# Viewpoints

## Purpose-driven due diligence in M&A

By Kelly Karger and James Sharpe

**Kelly Karger**
Senior Director,
Global Services and
Solutions – M&A

**James Sharpe**
Director,
Global Services and
Solutions – M&A

The M&A process is faster than ever before, with accelerated due diligence and increasingly shorter periods between signing and close.

With this acceleration, how do we ensure that there is adequate investigation before reaching the go/no-go decision? The key is to focus due diligence on answering the two key business questions: 1) Should we buy this company, at this price, with these terms? and 2) Can we reasonably achieve the desired business results?

To do this, we first need to accept that due diligence isn't a "check the box" exercise. Deal teams need to steer away from generic due diligence reporting questions and avoid simple checklists. Instead, use the specific deal hypothesis and business strategy supported by the deal to *drive* the due diligence focus.

### What checklists won't tell you in people due diligence

Checklists and data collection are useful in telling HR which people-related risks might need to be investigated at the target organization.

But they won't tell you whether you can achieve the expected deal value and make *this* transaction work when so many other deals have failed before. And they won't tell you the level of importance of each item on the list.

It takes an experienced HR due diligence expert to assign priorities to individual findings and to interpret what the broader due diligence findings ultimately will mean.

For example, you might be looking at a target with high margins – but those high margins are due to low labor costs. If this business is fully integrated into your organization, does that require integrating its workforce into your reward programs? If so, will that erode the high margins, and will those rewards still provide incentive for the right behaviors?

*Deal teams need to steer away from generic due diligence and avoid simple checklists.*

Or you might be looking at a target with talent that offers a unique skill set that doesn't exist within your organization today – and looking for that talent to invigorate or revamp the way you do business. Can this be achieved within your existing structure? If you infuse those workers into your business, can you retain them?

Examining these types of questions requires a much different approach than simply checking yes or no boxes.

**Baseline versus business-focused people due diligence**
In this example, deal value is expected to be derived from marketing products through the target's sales team to the target buyer base.

| Baseline people findings | Business-focused people findings |
|---|---|
| ▪ Census data for employees<br>▪ The target has a reward program consisting of X, Y, Z programs<br>▪ Comparison of buyer reward program to target<br>▪ Retirement liabilities and other key financial findings | ▪ Will the current target reward program drive this behavior post-close?<br>▪ Can we maintain the target reward program?<br>▪ Would migrating to our reward program drive the desired behavior?<br>▪ Will this future reward strategy change the cost structure for the acquired business? Does that change the value of the business?<br>▪ What will it take to train the sales force on our products? Do we have the training program necessary or do we need to build it? |

## Purpose-driven people due diligence

So, what's the right approach? Due diligence is a series of investigations, serving multiple purposes. The financial and risk assessment of the target is still fundamental. Certain requests must always be included for the baseline financial and risk assessment, and to establish "what exists."

However, too many times the data room turns into a data dump; the data requested are so detailed and have so many structured documents that diligence time is spent searching through documentation rather than analyzing how it will affect deal value. Most of that documentation is needed to close the transaction, but not all is actually needed to form a go/no-go decision in due diligence pre-signing. So first priority are the data requests to get at the baseline.

Integration strategy, and the planning around that, is another prime purpose of due diligence. Most of that information will come from the buyer, not the data room. To address this purpose, formulate the questions you ask about "what exists" and what "will exist" post-close, when people are brought into the organization. This is grounded in the business case and intended integration plan from the deal strategy team.

Your next level of due diligence requests and questions focus on assessing how the target generates value and whether it can continue to create that value post-close.

Due diligence kickoffs are critical for gathering this information and ensuring the entire diligence team has the same focus. Sharing the output of management meetings across functions can further reveal issues beyond those in the data room. This will allow all functions (including HR) to generate due diligence findings for the deal team based on the deal hypothesis and the intended integration strategy. This is the true valuable input to both questions: 1) Should we buy this company, at this price, with these terms? and 2) Can we achieve the desired business results?

## You have the information, now use it wisely!

HR will have access to volumes of data from this assessment, such as program designs, costs, comparisons to your existing programs, compliance assessments – all very useful at the right time. The details provide the key findings to take you into integration planning if the deal proceeds. But for due diligence, executive summaries are critical to assessing business value, financial impacts and risk levels.

Reporting out to the deal team and leadership should formulate HR's answer to the most important question: Are we confident this acquisition will give the value we expect to make this deal a success? This answer should be front and center on reports back to leadership, not a checklist of data received.

## For more information

Contact your Willis Towers Watson consultant, or:

**Kelly Karger**
kelly.karger@willistowerswatson.com

**James Sharpe**
james.sharpe@willistowerswatson.com

## About Willis Towers Watson

Willis Towers Watson (NASDAQ: WLTW) is a leading global advisory, broking and solutions company that helps clients around the world turn risk into a path for growth. With roots dating to 1828, Willis Towers Watson has over 40,000 employees serving more than 140 countries. We design and deliver solutions that manage risk, optimize benefits, cultivate talent, and expand the power of capital to protect and strengthen institutions and individuals. Our unique perspective allows us to see the critical intersections between talent, assets and ideas — the dynamic formula that drives business performance. Together, we unlock potential. Learn more at willistowerswatson.com.

willistowerswatson.com/social-media


WTW-GL-19-ICP-305207584

**willistowerswatson.com**

Willis Towers Watson