Evaluating risk is what insurers do. That's why insurance brokers are among a select group of risk managers that CEO's engage when they are considering a merger or acquisition. Any competent CEO will tell you that "business marriages" are risky. While the intent of the deal is to acquire the value of the target company, ownership also means acquiring the risk attached to that business.

The risk inherent with M&A deals falls into three categories: (1) The risk that is obvious, (2) the risk that is discoverable but not readily apparent, and (3) the risk that is unknown or, worse still, unknown and unanticipated. The last category of risk represents a CEO's worst nightmare – a board of directors with heightened expectations about the future performance of the company, an unanticipated event that exposes the company to an unprecedented, undetermined level of risk that is extremely costly both in terms of the company's financial resources and the integrity of its brand, and *no risk management strategy.*

It's not an uncommon occurrence with companies outside of the M&A business environment. BP's experience with the Deep Water Horizon accident is a recent high-profile example. In addition to the loss of human life, the explosion of the subsea oil well triggered numerous losses that quickly mounted to a catastrophic loss for the oil company. The free flowing loss of a highly-valued asset went on for months while the company experienced one failed attempt after another to cap the well and contain the damage. That led to the loss of significant marine life and water fowl along the Gulf coast that disturbed the ecological system. The loss of the marine life resulted in a loss of income to those whose livelihoods were dependent upon the marine life. There is also the loss of financial resources that must be expended to rectify the damage to the Gulf waters and the shoreline which, in turn, triggers the loss of financial resources to defend against law suits filed against BP and its partners to determine the culpability and liability of each. Hind sight is always 20/20, but one would expect that a global oil company would naturally perceive the greatest risk to its drilling operations to be an uncontrolled spill. The fact that there was no precedent for this type of incident may have led to complacency on BP's part. What is clear is that once the risk was manifested, it triggered a chain reaction of events and BP was powerless to stop the loss.

M&A transactions that contemplate the integration of business operations establish the prime conditions for triggering unknown unanticipated risk. Most CEO's proceed with a false sense of confidence armed with the positive valuation of the target company and the results of due diligence which does not identify post-deal integration risk – risk created by cultural differences that, for half of the companies that attempt a merger or acquisition, turn promising partnerships into strategic disasters leading to unstoppable loss. The deal is announced. Unnecessary positions are eliminated. Facilities are closed. Processes are altered. Product lines are dropped. Working conditions that were known and acceptable are suddenly stress-filled and uncertain. With no risk management strategy, there are no available answers to important questions. Top talent is lost placing key customer accounts at risk. Key accounts are lost. Discounted supply chain pricing based on volume is lost. Confidence in the leadership team and the business strategy is lost. Shareholder value is lost. Competitive advantage is lost.

An effective risk management strategy must evaluate all of the risk inherent with the deal or you must be prepared for unknown limits of loss.

Risk is a four letter word, but it doesn't have to be.