



The power of diversity in M&A

Uncovering potential
opportunities for a smooth
transition

As new findings on the impact of a diversified workforce are published every day, little is known about diversity in the context of an M&A deal. Organisations¹ with greater diversity are shown to outperform financially, foster competitive advantage, and encourage risk-taking and innovation. For these reasons, organisations progress from a compliance-focused diversity to a more elaborate inclusion strategy. **When it comes to mergers and acquisitions, we notice that diversity is not yet top of mind. If not anticipated enough, it can complexify a deal and thus may require additional integration efforts.** This highlights the need to capture the level of heterogeneity of both the acquirer and the target during due diligence.

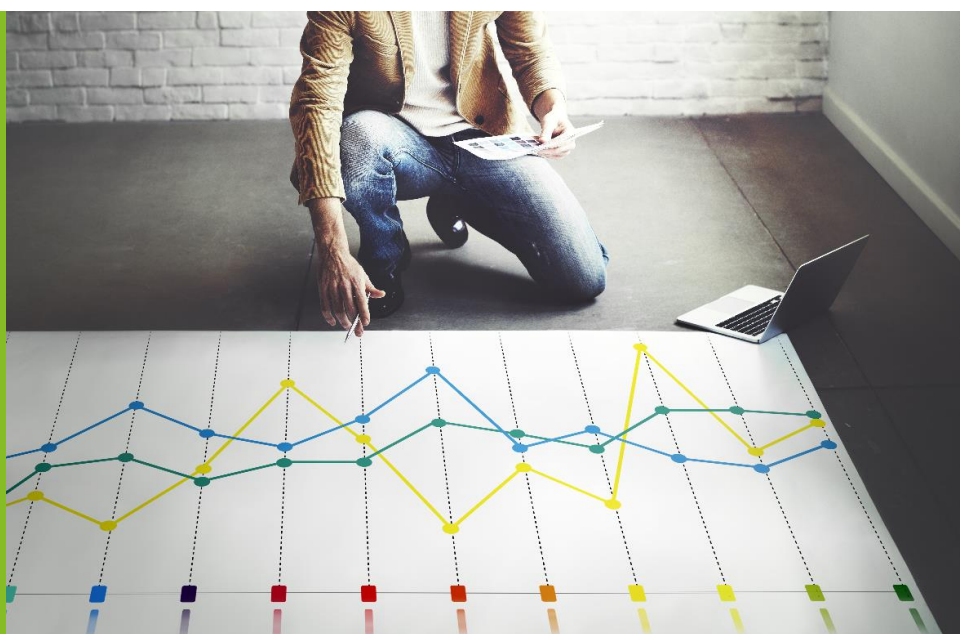


Due diligence: The process of mapping and verifying relevant information about a (target) organisation to enable the acquirer to make an informed decision. Due diligence is completed before a deal closes.

Today, most organisations incorporate workforce aspects in their due diligence from a financial perspective (e.g., rewards and benefits, pensions). In addition, we also see that culture diligence is on the rise. Referring to the article *Often intangible, always invaluable: Culture diligence in M&A*², we believe that culture diligence and pre-emptively assessing diversity is key to avoiding any missteps and high-risk scenarios from the start. **Thorough culture diligence delivers the information and insights on the workforce that are needed to make informed decisions and mitigate potential risks that occur from the integration.** For example, by understanding how two corporate cultures may clash, proactive action can be taken to reduce employee frustration. As indicated in this paper, we have taken the first steps in doing so by building on Deloitte's DEI framework to compile a list of preliminary DEI diligence evaluation questions that enable organisations to assess their DEI maturity. But what if we introduce the workforce diversity dimension outside the organisational level as a factor within culture diligence?

Whereas we approach culture mostly from a collective perspective (e.g., most observed behaviour, collective way of working), we need to dive into more individual characteristics to assess the level of diversity (how many people out of the total population have a specific characteristic?). There are five components we believe both the acquirer and the target should map out leading up to a deal. The potential differences in each of these between the two organisations will directly highlight benefits and expose potential risks, therefore helping determine the effort focused on the integration approach moving forward.

Diversity: The characteristics with which we are born and gain through experience, both seen and unseen, that make us different and similar.



(1) Phillips, K. W (2017, 18 September). How Diversity Makes Us Smarter.

(2) Rich, A.L. (2020, 4 August). Often intangible, always invaluable: Culture diligence in M&A. Deloitte. [Link](#)

Diversity passport



Ethnicity and culture refers to thoughts, beliefs, values and customs that are part of learned behaviours or heritage.



Professional background includes work history and performance and relevant work-related information such as interests, passions and educational background.



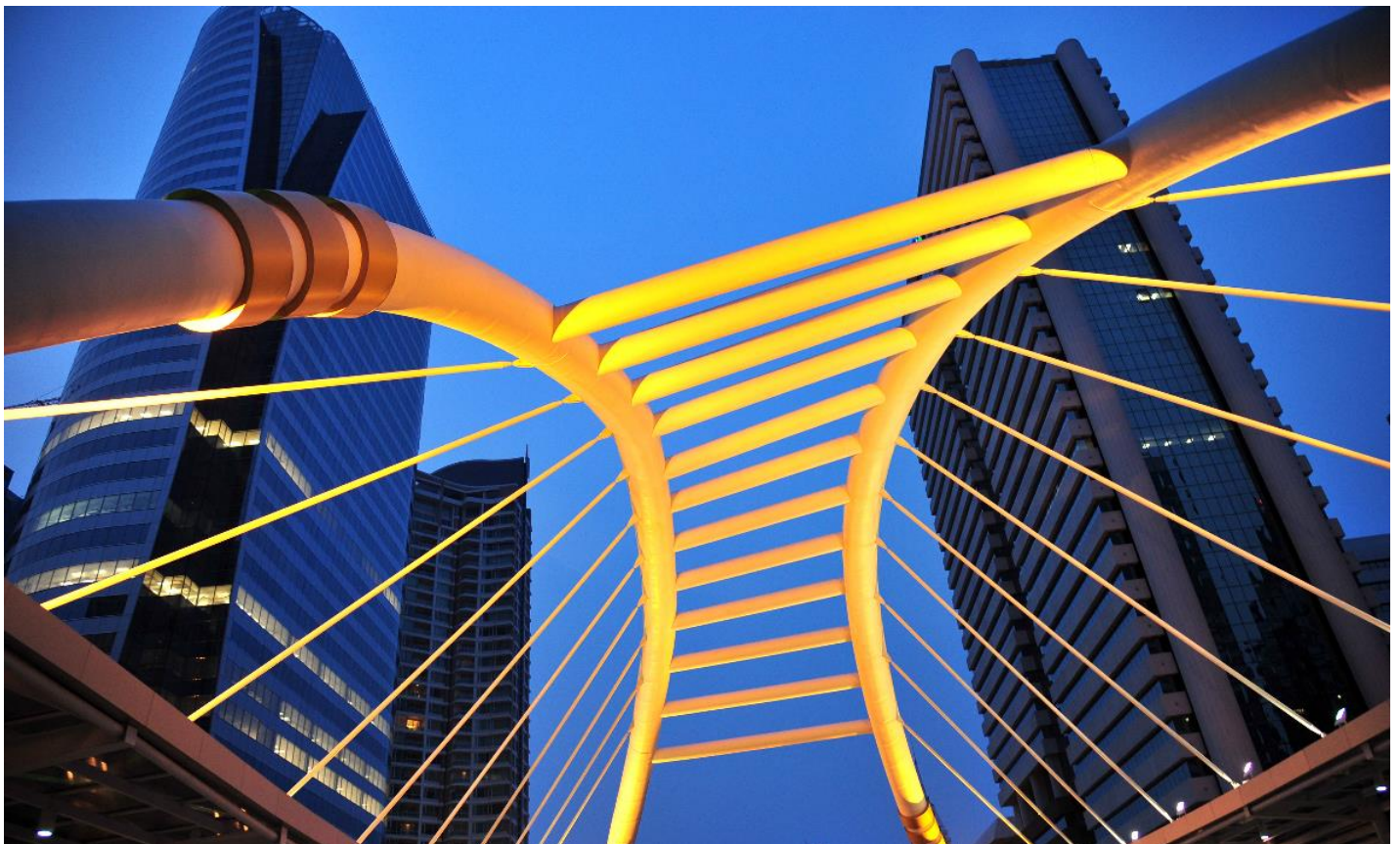
Seniority and generations represents the length of time an employee has been with an organisation and potential age-related differences.



Language or linguistics is a broad term used for ways that people communicate with each other.



Gender is an umbrella that is used to describe gender identities that demonstrate expression beyond the binary framework.



Exposing diversity risks as a nut to crack

Let's dive deeper into the diversity passport to further explore how organisations can leverage the potential of this assessment.

There are numerous reasons why organisations today face differences in **ethnic and cultural backgrounds**. According to the World Health Organization³, one billion people world-wide immigrate at least once in their life. The era of COVID-19 taught us that physical distance is easy to bridge, resulting in cross-border acquisitions, and the economy drives us to reduce costs and improve margins by investing in low-cost labour and production. If there's a remarkable difference in ethnic and cultural background between the acquirer and target, additional integration efforts with regards to cultural sensitivity should be considered, of which different work ethics, professional etiquette, decision-making style, and public holidays are only a few examples.

Cultural differences should also be taken into account within country borders. There can be differences in working culture and communication styles, which might be surprising, but can easily be dismissed upfront to avoid tensions during the integration process.



One of the reasons for mergers and acquisitions today is gaining access to highly skilled employees, and more specifically skills missing at the acquirer. A diverse skills base allows an organisation to have a richer decision-making process and ultimately have the competitive advantage of adaptability. In today's volatile society, adaptable organisations are the ones that thrive.

Although acquisitions for talent have been implemented repeatedly by many organisations, the impact of **professional backgrounds** is often underestimated. On the one hand, differences in the field of work in which an acquirer and target operate can result in complications regarding the right organisational structure and the aligned reward system. On the other hand, similar professional backgrounds, functions and skills generate potential duplicates or redundancies and may lead to a one-sided viewpoint when having to take decisions.



Generally speaking, **seniority** discussions are about how the workforce seniority will be taken over or reflected in the systems after an acquisition, but it doesn't stop there. In most cases, the time spent in an organisation will have a direct impact on the intensity of change experienced by the workforce. It goes without saying that employees that have been part of an organisation for a longer time might require additional support in changing employers.

In addition, there's a direct link between seniority and the **different generations** in the workforce. Today, baby boomers, Gen X, millennials and Gen Z are actively at work, each with their own advantages and challenges. Taking this into account in a deal might smoothen the integration process. For example, if you notice a difference in generations between the acquirer and target, you might tailor benefit packages to specific lifestyle needs (phased retirement programmes, insurances versus coaching, training).



(3) Dickau, D., Feinblum, D., Impelman, K., & Rich, A.L. (2021). A new mandate for M&A: Diversity, Equity, and Inclusion (DEI). Deloitte.

Exposing diversity risks as a nut to crack

The assessment of **languages** in which the acquirer and target operate might seem trivial, but it can be a burden for a smooth integration. Although it might pop up during the negotiations, different functions might master different languages. This is most common in off-shoring or acquisitions with low-cost labour countries for overall remote service support, in which the official language is often switched to English. Additionally, and depending on the countries you operate in, you might need to adjust employee contracts to the national languages.



While there have been many positive developments on gender equality in certain domains over the past decades, there are still a number of gender gaps in education, professional choices and organisations. If the acquirer and/or target has a gender-homogeneous employee base, it might be beneficial to consciously counterbalance potential actions before the integration. Amongst other, this could be to evaluate and adjust communication if it leans toward one gender and change function titles (such as fireman) if not yet gender neutral. Taking this into account can elevate the welcoming and sense of belonging of the entire population.



Creating insight into these components allows the deal team to anticipate risks in the integration for both the acquirer and the target. When assessing the diversity passport, we advise an approach combining both quantitative and qualitative information. This combination and the assessor's attention will ensure to exclude biases or stereotypes for every component. Additionally, we recognise that the level of diversity might differ in one organisation distinguishing, for example, leadership and management from employees. Considering all of this, **there is no one-size-fits-all solution or playbook for a successful deal.**



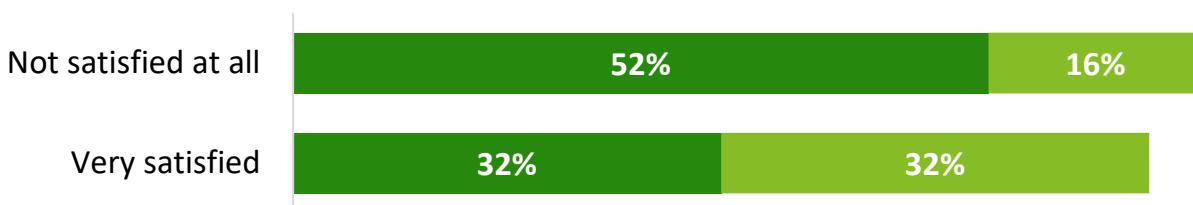
The test of time: diversity as a deal-breaker

As stated, considering diversity as a strategic priority within organisations has become inevitable. Today's workforce desires diversity, inclusion and belonging. Diverse and inclusive organisations are also more attractive employers and more successful in hiring skilled employees. The risk of not engaging in this will impact tomorrow's talent. **Through the Deloitte Global 2022 Gen Z and Millennial Survey we learned that future talent is willing to turn down jobs and assignments that are not aligned with their values.** A diverse and inclusive culture continues to be critical in terms of job loyalty with 52% of respondents leaving their jobs within two years if they are unsatisfied with the diversity and inclusion strategy.

Gen Z



Progress in creating a diverse and inclusive environment



Millennials



Progress in creating a diverse and inclusive environment

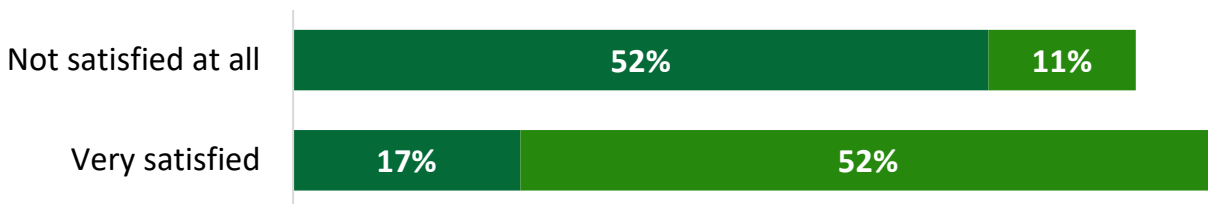


Illustration: Level of satisfaction with commitment to diversity and inclusion has a direct impact on job loyalty

What if we prepare our organisations for this future through M&A, aligned with acquisitions for assets and skills? What if our ecosystems require a different, yet representative workforce diversity? What if we want to fuel innovation and drive better business outcomes through diversified backgrounds? **What if we are at the tipping point of diversity becoming a deal-breaker in M&A?**

Is your organisation ready to embark on the diversity journey?



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