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The Success Side of Mergers and Acquisitions

32.5 Lessons Only Life Can Teach-You

"No one would have ever suspected." I have heard many people say that, and I have heard that internal voice in my head start to beat me up – more times than should be reality. But let's come back to that at the end of this article.

The path to global wellness in your business of tomorrow may be through partnerships, collaborations, mergers, or associations with other organizations that can exponentially accelerate your business footprint. COVID served as an accelerator and great global reboot to everything we once expected and could count on to what the new realities are to remaining relevant and competitive.

While true innovation may always trump what most are doing and strategizing, it is becoming harder and more infrequent of a business reality on one's own.

Just as in today's new labor climate, McKenzie estimates 20 million workers this year will quit their jobs – another 50 million held up on the unemployment couch and everyone seems to be re-examining what they want from their employment experience. One must examine the individual we align with as well.

Whether your intentions are altruistic or financially motivated, the integration of sides (B2B, B2C, P2P, I2I, & combined assets) is a dance that must be choreographed throughout the integration process to ensure mutual success.

A personal failed business merger cost me millions. What I learned on the backside of that experience, I never knew to know on the front side.

Here is your vetting checklist for success in mergers. 32.5 lessons not taught in Business School. And, potentially 32.5 missed KPIs when you merge with someone that you have had a prior long-standing relationship with. You may later find out that you were business wise naive.

Use these 32.5 lessons from my personal work with Fortune 100 firms; Government Agencies and Private Sector Businesses ranging in annual revenues of $10 million to more than $6 billion as a checklist before entering your next merger or alliance:

1. **Values**. Do "You" and the "Other Parties" involved in the intended new alliance/merger/venture have similar values, mission, purpose, and vision statements? If not, this should be a red flag for conversation. Or, it may very well come back to bite you!

   And if all parties say they have shared values, make sure you look under the hood as one would say, for historical examples, "prove it!"
2. **Want**. Do you or either party want the new alliance more than the other? If so, why? Make sure you talk this through with all parties. If anyone is hesitant to engage that may very well come back to bite you!
3. **Equal**. Before entering into any new alliance, determine if all parties are equally vested in future success. Is there really a Common Cause/ Common Purpose? Does the move serve both party's professional and/ or personal long-term objectives? If at any point something seems one-sided, this should be a red flag for conversation, or it may very well come back to bite you!
4. **Emotion**. Have you vetted the parties involved, or are you making this alliance merger based on emotion? If you have not vetted them thoroughly, this should be a red flag for conversation, or it may come back to bite you!
5. **Credentials**. Just as you should provide all others with your credentials, you should also get the credentials of all involved key players, equity owners, executives, leadership team, or other key stakeholders (outside board members, shareholders, attorneys, CPA, investors, etc.) to ensure that they are who they say they are. This will also help you understand their human capital abilities that can be drawn on for success. Conduct an internet search or consider leveraging a third party to do background checks. If someone's credentials don't check out or if someone has lied about their employment history, this should be a red flag for conversation, or it may come back to bite you!
6. **Financials**. Request a copy of all party's "certified" financials (daily AP/AR, monthly AP/AR, year-to-date comparisons) for the past several years. Explore where their money goes, how people are compensated, and what their financial trends have been. Speak one-on-one with the other organization's CFO (or equivalent), and have their outside CPA firm provide forensic validation of any documents provided. Get everything in writing. If you do not have these or can't get these, this should be a red flag for conversation, or it may come back to bite you!
7. **Certified Financials**. Request a copy of all Party's "certified" financial audits for the past several years. If you do not have these or can't get these, this should be a significant red flag for conversation, or it may come back to bite you!
8. **Buyer Beware Legalities**. Search on-line for Government and County public records to see if there are pending or past litigation, liens, settlements, court judgements, bankruptcies, etc. with the other Party(ies). Here are some examples of where you should be searching (that I would have never realized).
   - The County (zip code) where the other Party operates
   - The County (zip code) where they were Incorporated
   - The County (zip code) where the other Party's Accounting Firm-of-Record operates (if different than previous locations)
   - The County (zip code) where the other Party's Law Firm of Record operates (if different than previous locations)
   - The County (zip code) where the other Party's Owners operates and/ or lives (if different than previous locations)

- Where will the new merged entity be located and legally registered. WHY?

Make sure you cross-reference every possibility. "Trust yet verify," as former President Ronald Regan once said, and a measure of pre-work may save countless problems later. Anything you find should be a red flag for conversation, or it may come back to bite you!

If any item can be professionally explained, then proceed accordingly.

9. **Outside Financials**. Review the company's financials and connect with all major vendors, suppliers, partners, outsourced agencies, etc., that are listed in their AP ledger, to ensure you understand from their lens what they say about your new business intentions and the key personalities involved. Talk to their major suppliers and customers in advance about their perceptions of the potential merger. And more so, what their real standing relationship is with the other side?
10. **Human Capital Talent Optics**. Review the HR employee roster to determine what the turnover rate is in the hourly and salaried personnel for the past several years. Evaluate how the owners treat their most loyal, rock-star, and senior employees and how they exit retiring members. Go back several years in this evaluation. This is an accurate barometer of what you can expect from their existing culture. Conduct an HR audit to determine the HR Capital talent level. Remember that a merger is more than brick and mortar and inventory; it is the intellectual capital and connectivity. This should be a red flag for conversation, or it may come back to bite you!

    Do you have an inventory of the "intent to stay" of key and critical talent? And, have you asked for and evaluated from your perspective the "flight risk" of all essential personnel and every employee?

    What is the developmental pathway for each person's journey to keep them fully engaged – retention.
11. **Critical DNA**. With the human capital talent pool, who are deemed as critical to keep if you do go through with this merger? What promises have been made to these individuals and make sure you go one-on-one for their views and you understand.

    For any legacy toxic employees, what is the re-engagement plan and/or exit ramp to remove them from the new entity?
12. **Warning on Faith**. This one is very non-PC. If a key stakeholder/individual/party in the context of the business workplace alliance (the exception would be if the merger or partnership is of religious entities) carries their religion, religious views, politics, or social causes as a dominant public placard, RUN!

    In thirty years, I have had TWO exceptions of this statement. Both are active and long-term clients of mine and impressively refreshing to experience!

    I have found this to be a "mask" for very troubled and deceitful individuals. I want to be proven wrong. I am not suggesting that people of honor are not spiritual or religious. People can have personal private religious convictions that drive their integrity and actions. However, in the business marketplace, if people start with religion as their GPS and want you to assume their belief system, then be cautious. This may come back to bite you!

    This is an easy one to vet, to ensure you're not in the presence of a wolf in sheep's clothing. Take note at how they live all aspects of their life, and how they treat others around them.

    A great mentor of mine and contributing writer to **Professional Performance Magazine**, Christian Business Leader, Buck Jacobs, Founder of C12 (Team C12 (joinc12.com)) CEO-to-CEO peer group has schooled me on why this is and why it is sadly so prevalent today.
13. **Taxes**. If the other party purports to have business transactions that dictate that they would be paying sales use tax, payroll tax, IRS taxes, check with all associated legal entities and government agencies. Ensure that the other party has been doing so and is in good standing. Remember, if you forge an alliance, the other party's history will become your reality, and that will be your future obligation and reputation. This should be a red flag for conversation, or it may come back to bite you!

    The new merged entity, who will manage the AR and AP? How do you know what is really happening in real time to ensure that there are not two sets of books?
14. **Secrets**. If at any point in the courtship or infancy of the merger, any key stakeholder keeps secrets from other key stakeholders, they are disingenuous, and you will always be the one that gets bitten in the end. Always remember, how key people talk to you when others are not around, may be exactly how they talk to others about you when you are not around. Time for a significant conversation or immediate CYA and exit strategy deployment!
15. **Retirement**. Consider how the key stakeholders treat their veteran employees and their own spouses and families. This is how you will be seen and treated in your newly blended business relationship or enterprise – guaranteed. History always repeats itself!

    Just as more than 50% of Americans in this global community are not married today, more than 50% of marriages today end in divorce (according to the American Catholic Archdiocese). More than 80% of start-up businesses do not survive their 5th birthday (according to the U.S. Chamber of Commerce). Finally, 75% of Merger & Acquisition deals implode within 3 to 5 years (according to Deloitte). You do not want to have the best intentions of an alliance partnership end in an ugly separation.
16. **In Writing**. Everything must be put in writing before the merger. And, YES consider your exit ramp before you access the on-ramp.

    The number of successful napkin agreements in the global business world that worked out are stunningly few. The more details that can be pre identified, discussed, agreed to, and documented in a structured formal document, you will find to be the norm – a norm for a reason.
17. **Money & Cash Flow**. Make sure you ask the obvious, "how does the business make its money?" For every SBU, how does it make its money? Then ask for and review the financials to ensure it is reality. Make sure there isn't investment money, behind the scenes when you consider to merge, that is actually paying to keep the business going.

    And, while we are on the topic of money and finances. Who is bringing what money to the relationship, what are the expectations, is it in writing, and how do you know either side won't just quit because they are in essence the banker that everyone must play by their rules?
18. **Deliverables & Assets**. Look at the deliverables and assets of the business you are about to merge into and ask, "are we exclusive in the market, does the company own their intellectual property, deliverables and assets? What and who are the competition? What percentage of the market is there, and your market share, and what are their answers to where is the market

potential? What are the businesses deliverable streams for the next 1, 3, 5, 10 years?

19. **Resources**. Are there supply chain realities impacted by the merger and the post merger business, and how could they impact the new future business?
20. **Go Forward Financial Plans**. What is the Capital Improvement plan without the merger and/or post merger?
21. **Accountability Partners**. Who are the key accountability players or decisions makers in the merged entity. If there will be a Board of Directors (BOD), who are the personalities and can you trust them, work with them, serve them? How will they engage and treat your merger? And, what are the views and motives around the merger? What are their values and expectations from you, senior leaders, and key employees post merger? What are their expectations from the business and core deliverables of the merger and future growth expectations?
22. **Accountability Matters**. Who owns what decisions in the merger, are there clear job descriptions for management, and does everyone really understand what tasks, duties, and responsibilities (TDR) each will have post merger? Once defined, does the human capital that will fill these roles have the knowledge, skills, and abilities (KSA) to execute? What will be the evolving TDRs and thus what will be the necessary KSA to survive, thrive, and be relevant in the economy post merger?
23. **Legacy**. Are there any legacy issues you are aware of if the merger goes through, and how can they be

addressed before, during, and after the merger? Think of ...

- Employees
- Deliverables
- Assets
- Systems
- Processes
- Activities
- Clients
- Vendors and Suppliers Relationships/Expectations
- Contracts
- Community or Industry Commitments
- Family Members
- Pet Projects, etc.

24. **Exit Strategy**. Always make sure you have an exit strategy (prenuptial if you will) to a business alliance, thoroughly vet the agreements, and that the alliance is legally binding. If you began with the end in mind, the exit solution clearly mapped out, then integrating YOU, Inc. for global business wellness would be healthy and these lessons will not bite you!

    This could also be what all party's exit expectations, needs, and time-lines are. No threat here or negatives. Make sure you have reflected on when, where, and why it would be time for you to exit in great terms. Ask all other economy partners, "What do they want in the end?"
25. **Why**. And, so we end where most people start. The WHY. Make sure the WHY for YOU and everyone else is clear and makes sense. Once you consider these business development and leadership vetting questions, if the WHY is still loud, launch forward.
26. **Deliverables**. Yes, one more time deliverable. Is this merger being considered because of your core product line needs? If so, who owns the intellectual property, and what does this mean to future decisions for leaders and the organization.
27. **Brand Equity**. What value does the original organization possess. What does it look like post merger? What value does the second organization possess?
28. **Key Stakeholders**. Have you done your due diligence on the reputations and background of all key new players to the relationship. Past behaviors and expectations is a clue to what you will experience!
29. **Follow the Money**. Is this merger being done for financial reasons, growth reasons, market position reasons, etc.? At the end of the equation, it means new money is coming in to your existing business. If so, who is the actual bank owner of the new entity going to be? That tells what your future will be all about regardless of what anyone is saying. Follow the money for who is the ultimate boss!
30. **Personal Equity Matters**. Best intentions do not matter and what someone has verbally promised does not mean diddly squat when times get tough. Make sure you see in writing what the equity layout looks like, who gets what, and why. This discussion is very revealing.
31. **Go Forward Leadership Plan**. Ensure it is discussed and written who the leadership team will be, clarity of roles or job employment agreement, understanding, contract to include tasks, duties, responsibilities, decision lanes, the accountability KPIs, compensation/bonus variables, and KPIs, the scorecard will be for measurement of performance (in good and bad times), what is the succession pathways and plans for positions and people, what is the strategic business plan and vision and is everyone aligned, exit ramps of people and deliverables, etc.
32. **Go Forward Continuity & Engagement Plan**. Ensure that you have dis-cussed and even written down an accountability plan of how key leaders and constituents will immerse themselves and be visible in the new business, going forward. Seriously consider and craft a plan-of-action for how YOU will get or stay connected with key business unit leaders, influencers and players to ensure engagement, commitment, buy-in and a sense of being valued by all stakeholders critical to the survival and thriving new business. What scorecard will be used to measure performance and success in real-time and understand how to build and support trust among everyone in the new business. Consider critical feedback loops so that everyone can be heard and to ensure that the leadership team is not harboring toxic or cancerous players, policies and activities from post-merger or created because of the merger, that can come back to implode all best intentions.

32.5 **Track the Signatures**. If the merger creates a new entity to be registered with a State in the United States of America. For example, a State's Secretary of State Office, you want to be the last signature of owners to touch the new Articles of Incorporation, and you will want to be involved in submitting them. Thirty days after being filed, request an official copy of what they have on file and confirm it shows what you believe to be true as the owners!

This comes from personal experience years ago from a business partnership and merger that I learned after the fact that my signature had been deleted and additional people were actually added.

Here is why these 32.5 Lessons are so important. No one would have ever suspected – I have heard people say that phrase, and I have heard that internal voice in my head start to beat me up, more times than should be reality.

Being naive and over trusting will implode you and any merger in the end. That is why in any merger it is mission critical to have your own vested C-Level coach/advisor through the entire life cycle. And, oh, here's a clue, vet your coach/advisor as well. If their LinkedIn resume shows they have never signed payroll or have changed jobs every two years of their life, and they can't immediately produce references from their smart phone directory to you – run!

If they have a guru badge next to their LinkedIn profile and yet their credentials don't substantiate it - run!

"I would have never suspected" is not what you want to hear in your head after a business merger implosion.

We learn from our wounds, and business never gives up. But, there is another side, and that is mergers, in many instances, create something bigger, better, and with more opportunities for everyone for greater sustainability. The right merger of talent, vision, values, energy, passion, and hope can elevate wins to heights that would have been unattainable otherwise.

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Dr. Jeffrey Magee, PhD/CBE/CMC/CSP/PDM is the "Transformational Thought Leaders Leader." Jeffrey is publisher and editor-in-chief of Professional Performance Magazine, editor of the Leadership Mastery and Sales Mastery blogs, a former nationally syndicated Radio Talk Show Host, as well as a publisher author of 31 books, in 21 languages, including four best-sellers (*Your Trajectory Code*) and 4 graduate management text books (*The Managerial-Leadership Bible*).

He is a leadership columnist and highly sought global professional speaker on performance psychology. The recipient of the United States Junior Chamber's Ten Outstanding Young Americans (TOYA) Award, and President George Bush & the United States National GUARD's awarded Jeff with the Total Team Victory Medal for civilian contribution to the Armed Services.

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