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8 critical things to consider before deciding to engage in a formal merger process

The consideration and assessment of potential mergers and strategic alliances should be on strategic radar of every board and chief executive. The current Covid-19 crisis and its major disruptive impact to the ability to provide services and generate income, is creating a critical risk for organisations and may require boards to urgently explore the option of a merger to ensure viability and survival.

Entering into a merger process is a major step for any organisation. There are many success stories, where mergers have worked well and have brought greater delivery and financial capacity and wider and deeper reach for the merged organisations. However, there are also many examples of poorly executed and damaging mergers that have left everyone, beneficiaries, members and staff worse off. Therefore, it is of vital importance that before you formally engage in merger discussions, that the board and management go through the following evaluation checklist.

1. Mission & strategy

Will this merger/alliance be compatible with our mission and strategy?

2. Addresses a key service or functional gap

Will it enable us address a key service provision or functional gap?

3. Tangible benefits

Will it deliver clear and tangible benefits?

4. Values

Will our core values and beliefs be protected and sustained in the new entity?

5. Cultural fit

Is there a good cultural and working style fit between the two organisations?

6. Future leadership and governance

Is there agreement and a high degree of comfort with the proposed future leadership and governance of the new entity?

7. Gut-feel

Does this proposition feel right?

Is it the correct thing to do and will it result in enhanced services or benefits for our clients and stakeholders?

8. Critical success factors

Are we comfortable that the critical success factors necessary for a successful merger process are in place? The critical success factors are:

Trust: Is there sufficient trust and good faith between both parties at board and management levels?

Openness: Is there a genuine commitment to conduct the process in an open and frank manner?

Positive attitude: Are both parties engaging in the process in a positive frame of mind?

Support: Are we clear about the level of support and resources needed and can we provide the necessary support and resources that will be required by the merger process? Do we have or do we need to bring in people with the necessary experience and skills to successfully manage and execute the merger process?

Commitment: Are both parties committed to making the merger a success?

Mutual benefit: Is there sufficient clearly defined and quantified mutual benefit for both parties?

If the majority of your responses to the evaluation questions above are negative or unclear, then it is highly probable that the merger process is going to be unsuccessful or that the timing or potential merger partner is not right for your organisation. However, if after going through this evaluation checklist and the majority, if not all of your responses are positive, then you have a strong basis for engaging in a formal merger process. But this is only the preliminary stage and there is a lot of planning and due diligence work to be gone through if the merger process is to deliver a successful outcome. However, you will have overcome a major hurdle on the road to achieving a successful merger.

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