M&A, A TOOL NOT A STRATEGY

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I continue to be amazed that among sophisticated business leaders (ignoring leaders of investment portfolios, private equity firms or hedge funds) mergers and acquisitions, or "M&A", is still often viewed as a business strategy. I thought this view of M&A as strategy was put to bed at the end of the conglomerate building boom of the 1960's. At its core, an acquisition or divestiture is a *means* to enter, grow, exit or reposition a business. In other words, M&A isn't a strategy, but rather a tool to execute strategy. Whether a business should be entered, grown, exited or repositioned is an entirely different strategic question.

In a perfect world, creative strategies would be developed during a deliberate planning process. They would communicate where a company wants to go or what it wants to be within a specific timeframe given the competitive and other forces impacting the company. In this world, the strategic plan is commonly referred to as a blueprint for the future. Typically, a document that communicates the organization's strategic goals, the actions needed to achieve those goals, required resources and other critical elements necessary to achieve the desired results, the strategic plan is said to "connect the dots around where the company wants to go". I believe this is where the confusion arises.

Strategies and strategic actions are often co-mingled as they are most often developed within the same planning framework or process. Without a bright line separating strategies from actions, strategies may be developed with a specific action (such as, for example, an acquisition) in mind. Developed in this fashion, a company runs the risk of shortchanging itself as there may be a variety of actions that, with a bright light shined upon them, might allow for an incrementally more successful execution of a strategy.

Let's consider a very basic example - growing your business by entering a new market within a given timeframe. This strategy is a bedrock of most strategic plans. The fundamental action plan related to this strategy is derived from the action question, "build versus buy". This M&A-related question is typically answered during the strategic planning process. However, it is at this point that the strategy and a strategic action alternative are frequently linked as "the strategy". The risk is that a range of strategic actions that could support the strategy will not be fully vetted.

The confusion is not entirely unexpected. Today, leaders rely on a strategic planning process that is heavy on tools to collect, analyze, and interpret data.

> ***Scenario planning**. Originally used in the military and has since been used by large corporations to develop and analyze future scenarios. It is frequently used for planning under uncertain conditions.*
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> ***PEST analysis**. Addresses the remote external environment elements such as political, economic, social and technological (PESTLE adds legal/regulatory and ecological/environmental).*
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> ***SWOT analysis**. Addresses internal strengths and weaknesses relative to the external opportunities and threats.*
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> ***Porter five forces analysis**. Developed by Harvard professor Michael Porter, addresses industry attractiveness and rivalry through the bargaining power of buyers and suppliers and the threat of substitute products and new market entrants.*
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> ***Growth-share matrix**. Addresses portfolio decisions about which businesses to retain or divest.*

***Balanced Scorecards and strategy maps**. A systematic framework for measuring and controlling strategy.*

While these tools attempt to create clarity around the company's current situation, identify future opportunities and assist the company in evaluating courses of action, the process stifles the creative inputs that result in true strategic thinking.

"Strategic planning isn't strategic thinking. One is analysis, and the other is synthesis. The outcome of strategic thinking is an integrated perspective of the enterprise, a not-too-precisely articulated vision of direction."

Henry Mintzberg, The Fall and Rise of Strategic Planning, Harvard Business Review Jan-Feb 1994

The separation of strategic thinking from the possible actions that could deliver successful implementation is critical in advancing strategic thought. In our example, the strategic thinking around growing your business unfettered by issues around acquiring something allows the strategy to be freely and creatively developed without the anchor of a transaction.

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