Viewpoints

How leading companies approach inclusion and diversity in M&A

By Duncan Smithson

"It takes many different flowers to make a bouquet."

– Islamic saying

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Inclusion and diversity (I&D) — sometimes also referred to as diversity and inclusion (D&I) — is more than just a tick box for HR. Research has shown I&D can help companies meet their financial targets, and achieve their strategic objectives.

Companies with more inclusive cultures and more diverse workforces are likely to achieve higher financial returns than companies with less inclusion and diversity, according to studies by McKinsey.[1] Research in the *Harvard Business Review* concludes that companies with greater diversity are not only likely to be more innovative, but also more profitable.[2] Little wonder that the senior leaders of many companies are grappling with how to bring meaningful change to their organizations in this regard.

Now overlay the strategic focus of driving profitable revenue growth through mergers, acquisitions and other corporate transactions on top of an I&D initiative, and the challenge takes on an additional dimension.

Before looking at possible approaches, some basic definitions of inclusion and diversity might help.

- Diversity is the extent to which differences in personal identities are represented across an organization. This could cover not just sex and race, but also age, disability status, sexual identity, gender identity, educational background, religion, prior military service and so on.
- Inclusion is the extent to which belonging, opportunity and impartiality are reflected in the career experience of the organization's employees.

Another way to look at the difference: diversity is quantitative and inclusion is qualitative.

"Diversity is being invited to the party, but inclusion is being asked to dance."[3]

– Diversity advocate, Vernā Myers

[1]Hunt, V. et al, *Why diversity matters,* January 2015 and Delivering through Diversity, January 2018
[2]Lorenzo, R. and Reeves, M., *How and Where Diversity Drives Financial Performance,* January 2018
[3]Myers, V., company website, April 2019

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For the best companies, diversity and inclusion efforts are a fundamental part of the business strategy, as well as a board-level responsibility.

Diversity for diversity's sake?

The unfortunate reality is that companies are at different stages of becoming more diverse and inclusive.

For some companies, I&D is simply a box-ticking exercise delegated to the HR function driven by legal compliance, and focused mainly on filling artificial quotas in employee recruitment or promotion.

Other companies have moved beyond simple "diversity for diversity's sake" compliance, and instead have articulated an I&D strategy with related goals linked to broader HR programs and policies.

Companies even further along the path embrace and value difference, embedding I&D goals within individual manager and team objectives and performance reviews, with meaningful accountability for driving change. These organizations use companywide training programs to equip employees to understand the importance of diversity and inclusion, and also identify and mitigate potential unconscious bias.

I&D in M&A

It's typical during an acquisition for the buyer to struggle to obtain comprehensive employee data from the seller or the target company. Strengthening of data privacy laws, such as the European Union's General Data Protection Regulation (GDPR) and the California Consumer Privacy Act, have exacerbated the situation. As a result, most buyers are unable to carry out their own detailed analysis of employee demographic data during due diligence to assess a target company's diversity and instead have to rely on whatever aggregate statistics the seller is prepared to disclose.

So the question is, in an M&A transaction, what can be done to assess where the other party is along this journey of transformation?

Despite this challenge, there are certainly actions that leading companies can take to address diversity and inclusion during due diligence.

Leading organizations agree – start early

"We ask a lot of questions in diligence to make sure we understand what we're purchasing and what kind of talent planning and training we would need," said Jill Wrobel, vice president HR mergers & acquisitions at Walgreens Boots Alliance.

Rebecca McCathern, senior director, HR at VMware, expanded, "During our culture assessment of the target company, we get a feel for the employee population and customize our approach to meet the demographics of the target."

"When we acquire a company, we definitely look at what their D&I plans are, how we can integrate them into ours and how we can learn from them, but also how we can make sure that they're meeting our objectives," said Liz Martin, senior M&A HR manager at Microsoft.

Michael Weber, HR director, acquisitions & divestitures at Johnson & Johnson, added, "We're opportunistic in diligence, based on the size, complexity and history of the company. For smaller companies we try to have a good idea of who the people are in the company and their makeup from a diversity perspective."

So what does this look like in practice?

"As part of our process documentation, we include whether they have a program or not and look at their components versus our components," explained Brian Barbre, director – human resources mergers & acquisitions at Halliburton.

American Express places a similar emphasis on vetting I&D policy according to Ken Park, director, HR mergers & acquisitions: "During due diligence, we make a conscientious effort to analyze all D&I related policies thoroughly. Recognizing that many of the start-up companies that we tend to acquire will not have as robust of a written policy as Amex's. We also probe deeply during diligence interviews with target management to understand approach and philosophy toward D&I."

"We look at whether or not they have formal programs in place, and we compare their workforce dynamics to ours," according to the head of global HR mergers & acquisitions at a *Fortune* Global 500 professional services company.

"With each acquisition, our human capital team has an open forum dialogue with the human capital team of the acquired entity. Diversity and inclusion is part of that questioning to get a sense of where the company is on a path toward a robust D&I program. As part of our due diligence, we definitely look at pay equity issues and employee incentives, but we would not really have any greater insight into the composition of the target company until post-close," the vice president of human capital mergers and acquisitions at one of the U.S.'s largest managed health care companies explained.

After a deal is signed

Despite the challenges of getting access to employees and detailed data during due diligence, once a deal is signed, I&D risks can be assessed and comprehensive integration planning can get started.

First, according to the professional services company executive, "We factor any additional risk to taking on a company that could be less diverse into how we're going to handle the integration and how much recruiting we need to do to help them get where they need to be."

"Another benefit of our M&A activity is that it brings into the Boeing family people from different backgrounds with new skills, perspectives, and ideas. We know that diversity is key to innovation, and well-planned M&A activity helps Boeing build the best, most diverse and inclusive teams in the world," James Dulebohn, senior manager, global operations HR at Boeing, explained.

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The senior director, HR M&A support at a *Fortune* 500 medical technologies company expanded: "We also specifically look at D&I when it comes to leadership, with a specific goal of retention of women who are in leadership roles, so that we can either have them stay... if that's part of the integration plan or, if there's a duplicated role or change in the integration strategy, find a way to keep them in a leadership position within the company."

"We're very intent on improving our diversity numbers with respect to diversity of thought but also the typical metrics on women and minorities as well. And not just in leadership – we also consider rank-and-file salaried employees," added Michele Webster, vice president HRIS, compensation & benefits at Stanley Black & Decker.

Tailoring approaches

For many companies, the details of how to approach diversity and inclusion in acquisitions depends somewhat on the size of the acquired company.

Park of American Express explained, "Acquired employees at American Express benefit from integrating into all employee policies, including D&I, from their first day as Amex employees. One benefit of our focus on smaller target companies is that we are able to have a detailed understanding of how these companies handle D&I prior to joining Amex. This enables us to anticipate and resolve for any potential issues related to transitioning employees onto our plans ahead of Day 1 for new colleagues."

The director of HR compliance at a large bioscience and medical products company agrees, "We've been doing a lot of small deals where the acquired entity does not have a formal or sophisticated diversity and inclusion program. But when we integrate, one of the benefits of our 'One Company' approach is that they get the opportunity to take part in all our diversity and inclusion programs."

"Many times, the smaller acquisitions don't have a program, so as we move forward into planning and integration, all of the future-state recruiting and staffing managers have to go through our two-and-a-half-hour D&I training course. We implement it through the governance model of the go-forward plan," according to Barbre of Halliburton.

Martin of Microsoft explained, "With talent planning, we also make sure they're meeting our requirements. When we are acquiring a company that we are not integrating, we might ask them to adhere to some of our D&I requirements if theirs aren't up to our expectations. It is something we think about with every deal we do."

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> Michael Weber, HR director, acquisitions & divestitures at Johnson & Johnson

Weber of Johnson & Johnson expanded on this, "We'll look at identifying integration risks where we might need to play a certain solution like unconscious bias training, based on how they've been hiring over the last five years. Usually, in the bigger deals, we'll be very focused on doing that analysis as soon as the deal closes and we have access to employee data. During our cultural assessment, we really look at inclusion: How decisions are made is at the root of a lot of the inclusion we look at. We bring in our diversity and inclusion team very quickly once a deal is closed, so they can do the analysis and understand the impact. And we'll also look at it from the divestiture perspective."

"Part of our new employee orientation for all employees is a learning session on diversity and inclusion, and our values around diversity and inclusion," the managed health care company executive agreed.

Making it real: Writing diversity into rewards

Tying diversity to compensation is also a factor. According to Wrobel of Walgreens Boots Alliance, "It's part of your goals for vice presidents and above to have explicit D&I planning and metrics that would impact your actual bonus payout, approved by the board, separate and aside from M&A-related items."

And according to a senior HR partner for M&A at a large software company, "Once they do become integrated into our company, we require that we have equal pay. HR will not give the green light on a deal if there aren't enough funds in the deal model to adjust compensation. Usually once that happens, they quickly somehow magically find the money to make it happen."

For many companies, actively promoting the expansion of Employee Resource Groups (ERGs) into the acquired company is also an effective way of building inclusion.

"We really lead with [ERGs] during the Day One rollout to employees and how we can get those on at the new locations," the senior director of HR M&A support at the medical technologies company quoted above explained.

"Even if from a business perspective, we're keeping the company as a standalone to drive the milestones, we still want to build that network and community underneath it. ERGs are a great way to do that," according to Weber of Johnson & Johnson.

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>
> Rebecca McCathern, senior director, HR at VMware

McCathern of VMware added: "As part of our announce discussion, we share information about all of our Power of Difference (POD) communities so they understand our priority on inclusion and employees know where they can join in. In a recent deal, we had a large and active LGBTQ population. When we announced the deal we shared information about our Pride Pod, and had a guest speaker who joined VMware through acquisition and is a gay woman. She talked about how she was initially concerned if she'd have to go back into the closet at VMware but found our culture to be open and inclusive. Having this dynamic speaker and inclusion groups helped settle any concerns those employees had about joining a large company."

It's clear that I&D is critically important in helping companies meet their financial targets generally, and in achieving their strategic objectives during a corporate transaction in particular. Despite the challenges of assessing and mitigating I&D risks during a deal, there are practical steps companies can take (and which the leading companies are already successfully implementing) to become more diverse and more inclusive organizations. Their employees, customers and shareholders are reaping the benefits.

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