BLOG

In the rush to merge, don't lose sight of company culture

By Andrew Godfried

May 17, 2018

Five years ago I sat through an onboarding meeting with the human resources team of a company that had just acquired the one I was working for and we heard what our new benefits were going to be - when they would go into effect, what they would cost, and what the net financial impact would be when we were enrolled. There were some slight changes, some good, some bad, but nothing in my view worth getting upset about. Much to my surprise, others in the room didn't feel the same way.

I specifically remember seeing somebody in tears and only found out days later that, in the minutia of the new plan's design, infertility treatment wasn't covered in the same manner as our old plan. And for that particular employee, that was enough to move on. After that individual left, customers that were close to that person also found a new home, directly affecting our revenue. Years later, the general consensus on why the acquisition went so poorly, by almost any measure, was the frequently used catch-all, "not a cultural fit."

Regardless of whether you are a Private Equity or a Strategic investor, managing the culture of the firm in which you're investing matters and employee benefits and HR practices can swiftly, directly affect culture. The following are four areas where detailed Employee Benefits due diligence can uncover the potential for a "cultural mismatch."

1. **Employee Benefits Insurance offering**
   Employee Benefits are foundational to an employer's culture. Looking at the value of Medical benefits being offered, the employer/employee contribution split, and the types and quantity of benefits offered at a target acquisition, provides a window into how that company views Employee Benefits within its compensation structure and how it values employees. Don't lose sight of the non-Medical benefits to get a sense of whether the Employer takes an involved, paternalistic approach, or is less concerned about the package offered.
2. **Paid Time Off Policy**
   Work-Life balance is a frequently discussed notion among employer groups. Employers more willing to give employees additional time off may value that balance more than one that doesn't. Or they may be

using it to reduce pressure for monetary compensation. There is no right or wrong in this debate, it is simply a matter of understanding how the two compare. Employees value their PTO differently.

3. **Retirement Plan – Employer Match**
   Whether an employer has a retirement plan match and, if so, what the vesting schedule is, provides keen insight on the importance of retention to an employer. How important is it to that employer to retain their employees?
4. **Employee Communication Materials & Resources**
   How does the target company interact with its employees? Are communication materials clear, concise, easy to understand and valuable; notifying employees exactly what the new benefits offerings are during Open Enrollment? Or, are most of the materials provided to employees less detailed, less sophisticated and bare bones? Is technology used, and how close is the C-suite to the rank and file?

In the June 2016 issue of the Harvard Business Review, Roger L. Martin wrote that typically 70% to 90% of mergers & acquisitions are in his words an “abysmal failure.” Don’t let a mismatch of culture contribute to what is almost always a challenge. Include all Employee Benefits and HR Practices, not just the insurance offered, into your due diligence review.

TAGS:
Private Equity