

Teel & Company

STRATEGISTS AND CPAs

M&A READINESS · FIELD NOTES NO. 01

Building the Enterprise That Passes Diligence

A path for enterprise leaders and their boards

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Diligence does not build the enterprise

On the structural distinction between building an enterprise and being examined for it.

For most midmarket enterprises, the path to M&A liquidity begins years before the transaction itself. By the time a buyer arrives at due diligence, the enterprise is already what it has become.

Diligence is an examination, not a construction. It tests how coherently the enterprise was built—across leadership, operating processes, execution, customer relationships, and the economic structure that sustains it under constraint.

The grammatical confusion is common. Sellers and their advisors often speak about “preparing for diligence” as if diligence were a project to complete in the months before transaction. Hiring a banker, retaining counsel, organizing the data room, conducting a quality of earnings analysis, polishing financial reporting—these are diligence preparation activities. They are necessary. They are not what diligence examines.

What diligence examines is the enterprise as it has actually been built. Months of preparation can organize and present the enterprise; they cannot rebuild it. The team that exists is the team. The systems that exist are the systems. The customer relationships that exist are the customer relationships. The financial structure that exists is the financial structure.

The path to M&A liquidity is constructed years before the transaction. Diligence is the examination of that construction.

When structural conditions are coherent, diligence finds an enterprise that holds together under examination—leadership extends beyond the founder, operating processes carry work without dependency on individual memory, execution converts decisions into results, customer relationships reflect delivered value. Valuation reflects what was built.

When conditions are incoherent, no amount of preparation produces coherence; the buyer sees the cracks, and valuation reflects what was actually built, with discounts for what wasn't.

The structural implication is that the work is not at the transaction window. It is at the foundation, the maturity build, and the diligence preparation horizon—the years of operational construction during which the enterprise architecture is built. The threshold quality of the M&A outcome is set by what was built, not by what is presented at transaction.

See [Fieldwork Slide No. 01](#) · See [Map No. 01-B](#)

The leader is the system

On founder dependency and the structural condition diligence sees most clearly.

The most common pattern observed in midmarket enterprises preparing for liquidity is the one most invisible to the leader experiencing it: the leader is the system. Diligence sees this immediately. The Board often does not.

Founder dependency without succession architecture creates the single largest discount in midmarket M&A diligence—and it is the structural condition the leader is least likely to recognize unaided.

The pattern is structural, not behavioral. A founder who has built an enterprise from \$0 to \$50M in revenue carries the architecture of how decisions are made, how customers are kept, how the team is led, and how the work is executed—in their own person. The enterprise runs on this person’s accumulated judgment.

Diligence sees the founder as a single point of failure. The buyer asks: what survives if this person is no longer here? What is the enterprise’s memory of how customers are won and kept? What is the architecture of decision-making that doesn’t run through this individual? What systems carry the work that this person currently carries?

The structural test: does the enterprise have enterprise memory, decision architecture, and customer relationships that survive the founder’s transition?

The answer, in most midmarket enterprises, is: not enough. The founder has not built the enterprise architecture that allows the enterprise to operate without them at full capacity. The enterprise is the founder. And the enterprise being sold is not what the buyer is acquiring—the buyer is acquiring the enterprise minus the founder.

The structural resolution is not a transition plan. It is the deliberate construction of enterprise architecture years before transaction. The team must be in place. The systems must hold the work. Customers must know the enterprise, not just the founder. The Board must see the team, not just the leader.

The leader who builds this architecture is doing two simultaneous things: running the business that produces the financial results diligence will examine, and building the enterprise that diligence will value. Most leaders run the business. The leaders who build the enterprise are the ones who survive diligence.

See [Fieldwork Slide No. 08](#) · See [Map No. 01-F](#)

The dashboard renders confidence; diligence renders structure

On operational visibility and structural reading.

The operational dashboard renders the enterprise from above. Diligence reads it from below. The same metrics produce two different readings—and the gap between them is the diligence gap.

The operational dashboard exists to give the leader confidence the enterprise is performing. Diligence exists to determine whether the structure underneath the dashboard holds. These are not the same reading, and most leaders do not recognize the distance until diligence surfaces it.

A typical operating dashboard renders five or six top-line metrics: revenue growth, gross margin, EBITDA margin, customer count, headcount, cash position. Each metric reads positively to the leader—revenue is up year-over-year, margins are holding, headcount is on plan, cash position is healthy. The dashboard is calibrated to surface operational confidence. The leader looks at the dashboard and sees an enterprise performing.

Diligence looks at the same metrics and asks structural questions. Revenue is up—through what mechanism? Concentration in three customers, or broad-based growth? Margin is holding—does the EBITDA calculation reconcile to audited financials, or do month-to-month adjustments make year-end reconciliation impossible? Headcount is on plan—but headcount counts heads, and the structural question is which heads can decide, which can run a function alone, and which the enterprise would survive losing.

The structural test: does the dashboard the leader operates from accurately reflect the structural condition diligence will read—or does it conceal the structural condition behind operationally legible metrics?

The dashboard's design serves the leader's daily decision-making. It is built to render the surface—the operationally legible reality the leader needs to run the business. The structural reality underneath is not what the dashboard is designed to surface. The enterprise architecture, the second-tier capacity, the founder concentration, the reporting reproducibility—these are not metrics on the dashboard.

When diligence arrives, it does not read the dashboard. It reads the structural conditions underneath the dashboard. The dashboard becomes evidence for what diligence is examining—but the dashboard is not the thing diligence is examining. The thing diligence is examining is the enterprise architecture the dashboard reflects.

The structural commitment, years before transaction, is to read the enterprise from below as well as from above. The dashboard remains the operational instrument. The structural reading becomes the enterprise discipline. Leaders who build toward liquidity build the structural reading capacity before diligence reads it for them.

See [Fieldwork Slide No. 05](#) · See [Map No. 01-C](#)

The horizon, read in capability

Diligence-grade capabilities take time to build and are sequenced across the M&A horizon.

Capability build for M&A is not a list of preparation activities. It is a sequenced architecture—capabilities placed across the timeline so that what diligence will examine is in place at examination, not assembled in the months before.

Each capability has a horizon—a window during which it must be in place. The horizon establishes when a capability needs to be in place, not when the work to build it begins. Work begins earlier; the horizon is the threshold.

Four horizons define the capability sequence for midmarket enterprises building toward liquidity. Each names the threshold at which a class of capability must be operative.

4+ YEARS OUT—FOUNDATION. Organizational design that scales beyond the founder. Financial systems and chart of accounts that produce enterprise reporting. Internal relationships and decision architecture established. Corporate strategy posture defined.

The horizon establishes when. The leader's structural decision is when to begin the work—typically years before most leaders begin to consider it.

2–3 YEARS OUT—MATURITY. Management reporting at monthly cadence. Financial close discipline established. Annual financial statement audits at three-year minimum. Process integration across functions. Talent depth at the second tier.

12–18 MONTHS OUT—DILIGENCE PREPARATION. Audit-ready financial records. Customer concentration analysis. Documented controls. Management team retention. Investment bankers and M&A lawyers retained.

0–12 MONTHS OUT—TRANSACTION POSTURE. Data room assembled. Q-of-E completed. Negotiation positioning prepared. Transaction-execution coordination in place.

See [Fieldwork Slide No. 06](#) · See [Map No. 01-E](#)

Six translations of different difficulty

On translating from founder-held to enterprise-held.

The structural project of building toward liquidity is not one project. It is six discrete translations of different difficulty—and the years-of-work translations begin years before the mechanical ones.

Build the enterprise is the phrase used to describe what diligence will examine. The phrase concentrates six distinct translations into one—and the difficulty of each translation differs by orders of magnitude. The founder who treats build the enterprise as one project sequences the work poorly.

The translations move what is currently held in the founder's person into what is held in the enterprise's systems, roles, and documented standards. The translations are six because the founder holds the enterprise in six distinct ways: operating standards (how the work is done); financial control (who approves what, signs what, holds what); decision flow (where decisions go); enterprise memory (why decisions were made, what customers matter); talent leverage (how the team performs); and customer relationships (who customers know, trust, and call).

Two translations are mechanical. Operating standards—how we do things here—translate into process documentation, SOPs, training materials, and decision-rights matrices; bounded work a thoughtful operations leader can build over months. Financial control—check-signing authority, the close, the cash judgment—translates into a CFO function with independent close discipline and audit-ready records; the founder hires, trains, and transfers authority.

Two translations are mechanical (months of work; bounded). Two are structural (a year or more of operating discipline; redesign). Two require years of work (enterprise capacity built over time; not compressible).

Two further translations are structural. Decision flow—critical decisions escalating to the founder—translates into documented decision rights, real second-tier authority, the founder in strategic decisions only. Enterprise memory—the founder remembering why decisions were made and which customers matter—translates into decision logs, customer histories, codified strategic rationale.

Two translations require years of work. Talent leverage—the team performs because the founder leads and corrects in real time—translates into second-tier enterprise capacity built through years of running the function under the founder's coaching and then under the founder's restraint. Customer relationships translate into enterprise-held relationships where customers know multiple firm contacts and trust transfers to the enterprise.

The structural reading: the years-of-work translations begin years before the mechanical ones. The leader who begins them five or more years before transaction finds them complete at examination—and the mechanical translations slot in at twelve to eighteen months out, where the spec for them sits.

See [Fieldwork Slide No. 07](#) · See [Map No. 01-F](#)

The surface area distinction

On where the advisor operates inside the enterprise.

Four operating models exist for the advisor to the midmarket enterprise. The structural distinction between them is not value or fee. It is surface area—how much of the enterprise architecture the advisor has presence within, and for how long.

The advisor to the midmarket enterprise operates one of four models—advisor, consultant, fractional executive, or operational accountability. The distinction is not commercial. It is structural—and the structural distinction is surface area: the measurement of where the advisor operates inside the enterprise and for what duration.

The advisor occupies discrete touchpoints from outside the organization. Position: external. Cadence: event-driven; on request. Authority: counsel only; no operational role. Surface: discrete touchpoints. The advisor relationship is durable—many advisor relationships span years—but the surface area is minimal. The advisor sees what the organization brings to the touchpoint; the advisor does not see the enterprise from inside it.

The consultant occupies a defined scope, project-based. Position: adjacent; project-based. Cadence: time-bounded. Authority: within scope; deliverable-defined. Surface: one function, one engagement window. The consultant relationship is bounded; it ends when the deliverable concludes. The consultant sees the enterprise from inside one function for a defined duration—and then withdraws.

The structural test: surface area is not measured by fee, value, or engagement form. It is measured by position (inside or outside), cadence (event-driven or continuous), authority (counsel or operational), and surface (touchpoints or function or multiple functions).

The fractional executive occupies one function inside the organization, part-time. Position: inside one function. Cadence: recurring; part-time. Authority: functional; no cross-function role. Surface: one function only; partial presence. The relationship is continuous within the function and bounded across functions—the enterprise sees the fractional executive in finance, but not in HR or operations or growth.

The operational accountability model occupies the full interior of the corporate-focused scope continuously. Position: inside the organization, continuously. Cadence: daily. Authority: operational; corporate-focused scope. Surface: finance, human resources, operations, administration. The model operates over the multi-year preparation horizon; enterprise memory accumulates across functions and through time.

Diligence-grade enterprise architecture requires diligence-grade surface area. Discrete touchpoints from outside cannot build what diligence reads inside. A defined-scope consulting engagement cannot build what requires multi-year continuity. Continuous interior presence across function categories is the structural form the diligence preparation horizon requires.

See [Fieldwork Slide No. 04](#) · See [Map No. 01-G](#)

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teelandco.com

CHICAGO

+1 312 873 1300

NEW YORK

+1 646 762 7400