

# How Engaging Employees Benefits Your Business

**Employee engagement is the insidious deal killer. We explain why your latest acquisition may have a fatal risk you aren't even thinking about.**

Despite well recorded history that the large majority of acquisitions fail to achieve their investment thesis, acquisition activity continues to set records year after year. You might ask yourself why so many companies pursue acquisitions when the odds of success seem so low and the challenges and hurdles for post-closing success seem so high.

Firstly, not achieving the thesis is a disappointment, but it could still result in a reasonably good deal for the acquirer. The investment community rewards growth, and as long as a deal is accretive, inorganic growth is one way to get there. Secondly, hope springs eternal and while "other people" may fail at this game, you're smarter, so how hard can it be?

The root causes of failures are well documented. The leading suspects are:

- Leadership failings where the acquirer's leaders basically run rough shod over the asset they just acquired;
- Bad organizational design decisions, where leaders of the target get their noses bent out of joint because they appear to be "demoted" and therefore leave; and/or
- There is a culture mismatch and people just can't get over that cultural chasm.

The result is that people leave (usually it's the twenty per cent that really make the business work that leave first) and you are left holding together the pieces of what looked like such a good idea only a few months before.

**But there is another root cause rarely discussed – employee engagement.**

Nobody wants to admit this, but one of the ways companies succeed is that despite their shortcomings, employees regularly and consistently go above and beyond the call to make it happen for customers. Engaged employees are the ones going above and beyond, and enterprise value and culture are the direct beneficiaries. In what can be a very subtle problem disengaged employees will let things fall through the cracks or not jump on an issue right away before it festers into something life-threatening.

And the truth is, if we put the acquisition event aside for a moment, you've got an engagement problem already. According to Gallup's "State of the American Workplace" dated February 2017, only a third of employees are "engaged", about a sixth are actually "disengaged" (so they might be working against you already) and about half are just hanging out. So your target probably reflects something like this. As Andrew J. Sherman, partner at Seyfarth Shaw in Washington, who has literally written volumes on the topic said, "Levels of engagement in the target and culture are now at the top of all smart buyer's due diligence lists".

## So how do you deal with that?

---

Some analysis is required to understand the root cause and it's not hopeless. As a leader if you engage with employees and respond to the issues they raise, then engagement will improve.

Now back to acquisitions. If this engagement issue is fragile to begin with, you can see how a poorly executed integration plan can tip the engagement scale, maybe to a fatal effect for your deal. It is important to be: careful to make sure you handle the cultural issues; thoughtful in organizational decisions; in communication and then communicate again; and make sure the underlying "plumbing" works.

It's this last point that is easy to assume will take care of itself. The plumbing referenced here include payroll, healthcare, retirement plans and other entitlement programs. The usual assumption is that it will all work itself out – the usual experience is that it doesn't. So try managing engagement when the first experiences of an acquired employee are payroll errors, or their health coverage is declined – good luck recovering from that.

The truth is that this plumbing is all about data. Most companies in the U.S. today have a pretty complex network of systems and vendors...and vendor systems(!) to manage all this. From the outside it usually appears highly integrated. From the inside, the processing risks quickly become apparent. Some systems are updated real-time, some are batch (i.e. some updates are propagated immediately, others may only happen daily or weekly), so you can see how data starts to lose its integrity across the network. Some people are better at keeping information up to date, others aren't. Sometimes nobody is accountable for data accuracy, so it begins to drift. The result is that when you go through this integration process all of these issues will come home to roost, resulting in bad experiences for employees – with even more disengagement afterwards. (And note, it is almost easiest to deal with employees who quit – you know there is a hole that needs to be filled. Engagement is tougher...and insidious...because it can be very hard to see until it is too late.)

## The good news is that this is manageable.

---

Some analysis is required to understand the root cause and it's not hopeless. As a leader if you engage with employees and respond to the issues they raise, then engagement will improve.

Now back to acquisitions. If this engagement issue is fragile to begin with, you can see how a poorly executed integration plan can tip the engagement scale, maybe to a fatal effect for your deal. It is important to be: careful to make sure you handle the cultural issues; thoughtful in organizational decisions; in communication and then communicate again; and make sure the underlying "plumbing" works.

It's this last point that is easy to assume will take care of itself. The plumbing referenced here include payroll, healthcare, retirement plans and other entitlement programs. The usual assumption is that it will all work itself out – the usual experience is that it doesn't. So try managing engagement when the first experiences of an acquired employee are payroll errors, or their health coverage is declined – good luck recovering from that.

The truth is that this plumbing is all about data. Most companies in the U.S. today have a pretty complex network of systems and vendors...and vendor systems(!) to manage all this. From the outside it usually appears highly integrated. From the inside, the processing risks quickly become apparent. Some systems are updated real-time, some are batch (i.e. some updates are propagated immediately, others may only happen daily or weekly), so you can see how data starts to lose its integrity across the network. Some people are better at keeping information up to date, others aren't. Sometimes nobody is accountable for data accuracy, so it begins to drift. The result is that when you go through this integration process all of these issues will come home to roost, resulting in bad experiences for employees – with even more disengagement afterwards. (And note, it is almost easiest to deal with employees who quit – you know there is a hole that needs to be filled. Engagement is tougher...and insidious...because it can be very hard to see until it is too late.)

## ABOUT OPTIMUM

---

Optimum is a vendor management firm that focuses exclusively on the HR supply chain with turnkey solutions that improve the financial, operating performance, transparency and accountability of HR Benefit programs while still maintaining existing vendor relationships.

Our support of the HR workstream during the M&A lifecycle encompasses operational due diligence, day-one readiness and post day-one synergies. We assist sponsors in leveraging the aggregate purchasing power of their portfolio to capture value and drive margin expansion.