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The Value-Add Workshop Series – Designing Actions for Impact

In December 2013, Finance Matters launched the Value-Add Workshop Series, a half-day event series designed to help finance professionals have a broader social impact through actions that make sense in their current roles.

Value-Add Workshops are based on *Design Thinking*, a process by which the needs, wants and limitations of a specific user are considered in order to meet a specific design challenge. Our challenge is to create a shortlist of actions that finance professionals in various roles can use to generate greater positive impact on people and the planet - whether through the decisions they make, clients they influence, or information they produce.

The inaugural workshop: Actions for investment bankers

Our first Value-Add Workshop was focused on M&A bankers, held in December 2013.

The challenge: design a list of actions that a junior investment banker can take to improve his or her impact on people and planet.

The Finance Matters team brought together a select group of individuals who have worked in junior roles at top-tier and boutique banks in the City, including Morgan Stanley and Citi. We were joined by individuals selected to encourage broader thinking – an experienced leader from the charity space and a member of the microfinance organisation Finca.

Step I: Create Personas

Who is the person behind the "banker"?

To start, we split into subgroups of two or three people to tackle the task of creating a "persona" – a profile – of the M&A banker who will eventually use our list of actions. Design thinking involves visually thinking through the problem, so we got

out our pens to draw the banker's characteristics, goals and values. We also noted the banker's day-to-day actions, decisions and areas of influence.

The pictures of junior bankers that emerged were honest and illuminating. Our bankers are highly ambitious, hard-working and had high hopes for success in their careers. They entered the job excited and with a true interest in finance. They often feel undervalued and lack agency over their own time and responsibilities. They can get trapped in a pattern of as an emotional antidote to stress at work, or as a way of obtaining recognition for their efforts. Their desire for greater impact comes from a desire to do something "real", with visible effect, that they can be proud to tell their friends and family about.

Who does our banker influence, respond to, or interact with?

With our banker personas complete, each group created a persona for a stakeholder in the banker's life: client, boss, and colleague.

One client persona was seeking to cash out of his family business, for example, but also wanted the company continue to thrive under competent ownership. The persona of the boss varied, too, with one persona worried about his fixed expenses– kids, mortgage – and reluctant to do anything too creative for fear of getting fired.

Step 2: Identify Linkages

Where do the banker and stakeholders overlap in values, goals or actions? How do the banker and stakeholders affect wider society – employees, consumers – and the planet?

We identified a narrow but clear scope for our bankers to make decisions, influence clients' behaviour, or encourage decisions by their superiors that can allow for greater positive impact. It made sense to think through this by transaction type – buy-side vs. sell-side mandate, IPO vs. sale to another corporate vs. sale to a private equity sponsor.

Links to impact fell into certain categories – decision to invest in a specific company, decision to sell to a specific buyer, valuation, disclosure, and transaction structure.

On a buy-side transaction, junior bankers often produce lists of potential acquisition targets. They also determine what information the client receives about potential targets – including commercial strengths, environmental track record, or governance quality. These decisions influence whether companies that have positive effects on people and planet are able to raise the capital needed for future growth.

The links are similar on a sell-side transaction, where a junior banker may provide a list of potential buyers and qualify those buyers with information on operational track record, corporate policy or governance. As a result, a junior investment banker can influence whether a given company is sold to an owner with a long-term investment horizon, positive operational track record, attention to sustainability issues, and alignment with corporate stakeholders' values – or not.

Because junior investment bankers are responsible for building the transaction model, they ultimately influence how stakeholders judge the value of a company – and thus the outcome of a transaction and the magnitude of capital invested.

An investment banker can show or hide various revenue and cost lines in the model, affecting their superiors' and clients' view of what drives value. They influence how far into the future a client or buyer will look when assessing value or risk – 5 years or 10 years, or more – by choosing how far to project annual cash flows. A banker also runs sensitivities on projected cash flows, helping to identify how susceptible a company is to changes in its operating environment.

These links and more are summarised in the subsequent table.

Linking Investment Banking to Impact

Area of Influence	Scope for Action	Implications for Impact
Corporate acquisitions	Shape the set of companies a client considers as investment targets	Companies with positive impact on people or plant are/are not highlighted as meriting investment
	Choose what information client receives regarding targets	Client is more/less likely to incorporate information on social, environmental and governance issues into investment decision Companies with products or operations with positive/negative social or environmental impact are more/less likely to receive investment
Corporate sale to corporate or financial sponsor	Shape the set of companies or sponsors (PE firms) a client considers as investment targets	Companies or sponsors with good/poor operational track records and demonstrated attention to sustainability issues are/are not highlighted as suitable future owners
	Choose what information client receives regarding buyers	Client is more/less likely to incorporate information on potential future owners' operational or stewardship track record into sale decision A company or sponsor with better/worse environmental & social track record or history of leverage and governance choices is more/less likely to acquire ownership of more assets, employees and cash flow
	Determine the requirements for the offer letter received from each buyer in a given round	Influences the dimensions of competition – price, commercial strategy, sustainability strategy, preferred management team – and highlights / obscures the stewardship capabilities or values of potential buyers
Target cash flow projections and valuation	Decide how to model P&L, cash flow and balance sheet	Highlight/obscure cost or revenue lines with strong ties to corporate's environmental or social impact, e.g. energy costs, environmental liability provision
	Determine length of annual cash flow projections	Influences potential future owners' view of relevant time horizon, and short vs. long-term thinking

	Decide which sensitivities to run on projected cash flows	Highlights/ignores the potential effect of various social or environmental scenarios on a corporate's future cash flows, contributing to a potential buyer's perception of the target's value and risk
Disclosure	Determine disclosure in IPO/ bond prospectus, or annual reporting	Information on corporate's social and environmental track record is/is not disclosed to potential institutional or retail investors
Transaction structure & process	Influence leverage used by client	Corporate financing structure is more/less likely to place a strain on the company's growth or place the company at greater risk of bankruptcy
	Influence holding company and tax structure	Company under new owner is more/less likely to contribute to government and social services of relevant countries of operation via tax system

Step 3: Ideas for Action

How can our investment banker have greater positive impact on people and planet through his actions, decisions he makes, or ways in which he influences his stakeholders?

After finding the linkages, influences and between our investment banker personas, their stakeholders and the broader community of people and the planet, it was time to get creative. The group put down all the ideas for action we could think of that would contribute to the improvement of society and resource sustainability, no matter how silly

the ideas seemed. Our only constraint was that the actions can be executed by an M&A banker in his or her day job, working within the current power structure. By the time we were done, the whiteboard on the wall of the room was half covered in post-its, each holding an individual idea for action.

Each breakout group presented their personas and their proposed list of actions to rest of the Workshop participants, enabling others to add comments that helped narrow down our lists of actions to the selected few that were more doable than the rest. The Finance Matters team collated the top ideas into a list.

The investment bankers who joined us for the Workshop left with a cube with their actions written on each side as a reminder to place on their desks at work.

The Finance Matters team was surprised by the creativity and enthusiasm of our group, and based on post-session feedback it seems the participants surprised themselves, too. We're excited to see whether these ideas will prove feasible when we follow up in three months' time. At the very least, the bankers who joined us now have a better understanding of their own roles' externalities and influences – the first step toward making a difference. Our action list follows below.

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Actions for greater impact:
Ideas for how to truly add value as an M&A banker

1. When building an operating/valuation model for your client, strip out the impact of renewable energy sources / resource or energy saving initiatives in the cost lines, clearly identifying their impact in margins. Also, run sensitivities around CO2 / water / energy / natural resources costs, clearly valuing the financial impact and risks related to these inputs and externalities.
2. When writing a client's equity story, make sure one of the points is about the client's ESG practices. Similarly, when preparing the "potential concerns" page, highlight any unsustainable or unethical practices.
3. Research and keep a list of companies in your team's sector (or sectors that interest you) that make interesting acquisition targets due to a compelling combination of intelligent resource & human capital management as well as attractive commercial positioning. Resource this list when asked to put together a list of acquisition targets for a client in a specific sector. If no one company on your list specifically fits the brief, suggest that your team include a "wild card" option to broaden the client's thinking around targets – strong upside and little downside.
4. During a sell-side process, include relevant sustainability and ESG (environmental impact, social impact and governance) information in the client's Dataroom and Information Memorandum, and include a stop at differentiating assets for sustainability during the site visit. Make sure to highlight upside potential from reducing the company's energy intensity and/or natural resource use, and from mitigating risk of negative environmental impact. These issues may affect cost items, growth (capacity constraints) or valuation multiples /discount rates (risk).
5. As part of the process letter on the sell side, require buyers to state their sustainability credentials, and to explain their plan for the management team, whether they envisage significant headcount reduction, and how they plan to handle this process. Moreover, you can ask them to outline a plan for reducing the company's environmental impact and resource use, including but not limited to reducing the company's energy intensity, material intensity of production, and mitigating risk of negative environmental impact.
6. Keep a list of sponsors and strategics who have been highlighted in the press for poor sustainability practices (employee relations, environmental impact management, etc.). Use this as a talking point when putting together a list of potential buyers for a client, as these may make less attractive buyers for a client who wants to see his business grow in the long-term even after the sale.

7. When a sell-side transaction has closed, organize an employee relations visit with the new buyer and a set of employee representatives to allow the employee base to air concerns and improve the likelihood that integration goes smoothly.
8. Update your client proactively on new technologies, research pieces, initiatives around sustainability in the client's industry or supply chain, or on competitors' or the clients' own sustainability behaviors and choices.
9. Provide your client with opportunities to network with responsible investors (such as signatories to the Principles for Responsible Investment), either through bilateral introductions or during a road-show.
10. Encourage smaller clients, when improving their reporting and public communications, to include information on their governance, social and environmental impact. You can reference the Principles for Responsible Investment or the Walker guidelines as examples. This may also be relevant for larger clients during preparation for an IPO.

This list of actions is the output from Finance Matters' Value-Add Workshop for M&A bankers, held in December 2013. For any comments or further ideas for our list, please contact madeleine@financematters.co or roberta@financematters.co . We'd love to hear from you.