit products, such as CDOs, mortgage-backed securities, and related instruments. ABN Amro was a significant participant in these markets. The risk was that these products were vulnerable to substitution by a fundamental repricing of risk. Early warning signs were already evident: the US subprime market was deteriorating, and credit spreads were widening. The risk of acquiring a business whose profit streams depended on financial instruments was beginning to raise questions, particularly given the scale of the underlying exposures.
- **Bargaining power of buyers (borrowers).** In banking, borrowers function as buyers of credit. By 2007, borrower quality across the mortgage and consumer lending sectors was deteriorating. Subprime lending practices had extended credit to borrowers with limited capacity to repay, and rising interest rates were translating into defaults. The risk was that ABN Amro's loan portfolios contained credit exposures to borrowers whose capacity to service debt was weakening, a deterioration that would translate directly into credit losses.
- **Bargaining power of suppliers (capital markets).** Banks are fundamentally dependent on wholesale funding markets for liquidity. By mid-2007, early signs of funding stress were emerging: interbank lending rates were rising, and confidence in counterparty creditworthiness was declining. The risk was that an acquisition of this scale would substantially increase RBS's reliance on wholesale funding precisely as the availability and cost of that funding was becoming uncertain.

- **Competitive rivalry.** The acquisition process itself materially amplified the risks. The hostile nature of the bid, competing directly against Barclays, created an auction environment in which the imperative to win risked overriding the discipline to walk away. Yet by mid-2007, the competitive landscape within which this contest was unfolding had already begun to shift. Market risk sentiment was increasing rapidly; asset valuations that had appeared robust months earlier were being called into question as subprime exposures surfaced across the financial system. The competitive rivalry was no longer simply about which bank could secure ABN Amro, it was about whether the transaction made sense at all, given the deteriorating market conditions. As a hostile bidder, RBS faced significant constraints: limited access to ABN Amro's books, compressed due diligence timelines, and an inability to fully assess the target's structured credit exposures, counterparty risks, and the true quality of its loan portfolios. The risk was that RBS, in its determination to outmanoeuvre Barclays, lost sight of a fundamental principle: sometimes it is more important to do the right thing than to win. Walking away, particularly in the face of mounting market uncertainty, would not have been a defeat; it would have been prudent risk management.

The experience of Barclays, RBS's competitor in the contest for ABN Amro, is instructive in this regard, albeit seemingly not by design. Having withdrawn from the ABN Amro bid, Barclays subsequently acquired Lehman Brothers' North American investment banking and capital markets business out of administration in September 2008, at a fraction of its pre-crisis value. That transaction gave Barclays immediate scale in the US market and established it as a genuinely global investment bank, a strategic position that would have been considerably more costly to secure under normal market conditions. This is not to suggest that Barclays withdrew from ABN Amro in anticipation of the opportunity that followed; the two events were separated by circumstance, not choreography. It does,

however, illustrate a broader principle: organisations that exercise disciplined risk sensitivity, including the discipline to walk away, preserve the strategic and financial flexibility to pursue opportunities that could not have been foreseen at the time. Had RBS applied that same sensitivity to the emerging risks in mid-2007, the capital and credibility ultimately lost to the ABN Amro transaction might instead have positioned the bank to act decisively when the conditions that followed the Global Financial Crisis created opportunities of precisely the kind RBS's strategic ambitions had long sought.

Instead, the competitive pressure to secure a transformational deal, combined with the reputational stakes of losing to a rival, appears to have narrowed the focus to deal completion rather than deal suitability.

- **Competitive rivalry (a systemic dimension).** By the time the acquisition was completed in October 2007, the evidence of systemic stress was no longer subtle. BNP Paribas froze redemptions on three investment funds in August 2007, unable to value subprime mortgage assets.²⁴ Northern Rock had experienced a bank run in September 2007, the first on a UK bank in over a century.²⁵ Asset revaluations were accelerating across the financial sector, and the assumptions underpinning structured credit valuations were unravelling in real time. The risk was that RBS was completing a £57 billion acquisition at the precise moment when the competitive environment in banking was undergoing a structural collapse, one that would fundamentally reprice risk, collapse asset values, and redefine the industry for a generation. The market was signalling risk - clearly, repeatedly, and with increasing urgency. The question is whether RBS's leadership, focused on winning the contest against Barclays, gave sufficient weight to those risk signals, or whether the competitive imperative to secure the deal narrowed their field of vision at precisely the moment when a wider perspective was most needed.

“At its peak, RBS was the world’s largest bank, with a balance sheet of £2.2 trillion of assets, earning £1 million every hour.”

“...the risks that ultimately destroyed value were identifiable at the time of the transaction.”

The Price Paid

In 2008, RBS recorded a loss of £40.7 billion,²⁶ the largest annual loss in UK corporate history. The UK government injected £45.5 billion into the bank, acquiring an 84% stake and effectively nationalising the institution,²⁷ meaning that the British public became the majority owners of what had been one of the world's largest private banks. Approximately 140,000 jobs were lost worldwide through redundancies and business dispositions.²⁸ Today, NatWest, the rebranded successor to RBS, operates with a balance sheet of £708 billion and reported pre-tax profit of £6.2 billion in 2024.²⁹

Example inherent unresolved risks to the success of the transaction.

Competitive Force	Risk Category	Risk Description
Threat of substitutes	Market Risk	Structured credit products underpinning profitability were vulnerable to fundamental repricing as the market began to question subprime exposures.
Bargaining power of buyers (borrowers)	Credit Risk, Liquidity Risk	Deteriorating borrower quality across mortgage and consumer lending sectors, with rising defaults translating into credit losses.
Bargaining power of suppliers (capital markets)	Liquidity Risk	Wholesale funding markets exhibiting early signs of stress; acquisition increasing reliance on funding sources whose availability was becoming uncertain.
Competitive rivalry	Financial Risk, Governance Risk	Hostile bid process limiting access to target's books; transaction completed with inadequate visibility into ABN Amro's exposures and asset quality.
Competitive rivalry	Strategic Risk, Governance Risk	Competitive auction dynamics against Barclays and reputational stakes narrowing focus to deal completion over deal suitability, despite clear signals of risk.
Competitive rivalry (systemic)	Strategic risk, Financial Risk, Governance Risk	Acquisition completing at peak of credit cycle; market signalling risk clearly, repeatedly, and with increasing urgency.

The failures examined in these case studies were not inevitable. They were foreseeable. In each instance, the risks that ultimately destroyed value were identifiable at the time of the transaction: the substitution dynamics displacing gas turbines; the ecosystem lock-in that had already determined the winners in smartphone platforms; the systemic signals emanating from BNP Paribas and Northern Rock. What these cases share is not a failure of information, but a failure of process: the absence of structured, pre-emptive and data-driven risk assessment embedded at each stage of the deal lifecycle. The framework set out in the section entitled 'Competing for Tomorrow: Risk Management and the Forces Reshaping M&A' describes how risk management, properly integrated into strategic selection, target evaluation, due diligence, synergy analysis, and bidding and negotiation, could have identified and mitigated these risks before they crystallised into catastrophic write-downs.

For boards and executive management, the question is not whether these failures could have been prevented, but whether the risk management frameworks now exist in their organisation to prevent the next one.



The Human Factor: Navigating Psychological Risks in Deal-Making

The preceding analysis has examined how structural competitive forces, namely: substitution, new entrants, buyer power, supplier power, and competitive rivalry, shape the risk profile of M&A transactions.

However, even the most rigorous application of analytical frameworks can be undermined by a factor that is often overlooked in deal assessment: the psychology of the decision-makers themselves. This is a topic that warrants a paper in its own right. However, in the context of identifying and managing risk in M&A, it is essential to acknowledge how psychological factors influence the judgments and decisions made by business leaders, board members, advisors, and consultants throughout the deal process.

Central to this challenge is the influence of bias. The concept is well-established across disciplines. The Oxford English Dictionary defines bias as the “...inclination or prejudice for or against one person or group, especially in a way considered to be unfair.”³⁰ Daniel Kahneman, in his seminal work *Thinking, Fast and Slow*, describes bias as “...systematic errors in thinking that occur when people are processing and interpreting information, affecting the decisions and judgments they make.”³¹ In the field of risk research, Shital Thekdi and Terje Aven characterise bias as “...systematic cognitive dispositions or inclinations in human thinking and reasoning that often do not comply with the tenets of logic.”³²

The consistency across these definitions is notable. Each emphasises three elements: that bias is systematic rather than random; that it causes deviation from objective, evidence-based judgment; and that it materially affects decisions and outcomes. In the context of M&A, where decisions involve substantial capital, incomplete information, competitive pressure, and personal stakes, the conditions for bias to influence outcomes are particularly acute.

Two forms of bias are especially relevant. The first is cognitive bias, which refers to systematic patterns in how individuals interpret information, assess risk, and reach conclusions that depart from rational analysis. The second is probabilistic bias, which is the systematic modelling practices in analytical tools and algorithms that may embed assumptions or weightings that distort risk assessment and representation. It is essential that deal teams recognise the influence of both forms at each stage of the deal process. Every transaction relies on people to make informed judgments and decisions, alongside the use of analytical models to evaluate the financial risks and returns associated with mergers and acquisitions. Both are susceptible to bias, and neither can be assumed to be objective.



Common cognitive biases

Bias	Description
Groupthink	The tendency for cohesive groups to reach consensus without critically evaluating alternatives or dissenting views
Confirmation bias	The tendency to search for, interpret, and recall information in a way that confirms pre-existing beliefs
Bandwagon effect	The tendency to adopt beliefs or behaviours because others have done so, regardless of underlying evidence
Halo effect	The tendency to allow a positive impression in one area to influence judgement in unrelated areas
Sunk cost fallacy	The tendency to continue investing in a course of action because of cumulative prior investment, rather than future value
Overconfidence bias	The tendency to overestimate one's own abilities, knowledge, or the accuracy of one's predictions

Common model biases

Bias	Description
Gamblers fallacy	The belief that past events influence the probability of future independent events
Selection bias	The distortion of analysis caused by the non-random selection of data or scenarios
Clustering illusion	The tendency to perceive patterns in random data and extrapolate trends that do not exist

Before reading further, consider your last significant M&A transaction. At what point did the deal become difficult to stop, and who in your organisation had both the standing and the safety to say so?

Four Common Pitfalls

These biases contribute to four common decision-making pitfalls that failed mergers and acquisitions often fall into.

Legacy

Transactions are pursued to validate prior strategic commitments, fulfil leadership ambitions, or secure symbolic victories that carry significance beyond the deal itself. When a deal becomes entangled with personal or institutional legacy, the imperative to complete the transaction can overshadow an objective assessment of whether the deal creates long-term value. Overconfidence bias and the halo effect are particularly prevalent in legacy-driven deals, as past successes create expectations of future performance that may not be warranted.

What to watch for:

- Deal rationale repeatedly references past failures, missed opportunities, or “unfinished business”.
- The transaction becomes the CEO’s deal.
- Internal communications focus on what the deal represents rather than what it will deliver.
- Proposed deal timelines align with leadership changes.

Blinkered

A narrowed field of vision that fails to account for structural changes in the competitive environment. Blinkered deal teams focus on the target in isolation, assessing historical performance and projecting it forward without adequately stress-testing the assumptions against substitution, new entrants, or shifts in buyer and supplier power. Confirmation bias reinforces this tendency, as teams selectively interpret information that supports the strategic thesis of the deal whilst discounting evidence that challenges it.

What to watch for:

- Financial models rely heavily on historical data.
- Target valuation is assessed in isolation, rather than in light of potential substitutes or new entrants.
- Due diligence focuses on confirming the strategic value rather than exploring what could erode value.
- Advisors accept management’s arguments without challenge or independent thought.





Pressure

The accumulating momentum of a deal process makes walking away increasingly difficult. As resources are committed, advisors engaged, announcements made, and competitive dynamics intensify, the sunk cost fallacy takes hold. The focus shifts from whether the deal should proceed to how the deal will close. In contested transactions, the pressure to win, particularly against a visible competitor, can compress due diligence timelines and override the discipline to abandon a transaction that no longer makes sense.

What to watch for:

- Regular references to the amount of capital already committed to the venture.
- Pressure to complete pre-deal analysis in squashed timeframes.
- Bidding is highly sensitive to competitors' actions rather than to the fundamentals of the deal.
- Risk appetite thresholds and/or red-line limits are revised.

Denial

The systematic discounting of information that contradicts the desired outcome. When signals of risk emerge, whether from market conditions, due diligence findings, or external events, denial manifests as rationalisation rather than recalibration. Groupthink reinforces denial, as team cohesion discourages dissenting voices and critical challenge. The result is a deal process that proceeds despite mounting evidence that the transaction carries risks that outweigh the opportunities.

What to watch for:

- Adjustments to due diligence findings and recommendations to align with the initial strategic value.
- Regular changes in team composition and representation.
- Limited board challenge to validate and/or understand key assumptions and due diligence findings.
- Narrow allocation of time to discuss deal risks, whether before, during or after the deal is completed.

Case studies



GE-Alstom

Legacy

The Alstom acquisition carried symbolic significance for GE's leadership, an opportunity to secure a transformational European deal that had eluded the company following the blocked Honeywell acquisition.

Blinkered

GE's assessment did not adequately account for the pace of the energy transition and the substitution of gas turbines by renewable alternatives.

Pressure

French government conditions added complexity, yet the deal proceeded; post-acquisition production was ramped up despite deteriorating demand signals.

Denial

Despite a \$38 billion order backlog that reflected historical demand patterns being displaced, production decisions suggest contradictory market signals were not fully assessed.



Microsoft-Nokia

Legacy

The distortion of analysis caused by the non-random selection of data or scenarios

Blinkered

Microsoft's focus on acquiring hardware manufacturing capability overlooked the structural shift in smartphone competition toward software platforms and ecosystem lock-in.

Pressure

Having publicly committed to the Nokia partnership and invested significantly in Windows Phone, the strategic stakes of walking away may have been perceived as prohibitive.

Denial

Observable market conditions, consumer ecosystem lock-in, developer reluctance, consolidated platform competition, indicated the window for viable entry had closed, yet the deal proceeded.



RBS-ABN Amro

Legacy

The acquisition represented the pinnacle of RBS's transformation from regional bank to global powerhouse, driven by leadership ambitions and a strategy built on aggressive, risk-on expansion.

Blinkered

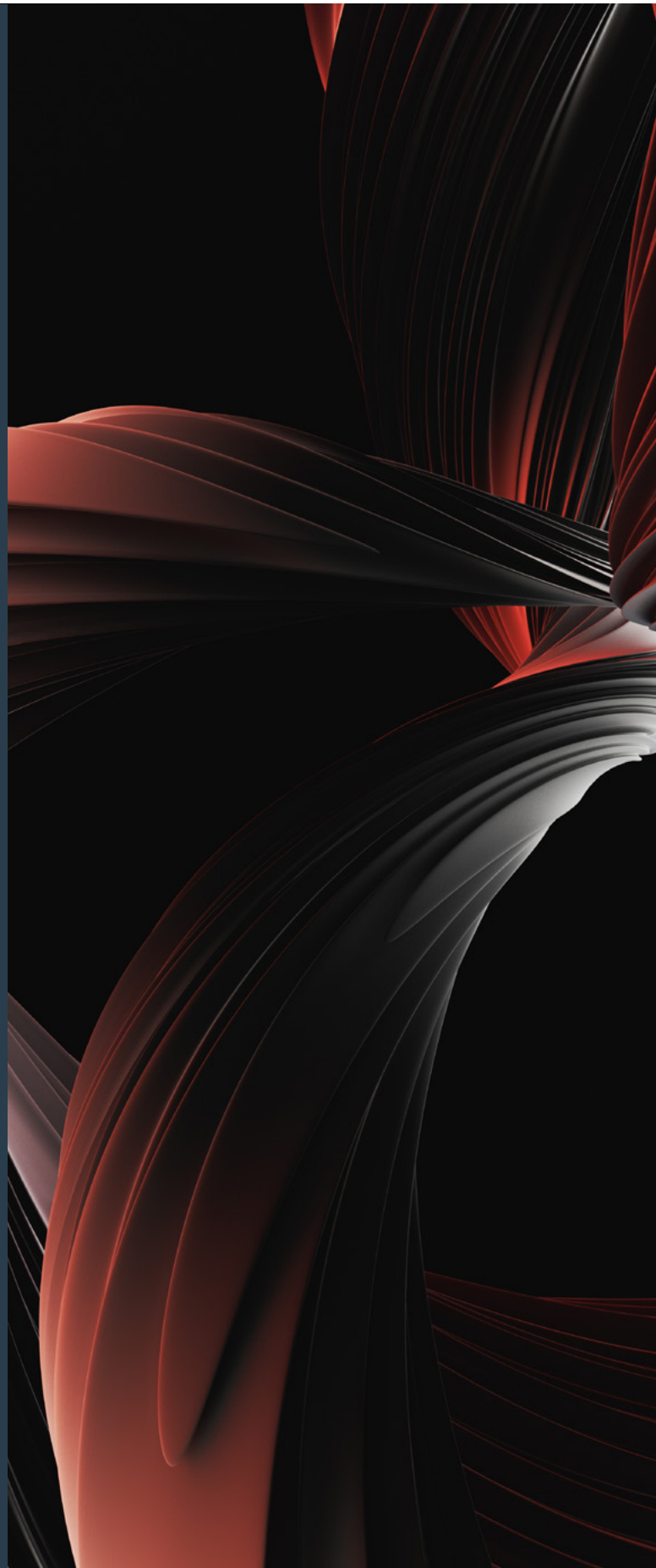
The focus on outmanoeuvring Barclays may have narrowed attention to deal completion rather than the deteriorating market conditions that were calling asset valuations into question.

Pressure

The hostile bid dynamics, competitive auction, and reputational stakes of losing to a rival created pressure to complete, sometimes doing the right thing means accepting defeat.

Denial

The hostile bid dynamics, competitive auction, and reputational stakes of losing to a rival created pressure to complete, sometimes doing the right thing means accepting defeat.







Competing for tomorrow: risk management and the forces reshaping M&A

For many organisations, risk management remains structurally misaligned with the activities through which the organisation creates and sustains value.

It is frequently positioned as a function of compliance or second-line independence, where risk frameworks, policies, and control standards are developed in abstraction from the organisation's strategy, business plan, and day-to-day operations. In practice, risk management in many organisations, has become synonymous with Compliance and Internal Audit, oscillating between monitoring adherence to regulatory controls on one hand, and testing the effectiveness of those controls against spreadsheet-based inventories of the organisation's control system on the other.

These are necessary activities, but they are not risk management in a sense of creating organisational value. They are retrospective, process-orientated, and structurally disconnected from the way in which an organisation creates, sustains, and protects value. The result is a risk function that is visible on an organisation chart but largely absent from the decisions that matter.

This is not merely a resourcing or capability problem, it is a design problem. Risk management frameworks that are constructed independently of business strategy will, by definition, be calibrated to an abstraction of the organisation rather than to its reality. Opaque management reports based on the subjective assessment of risks sorted into traffic-light dashboards, excessive reliance on spreadsheets for risk capture and analysis, and complex, disjointed workflows for administering risks and controls are not symptoms of underfunding, they are symptoms of a function that has been asked to manage risk without being given meaningful proximity to the strategy, the business model (including operations), or the competitive environment in which risk actually originates. For many organisations, risk management has simply failed to keep pace with the growing dynamism, sophistication, and velocity of change underpinning how the organisation creates, sustains, and protects value.

It is important, however, to distinguish between risk management in the context of M&A and risk management in the context of day-to-day business operations.

Due diligence is not an exercise in replicating the risk management responsibilities of the target organisation, it is not control testing conducted to a level of granularity that substitutes for the target's own assurance activities, nor is it an exercise in regulatory audit, verifying the organisation's compliance with every applicable obligation or requirement. The purpose of risk management in M&A is both more focused and more consequential: it is to identify how the target organisation creates, sustains, and protects value today; to identify and assess the vulnerabilities, weaknesses, structural defects, and compliance gaps that could affect the quality, safety, performance, and recoverability of that value; and to assess these findings against the current and evolving dynamics of the industry in which the combined organisation will compete, factoring the risk of substitution, new entrants, and the bargaining power of buyers and suppliers. This is the standard against which risk management in M&A should be measured, and it is the gap between this standard and current practice that makes the proposals set out in this paper significant.



What should business leaders expect from risk management to improve the M&A deal process?

The sections that follow set out a stage-gated framework for embedding risk management across the end-to-end deal process, from strategic and target selection, through due diligence and synergy analysis, to bidding and negotiation. At each stage, the framework identifies the key risk considerations that executive management should be able to present to the board, ensuring that risk remains visible and accountable as deal momentum builds.

It is important to be clear about what this framework is and what it is not. The practices proposed here are not ideological, nor do they require organisations to adopt entirely new methodologies. They make deliberate use of established risk management tools and leading practices, including Porter's Five Forces, Driver Tree analysis, Monte Carlo simulation, scenario modelling, and structured risk scoping, applying them in the specific context of M&A, where the purpose, pace, and stakes of risk assessment are materially different from day-to-day business operations. The framework is designed to be practical, actionable, and grounded in the analytical disciplines that well-governed organisations already have access to.

The sophistication with which this framework is adopted should be calibrated to the complexity, size, and strategic significance of the transaction. A bolt-on acquisition does not require the same depth of analysis as a transformational merger. What every transaction requires, regardless of scale, is a structured approach that keeps risk visible throughout the deal lifecycle, connects it to the competitive forces that will determine whether value is created or eroded, and equips the board to make informed, disciplined decisions at every stage.

It is also important to acknowledge that any framework, including the one proposed in this paper, must itself be stress-tested against the specific factors that are relevant and integral to each deal. A framework is not a substitute for judgement; it is a structure within which judgement is exercised. The factors that bear on any individual deal,

the industry in which the target operates, the regulatory environment governing the transaction, the geographic and geopolitical dimensions of the combined entity, the pace of technological disruption within the sector, and the organisational capacity of the acquirer to absorb what it is taking on, will vary materially from one deal to the next. Each of these factors has the potential to alter the weight, sequencing, and depth of analysis required at each stage of the framework, and in some cases to introduce considerations that the framework, by design, does not prescribe.

Consider, for example, a highly regulated cross-border acquisition in the financial services or defence sectors, where regulatory approvals, national security reviews, and political conditions may introduce risks that are not fully captured by the Five Forces alone but that fundamentally alter the deal economics and timeline. Or consider a distressed acquisition, where the compressed timescales and information asymmetries inherent in acquiring a business in financial difficulty demand that certain stages of the framework are accelerated or conducted in parallel, without sacrificing the rigour of the underlying analysis. Or consider a technology acquisition driven by the need to secure capability before a competitor, where the speed imperative may create tension with the depth of due diligence the framework prescribes. In each of these contexts, the framework must be adapted, not abandoned, but interrogated against the deal-specific factors that will determine its effectiveness.

This is not a limitation of the framework; it is a feature of it. A framework that claimed universal applicability without adaptation would be precisely the kind of static, one-size-fits-all approach that this paper argues against. The discipline of stress-testing the framework against the factors integral to each transaction is itself an act of risk management, one that ensures the analytical architecture remains connected to the reality of the deal rather than operating at a level of abstraction that fails to capture the risks that matter most. Boards should therefore expect executive management not only to apply the framework, but to explain how it has been calibrated to the specifics of the deal, where it has been reinforced, where it has been adapted, and where additional analysis has been commissioned to address factors that the framework alone does not resolve.

“Risk management in M&A is often visible on an organisation chart but largely absent from the decisions that matter.”

Strategic selection

When your organisation last pursued an acquisition, did the strategic case precede the target, or did the target precede the strategic case?

Strategic selection is the foundational stage of any M&A process, the point at which an organisation defines why it is pursuing acquisitions and what strategic objectives those acquisitions are intended to achieve. Research by Joseph Bower of Harvard Business School identifies that the failure to articulate a clear strategic rationale is a primary source of M&A failure.³³ Before any target is identified, the board and executive leadership must be guided by a clear purpose, one grounded in the organisation's reason for existence, its long-term objectives, and its underlying values. M&A should not be pursued as an end in itself, but as a means of advancing a strategic intent that is coherent with who the organisation is and what it seeks to become.

To evaluate whether M&A is the appropriate mechanism, boards should conduct a structured assessment of all available strategic options, including organic growth, partnerships, joint ventures, and acquisition, using frameworks such as SWOT analysis (Strengths, Weaknesses, Opportunities, Threats) for each option. This comparative evaluation enables the board to assess the relative merits and risks of each pathway and to determine which approach is most suitable for achieving the company's objectives given its capabilities, resources, and risk profile.

The strategic thesis must also be stress-tested against long-term industry dynamics. This requires establishing forward-looking views of the industry over 3, 5, and 10-year horizons, and considering how disruptive forces, substitution, new entrants, shifts in buyer and supplier power, could influence competitive rivalry and reshape the industry in which the organisation operates. The Five Forces analysis examined earlier in this paper provides a framework for this assessment. The question is not merely whether the strategic thesis is valid today, but whether it will remain valid as the competitive environment evolves.

Risk appetite and walk-away criteria should be defined before any transaction is initiated. The board should establish clear thresholds for acceptable risk, including financial, strategic, operational, and reputational risk, and pre-define the conditions under which the organisation will walk away, regardless of sunk costs or competitive pressure. Critically, when setting these thresholds, leadership must consider how alternative risk perceptions could influence or bias the assessment of risk. Different stakeholders may perceive the same risk differently; these perspectives should be surfaced, debated, and captured within the risk appetite framework to ensure it reflects a balanced view rather than one shaped by cognitive or organisational bias.



The dynamics of walk-away discipline differ materially outside the corporate context. In private equity, the hold period, fund lifecycle, and deployment pressure create structural incentives that can compress the window for disciplined withdrawal. In venture capital, the scarcity of transformative opportunities and the speed at which competitive rounds close can make disciplined withdrawal feel indistinguishable from strategic failure. In private capital more broadly, the concentration of decision-making authority and the absence of the public accountability structures within which corporate boards operate may mean that walk-away criteria are less formally defined or more susceptible to override. Each of these dynamics will be explored in the companion papers in this series.

The Microsoft-Nokia acquisition illustrates the consequences of proceeding without this forward-looking discipline. By 2014, the structural dynamics of smartphone competition had already determined the winners; the window for viable entry had closed. A rigorous and candid SWOT analysis, conducted across the full range of strategic options available to Microsoft at the time, would have revealed several critical insights. From an external perspective, the competitive strengths of the smartphone industry were becoming increasingly anchored in software ecosystems, platform architecture, and developer relationships, not in hardware manufacturing capability. The opportunity, if one existed at all, lay in software integration and ecosystem participation, not in the vertical integration of device production. From an internal perspective, a genuinely open and data-driven assessment of Microsoft's own organisational condition would have surfaced significant stresses: the cultural and operational complexity of absorbing a business whose primary value resided in hardware would have fundamentally altered Microsoft's identity and resource allocation, at a point when the organisation was already navigating considerable internal strain. Applied across a broader set of strategic options, that same SWOT analysis may well have indicated that a partnership or licensing arrangement, rather than a full acquisition, represented a more viable and less structurally disruptive route to establishing a mobile presence. The Microsoft-Nokia case therefore reinforces a principle that is as important as the analytical framework itself: a SWOT analysis is only as valuable as the candour, objectivity, and openness to the evidence that underpins it. Where the process becomes an exercise in confirming a preferred conclusion rather than interrogating it, its value is lost entirely.

At the conclusion of strategic selection, executive management should be able to demonstrate to the board, grounded in a structured SWOT analysis of the organisation's strengths, weaknesses, opportunities, and threats, why a merger or acquisition is the most strategically relevant course of action relative to the other available alternatives. This means being able to articulate how the internal capabilities and external environment of the acquiring organisation have been assessed; to explain the risks associated with pursuing M&A and demonstrate how those risks have been evaluated against the opportunities presented by the transaction; and to show how the proposed transaction could affect the structure of industry rivalry, assessed through the lens of Porter's Five Forces, including the implications for substitution threats, new entrants, and the bargaining power of buyers and suppliers.

Target selection

How confident are you that the value assumptions underpinning your last transaction were stress-tested against the forces reshaping your industry, rather than validated against the performance of the business as it existed at the point of acquisition?

The approach to identifying and evaluating acquisition targets is shaped by the strategic purpose defined in the preceding stage. The method for target identification will differ depending on whether the acquisition is horizontal (acquiring a competitor to consolidate market share), vertical (acquiring a supplier or customer to control the value chain), or intended to build industry concentration or acquire new capabilities. Each acquisition type carries a distinct risk profile and requires a tailored assessment framework.

The nature of the target itself, whether a start-up, a mature company, or a direct competitor, will further influence the assessment. Start-ups may offer growth potential and innovation, but carry execution risk and valuation uncertainty. Mature companies may offer stable cash flows and established market positions, but face disruption risk and potential for value erosion. Competitors may offer synergy opportunities but raise integration complexity and cultural challenges. The assessment must be calibrated to the target's profile and the strategic rationale for the acquisition.



A structured approach to target evaluation should employ tools such as Driver Tree analysis to identify how each target could create, but also erode, value. Driver Tree analysis disaggregates the target's profitability into its constituent components: revenue drivers (volume, pricing, market share), cost drivers (fixed costs, variable costs, operational efficiency), and capital drivers (working capital, capital expenditure, asset utilisation). By mapping these drivers to the acquisition's strategic purpose, the deal team can identify which variables are critical to the value thesis of the deal and which are most susceptible to change post-acquisition.

Critically, however, the Driver Tree should not be applied in isolation from the external environment in which those drivers operate. Each value driver identified through the analysis should be stress-tested against the competitive forces shaping the target's industry, assessed through Porter's Five Forces framework. The pricing assumptions embedded in the revenue driver analysis should be evaluated against the threat of substitution and the bargaining power of buyers, both of which can compress margins independently of the target's operational performance. Volume assumptions should be tested against the risk of new entrants and the intensity of competitive rivalry, which can erode market share even where the target's product or service offering remains strong. Cost driver assumptions, particularly those relating to input costs and supplier relationships, should be assessed against the bargaining power of suppliers. By mapping the Driver Tree against Porter's Five Forces in this way, the deal team can identify not only which value drivers are most critical to the deal's thesis, but which are most exposed to external forces that the combined organisation will have limited ability to control, and it is precisely these intersections that warrant the closest scrutiny from the board.

In venture capital, where the target may be pre-revenue or operating at an early stage of commercialisation, the Driver Tree takes a fundamentally different form: the value drivers are not historical revenue and cost lines but forward-looking assumptions about market adoption, technological viability, and the speed at which the venture can establish a defensible competitive position, assumptions that are, by their nature, more susceptible to the disruptive forces this paper has examined.

This provides a valuable lens into deal risks, revealing where assumptions are most fragile and where value creation is most contingent on factors outside the acquirer's control.

This level of analysis provides essential inputs for financial modelling. Return on investment (ROI) and internal rate of return (IRR) calculations should be grounded in the driver analysis, with sensitivities applied to the variables most likely to change. This creates a tangible, auditable basis for evaluating each target's value proposition, and for prioritising the areas of focus in post-deal integration planning. If the value thesis depends on achieving specific cost synergies, those synergies must be validated and the integration plan structured to deliver them. If the value thesis depends on retaining key customers or capabilities, the risks to retention must be assessed and mitigated.

The GE-Alstom transaction demonstrates how failure to interrogate value drivers can give rise to catastrophic misjudgement. GE's assessment focused on Alstom's \$38 billion order backlog as a primary signal of value, without adequately modelling how that backlog, a reflection of historical demand patterns, was being actively displaced by renewable energy substitution. Driver Tree analysis, rigorously applied, would have revealed that the revenue assumptions underpinning the acquisition were contingent on market conditions that were already eroding. Specifically, as buyers increasingly diversified toward a broader energy mix, the pricing power of gas turbine suppliers was already under structural pressure, a vulnerability that Driver Tree analysis would have surfaced by disaggregating the revenue drivers into their constituent components. Compressed turbine pricing, in turn, carried a direct downstream consequence: a reduced installed base relative to the assumptions underpinning the acquisition thesis would have materially diminished the aftermarket maintenance, repair, and overhaul revenues that formed a significant part of the deal's strategic rationale. Furthermore, GE's prior experience of executing deals in the European market would have informed realistic assumptions about the proportion of the future GE Power business to be operated and governed within Europe. Applying Driver Tree analysis to those assumptions would have revealed how the geographic positioning of the combined business could affect the operating cost structure, and at what point those costs might begin to erode projected returns. GE was acquiring a long-established heavy industrial business with deep roots in the French industrial and regulatory ecosystem, a characteristic that warranted careful analysis of the legacy obligations and political concessions such a transaction was likely to attract. The risk of those concessions was foreseeable prior to approaching the target, and these considerations warranted careful evaluation and stress-testing at board level prior to entering a competitive process and being susceptible to competitive pressures.

At the conclusion of the target analysis, executive management should be able to present the evaluation results to the board, explaining how the preferred target is expected to generate the most plausible long-term value for the company. This presentation should articulate the value proposition across strategic, financial, operational, and reputational dimensions, demonstrating not only the expected returns but also the risks and the assumptions underpinning those returns. This provides the board with a basis to challenge the underlying assumptions, validate the robustness of the analysis, and assess the sensitivities applied to each target's value proposition to the company.

Due-diligence

In your organisation's due diligence process, who is responsible for identifying the risks that argue against proceeding, and are they empowered to do so without reputational consequence?

Due diligence extends beyond verifying financial statements, ensuring legal compliance, and assessing operational performance. Whilst these remain essential, leading practice calls for a strategic approach to risk assessment, one that focuses explicitly on risks that could impact the creation, delivery, or sustainability of value to the company's clients and customers. This value-centric lens is critical to preventing information overload and decision fatigue. Due diligence processes can generate vast quantities of data and surface hundreds of potential risks; without a clear framework for prioritisation, management risks losing sight of what matters most. The guiding question throughout should be: how could this risk affect our ability to create and sustain value for the combined organisation?

Achieving this clarity requires establishing a comprehensive risk scope that spans the full range of risk categories relevant to the deal. Strategic risks address alignment with the organisation's purpose and long-term objectives. Financial risks address capital structure, liquidity, and earnings sustainability. Compliance risks address regulatory obligations, litigation exposure, and legal liabilities. Operational risks encompass a broad spectrum: people risk, key person risk, succession planning risk, supplier and supply chain risk, technology risk, cybersecurity risk, data risk, and systems integration risk. Customer risks address concentration, contract continuity, change-of-control provisions, and customer sentiment toward the transaction. Each category must be deliberately scoped, with attention to how risks in one domain may compound or interact with risks in another. For knowledge-intensive acquisitions, particularly in technology, professional services, or R&D-driven businesses, people and talent risk can be existential, as value may depend on individuals who cannot be contractually retained.

For transactions involving significant technology assets, cybersecurity vulnerabilities, technical debt, data privacy compliance, and system compatibility, these factors must be rigorously assessed.

With this scope established, the deal team should model the impact of prioritised risks on the profitability of the targeted organisation—and, critically, consider how those risks could be amplified within the combined entity. Risks that appear manageable in isolation may interact, concentrate, or compound when two organisations

are brought together, exposing the combined business to scenarios that neither organisation would have faced independently.

This dynamic is commonly observed among competition authorities. Regulatory watchdogs may impose conditions on the deal, tactical dispositions, behavioural commitments, or mandated investments in environmental or social programmes, that require additional unplanned capital and alter the deal economics. These conditions are themselves a form of risk materialisation, and their potential impact should be modelled as part of due diligence rather than addressed reactively after regulatory review.



It is essential to create a comprehensive view of the risk landscape that identifies interdependencies, concentrations, and risk combinations that could expose the combined company to severe, yet plausible, scenarios that lead to significant value erosion. This requires moving past individual risk assessments to understand how risks relate to one another, how the materialisation of one risk could trigger secondary and third-order risks that amplify the overall impact on the organisation's ability to serve its clients and customers.

Having established a reliable, data-driven view of merger or acquisition risks, it is recommended to develop a range of scenarios for Monte Carlo simulations. These simulations identify the mean and maximum potential

impact of risks on revenues, costs, earnings, and margins—providing a probabilistic view of outcomes rather than a single-point estimate.

In practical terms, what Monte Carlo simulation tells the board is this: rather than presenting a single projected outcome, it runs millions of simulations across the full range of input variables to generate a probability distribution of outcomes. The mean of that distribution represents the expected impact of identified risks on revenues, costs, and margins, the most likely outcome if the transaction proceeds. But it is the tails of that distribution that carry the most important governance information: the extreme but plausible scenarios where multiple risks materialise simultaneously, and the probability of those scenarios occurring relative to the expected outcome. This distinction matters enormously for boards. Most deal presentations offer a base case and a downside scenario – simply two data points. Monte Carlo replaces that with a full probability landscape, enabling the board to understand not merely what the downside is, but how likely it is, and how far it could deviate from the expected outcome. That is the information required to make disciplined decisions on pricing, risk margins, and, where the tail risk is unacceptable, whether to proceed at all.

The value of that probability landscape, however, extends beyond pricing and deal structure, it speaks directly to the question of whether the combined organisation is financially viable enough to absorb what it is taking on. Armed with a clear view of both the expected outcome and the tail risk, including its probability, the board is equipped to ask a question that is too rarely posed in M&A governance: does the combined organisation have sufficient capital and liquidity to withstand and recover from the tail scenario, should it materialise? This requires an assessment of the incremental capital and liquidity buffers needed to absorb extreme but plausible outcomes, evaluated in the context of the size, structure, and complexity of the combined entity. For organisations not subject to regulatory minimum capital requirements, this means examining the accessible capital held on the balance sheet, the reserves maintained for contingency, and assessing whether those reserves, post-deal, would be adequate to fund recovery from a tail risk event whilst continuing to operate and compete. The critical question for the board is not merely whether the tail risk is improbable, but whether, if it were to occur, the combined organisation could continue as a viable going concern. A deal that is value-accretive in the base case but that threatens the ongoing viability of the combined organisation in the tail scenario is not a well-governed deal, it is a risk that has not been fully assessed.



This assessment is made more urgent by a reality established earlier in this paper: no industry is immune to change and disruption, and the pace of that change is accelerating. The frequency with which organisations are exposed to severe adverse conditions is increasing, and the tail risk scenarios modelled during due diligence must therefore be tested not only against the conditions prevailing at the time of transaction, but against the trajectory of competitive forces over the integration period and beyond.

Porter's Five Forces provides a critical reminder in this context: the forces bearing on the viability of the combined organisation are not limited to its own industry. Disruption in the industries of key buyers: a demand contraction, a regulatory shift, or a technological substitution that erodes purchasing power, can compress revenues with little warning, even as the combined entity's own competitive position remains intact. Disruption in the industries of key suppliers: a geopolitical shock, a trade restriction, or a capacity constraint driven by new entrants or substitute inputs, can simultaneously inflate costs and impair the ability to deliver. The tail risk scenarios modelled during due diligence must therefore extend across the Five Forces, encompassing the industries of buyers and suppliers as well as the organisation's own industry. A board that approves a transaction without assessing the viability of the combined entity under adverse conditions in these adjacent industries has not fully interrogated the tail risk it is exposing the combined organisation to. Equipped with these scenarios, the deal team should identify the correlations between them: how risks may cluster, how one event may trigger cascading consequences, and how the aggregated and concentrated impact of correlated risks could affect organisational performance. This approach enables a more accurate simulation of risk than treating each risk as independent. The results of the Monte Carlo analysis provide a baseline for assessing revenue, cash flow, margin, and balance sheet risks. These models work in tandem with other established risk models: credit risk models, market risk models, cost risk models, project risk models, and environmental risk models, to provide an integrated view of the risk profile.

For the board, the output of this analysis is not a set of technical models, it is a set of decisions. Which risks are acceptable within the existing risk appetite? Which risks require mitigation before closing? Which, if they cannot be adequately addressed, should cause the board to revisit the deal altogether? The analytical rigour serves a single governing purpose: to ensure that the board's approval of the transaction is informed by a realistic, stress-tested view of what the deal could cost, as well as what it could create.

On completion of due diligence, executive management should be able to explain the risk profile to the board in three dimensions:

- 1. Overarching risk profile:** The aggregate risk to the future profitability and earnings of the combined companies, expressed in terms of how prioritised risks could impact the creation, delivery, and sustainability of value. Critically, the CEO should present these risks in the context of Porter's Five Forces, demonstrating how the merger or acquisition could erode value through substitution, new entrants, shifts in buyer or supplier power, or changes in competitive rivalry. This provides a data-driven basis for the board to deliberate on how the proposed combined organisation could be affected by, or affect, changes in industry dynamics.
- 2. Expected integration losses:** The losses expected to be generated during and post-integration, including restructuring costs, integration friction, and anticipated value leakage, and how these loss risks will be addressed through the integration plan.
- 3. Risk margin:** Management's proposed risk margin on the deal, referring to the sensitivity applied to future earnings and profitability that accounts for residual risks remaining post-integration. This includes risks that require additional mitigation time and those that are inherently unpreventable.

The RBS-ABN Amro acquisition is a stark example of due diligence failure under competitive pressure. As a hostile bidder, RBS faced compressed timelines and limited access to ABN Amro's books, yet proceeded despite inadequate visibility into the target's structured credit exposures and counterparty risks. A more rigorous due diligence process would have identified two critical and related concentration risks that were observable at the time. The first was a concentration risk in post-deal liquidity and funding: the acquisition substantially increased RBS's reliance on wholesale funding markets at precisely the moment those markets were exhibiting early signs of stress, creating a structural vulnerability to a funding withdrawal that the enlarged balance sheet was ill-equipped to absorb. The second was a concentration risk in systemic exposure: by acquiring ABN Amro, RBS was not merely adding assets to its balance sheet, it was aggregating its exposure to the same systemic forces that were beginning to destabilise the financial system as a whole. The aggregated effect of those exposures, compounded by the unfolding crisis, created an interdependency between RBS's financial condition and the health of the broader financial system that would prove catastrophic. Stress testing, applied rigorously at the due diligence stage, would have modelled the effect of these concentration risks on RBS's capital and liquidity under a range of systemic failure scenarios, including severe economic contraction across the bank's core markets, a withdrawal of wholesale funding, and a simultaneous deterioration of asset values across the structured credit portfolio. Critically, the signals required to calibrate those stress scenarios were already observable at the time of the deal: BNP Paribas had frozen fund redemptions in August 2007; Northern Rock had experienced a bank run in September 2007. Applied to those observable signals, the simulation would have identified a near-term probability of the most extreme scenario outcomes, demonstrating to the board, in quantitative terms, that the transaction exposed RBS to a plausible risk of running out of liquidity. That is not a risk that any board, properly informed, would accept.

In conveying this assessment, executive management should explain the range of scenarios used to model the risk margin, including the interdependencies among risks, to draw the board's attention to second- and third-order risks that may not be apparent from individual risk assessments. By framing the risk profile through the Five Forces lens, the board is equipped to challenge assumptions about competitive positioning and to test whether the strategic thesis remains valid under the risk scenarios presented.

It is not uncommon for more advanced boards to request that executive management also present a range of crisis scenarios, taking into consideration both internal and external factors. This provides the board with the opportunity to challenge and direct executive management on the organisation's preparedness for future crises, ensuring that the combined organisation is not only optimised for expected outcomes but also resilient against severe yet plausible disruptions – not least if and when it is to become a combined organisation.

Synergy and cultural analysis

When your organisation last modelled synergy benefits, were those estimates adjusted downward to reflect cultural distance, integration complexity, and the probability that not all synergies would be realised on time, or were they presented to the board as a base case?

Synergy identification is an essential component of any merger or acquisition, whether the focus is on cost synergies, revenue synergies, or both. However, research from the Wharton School of the University of Pennsylvania identifies that cost synergies are generally easier to achieve than revenue synergies, and that a common mistake in M&A planning is “synergy overoptimism and timeline unrealism.”¹ Acquirers frequently overestimate the magnitude of synergies and underestimate the time required to realise them, particularly when synergy achievement depends on the successful integration of people, processes, systems, and cultures.

For material synergies (those that are foundational to the realisation of deal economics), it is prudent to apply cost-at-risk or revenue-at-risk models to validate the accuracy and plausibility of identified synergies. These models should assess the impact of underlying assumptions on the ability to realise the full intended benefits, including sensitivity analysis on key variables such as headcount reductions, procurement savings, cross-selling conversion rates, and customer retention. Where assumptions are fragile or dependent on factors outside the acquirer’s control, synergy estimates should be discounted accordingly.

Critically, cultural compatibility should be treated as a factor in realising synergy. Where cultural alignment between the two organisations is strong, synergies are more likely to be achieved on time and in full. Where cultural compatibility is weak, synergy estimates should be revised downward to reflect the increased friction, longer timelines, and higher execution risk that cultural misalignment creates. This is not a qualitative adjustment, it should be modelled explicitly, with cultural assessment outputs informing the probability-weighted valuation of synergy benefits.

The case studies examined earlier in this paper illustrate that synergy and cultural risk are not peripheral concerns, they are central to deal failure. Microsoft’s acquisition of Nokia assumed that integrating hardware manufacturing capability into Microsoft’s software-centric organisation would yield a competitive mobile platform; yet the cultural and operational distance between a Finnish manufacturing company and a US software enterprise contributed to the failure to achieve any meaningful integration synergies before the write-down. GE’s acquisition of Alstom carried

not only industrial integration challenges but explicit political and cultural constraints imposed by the French government, conditions that altered the deal economics, constrained operational flexibility, and added friction to an already complex deal. RBS’s consortium structure with Fortis and Banco Santander introduced alignment risk across three distinct organisational cultures, each with different strategic priorities and risk appetites, at a moment when market dynamics warranted a cohesive, rapid decision-making. In each case, synergy assumptions were not adequately stress-tested against cultural realities, leading to value destruction rather than value creation. A rigorous synergy and cultural analysis, employing the frameworks described above and adjusting synergy estimates to reflect cultural compatibility, could have surfaced these risks before capital was committed.



Assessing culture risk

Culture is the heartbeat of effective risk management. When assessing risks associated with cultural integration, it is important to consider both the internal dimension, bringing together two distinct organisations with different ways of working, and the external dimension, including the industry's cultural dynamics in which the combined company will operate. Buyer behaviour, supplier relationships, and competitive norms are all shaped by industry culture; a merger that creates internal cultural friction may also create friction with the broader ecosystem, affecting the organisation's ability to compete effectively.

Several established frameworks support rigorous cultural assessment:

- **Social Network Analysis** identifies siloed behaviour within each organisation and establishes the extent to which information flows across teams, functions, and geographies. Where information flow is restricted, integration will be slower and synergies harder to achieve.
- **RACI matrices** (Responsibility, Accountability, Consulted, Informed) enable comparison of how decisions are made within each organisation. Discrepancies in decision-making authority, escalation pathways, and accountability structures can create confusion and conflict after integration if left unaddressed.
- **The Organisational Culture Assessment Instrument (OCAI)** provides a well-defined framework for identifying cultural patterns, whether organisations are predominantly clan, adhocracy, market, or hierarchy cultures, and assessing the degree of alignment or divergence between them.



Beyond these tools, three additional dimensions warrant attention:

Leadership alignment. Culture is shaped from the top. If leadership styles, decision-making philosophies, or strategic priorities differ significantly between the two organisations, integration friction will be amplified. Leadership assessment, including executive team dynamics, governance practices, and communication styles, should be a distinct component of cultural risk due diligence.

Risk culture alignment. For the combined organisation to manage risk effectively, the two legacy organisations must share compatible approaches to risk appetite, risk governance, escalation practices, and risk reporting (including risk transparency). Where risk cultures diverge, for example, if one organisation has a more aggressive risk appetite or less formalised risk governance, the combined entity may face internal conflicts or governance blind spots that impair its ability to identify, assess, and respond to risks effectively.

Employee engagement and retention. Cultural misalignment often manifests as talent attrition. Key personnel may perceive the combined culture as incompatible with their values or working style, leading them to depart, taking institutional knowledge, customer relationships, and operational expertise with them. This links cultural risk directly to the people and key person risks addressed in due diligence.

Connecting culture to the five forces

In the context of Porter's Five Forces, culture influences the organisation's ability to respond to competitive pressures. A culture that embraces change and innovation will adapt more readily to substitution threats and new entrants. A culture that values customer relationships will be better positioned to navigate shifts in buyer power. A culture that emphasises operational excellence will manage supplier dynamics more effectively. Executive leaders and boards must recognise that cultural integration is not merely an internal exercise, it shapes the combined organisation's capacity to compete and to execute the strategic thesis that justified the acquisition.



Reporting to the board

At the conclusion of synergy and cultural analysis, executive management should be able to articulate the following to the board:

- 1. Synergy risk assessment:** The identified cost and revenue synergies, the assumptions underpinning them, and the results of cost-at-risk and revenue-at-risk modelling. This should include sensitivity analysis demonstrating how synergy realisation would be affected by changes in key variables.
- 2. Cultural compatibility assessment:** The results of cultural due diligence, including Social Network Analysis, RACI comparison, and OCAI assessment, and the degree of alignment or divergence between the two organisations. Where significant divergence exists, management should articulate the risks it creates and the proposed mitigation strategies.
- 3. Synergy adjustment factor:** The adjustment applied to synergy estimates to reflect cultural compatibility. The board should understand how cultural risk has been quantified and incorporated into the deal valuation.
- 4. Leadership and risk culture alignment:** An assessment of leadership compatibility and risk culture alignment, including any gaps identified and plans to address them.
- 5. Timeline risk:** A realistic assessment of the time required to achieve synergies, accounting for cultural integration challenges. Where timelines extend beyond initial projections, the impact on deal economics should be modelled.
- 6. Competitive implications:** How the cultural profile of the combined organisation will affect its ability to respond to the Five Forces: substitution, new entrants, buyer power, supplier power, and competitive rivalry.

Bidding & Negotiation

Does your organisation have defined walk-away criteria for its current or prospective deals, and when did the board last formally reaffirm them in the context of updated risk information?

The bidding and negotiation phase is where the risk analysis developed throughout the preceding stages is tested against commercial reality. It is also where risk is transferred, typically with the buyer assuming the majority of risk upon completion. This is the point at which the accumulated investment of time, resources, and management attention creates pressure to close. The desire to complete the deal, particularly after months of preparation, can lead the buyer to lower its risk sensitivity in order to secure an agreement. It is precisely at this moment that discipline and strong, effective governance is most essential.

Maintaining Risk Discipline

As negotiations progress, the deal team must actively re-evaluate the risk profile based on how risks are being allocated between the parties. Negotiations are dynamic; every concession, every term sheet revision, and every change to warranties or indemnities alters the risk allocation. New risks may emerge from the negotiations themselves: regulatory conditions, seller resistance to disclosure, or counterparty behaviour that signals undisclosed exposures. Seller behaviour at the negotiating table can be informative: reluctance to provide comprehensive warranties, aggressive pushback on indemnification provisions, or unwillingness to accept earnout structures may indicate risks that warrant deeper scrutiny before proceeding.

Throughout the negotiation phase, the deal team should maintain active reference to the risk analysis, assumptions, and positions established across the preceding four stages of the deal process: strategic selection, target selection, due diligence, and synergy and cultural analysis. These are not historical artefacts; they represent the analytical foundation against which every negotiating development should be evaluated. The question at every stage of negotiation is whether the emerging deal structure remains consistent with the strategic thesis, risk profile, and risk appetite defined earlier in the process, and whether the assumptions that underpinned the original valuation remain intact.

Where material changes occur, whether in the assumptions underpinning the deal thesis, the risk positions taken by either party, or the terms being negotiated, the deal team should treat these as triggers for re-modelling. A material

concession on price, a significant change to warranty or indemnity scope, or a shift in the seller's disclosure position should each prompt a reassessment of the risk-adjusted deal economics, with explicit consideration of how the change could affect the intensity and structure of future industry rivalry. A deal that remains value-accretive at the outset of negotiations may no longer be so once material concessions have been made; the board should be informed of any re-modelling that alters the risk margin or the expected return, and should reaffirm its approval where the change is material.

An effective technique for maintaining risk discipline is to maintain a near-real-time view of how negotiations could affect industry rivalry, including the four forces that contribute to it: substitution, new entrants, buyer power, and supplier power. As deal terms evolve, the deal team should continuously assess whether the transaction, as currently structured, continues to support the deal's strategic thesis and whether the risk-adjusted return remains acceptable. The walk-away criteria established during strategic selection should be actively referenced, not as historical artefacts, but as live boundaries that inform negotiation decisions.

It is also essential to recognise that the psychological pressures discussed earlier in this paper: sunk cost fallacy, escalation of commitment, confirmation bias, groupthink, are most acute during negotiations. The cumulative investment in reaching this stage creates cognitive pressure to proceed. Deal teams should implement structured checkpoints that require explicit re-confirmation of the risk profile before progressing, and should empower individuals to challenge the consensus without reputational penalty.

Third-Party Dynamics

Negotiations do not occur in isolation. Competitive bidding dynamics, consortium partner alignment, and advisor incentives all introduce risks that must be managed. In competitive auctions, the pressure to outbid rivals can inflate pricing and compress due diligence timelines, as illustrated by the RBS-ABN Amro case. Where consortium structures are involved, alignment between partners on risk appetite, deal terms, and post-completion governance must be validated. Advisors: legal, financial, and strategic, are typically compensated on deal completion; their incentives may not be fully aligned with rigorous risk assessment. The deal team should ensure that independent challenge mechanisms remain active throughout the negotiation phase.

Risk Transfer Mechanisms

For risks identified as material to the future ability to realise intended value, the business purchase agreement should clearly set out the agreed actions, ensuring accountability between buyer and seller. Key mechanisms include:

- **Warranties and representations:** The first line of defence, providing contractual assurance that specific statements about the target are accurate. The scope and duration of warranties should be calibrated to the risks identified during due diligence.
- **Indemnities:** For specific, identified risks, such as pending litigation, tax exposures, or environmental liabilities, indemnities provide the seller with direct recourse if the risk materialises. The adequacy of indemnification provisions should be assessed in light of the potential impact of each identified risk.
- **Escrow and holdback provisions:** A portion of the purchase price may be held in escrow or subject to holdback to secure warranty claims or indemnity obligations. The quantum and duration should reflect the risk profile.
- **Earnouts and contingent consideration:** Where valuation uncertainty exists, particularly for revenue synergies or growth-dependent targets, earnout structures can defer a portion of consideration until specified milestones are achieved. However, earnouts introduce their own risks: disputes over achievement metrics, accounting treatment, and relationship deterioration. These should be structured with clear, objective criteria and dispute resolution mechanisms.
- **Insurance:** Warranty and indemnity insurance can transfer specific risks to third party insurers. For risks taken on by the buyer, the adequacy of insurance coverage should be assessed relative to the potential impact, including consideration of policy limits, exclusions, and claims processes.



It is equally important to address, within the business purchase agreement, the buyer's recourse in circumstances where losses arise from the failure of either party to adequately remediate risks that were explicitly identified and agreed during due diligence or the negotiation process. Where the seller has committed to remediate a specific risk prior to closing, whether through operational changes, regulatory compliance, or the resolution of litigation, and that commitment is not fulfilled, the agreement should establish clear mechanisms for the buyer to recover resulting losses. These mechanisms should be proportionate to the risk profile, clearly defined in terms of trigger conditions, quantum, and time limits, and reviewed by the board as part of its approval of the final transaction structure. The board should satisfy itself that the combined protections in place: warranties, indemnities, escrow provisions, and remediation commitments, provide adequate coverage relative to the risks the buyer is assuming upon completion.

Post-Signing, Pre-Closing Risk

The period between signing and closing introduces execution risk. The target may deteriorate, key personnel may depart, customers may defect, or regulatory conditions may exceed expectations. Material adverse change clauses provide theoretical protection, allowing the buyer to withdraw if significant adverse developments occur. However, such clauses are notoriously difficult to invoke in practice, and courts have historically interpreted them narrowly. The deal team should be cautious in relying on such clauses as a substitute for rigorous pre-signing risk acceptance.

Board Involvement & Escalation

Clear protocols should establish when the board must be consulted during negotiations and what trade-offs require board approval versus management discretion. Material changes to deal terms, significant shifts in risk allocation, or the emergence of new risks should trigger board notification. The board's role is to provide independent challenge and to ensure that negotiation decisions remain aligned with the strategic thesis and risk appetite established at the outset.

This summary provides the board with a comprehensive and structured basis for exercising its responsibilities as directors of the company and stewards of shareholder value. In the United Kingdom, the Companies Act 2006³⁴ establishes a series of duties that are directly engaged by the approval of any material acquisition. Under Section 172, directors are obligated to act in good faith to promote the success of the company for the benefit of its members, with explicit regard to the long-term consequences of their decisions. Under Section 174, directors must exercise reasonable care, skill, and diligence in discharging those responsibilities, including in their scrutiny of the risk analysis, financial assumptions, and deal economics presented for their approval. Under Section 173, directors are required to exercise independent judgment, and it is important to be clear that this independence extends to independence from executive management, from the external advisors engaged to support the transaction and from the consultants and advisers involved in the deal process.

The board's role is not to ratify the conclusions of the deal team; it is to subject those conclusions to rigorous, objective, and well-informed challenge. In the United States, similar to the United Kingdom, the SEC's disclosure framework requires that boards identify and communicate material risks to shareholders,³⁵ reinforcing the governance obligation to understand those risks fully before capital is committed. The Negotiation Summary described above is designed to equip the board to discharge these obligations with rigour and confidence, providing a data-driven, structured basis for informed approval or, where the risks outweigh the opportunity, the discipline to walk away.

The risk analysis undertaken across the four stages of the deal process should not be treated as a static record once the transaction has completed. The newly combined organisation should periodically review the analysis in the post-deal period, using it as a reference point to identify deviations from the assumptions and risk positions that informed the board's approval of the deal. This serves two purposes: it provides the board and executive management with a structured basis for identifying where the combined organisation's performance is diverging from the deal thesis, enabling earlier and more targeted intervention; and it provides a valuable institutional record of the critical decisions taken around deal risks, ensuring that the rationale underpinning those decisions remains visible and accountable over time.

Negotiation Summary

At the conclusion of negotiations, it is leading practice to create a negotiation summary setting out:

- 1. Significant trade-offs:** The material compromises and concessions made during negotiations, including the rationale for each.
- 2. Risk distribution:** How risks have been allocated between buyer and seller, including the mechanisms employed (warranties, indemnities, escrow, earnouts, insurance).
- 3. Coverage and mitigation:** The adequacy of protections relative to identified risks, including any gaps where risks remain with the buyer without full mitigation.
- 4. Value impact:** How the final deal structure, including risk allocation, affects the expected return on investment and the risk margin applied to projected earnings and profitability.
- 5. Competitive positioning:** How the transaction, as negotiated, is expected to affect industry rivalry, linking back to the Five Forces assessment to ensure the board understands the competitive implications of the deal structure.
- 6. Outstanding risk valuation:** For all risks identified as material to deal closure, or to the future ability of the combined organisation to adapt to changes in industry rivalry without affecting the deal economics, a quantified financial estimate of each risk's potential impact should be explicitly incorporated into the final financial plan and ROI assumptions. This ensures that residual risks, those that remain unresolved, partially mitigated, or inherently unpreventable at completion, are not carried forward as unpriced exposures but are instead reflected as explicit variables in the deal's financial architecture. The board should satisfy itself that the combined financial plan remains value-accretive after these adjustments, and should not approve the transaction on the basis of a financial plan that excludes the cost of outstanding risk.

Post-Deal Integration

The risk analysis developed across the five stages of the deal process does not conclude at deal completion. Risks that have been identified, assessed, and accepted, or otherwise, within the deal structure do not cease to exist when the deal closes. They transfer to the combined entity. This is a critical distinction. The act of completing a deal does not resolve risk; it transfers responsibility for managing it from the deal team to the combined organisation. Where risks remain open, unmitigated, or contingent upon integration outcomes, they become the inherited obligations of the combined entity's leadership, and without a deliberate and structured approach to managing them, the very risks that were visible during the deal process can become invisible in its aftermath and affect the realisation of intended deal value.

It is for this reason that post-deal integration warrants dedicated and rigorous treatment in its own right. The governance structures, operational frameworks, and risk management tools and disciplines required to navigate the integration period differ materially from those applied during the pre-deal stages, and they demand the same depth of analysis that this paper has sought to apply to the earlier stages of the deal.

Ashurst Risk Advisory will address these considerations in a dedicated companion paper, to be published in the summer of 2026.





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Conclusion

M&A activity is recovering. Deal sizes are increasing, from an average of \$63 million in 2023 to \$102 million in 2025, and new tailwinds, from the expansion of private capital to the strategic imperatives created by artificial intelligence, are driving renewed interest in acquisitions as a path to competitive advantage.

For boards and executive management, this means that the capital at risk in any single transaction is growing, and the consequences of failure are becoming more severe.

Yet the environment in which these deals are being executed has never been more complex. Technological disruption is reshaping industries at an accelerating pace. Geopolitical fragmentation is redrawing trade relationships and supply chains. Industry transformation, from energy transition to digital platforms, is rendering historical performance an unreliable guide to future value. In this context, advances in risk management are not optional; they are essential to maximising the value extracted from M&A activity and minimising the value eroded.

The evidence suggests that risk management is still the weak link. Between 70% and 90% of mergers and acquisitions fail to achieve their stated objectives. This is not because boards are indifferent to risk, but because risk management standards and practices have failed to keep pace with the increasing complexity, interconnectedness, and velocity of the risks that M&A transactions now carry.

This paper has argued for a fundamental reorientation of risk management in M&A, one anchored in Porter's Five Forces framework. Every merger and acquisition influences industry rivalry. Every transaction alters the balance of substitution threats, new entrants, buyer power, and supplier power, not only for the combined organisation but for the industry as a whole. By aligning risk assessment with these structural forces, boards gain a lens through which to evaluate not merely the target in isolation, but the competitive environment in which the combined entity will operate.

We have examined how the forces themselves are being disrupted: how sociotechnology is accelerating substitution; how globalisation, technology, and state-directed industrial policy are dismantling barriers to entry; how buyers are gaining leverage through transparency, alternatives, and policy; and how supplier power is bifurcating between commoditised inputs and strategically concentrated dependencies. Through the case studies of GE-Alstom, Microsoft-Nokia, and RBS-ABN Amro, we have illustrated how failures to assess these forces, compounded by psychological biases that cloud judgment under deal pressure, have destroyed shareholder value on an extraordinary scale.

We have also articulated how risk management should be embedded within each stage of the deal process: from strategic selection, where purpose and risk appetite are defined; through target selection, where value drivers are mapped; through due diligence, where risks are quantified and modelled; through synergy and cultural analysis, where integration risks are assessed; to bidding and negotiation, where risk is transferred and discipline is tested. At each stage, executive management should be equipped to present the risk profile to the board in the context of the Five Forces, providing a data-driven basis for challenge, deliberation, and, where necessary, the decision to walk away.

The deal that creates the most value is not always the deal that closes. Sometimes, the greatest value lies in the deal that is declined. This is perhaps the most important insight for boards to internalise: the discipline to walk away, when the risks outweigh the opportunities, when the strategic thesis no longer holds, when the signals of risk are clear, is not a failure of ambition. It is the mark of rigorous risk management.

Post-deal integration, where the thesis is ultimately tested and value is realised or eroded, is the point at which the risks identified during the deal process transfer to the combined entity. The discipline required to manage that transfer, and to ensure that the rigour applied before completion is sustained after it, will be addressed in a dedicated companion paper.

The question for boards is no longer whether risk management belongs in the M&A process. The question is whether their organisations have the discipline, frameworks, and culture to make risk management a source of competitive advantage.

Adopting this framework is not without cost. It requires investment in analytical capabilities, access to appropriate tools, and, perhaps most critically, a willingness to embed risk challenge into deal governance, even when momentum and competitive pressure favour speed. For some organisations, this will require cultural change: creating an environment in which dissent is welcomed, walk-away discipline is respected, and risk assessment is

treated as integral to value creation rather than an obstacle to deal completion. The depth and rigour of analysis should be scaled to the transaction, proportionate to its size, complexity, and strategic significance. Not every deal requires Monte Carlo simulation or scenario modelling over a 20-year horizon. But every deal requires a framework that keeps risk visible, quantifies it where possible, and connects it to the competitive forces that will ultimately determine whether value is created or eroded.

The framework set out in this paper has been designed for corporate acquirers, but its foundational principles, the integration of risk management with competitive forces, the discipline of stage-gated analysis, and the governance expectation that risk remains visible throughout the deal lifecycle, are not confined to the corporate context. In private equity, venture capital, and private capital, the same competitive forces shape deal risk, but the structures through which that risk is governed, the timescales over which value must be realised, and the accountability frameworks within which decisions are made each introduce dynamics that demand dedicated treatment. Ashurst Risk Advisory will examine these contexts in forthcoming companion papers.

What is risk management worth when it maximises deal value, or tells you when to walk away?

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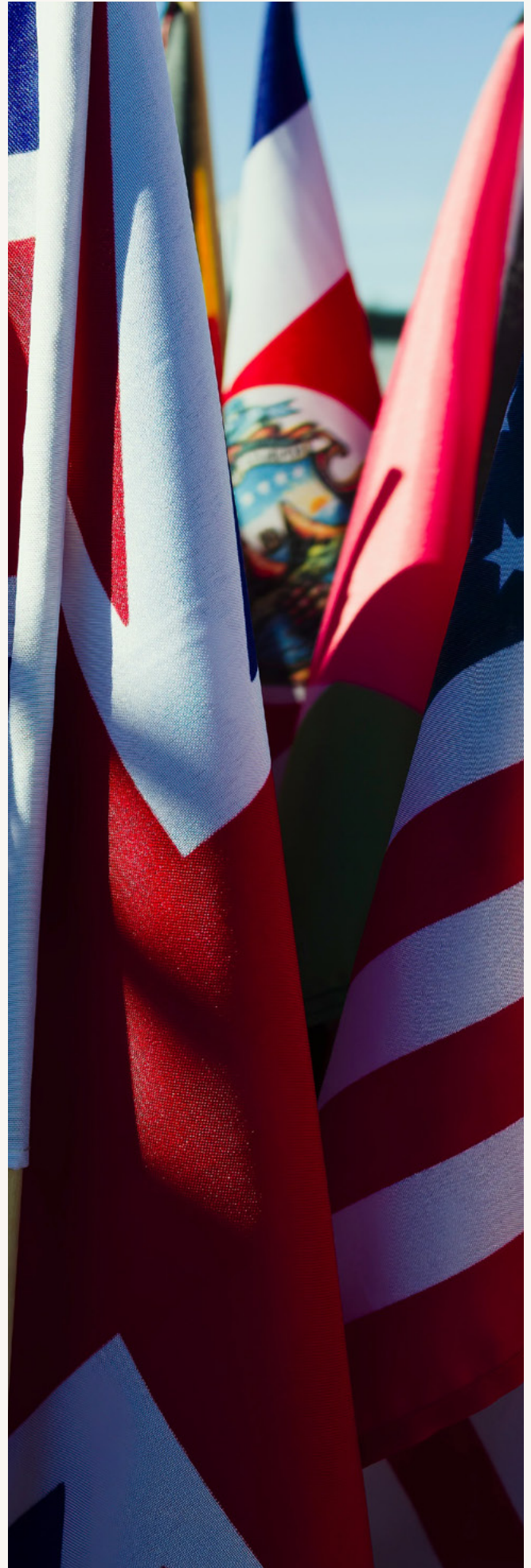
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