4 Steps You Don’t Want to Skip in the Due Diligence Process

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If your business lives in the mergers and acquisitions space, you know it’s all about due diligence. You know you need to have the financial and legal pieces locked up. But, what about the people piece?

Believe it. As a private equity firm looking to acquire an organization, part of the process would be to scrutinize its human resources infrastructure – discover its vulnerabilities and liabilities. To help ensure a successful deal, don’t overlook these four steps in the due diligence process.

1. **CULTURAL INTEGRATION**

Identify the primary organizational focus, how the business is run and whether it can work with your current holdings or as a standalone.

Your PE firm has its way of running business – your own culture – as does the company you’re acquiring; and they’re rarely the same.

Let’s say your firm is an orange and you’re buying a banana. What does it mean for an orange to own a banana? The life cycle, how it grows and its needs are all different. If the orange really wants the banana, what is it going to have to do to ensure the banana thrives? The banana should get to stay a banana – unless it’s rotten. Then, you’re going to have to make a fruit salad.

A cultural integration plan will pinpoint what’s needed to maintain the historical success of the organization. What does that organization’s culture look like moving forward? Misalignment or misidentification of a company’s culture is one of the main reasons acquisitions fail.

2. **REGULATORY COMPLIANCE**

Is your target organization in compliance with workers’ compensation, Equal Employment Opportunity Commission laws, the Affordable Care Act, wage and hour laws, OSHA and records management?

There’s a lot of i’s to dot and t’s to cross here. Be aware that not finding out about issues such as sloppy documentation or timekeeping at the outset may be a major liability once the deal closes.

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3. **LEADERSHIP TEAM ALIGNMENT**

What are the strengths of the organization’s leadership team? How aligned are they around the vision, strategy and plan for the company. The more aligned they are, the healthier the company.

Some alignment red flags:

- Each leader has a different view of how the company is doing, its successes and its future.

- All the leaders agree, but their vision doesn't support the company's customer promise.

What you need to determine is the *degree* of misalignment – is it a stream or the Grand Canyon? Then, decide how you're going to move forward, and who moves forward with you.

4. **COMPENSATION AND WORKFORCE REVIEW**

Assess the company's salary practices and job duties to determine how they compare to the market. Find out where the gaps are and what it will cost to fill those gaps. Having to close gaps in the salary structure may affect the price you offer.

Also review the salaries of senior people. If it's a top-heavy company, you may need to make a decision about who stays and goes upon acquisition. What kind of expertise do you need and how much will you have to pay for that expertise?

Look at possible workforce reorganization needs and identify the cost implications and potential areas of concern, such as a loss of institutional knowledge or backlash over layoffs.

FIND OUT MORE

These are just a few of the areas where taking an early look at the human capital issues involved in mergers and acquisitions can help save you time, money and resources. Find out more about the benefits of having a human capital infrastructure in place during the due diligence phase at insperity.com/acg.

Sharon Dye is a human capital consultant with Insperity who helps clients in the middle market space define their goals, overcome roadblocks and improve overall organizational performance. In the past 27 years, she has played an integral role in pre-deal and post-deal due diligence for mergers and acquisitions nationally and internationally. She has a talent for helping companies impacted by reorganization, restructuring, mergers and acquisitions, leadership changes and corporate culture challenges.