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Companies must commit to compliance when pursuing mergers and acquisitions


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Many global enterprises and startups are growing exponentially and rapidly by expanding their geographic footprints. During 2020 in the United States alone, a Salesforce report showed more than 4.4 million new businesses opening,[1] which is the highest number on record and a 24.3% increase from 2019.

According to an EY report, global mergers and acquisitions (M&A) decreased by 9.7% in 2020, but by 2021, M&A activity was trending upward, particularly cross-border M&A activity. Accelerated vaccine administration, increased corporate confidence, and the consolidation of some large players helped fuel the acceleration, the report revealed.[2]

The outlook is even brighter now, with a separate EY report revealing 60% of US chief executive officers plan to actively pursue M&A in the coming 12 months.[3]

While operations teams focus on maintaining growth, other departments must stay focused on compliance issues, especially as they factor in disparate and evolving accounting standards, local laws, and reporting obligations across different countries. And while growing pains are challenging and part of the game, they are anything but insurmountable.

Here are five key areas that, done right, make M&A growth smoother for compliance teams.

Understand local laws, regulations, and employment practices

Companies expanding into markets for the first time can quickly attract attention, especially when disrupting the existing landscape and competition. When you're the new kid on the block, attention can build brand awareness, but it can also lead to customer complaints or regulatory scrutiny. Therefore, understanding and anticipating local legal and regulatory issues are important first steps in assessing the company's exposure in any new venture.

My organization has acquired 90-plus companies during its 21 years of business, and the compliance team has played a critical role in the due diligence process, integration planning, and execution. In my experience, it's well worth the effort to meet and greet the product/service regulators in your area of expansion so they have a clear understanding of your company's intentions. Or, if the local regulatory powers determine you cannot operate in their area, it's better to know sooner rather than later. Who wants to invest the money, effort, and time to be told you can't operate in a certain area?

Further, it's important for your team to know labor laws since they vary by country.[4] This includes practices around hiring and terminating employees, benefits, vacation pay, and even local holidays off. While many employees in the United States might receive eight paid holidays throughout the year, for example, workers in China might be accustomed to two weeks of paid leave annually to celebrate Chinese New Year.

Similarly, employees in some countries expect one month's pay as a bonus, even though it isn't legally required. As such, it's crucial to know labor and employment laws and norms before the deal is sealed.

This leads to the next important process: having knowledgeable employees on your side.