Corporate development today: driving strategy, accelerating growth

2015 Global Corporate Development Study

Building a better working world

Contents

Based on our research, we recommend that corporate development officers (CDOs) take the following five steps to prepare themselves for what they are likely to encounter in the next few years.

Involvement in the Capital Agenda

- Our 2015 survey respondents are more involved in leading on the full range of capital allocation decisions than ever before.
- While the CDF's primary focus is inherently on investing capital, it also plays a vital role in optimizing corporate capital deployment.
- Sixty-five percent of respondents say they lead and perform (43%) or lead only (22%) in optimizing capital activities, a strong increase from our previous survey.

44% | 6% | 20% | 30%

Raising: Do we have the right capital structure to meet our strategic priorities?

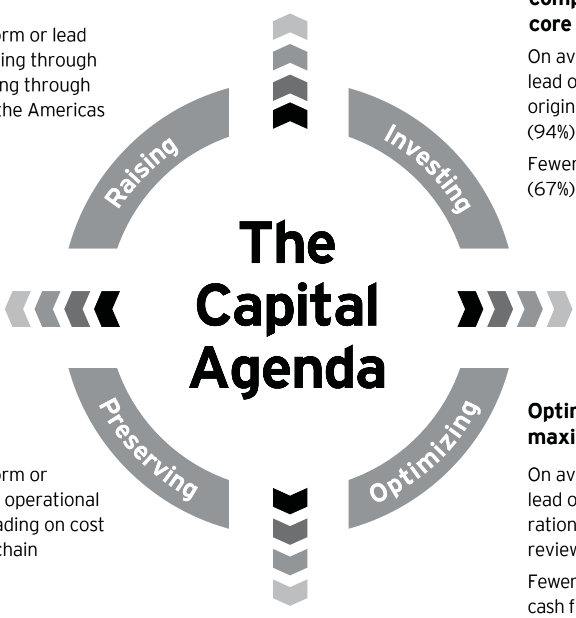
On average, 50% of respondents lead and perform or lead only when raising capital. Most lead on fundraising through divestitures (62%) while fewer lead on fundraising through equity (50%) or debt (44%). Respondents from the Americas are less involved in raising capital.

11% | 7% | 24% | 57%

Investing: What is the best way for our company to grow, and is it aligned to our core business?

On average, 81% of respondents lead and perform or lead only when investing capital. Most lead on deal origination (91%), valuation (95%), due diligence (94%) and negotiation (92%).

Fewer respondents lead on board/stakeholder approval (67%), tax planning (65%) and investor relations (43%).



Preserving: How can we improve the performance of our assets?

On average, 41% of respondents lead and perform or lead only when preserving capital. Most lead on operational restructuring (55%), with fewer respondents leading on cost reduction (49%), refinancing (32%) and supply chain management (28%).

54% | 5% | 19% | 22%

Optimizing: What steps can we take to maximize our portfolio's performance?

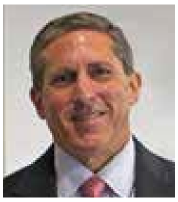
On average, 65% of respondents lead and perform or lead only when optimizing capital. Most lead on portfolio rationalization/divestments (76%) and asset portfolio review (69%).

Fewer respondents lead on measuring ROIC (60%) or on cash flow forecasting/working capital management (55%).

25% | 10% | 22% | 43%

Not involved | Perform only | Lead only | Lead and perform

Introduction



Steve Krouskos

Deputy Global Vice Chair,
Transaction Advisory Services

Our new corporate development study finds significant changes in the role and responsibility of the corporate development function (CDF) and the corporate development officer (CDO).

After years of uncertainty and contraction in the deal market and the global economy, companies are once again actively seeking to grow through mergers and acquisitions (M&A). Seizing opportunities while remaining focused on optimizing capital and portfolios is high on the corporate agenda. These strategic growth objectives are translating into a wider remit for CDOs due to rapid market changes, the blurring of sector lines and disruptive forces — such as enhanced geopolitical concerns and shareholder activism.

CDOs are playing an increasingly vital role in strategy at both the corporate and business-unit levels. That change is leading to even greater involvement in portfolio optimization and commercial assessment. While this increases the profile and importance of the role, it also brings broader responsibilities and a need to develop new skills.

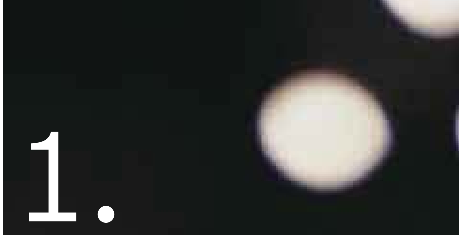
Over the past five years, the CDF has developed more formalized processes to evaluate deals. It is conducting regular portfolio reviews of the business and understands the growing need to perform cultural fit assessments as globalization broadens the pipeline of potential targets.

With a wider remit, the CDF now also needs a stronger grasp of such megatrends as digital transformation and big data analytics, as well as understanding of the latest regulatory and tax implications of deals.

A number of companies are responding to these challenges with new thinking. The concept of the "chief growth officer" has already been seized by early adopters. It could be the next evolutionary leap for corporate development, given the function's increasing convergence with strategy. Our latest study certainly suggests this as a possibility, while highlighting emerging trends and providing insights on best practices being adopted today.

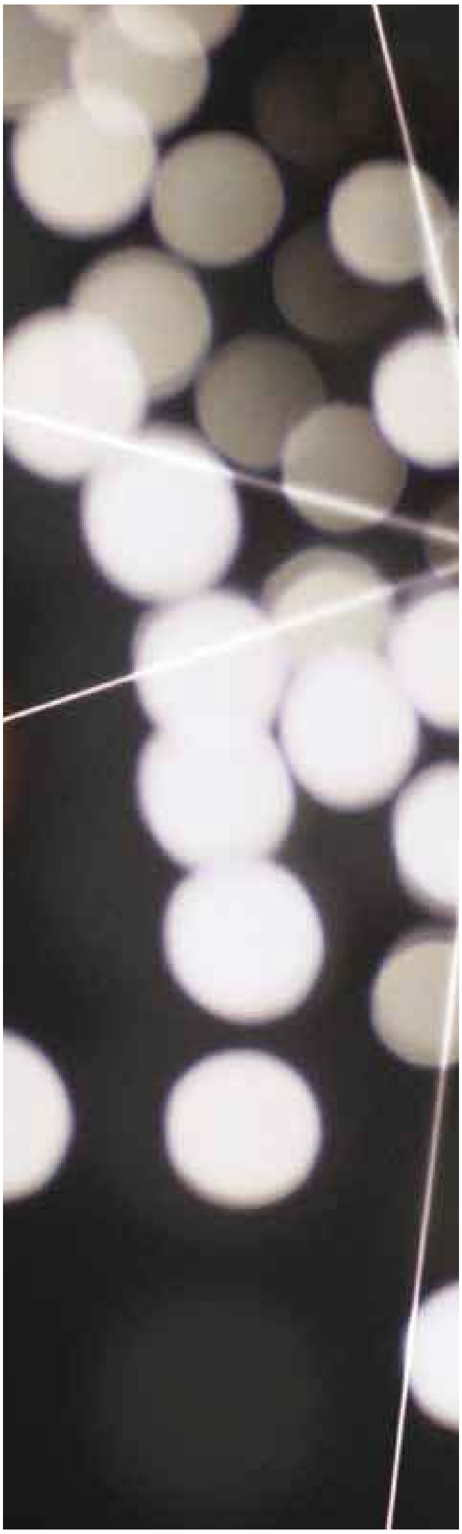
Driving strategy, accelerating growth. Four simple words — but they signal very different and very complex challenges and demands for the CDO. New challenges require new responses. Our study finds corporate development at a transformational inflection point. The most successful CDOs in the future are likely to be those refocusing, reshaping and perhaps even reinventing themselves today for the needs of tomorrow.

Steve Krouskos



The strategic imperative

Has your corporate development function kept up with change?



CDOs are becoming more influential in corporate strategy, taking on new responsibilities and increasingly becoming better positioned to influence corporate success. Our 2015 Global Corporate Development study indicates that the roles of the CDO and the CDF will look very different in the years ahead as they are challenged with a new range of responsibilities.

Digital transformation across all sectors, increasing shareholder and regulatory scrutiny, and the heightened presence of global competitors are among the megatrends reshaping M&A in profound ways. Corporations that have begun to take advantage of new technologies and advanced analytics - and that are shoring up their strategic competencies - are seeing market-differentiating results in their deal outcomes.

Strategic alignment

The CDF, led by the CDO, is now at the heart of the organization's growth strategy. Our survey clearly shows that developing a leading role in corporate strategy and strategic planning have become critical priorities for corporate development. Among our survey respondents, 44% report that the biggest change in the role of the CDO over the past five years is the greater alignment with the wider corporate strategic focus.

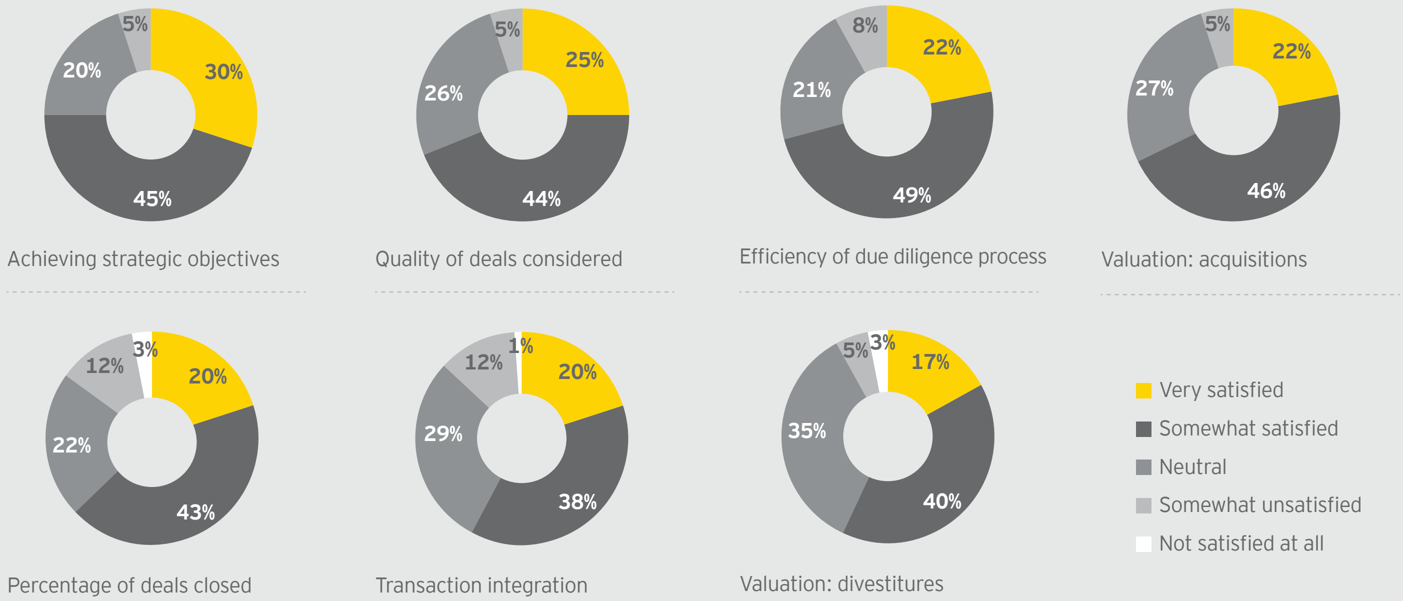
"The CDO role used to be more opportunistic in nature, whereas now it has changed to being more a part of the strategic goals of the business," notes one executive, who responded to our survey. "The role has become more of a driver in the M&A process, not just a coordinating role, but also taking a significant part in the process."

Not surprisingly, alignment with strategy is a success factor that executives cite repeatedly. With more than half of our respondents focused on growth, it is critical for CDFs to deliver growth strategies. Two-thirds of our respondents point to alignment with other key executives and departments in their organization as the most important factor in enabling them to do so.

"The role of the CDO is expected to evolve to include strategic planning on top of the existing business development, M&A, portfolio management and optimization functions," says **a transaction executive at an emerging market conglomerate.**

Table 1: What is the biggest change in the role of the CDO over the past five years?

Table 2: How satisfied are you with these aspects of your transactions conducted in the last two years?



The most satisfied respondents

- For each respondent, EY summed the scores for each answer to these seven key aspects of transaction satisfaction. We used this score to separate the top third of respondents – this group we call the respondents who are "most satisfied" with transactions.
- In the balance of the report, we compare the answers for the most satisfied respondents against all other respondents, and highlight significant differences as items correlated with transaction satisfaction.

Table 3: What are the key success factors in executing on a growth strategy?

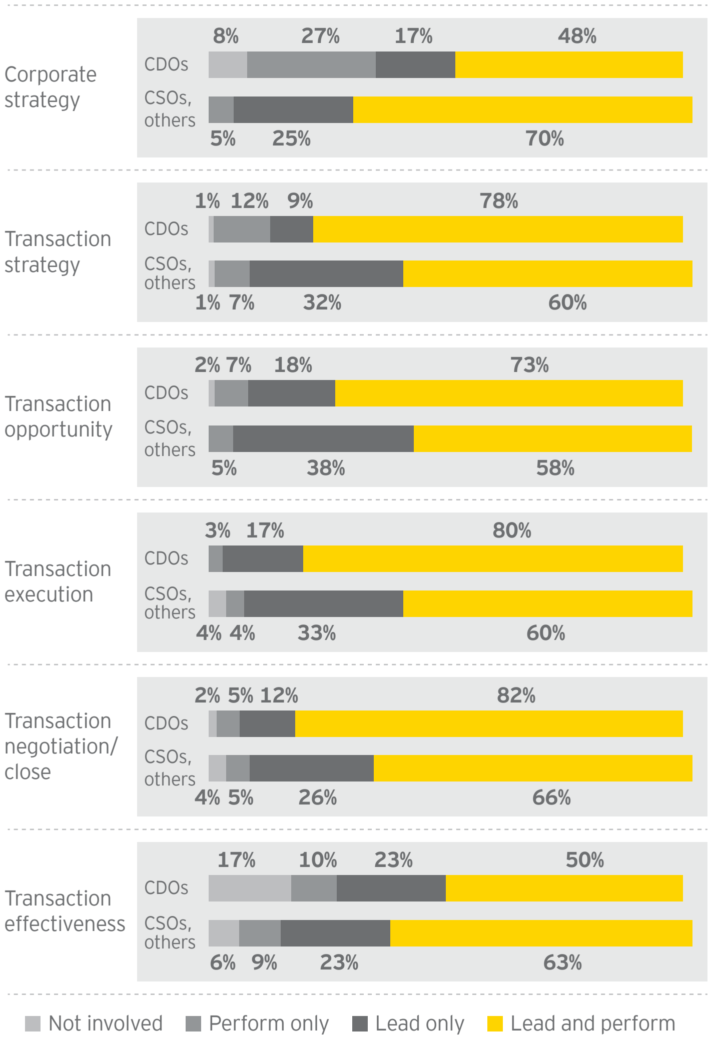
Note: up to three responses allowed

Convergence of M&A, corporate strategy and sharing of resources

Although the CDO and chief strategy officer (CSO) roles remain separate in most organizations, the connection and collaboration between the two are becoming much stronger. The roles overlap in various aspects of the transaction life cycle, particularly portfolio management, new market expansion, defining growth priorities and obtaining competitive intelligence (see table 5). A number of companies that responded to our survey are already more proactive in terms of pipeline management and deal origination, dedicating more internal resources and time than they did in the past to identify the right targets. For example, they are making better connections with their business units and leveraging advanced technical methodologies. They now evaluate potential acquisitions much earlier, long before the actual transaction.

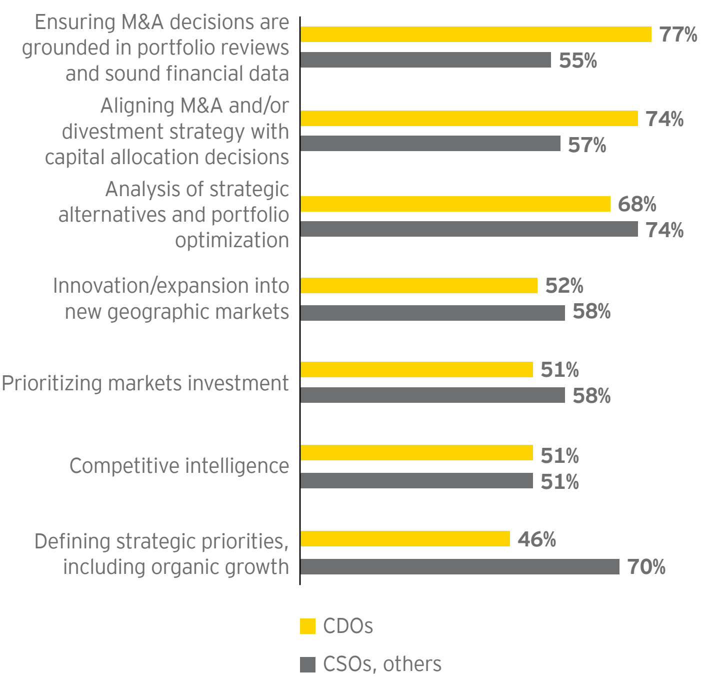
One respondent explains that "within the broader corporate development function, they are able to draw on a significant number of resources, with large strategy teams giving the ability to bring together fairly important virtual teams." Another respondent says, "With a development toward a more active strategy department, the CDO is now able to have a more active and relevant counterpart in strategic discussions."

Table 4: Please indicate the extent to which you are involved in the following aspects of the transaction cycle



Note: percentages may not add to 100 due to rounding

Table 5: Please indicate where you believe you play a leading role in corporate strategy



Note: respondents who indicated that they held leadership position on corporate strategy (table 4) responded to this question

"The strategy and M&A teams sit next to each other, so there is more often healthy competition to generate bright ideas rather than a specific delineation of roles," according to **a transaction executive at a European consumer products company.**

Table 6: Is the next step for the CDO to elevate to a chief growth officer (CGO) or chief portfolio officer (CPO)?

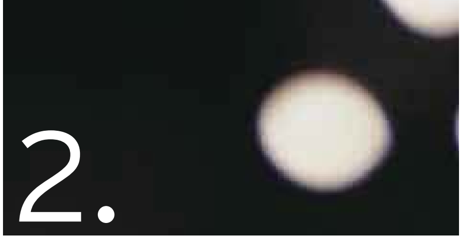
Focus of corporate development

Pre-financial crisis	Financial crisis	Post-financial crisis	The new normal
2004-2008	2009-2012	2013-2014	**2015 and beyond**
• Focus on deal strategy and execution • Acquisitions dominate thinking • Private equity strong competitor for deals • Domestic regulatory frameworks and favorable environments • Geographic expansion – emerging markets a strategic imperative	• Broader strategic focus important • Divestments on agenda • Defensive mergers and balance sheet deleveraging • Strategic buyers re-emerging • Global regulatory convergence and tightening regulation • Rethinking geographic footprint as portfolios are reassessed • Greater awareness of financing	• Greater balance between acquisitions and divestments • Increase in partnership deals • Greater creativity in doing deals • Increased awareness of financing and balance sheet constraints • Greater alignment with the treasury function and the lending community • Greater uncertainty and caution around dealmaking • More involvement in integration • Increased focus on performance evaluation	• **Achieving strategic objectives** • **Role in defining growth strategy** • **Increased leading role in the Capital Agenda** • **Focus on portfolio management and optimization** • **Commercial and operational assessment takes center stage** • **Risk no longer seen correlated to deal size** • **Greater deal competition** • **More proactivity in sourcing/ pipeline management** • **Use of big data/analytics tools**

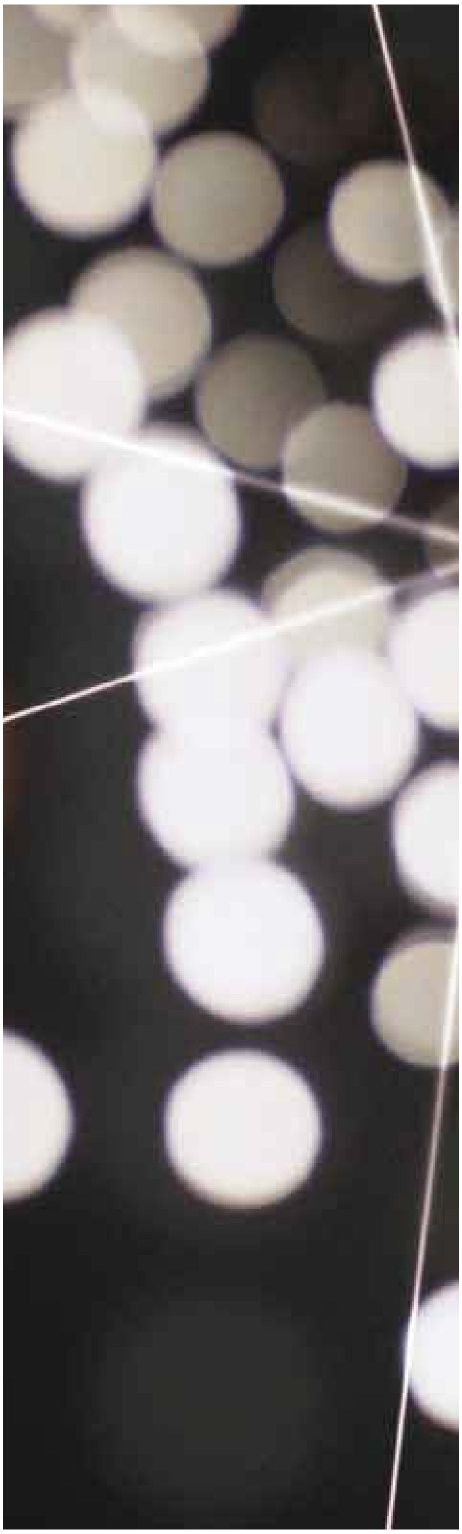
After years of focusing internally on managing costs and lower-risk organic growth following the global financial crisis, many companies are starting to focus actively on M&A as a route to future growth. Executives who responded to our 2015 Global Corporate Development Study named their top transaction objectives in the past 12 months as strengthening their core business, achieving economies of scale and acquiring a customer base. Among their key objectives for the next 12 months are a greatly increased focus on entering new geographic markets and developing new products – placing growth at the front and center of their strategy.

In fact, a growth strategy is now so important that the prospect of strategy and corporate development becoming a single unit, with a CGO or CPO at the head of it, is a distinct possibility. A few leading-edge companies have already appointed a CGO, and other businesses are considering such a position.

"After making the numbers, growth is the main objective, and the CDO owns that," says **a transaction executive at a US manufacturing company.**



New demands require new skills
Are you set for new challenges?



The emphasis on strategy and the convergence of roles means that the CDO of the future must be able to face a range of new challenges, acquire new skills, and develop and strengthen relationships with key departments/executives.

While strategic planning and finance are currently the most common skill sets resident in the CDF, most of the other competencies that our respondents would like to have in the CDF are related to risk management, legal, regulatory and tax skills. The presence of these skills correlates strongly with higher deal satisfaction.

Respondents who are more satisfied with their transactions (as described in table 2) are more likely than others (66% vs. 44%) to have legal skill sets available in the CDF. They are also more likely to have regulatory skills (63% vs. 27%) and tax skills (44% vs. 22%) in the CDF. One skill in relatively short supply is big data analytics: just 21% of the CDFs surveyed have this competency, an area that they will need to address as big data increases in importance to corporate development (see page 10).

Doing the right deal: strategic issues top the agenda

Commercial assessment will be a major strategic challenge. It is one of the two leading causes of deal failure (the other being strategy), according to the vast majority of the respondents to our study. Strategy and commercial assessment are at the heart of all transactions, and if these fundamental processes are flawed, it is almost impossible for the deal to succeed. Our findings make a strong case for the importance of a robust strategy and a formal M&A process that includes detailed pre-transaction analysis, analyzing targets on the basis of a commercial as well as financial assessment.

A thorough commercial assessment involves understanding the market, the competition and the target's business model. The assessment also takes into account the target's products and services, synergies and potential to create value for the acquirer. To spot and make the right deal in today's complex marketplace, the CDF will need to be able to use advanced analytics of big data, mining vast amounts of structured and unstructured information and be able to turn them into a commercial advantage.

"We leverage data analytics to achieve a better understanding of competitive positioning, who's winning, who's losing," says **a transaction executive at a US company in the water industry.**

Table 7: Please indicate the resident skill sets in the CDF

Strategic planning	88%
Finance	83%
Accounting	65%
Legal	52%
Business unit/operations	46%
Corporate governance	42%
Regulatory	40%
Risk management	36%
Tax	29%
Treasury	25%
Big data/analytics	21%
Investor relations	21%
Sales and marketing	19%
Information technology	11%
Human resources	10%
Real estate	4%

Note: multiple responses allowed

Table 8: If you were able to add another skill set to your function, what would it be?

Table 9: Causes for transactions to fail

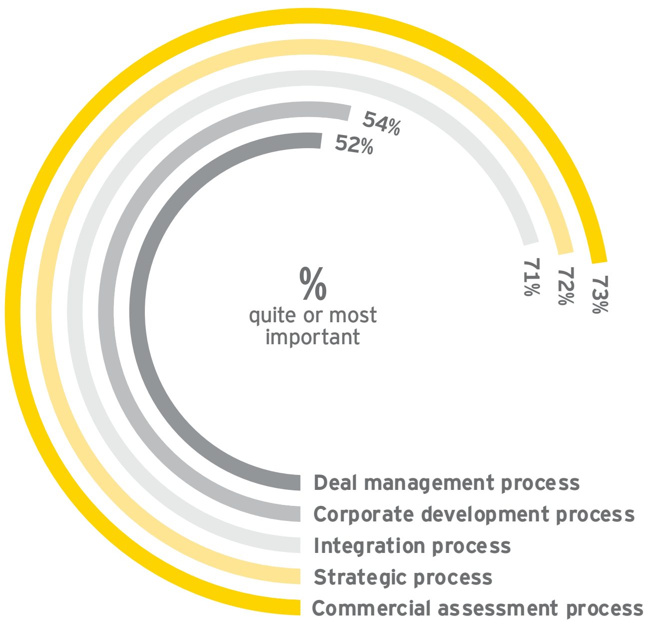
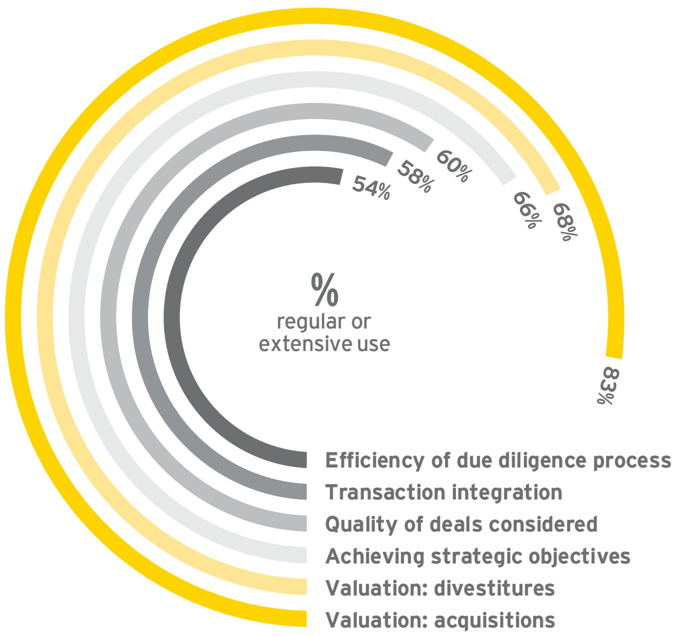


Table 10: Use of analytics in the transaction life cycle



Note: multiple responses allowed

Operational assessment, cultural competencies

Operational assessment (business plan, technology, supply chain, human resources) is another area in which corporate development is becoming more deeply involved. Our respondents indicate having used external advisors or other business units to obtain services such as operational diligence, modeling or business planning and commercial diligence. This indicates the need to develop greater understanding about when to leverage skills from other business units or to co-opt operational specialists into the CDF.

Another new skill is assessing cultural competencies. A global playing field has brought potential targets from all over the world into the deal space, resulting in issues of cultural fit and requiring M&A strategists to learn different styles of dealmaking and stakeholder management.

Our results show a significant increase in the number of respondents that plan to enter new geographic markets in the next 12 months — 60% up from 43% in the last 12 months — and this will present its share of challenges. Furthermore, deal structures in many markets are highly complex, often involving joint ventures, partnerships, alliances and arrangements other than straightforward mergers and acquisitions.

"The complexity of the transaction process has increased with the inclusion of cultural fit assessments and increased focus on seller and key stakeholders in the target business," says **a transaction executive at a European consumer products company.**

Table 11: Top 3 areas where the CDF has used services from other business units (BUs) on transactions over the last 12 months

1	Operational diligence	33%
2	Modeling/ business planning	30%
3	Commercial diligence	27%

Note: multiple responses allowed

Table 12: Business objectives and rationale for transactions

Note: multiple responses allowed

Growing involvement in portfolio management

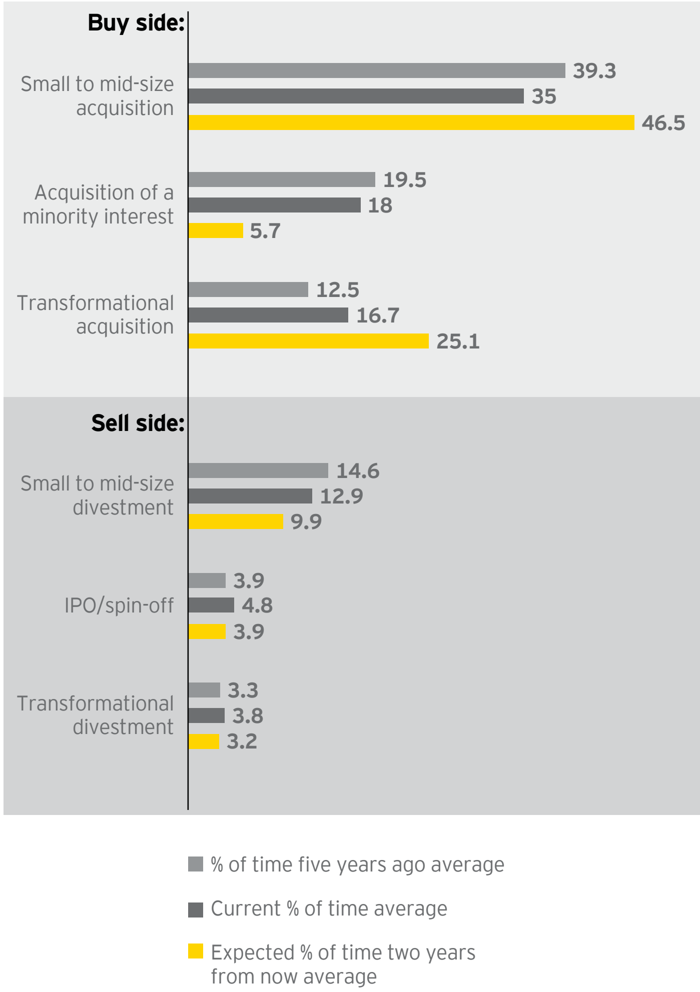
Another major strategic challenge that CDOs will face in the future will be the task of rebalancing acquisitions with divestments in a role and culture that has typically focused more on acquisitions. Our respondents spend roughly 70% of their time on buy-side transactions, and are preparing to spend more time on acquisitions that will fundamentally change their business. They expect the average percentage of their time spent on such transformational acquisitions to increase in the next two years, to 25.1% from 16.7% currently and just 12.5% five years ago.

However, our survey respondents say that in two years they expect to spend even less time on divestments than they do now. But it is advisable to not lose focus on divestments, because they create value, are a strategic route to longer-term growth and should be considered as part of regular reviews of the entire portfolio.

In a business environment marked by rapid technological advances, regulatory changes, increased shareholder scrutiny and shifts in customer purchasing power and demand, strategic portfolio reviews are the most important tool to optimize capital and resource allocations and determine what decisions to make regarding growth, restructuring or potential divestment.

The CDO's role is central to these decisions, and our study reveals that respondents are increasingly more involved in leading on capital allocation decisions than they were in 2010.

Table 13: What percentage of your time was spent on the following activities five years ago and now? What do you expect it to be in two years?



"The CDO heads strategy and corporate development. Strategy is focused on portfolio management/adjacencies. The CDO helps determine capital allocation, and the business units work within those parameters – business units own the strategy," says **a transaction executive in the manufacturing industry.**

Spotlight
Big data analytics can be a big deal for M&A

Respondents who are most satisfied with transactions are much more likely than others to use analytics regularly or extensively with regard to the quality of the deals considered (73% vs. 53%) and the efficiency of the due diligence process (75% vs. 42%). CDOs will have to determine how to make the best use of these new skills as the technology and use of analytics matures.

Big data is commonly defined in terms of four "V's" – volume, variety, velocity and veracity. Data has exploded at an astonishing rate in both volume and velocity (the speed at which it comes, as well as how fast it needs to be analyzed) in the last few years. It is present in a huge variety of structured and unstructured forms, and can sometimes lack veracity or accuracy.

Analytics is the means for extracting value from this data – the tool through which actionable insights are generated. In a study released in 2013, International Data Corporation predicted that the big data technology and services market would grow at a 27% compound annual growth rate, reaching US$32.4 billion by 2017 – or about six times the growth rate of the overall information and communication technology market.

Big data has huge potential to transform the effectiveness of CDOs and the teams they lead. So far, companies have been conducting business analytics for specific functions. At the valuation stage, 83% of our respondents make moderate to extensive use of analytics, but by and large, they have not yet leveraged the full potential of big data and/or analytics in M&A.

Ways in which big data analytics can boost deal effectiveness include:

- Using predictive analytics and forecasting to figure out the risks and opportunities in a deal
- Drawing quantitative and qualitative insights from social media analytics during due diligence on a target and its products
- Understanding key business cycles by employing analytics (e.g., working capital)
- Employing a decision-making framework based on data science to reach an objective view of a strategic portfolio
- Improving the efficiency of the divestiture process and preparing carve-out financial information
- Identifying potential synergies by utilizing larger data sets and determining whether the expected synergies are likely to be realized

Big data analytics can have a significant impact on business improvement and transactions. The following are some examples of how analytics can help companies in a transactional context:

Social media analytics

- While performing due diligence on behalf of a company in the automotive aftermarket, EY used social media analytics (SMA) to analyze a large data set of about 500,000 online posts to gain deeper insights into a target and reach an objective view on the target products. The target company asserted that its superior warranty policy and product quality had been the driver of revenue growth historically. But SMA highlighted that relative pricing was a much more significant driver, with the diligence providing a cost-reduction opportunity on warranty policy.
- During an engagement in the food and beverage industry, EY used SMA to analyze a data set of approximately 400,000 online and social media discussions to gain deeper insights on a target. SMA highlighted that the target's product taste was significantly inferior to the competition and a deterrent to future growth. The diligence implication was that the target had been underspending on product development and reformulation costs, providing a significant post-close revenue enhancement opportunity.

Cash management

- A telecom company had a large customer base but fragmented visibility into its accounts receivable (AR). EY provided detailed transactional data analysis that allowed the company to institute a cash culture program to ingrain AR metrics into the company culture, compress payment terms, accelerate initial customer contact for collections and consolidate the number of collection paths. The company established a structured approach to mitigate risk and saw a notable cash-flow improvement.
- Using sophisticated analytics, a global pharmaceutical company was able to liberate cash from working capital to pay down debt that it had incurred during an acquisition. There were clear opportunities for improvement in order-to-cash, purchase-to-pay and inventory, and analytics helped the company optimize these opportunities.

For more information about EY's analytics services, visit ey.com/analytics or contact:

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Spotlight
Regional variations

Americas

18%	have a separate M&A committee
47%	lead and perform on corporate strategy
60%	are satisfied with the efficiency of the due diligence process
74%	use analytics for the valuation of divestitures
41%	say the CDO is accountable for transaction integration

Top 3 transaction objectives
1. Strengthen the core business
2. Enter new geographic markets
3. Acquire customer base

Top 3 ways CDO teams are measured
1. Fit of deals with corporate strategy
2. Corporate performance/stock price
3. Number of deals completed

Top 3 reasons for transaction failure
1. Integration process
2. Commercial assessment process
3. Strategic process

Europe, Middle East and Africa

45%	have a separate M&A committee
57%	lead and perform on corporate strategy
81%	are satisfied with the efficiency of the due diligence process
67%	use analytics for the valuation of divestitures
40%	say the CDO is accountable for transaction integration

Top 3 transaction objectives
1. Enter new geographic markets
2. Acquire new technology
3. Strengthen core business

Top 3 ways CDO teams are measured
1. Deal pipeline and opportunity analysis
2. Fit of deals with corporate strategy
3. ROI on completed transactions

Top 3 reasons for transaction failure
1. Strategic process
2. Commercial assessment process
3. Integration process

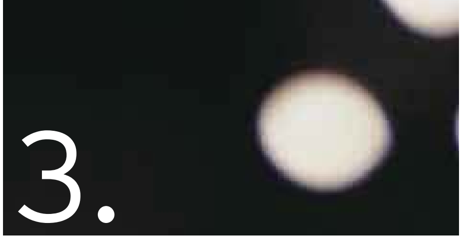
Asia-Pacific

20%	have a separate M&A committee
64%	lead and perform on corporate strategy
80%	are satisfied with the efficiency of the due diligence process
53%	use analytics for the valuation of divestitures
89%	say the CDO is accountable for transaction integration

Top 3 transaction objectives
1. Achieve economies of scale
2. Acquire new technology
3. Enter new geographic markets

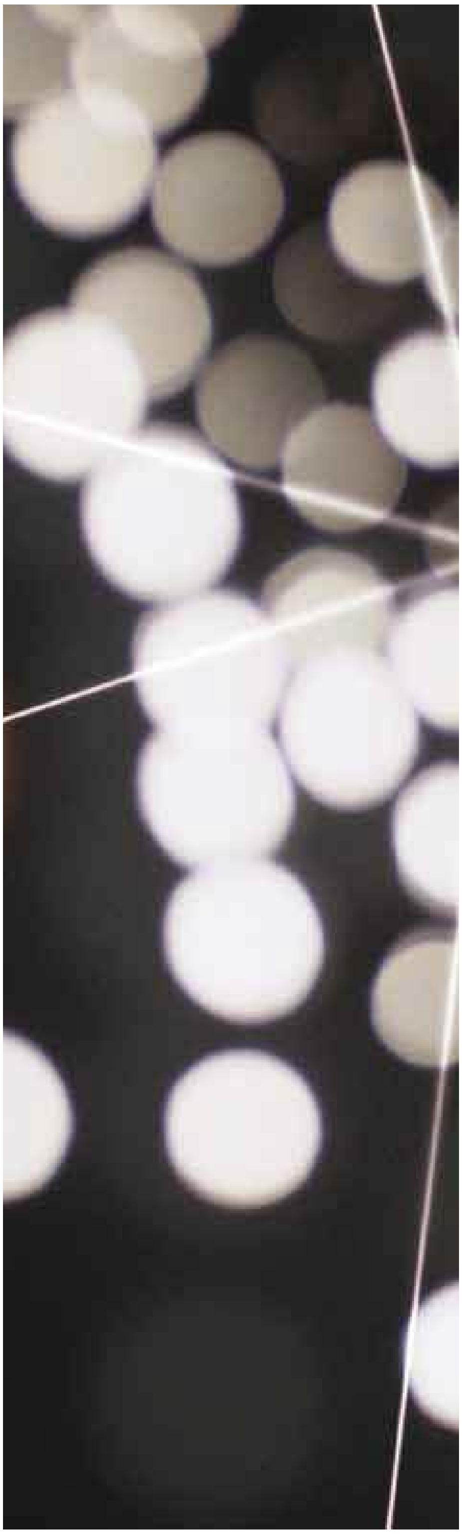
Top 3 ways CDO teams are measured
1. Corporate performance/stock price
2. Realization of transaction synergies
3. ROI on completed transactions

Top 3 reasons for transaction failure
1. Corporate development process
2. Commercial assessment process
3. Deal management process



Greater rigor drives reassessment of CDF structures and rewards

What are the new ways to enable and measure success?



Focus on risk management and corporate governance

Companies are approaching all deals with increasing rigor and standardized deal processes in the face of growing competition from private equity players and greater focus on corporate governance by boards and shareholders. Among our respondents, those who are most satisfied with deals are more likely to frequently use a formalized process for asset portfolio review (81% vs. 59%), continuous improvement (80% vs. 62%), operational separation (77% vs. 60%), benchmarking (73% vs. 61%) and big data/analytics (64% vs. 45%).

This increased rigor is also expanding the required relationships of the CDF across various functions. Although the strongest relationships are with the finance and legal departments, those respondents with higher deal satisfaction have stronger relationships with the corporate governance, regulatory, risk management and information technology functions.

"We try to follow a standard execution process, as risk is not correlated to deal value," explains **a transaction executive in the transportation industry.**

Setting up M&A committees

Notably, executives report a growing preference for separate M&A committees that advise executives and board members on deals. This is particularly the case in EMEA, where 45% of our respondents have a separate M&A committee (compared to 29% overall and just 18% in the Americas).

Our survey clearly demonstrates that the presence of an M&A committee correlates with higher deal satisfaction: respondents who are more satisfied with their transactions are more than twice as likely as other respondents (44% vs. 21%) to have a separate M&A committee. While M&A committees differ in their structure, what they all have in common is giving M&A a strong voice in the boardroom.

There is no clear consensus on the ideal governance structure. At one global company, an M&A/investment committee advises the board on all acquisition processes. At another, a multidisciplinary executive committee, along with senior board members, evaluates all transaction ideas and makes an initial decision on which ones to take forward. The M&A committee governs this process and, in the words of an executive at the company, aims to "protect the group, not to please everyone."

"The more structured process for linking up the transaction process with strategy is mainly represented by the M&A council," explains **a transaction executive at a European automotive company.**

Table 14: When executing transactions, how often do you use a formalized process for the following?

	% often or always
Valuation	95%
Due diligence	95%
Board/stakeholder approvals	90%
Synergy identification/analysis	88%
Documentation of key transaction decisions	86%
Transaction integration	86%
Post-closing adjustments	86%
Transaction measurement	81%
Tax mitigation	78%
Opportunity analysis	75%
Continuous improvement/feedback	69%
Investor relations	68%
Operational separation (divestments/carve-outs)	67%
Asset portfolio review	67%
Benchmarking	65%
Big data/analytics	52%

% often or always

Table 15: Please indicate the strength of the working relationship between the CDF and the given function

	% strong or very strong
Finance	88%
Legal	86%
Strategic planning	84%
Accounting	82%
Business unit/operations	82%
Tax	78%
Treasury	75%
Corporate governance	71%
Regulatory	68%
Investor relations	63%
Risk management	60%
Sales and marketing	53%
Human resources	52%
Information technology	46%
Real estate	33%

% strong or very strong

Table 16: Does your board have a separate M&A committee?

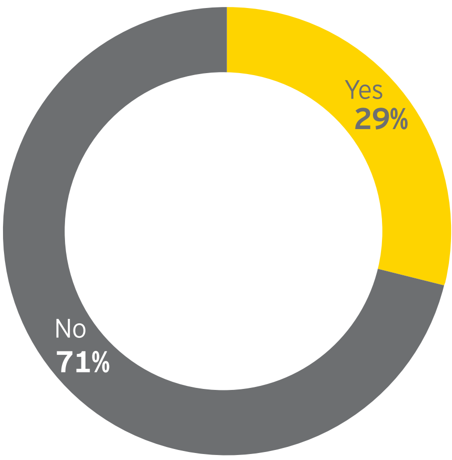


Table 17: Potential options for M&A committees

Who is the chair?	CDO CFO
Frequency?	Quarterly Monthly Each stage of M&A process (NDA, non-binding offer, DD, final offer)
Structure?	CDO, head of BU, country/area director, research director CFO, CDO, VP BD, division CEO M&A, strategy
Deal approval threshold?	Everything Up to US$5m Up to US$100m

Evolving performance measures for an evolving role

Performance measurement is challenging – it is an issue that a number of our respondents consider problematic. In our survey, 95% of respondents report that corporate performance is important or very important in determining individual compensation, and 85% say that achieving strategic objectives is an important or very important measure affecting individual compensation. Although it is difficult to apply quantitative metrics to every aspect of the function, reliable measures are a component in determining the effectiveness of both the CDO and the CDF.

Respondents who are most satisfied with compensation, benefits and incentives are more likely to have compensation linked to departmental performance. But the challenge lies in defining precisely what individual performance means: the measures our respondents use run the gamut from cost, time and quality to the success of past acquisitions to, in one case, "what other people in the organization say."

Team measurement has more specific definitions: teams are measured most commonly on deal pipeline and opportunity analysis (47%) and fit of deals with corporate strategy (46%). Respondents who are most satisfied with compensation, benefits and incentives are more likely to have their team performance measured by the actual price received or paid versus the original plan.

Can 'soft' measures better assess performance?

Still, team measurement has its share of difficulties, in our respondents' view. "It is not easy to derive performance measures for the corporate development team," observes one executive. "The number of deals done and deal generation are all possible measures, but each comes with advantages and disadvantages." Another executive says that in the previous year, the team had "conducted one of the largest deals ever and got no bonus as the group performance didn't meet the requirements." One company reports that "it can be very difficult to make changes to compensation systems" in the industry in which it operates. Another believes that "the best system should be subjective – you don't want incentives to do deals for the sake of activity."

To deal with the difficulty of "hard" performance measures, a number of companies are utilizing so-called "soft" measurement through internal satisfaction questionnaires. These qualitatively assess their use to the broader business and the smoothness of the M&A process on both completed and failed deals. This is based on the assumption that the corporate development team is an "internal advisor" and should be assessed as such. This subjective assessment may be more useful in the case of acquisitions, as the best outcome may be not to buy, whereas in divestments, the exit decision has already been made and so deal completion would be a more relevant measure.

Table 18: Please rate the importance of the following factors with regard to direct impact on your individual compensation

Corporate performance	95%
Individual performance	82%
Department performance	76%
Discretionary	66%

% somewhat or very important

Table 19: Please rate the importance of the following measures with regard to indirect impact on your individual compensation

Achieving strategic objectives	85%
Discretionary	65%
Continued deal performance	60%
Number of deals completed	59%
Effective integration	58%
Acquiring revenue	57%
Number of deals considered	47%

% somewhat or very important

Table 20: What are the top three ways teams (departments) are currently measured?

Deal pipeline and opportunity analysis	47%
Fit of deals with corporate strategy	46%
Return on investment of completed transactions	39%
Corporate performance/stock price	37%
Number of deals completed	34%
Realization of transaction synergies	32%
Actual price received/paid versus original plan	25%

Note: up to 3 responses allowed

Table 21: Profile of a desirable package based on measures correlated to satisfaction with compensation, benefits and incentives

Key department measures

- ROI of completed transactions
- Actual price vs. original plan

Key compensation factors

- Discretionary
- Department performance

Key measures used to determine compensation

- Effective integration
- Acquiring revenue
- Continued deal performance
- Discretionary
- Number of deals completed
- Number of deals considered

The most common integration metrics

Transaction integration is a measure that affects both individual and team compensation and correlates strongly with deal satisfaction. Our survey shows that executives who are more satisfied with transactions tend to follow certain integration procedures. They are more likely to implement practices such as goal setting, business-unit accountability for integration results and executive-level reviews of integration success.

Although the majority of respondents overall hold the business leader accountable for integration, respondents who report higher satisfaction with deals are more likely than others to assign accountability to the integration manager (79% vs. 56%) and the CDO (56% vs. 43%).

Table 22: Top 3 metrics for monitoring and reporting on the integration efforts

1	Financial profitability	85%
2	Value of synergies delivered versus plan	72%
3	Synergy delivery against timetable	71%

Note: multiple responses allowed

Table 23: Who is accountable for transaction integration?

74%	Business unit leader
64%	Integration manager
48%	CDO
33%	CEO
16%	CFO

Note: multiple responses allowed

Looking ahead
Are you prepared?

Our survey shows that the most satisfied corporate development leaders today are forward-thinking and do things differently from their peers. They are more likely than their counterparts to take the lead on new market investments, establish formal deal and portfolio review processes. They will have a variety of risk management skills (including legal and tax) as part of their CDF's skill set and receive what they consider a desirable compensation package.

But this is not enough. What is adequate or even leading-edge today will not be sufficient to succeed in the M&A market of tomorrow. Leading CDOs and CDFs will likely take a different path, managing new issues related to a broader strategic scope. They will often be tasked to come up with fast and innovative answers to questions they may never have been asked to deal with in the past. The upside is almost unlimited potential to succeed, both for the CDO personally and for the organization; the downsides are uncertainty, risk and lack of planning for the major shifts in the role. Based on our research, we recommend that corporate development executives take the following five steps to prepare themselves for what they are likely to encounter in the next few years.

1. Prepare to lead on strategy.

CDOs have always been involved in strategy to some extent. However, as they get more involved in both corporate and M&A strategy, they will need to develop a strong grasp of not only the specifics of the deal market but also prevailing global megatrends such as digital transformation and the many disruptive forces in play today across all sectors. Plotting a growth course in line with the long-term objectives of their organization and the dynamics of their industry will be paramount.

2. Strengthen the CDF's in-house skill set.

As the CDF becomes more involved in decisions about portfolio optimization and pipeline management, a whole array of new in-house skills will become necessary, particularly legal, tax and regulatory skill sets. For many companies, these may not traditionally have been part of the CDF's repertoire, but they will become essential.

3. Take a holistic approach to M&A.

Deal structures are becoming complex. They are no longer a matter of straightforward M&A, particularly in emerging markets, where in many cases deals are subject to regulatory requirements, transactions will take a variety of forms. This includes partnerships, joint ventures, alliances, asset swaps and other arrangements. Adopting a portfolio approach to M&A, by taking a balanced look at the business as a whole, will be essential. Corporate development leaders will need to extend the capabilities of their functions to do this.

4. Take a (big) technology leap.

CDFs will need to show increased willingness to dive into advanced technologies such as big data analytics. In a complex, highly competitive deal environment, exhaustive research and due diligence can make all the difference to the success of a deal. With advanced analytics, corporate development executives have a unique opportunity to explore and understand better the various factors that can affect a transaction and to make decisions accordingly.

5. Measure and reward performance appropriately.

The majority of our respondents indicate that they are not fully satisfied with either individual or team performance measures, pointing to the subjectivity of these metrics and the difficulty of quantifying them. The successful CDO will be able to put together measures that capture the range of tasks that the CDF is responsible for - not only recognizing the successful performance of those tasks, but providing objective incentives and rewards.

Ultimately, M&A strategists, in the CDF and elsewhere, are measured on their contribution to the company's growth. As one of our survey respondents told us:

> "The corporate development function of the future will be inspired by fund management; evaluation of investment performance and investment opportunities will be very important."

About the research

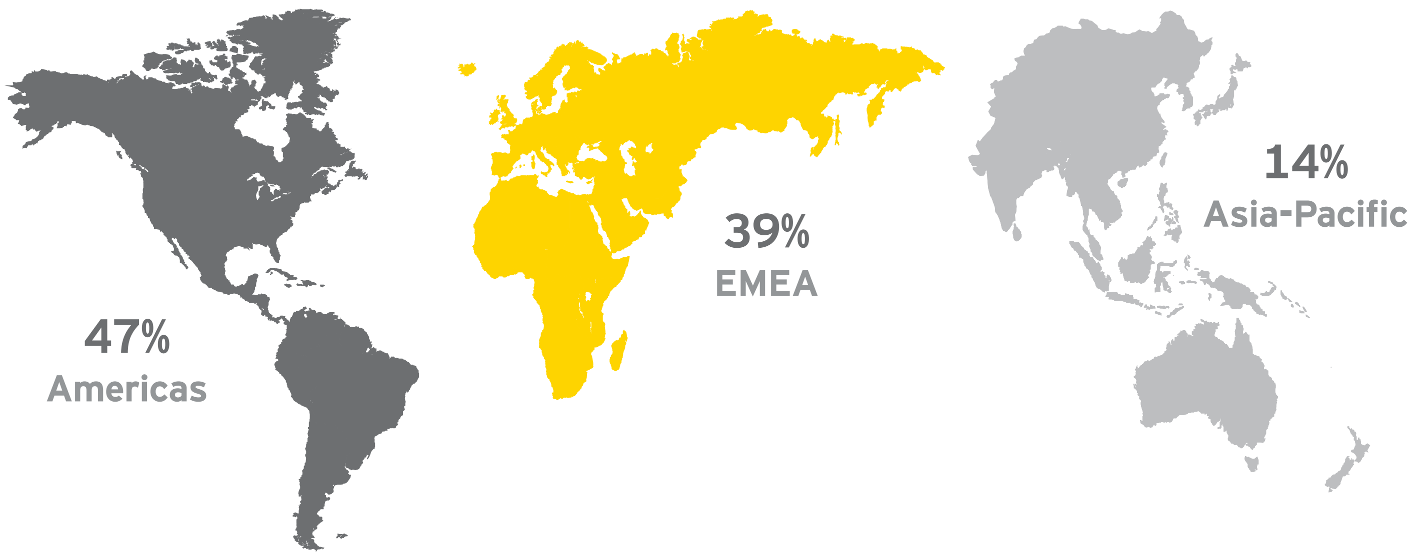
Over the past decade, EY has worked side by side with senior leaders of the corporate development function (CDF) as their role has evolved to meet the demands of a changing and challenging business landscape.

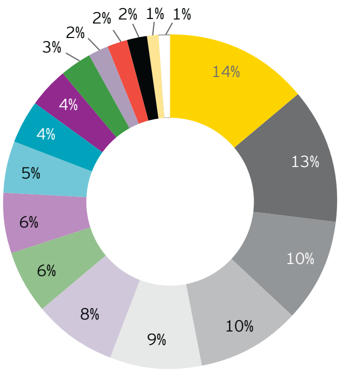
The 2015 Global Corporate Development Study is a multi-phase research initiative. The study targets the corporate development officer (CDO) or most senior person within the organization with responsibility for M&A/transactions and the chief strategy officer (CSO) or most senior person within the organization with responsibility for corporate/operating unit strategy.

We surveyed more than 300 CDOs, CSOs and other C-level executives between June and November 2014. The majority of respondents spend at least 61% of their time on transactions. Respondents came from companies in 39 countries; 54% of the companies surveyed reported revenues of more than US$5 billion. Nearly two dozen industry sectors were represented, and the top five industries were consumer products, industrial products, oil and gas, technology, and power and utilities.

Our data collection methodology included online and telephone surveys, face-to-face interviews, group sessions similar to focus groups, and independent research.

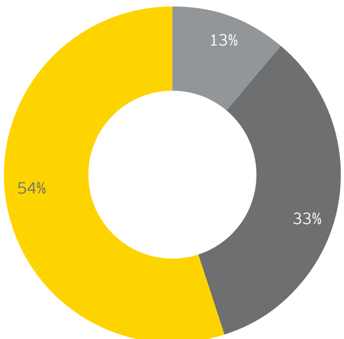
Regional split





Industry split

- Retail and consumer products
- Industrial products
- Oil and gas
- Technology
- Power and utilities
- Life sciences
- Automotive and transportation
- Financials
- Other
- Health care
- Telecommunications
- Government and defense
- Media
- Real estate and construction
- Mining and metals
- Asset management
- Chemicals



Revenue split

- <US$1 billion
- US$1-US$5 billion
- >US$5 billion

Note: EMEA includes Europe, the Middle East and Africa.

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