



Managing Employee and Culture Risks During Cross-Border M&A Transactions

Realizing the value of any merger and acquisition (M&A) transaction is challenging, and many studies find companies fail to achieve their deal thesis and synergy goals due to employee and culture issues. Cross-border acquisitions add employee regulatory, policy, and cultural challenges.

Multinational companies considering cross-border acquisitions should identify and manage these challenges based on their deal thesis and integration objectives. A “just run our normal play” deal and integration approach, even for successful acquirers, might fail without understanding critical cross-border country, regional, and cultural differences.

For example, back-office savings are usually an expected source of synergy savings, but regulatory reduction-in-force restrictions, employee representation challenges, and statutory costs might reduce that benefit in many countries. Similarly, revenue synergies typically occur when sales organizations are combined, but cultural differences and poor incentive plan design or

integration might delay anticipated benefits while increasing critical employee or customer turnover. Effective due diligence and integration processes are necessary for cross-border acquirers to understand and mitigate these employee and culture risks.

Crowe global advisory team members have identified the most frequent human capital risks in executing cross-border transactions. These risks have been categorized, by country, into the following categories:

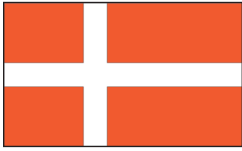
- **Benefits.** Buyers might incur increased statutory and supplemental benefits costs due to social insurance and immigration costs due to renewing, transferring, or terminating work permits and visas.

- **Culture.** Acquirers might witness friction caused by significant differences in employee values, attitudes, and behaviors by country and function when an integration strategy requires combined or new cultures.
- **Representation.** New owners might have more interactions with workers councils, unions, and ombudsmen and be subject to mandatory collective bargaining.
- **Termination.** Restructuring will need to consider statutory timing and process restrictions for terminating employees and severance cost.

The following pages include some country-specific situations that a cross-border acquirer might encounter and impacts that should be researched and considered.

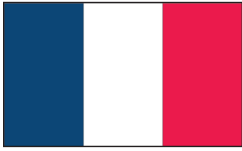
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Denmark

	Situation	Impact on Cross-Border Acquirer
Benefits	<p>All employees are entitled to 25 holidays annually, but many have 30 days. Employees qualify for holiday pay salary if they have worked for their employer during the preceding year.</p> <p>Employees have a legal right to 52 weeks of leave per child.</p>	<p>The Danish <i>Holiday Act</i>, which governs generous rules for employee vacations, holidays and other time off, is complex. Employers that fail to comply with the <i>Holiday Act</i> may be subject to fines.</p>
Culture	<p>Collective bargaining agreements, and not statutory rules, typically determine the length of the workweek, which averages 37.0 to 37.5 hours. Many employees are allowed to telecommute at least one day a week.</p> <p>Benefits frequently include mobile phones, personal computers, internet access, and pensions.</p>	<p>Generally speaking, most employers follow the workweek hours defined in collective bargaining agreements. Because many employees expect to receive pensions, acquirers should factor this cost into their plans.</p> <p>Danish employees focus on explicit, specific verbal and written messages to understand people and situations.</p>
Representation	<p>Many collective bargaining agreements are in force in Denmark. These agreements tend to apply to specific types of work, such as office, technology and industry. Employers that do not have collective bargaining agreements with their employees may face pressure from trade unions to establish such agreements.</p>	<p>It can be very difficult for employers to be released from collective bargaining agreements. Employers should understand the pros and cons of these relationships and seek appropriate legal advice for dealing with the many labor issues they may face in Denmark.</p>
Termination	<p>Denmark's <i>Salaried Employees Act</i>, individual employment contracts, and collective bargaining agreements generally determine the notice period for termination. Under the <i>Salaried Employees Act</i>, workers are entitled to a notice period of one to six months, depending on how long they have been employed. In some cases, individual contracts can extend the notice period; where collective bargaining agreements are in force, the notice period may be shorter.</p>	<p>Employers should make sure that terminations are justified. Otherwise, they may have to pay compensation to the terminated employees.</p> <p>For example, be cautious about giving notice of termination to a pregnant employee or an employee on leave without first consulting a legal adviser.</p>



France

	Situation	Impact on Cross-Border Acquirer
Benefits	<p>All employees have a right to a five-week vacation, 14 weeks of maternity leave, and 16 weeks of parental leave, as well as compulsory pension plans and collective bargaining.</p> <p>In France, profit-sharing plans are mandatory for companies with more than 50 employees. They are optional for smaller companies.</p>	<p>Acquirers may expect increased benefit plan and staffing expenses, and the increased time and expense of collective bargaining.</p> <p>Profit-sharing and incentive plans record the profit and loss account for the year in which the employees' entitlement began.</p>
Culture	<p>To ensure that workers receive enough personal and family time, all companies with more than 50 employees must negotiate with their employees over their "right to disconnect" from digital devices.</p>	<p>Depending on the outcome of "right to disconnect" negotiations, not all employees may be available for communication outside working hours. This may result in inefficiencies and delayed communications with employees in other time zones.</p> <p>Personal relationships are critical for establishing communication.</p>
Representation	<p>A workers' council is mandatory if the employer has more than 50 employees. A business transfer cannot occur until the workers' council submits an opinion.</p>	<p>There may be a delayed transaction close, with additional time required to reach a satisfactory agreement and to launch cost/revenue initiatives.</p>
Termination	<p>Disputes between employers and employees fall under the jurisdiction of employment tribunals.</p> <p>The termination of an indefinite-term employment contract through a contractual termination allows the employer and employee to come to an agreement on the conditions for terminating an employment contract.</p>	<p>Terminating an employee is difficult, with severance pay equal to several years' salary, delaying realization of the value of restructuring or turnaround deals.</p> <p>When a contract exists with the employee, the employer is exempt from the labor law requirements such as deadlines, procedures, and notice inherent to dismissal.</p>



Germany

	Situation	Impact on Cross-Border Acquirer
Benefits	<p>German workers have access to extensive employee benefits covering healthcare, disability, unemployment, and retirement. Employers fund approximately half of these costs.</p> <p>Employees who are unable to work for reasons of physical or mental incapacity or illness are entitled to paid time off. Employers must pay these workers 100 percent of their salary or wages during the first six weeks they are out.</p> <p>Employees typically receive at least 24 holidays and vacation days each year. However, many workers receive more than this amount of time off, commonly between 25 to 30 days per year.</p>	<p>Germany has a highly regulated labor market, designed to protect the rights of employees. Whether or not an employment contract exists, all employees have basic rights to holidays, sick pay, opportunities to work part time, job training, and parental leave.</p> <p>Working conditions must meet the legal minimum standard. A disregard of labor laws and working conditions would lead to additional costs and consequently delay the realization of value from restructuring or the use of synergies.</p>
Culture	<p>While executives in some countries value personal relationships in business, Germans focus on the task. Germans tend to keep their business and personal lives separate.</p> <p>German companies have many rules and regulations that govern employees and their workplace behavior. Employee contracts have to be in writing, and they are followed closely.</p> <p>Germans also value consistency and reliability. They expect their counterparts to be punctual and precise.</p>	<p>When doing business in Germany, it is better to be more formal than casual.</p> <p>To understand people and situations, Germans look to explicit verbal and written cues. This approach underscores a need for consistency.</p> <p>Germans are often more direct than executives in other countries, and they value this approach in their colleagues and counterparts.</p>
Representation	<p>In Germany, as in other European countries, many employees (union as well as nonunion) are represented through local works councils, or “Betriebsrats.” Employees are not required to belong to a works council. Under Germany’s <i>Works Constitution Act</i>, works councils provide employees with general information and consultation rights. Works councils are required to ensure that employers apply laws, rules, and health provisions correctly. Close communication between works councils and employers is critical to a company’s success.</p>	<p>Employers must bear all costs that works councils require to perform their duties. These costs include office space, office equipment, and, in some larger organizations, part- or full-time staff. Collective bargaining agreements typically determine wages, working conditions, and termination provisions, and works councils might resist changing workplace rules. Employees have the right to vote for board of directors candidates, and have binding rights on workplace issues.</p>
Termination	<p>When terminating employment in Germany, employers must put such notices in writing. Employers need to provide at least four weeks’ notice. Where works councils exist, employers must notify them of the termination.</p> <p>Germany does not require that employers provide severance pay. However, to avoid costly court proceedings, many employers offer severance pay.</p>	<p>Termination of employment relationships is generally difficult. Workforce realignment delays and increased severance costs might delay realization of the value of restructuring or turnaround deals.</p> <p>Typically, employers will offer an amount equal to 50 percent of an employee’s monthly salary per year of service. However, this amount can vary depending on the circumstances underlying the termination.</p>



Italy

	Situation	Impact on Cross-Border Acquirer
Benefits	Employees are entitled to four weeks of holidays per year, as well as up to two additional weeks of leave depending upon specific contracts in place. Companies must encourage work-family reconciliation policies by adjusting working times and conditions. Pension schemes have three parts: a public compulsory one, a contractual compulsory one, and a voluntary one decided by the employer.	A buyer needs a full understanding prior to the acquisition of the economic and contractual treatments of employees and workers in general. Extra-contractual benefits are usually provided only to medium- and high-level positions within the company. Public policies promote welfare within corporations, particularly with respect to healthcare, cultural development, family, and personal well-being of employees.
Culture	There is a strong impact of collective bargaining on labor relationship management, with strict rules on disciplinary relations within the company. There are few opportunities for employees to participate in the corporate decision-making process; however, there are strict and demanding rules on health and safety at work and the protection of employees' personal data.	Based upon specific conditions, buyers take over all kinds of personnel-related liabilities of the acquired company and must take over all the existing personnel. Understanding existing and past employment relationships is critical, as is obtaining appropriate contractual protection because of the risk of union conflicts.
Representation	While all the employees can be unionized, company representation is only allowed for organizations with more than 15 employees. There is limited union involvement in the company's decision-making process, but unions have strong supervisory power, particularly with respect to safety at work and labor relation rules.	All extraordinary corporate transactions concerning organizations with more than 15 employees are subject to prior union consultation. Expect complex organization chart reviews and a need for expensive individual and/or collective agreements.
Termination	Complex rules exist for dismissals based, in particular, on company size (more or less than 15 employees). Strong protection from dismissal from permanent employment exists, with expensive outcomes in cases of dismissal without cause or a justified reason for termination. Union consultation is required for dismissals of more than five employees at the same time.	Each dismissal from permanent employment must have a cause and/or a justified reason. There are formal dismissal procedures, particularly for group terminations. A terminated employee may be reinstated unless a justified cause or reason for their separation is proven. Under recent rule changes, the maximum risk is limited to 24 average monthly payments for unjustified dismissals and six monthly payments if the company has fewer than 15 employees.



Russia

	Situation	Impact on Cross-Border Acquirer
Benefits	<p>Employees receive a minimum of 28 paid vacation days per year and 14 public holidays. They also receive a minimum 140 days of maternity leave, with an additional three years of parental leave. Employees are entitled to paid sick leaves. The employer covers the first three days and the Social Insurance Fund covers the remaining days.</p> <p>Working hours are a maximum of 40 per week, but in some corporate cultures, overtime work, especially in top management, is encouraged and expected. Stricter rules on working hours apply in industries dealing with hazardous materials and in some regions (Far North), employees of companies in those industries are entitled to longer paid vacations and shorter working weeks.</p> <p>There are compulsory social security contributions. While the personal income tax rate in Russia is among the lowest in the world (13 percent), the employer has to pay an additional 20 percent social security contribution. On average, the rate differs depending on the size of the annual income of the employee.</p> <p>The minimum wage by law differs across regions. There is some degree of correlation between the size of salaries and wages and the size of the city. In the largest cities – Moscow and St. Petersburg – salaries and wages tend to be higher than in the tier-two cities (so-called “millionaire cities” with population over 1 million), and significantly higher than in the rest of the country.</p> <p>A significant delay in payment of salaries and wages (longer than one to two months) can lead to felony charges against the general director (in western parlance, CEO) of the company.</p> <p>A common method of tax evasion is the payment of a portion of wages “in envelopes” (in cash and not accounted for in statutory accounting).</p>	<p>An acquirer faces the risk of overestimating company value and underestimating needed investments. The financial models developed for acquisition and operational purposes must account for all benefits, including an unusually low number of working days per year.</p> <p>The general director (possibly appointed by the acquirer) faces the risk of criminal prosecution in the event of delays in payment of any salaries and wages.</p> <p>Low mobility of population means that hiring new personnel can be a difficult task. Coupled with a higher cost base in key cities and lower labor productivity in comparison with other developed countries, a low mobility of population can lead to major human capital problems during post-M&A integration.</p> <p>Payment of salaries in cash creates risks and puts added pressure on acquirers to carry out thorough tax due diligence. These unofficial payments to employees also create the risk of underestimating payroll expenses. It is imperative that management uses accounting data to determine the correct payroll amount, and normalize past years’ financial statements for unreported tax effects.</p>

	Situation	Impact on Cross-Border Acquirer
Culture	<p>Corporate culture can differ depending on the personality of the general director and shareholders.</p> <p>In typical Russian companies, employees other than top managers do not check messages during nonworking hours but some companies, typically in larger cities, encourage or even expect working overtime.</p> <p>Communications within companies differ based on corporate cultures and can range from very informal to very formal. The same applies to office dress codes.</p> <p>Outside of major cities, the most common type of corporate culture encourages work-life balance and family-type interpersonal communications.</p>	<p>Possible conflicts during integration with the acquirer's business might develop. These conflicts can be especially challenging if the acquirer and the acquisition target have differing corporate cultures.</p> <p>Avoiding drastic changes in corporate culture resulting from a change in the general director is important.</p> <p>Time zones can play an important role in communications within larger organizations (with presence in several regions), as Russia spans 11 time zones. If the acquisition target has offices in different regions or has counterparties spanning different time zones, communications have to account for the time differential.</p>
Representation	<p>Generally, there is no designated union or workers' council in most industries. However, employees are free to join a union of their choice. Certain public industries have union representation. Most trade unions appear to have modest bargaining power, with the exception of a few industries, such as railroads.</p>	<p>Union representation is not a significant factor in most private sector transactions.</p>
Termination	<p>The Russian justice system affords significant protection to employees, resulting in higher labor expenses.</p> <p>Termination of employees is a complex procedure under Russian labor code, and in most cases requires the consent of the employee being dismissed.</p> <p>The termination of employment relationships by dismissal or termination agreement is required to be in written form to be valid. The minimum notice period is two months. Employers are obliged to pay the same salaries for the duration of this notice period, and then follow it up with termination bonus of two monthly salaries. In the event that the employee registers with the labor exchange and is still unemployed after two months, the company must pay the third monthly salary payment.</p> <p>Pregnant employees must be retained unless the company is being liquidated.</p>	<p>Acquirers may face potentially significant added costs in the event that corporate restructuring is a part of post-M&A integration.</p> <p>To avoid these costs, an acquirer needs to negotiate reimbursement of any of these termination costs with the seller.</p>



Switzerland

	Situation	Impact on Cross-Border Acquirer
Benefits	<p>Companies must provide compulsory old age, retirement, and disability insurance as well as unemployment and accident insurance for all employees – with some exemptions for expatriates. An employer’s contribution to the social security system is around 12 percent to 14 percent minimum. Most of the companies offer additional pension fund benefits as fringe benefits. Employees’ contribution is a minimum of 10 percent.</p> <p>The minimum vacation given by law is 20 days per year. Companies often grant 25 days of vacation on voluntary basis.</p> <p>Weekly working hours are limited to 45 for office personal and 50 for industrial and construction workers. Most companies have standard working hours of around 40 to 42 hours per week.</p> <p>Industries with collective bargaining agreements might have different regulations.</p>	<p>Certain industries, in particular construction businesses, do have extended employee protection regulations based on collective bargaining agreements. Therefore, minimum wages are relatively high in these industries in comparison with other European countries.</p> <p>Although Switzerland is not a member of the European Union, it has signed a free movement agreement with the European Union that allows EU residents to work in Switzerland. Formal requirements for migration, however, are strict.</p>
Culture	<p>Swiss people give high importance to timeliness as well as meeting deadlines. Depending on the industry and function, employees do usually not check emails and their business phone after work or on holidays. Labor law requires exact reporting of working hours and days.</p> <p>Flat hierarchy and informal dress codes and communications are common in most of the companies.</p> <p>Employees expect a high level of independence in terms of work planning and decision-making.</p>	<p>Due to the low unemployment rate, it is a challenge to find qualified employees in almost every industry.</p> <p>Because Swiss employees are accustomed to rules-based structure, they may not initially be comfortable with flexible working arrangements, which might be the desired work culture of an acquirer.</p> <p>Swiss employees focus on explicit, specific verbal and written messages to understand people and situations.</p>
Representation	<p>Companies with more than 200 employees have to build an employees’ committee if more than 100 employees demand it.</p>	<p>The committee has informal function and has usually no direct influence on the decisions made by the company.</p>
Termination	<p>Flexible labor laws exist in terms of hiring and terminating. The termination period is between one and three months, depending on the duration of the employment.</p> <p>Termination of employment on mutual basis is always possible with immediate effect.</p>	<p>Employees must receive notice of separation before the end of the month. There are equal regulations for employers and employees.</p> <p>In case of mass dismissal, the employer must consult the employees or employees’ representation committee informally and provide social plans.</p>



United Kingdom

	Situation	Impact on Cross-Border Acquirer
Benefits	<p>Employers are required to enroll their eligible workers into a pension. Employers must also pay money into the pension fund, with the majority of employers matching the employee's contribution up to a certain level, often 5 percent.</p> <p>Statutory holiday leave is 20 days per year and eight public holidays (pro rata, if part time). However, many employers give 25 days (and some up to 30 days) of annual leave and eight public holidays, plus one to two days of discretionary leave for the Christmas period.</p> <p>Other benefits provided can include life insurance of four times the salary, annual train ticket loans, group income protection, a car or car allowance, and private medical insurance.</p> <p>In the United Kingdom, Transfer of Undertakings (Protection of Employment) (TUPE) regulations exist, where if a business moves to a new owner, TUPE protects the entitlement of U.K. employees to the same terms and conditions with continuity of employment they had before the transfer. As such, under TUPE regulations, benefits transfer if an acquisition occurs.</p>	<p>A buyer will likely incur increased benefit plan costs and staffing expenses due to statutory and optional benefits.</p> <p>Acquirers should be aware of the risk of defined benefit pensions.</p> <p>TUPE regulations can cause a number of issues for acquirers, with benefit plan coverage liability transferred to the acquirer.</p> <p>Some legacy-defined benefit pensions exist when retired employees are entitled to large obligations.</p>
Culture	<p>Typically, employees socialize both inside and outside of the office with both clients and colleagues.</p> <p>Work mobile phones are common, and most senior employees check email and messages during nonworking hours.</p> <p>Communication is generally informal, and work-life balance is encouraged.</p>	<p>Culture is an important factor during the integration process. Social culture and life balance are important to employees.</p> <p>Trust is built through working efficiently on business activities.</p> <p>Explicit and specific verbal and written messages work best to facilitate understanding among all parties.</p>
Representation	<p>Generally, there is no designated union or workers council within private sector industries; however, employees are free to join a union of their choice.</p> <p>Certain public industries, such as railway staff, have union representation.</p>	<p>Existing collective bargaining agreements and union representation will not be a factor in most private sector transactions.</p>
Termination	<p>Employers must give one week's notice if the worker has been employed continuously for at least one month but less than two years. Two weeks' notice is required if the employee has been employed continuously for two years, and one additional week's notice is required for each further complete year of continuous employment, up to a maximum of 12 weeks. The maximum statutory redundancy pay is £508 per week and length of service is 20 years. The maximum statutory redundancy pay an employee may receive is £15,240.</p> <p>Often staff will have long notice periods for termination of employment, between three to six months.</p>	<p>Under TUPE regulations, if an acquirer wishes to relocate or terminate employees, the acquirer must offer alternatives to employees, such as relocation packages if relocation is sought, other roles within the organization, or a settlement agreement, or the acquirer must provide a redundancy payment to the employee, which can lead to workforce realignment delays.</p>



Brazil

	Situation	Impact on Cross-Border Acquirer
Benefits	<p>Brazilians are entitled to 30 days of paid vacation per year and an annual bonus of 33 percent of base salary, plus one additional month's salary (i.e., 13 months of salary). Employers pay 8 percent of their employees' gross salary into an unemployment fund (the Fundo de Garantia do Tempo e Serviço, also known as FGTS) in case of dismissal without just cause.</p> <p>In addition, employees receive four months of maternity leave and an additional 20 percent of base salary for hours worked between 10 p.m. and 5 a.m., and law prohibits salary reductions registered in their contract of work.</p>	<p>Expect increased human resources costs combined with low workforce flexibility, which is a symptom of the challenging economic conditions in recent years.</p> <p>Labor reform efforts are underway.</p>
Culture	<p>An underqualified and inexpensive labor force includes a high degree of informality in work relationships. Employers may become frustrated by employees not acknowledging the importance of deadlines and punctuality.</p> <p>Because salaries are low, many employees choose to work overtime or hold more than one job.</p>	<p>A high degree of informality in the workplace may sometimes result in distractions that affect productivity. Workforce training may be helpful in such circumstances.</p>
Representation	<p>Workers can join unions that will defend their causes.</p>	<p>Large-scale unions might suggest strikes or temporary work stoppages to change labor conditions. Multiple negotiation meetings and labor agreement revisions can interfere with production.</p>
Termination	<p>Disputes between employees and employers are resolved under the jurisdiction of the labor court.</p>	<p>The Brazilian justice system affords significant protections to employees. Compliance and disputes can result in higher labor expenses and delays.</p>



Mexico

	Situation	Impact on Cross-Border Acquirer
Benefits	<p>Statutory benefits include six vacation days for the first year; two additional days per year, up to 14 days by the fifth year of employment; and after the fifth year, two days are added for every five years of service. There is a vacation bonus of 25 percent of the salary when employees take vacations. Employees also receive a Christmas bonus equal to 15 days' worth of wages.</p> <p>Contributions to social security (the government's healthcare service) are also required for all companies, as well as profit sharing of 10 percent on fiscal earnings, and 90 days off for maternity leave.</p> <p>Many companies provide extra benefits to their employees. The most common include a monthly bonus for food, a savings plan, private healthcare insurance, and life insurance.</p>	<p>Statutory benefits are part of the company's costs, and failure to provide these benefits results in a penalty fee.</p> <p>The cost of providing extra employee benefits, including a monthly meal bonus, a savings plan, private healthcare insurance, and life insurance is discretionary, but past practices should be considered.</p>
Culture	<p>The standard working week is 40 hours and a limited overtime up to 48 hours per week is permitted.</p> <p>Union workers receive paid overtime. Administrative personnel are paid in kind with a day off negotiated with their respective supervisor, but with no monetary compensation. Employees have a strong commitment to the expected results, which means they often work overtime.</p> <p>In the case of workers who have a minimal salary, there is a high turnover as they switch companies for small salary increases.</p>	<p>It is essential to maintain a work environment of high confidence and high productivity. Employers should demonstrate they respect and institutionalize best practices in human resources.</p> <p>Companies with positive workplace environments generally have low staff turnover and provide frequent communication with employees to keep them engaged.</p>
Representation	<p>Ten large unions represent 90 percent of the active labor force. It is advisable for employers to let the union representatives know in advance if a unionized employee is about to be let go.</p>	<p>It is important to maintain a good relationship with the unions and define the process when there is a merger between companies with different unions.</p>
Termination	<p>A termination must be justified before the Conciliation and Arbitration Board in the company's state. Usually, the authority rules in favor of the worker in the case of a disagreement. If so, the company must pay the full severance payment of 90 days' salary plus 20 days per year worked.</p>	<p>In a merger where there are redundant positions or multiple people for a single role, it is necessary to consider the significant cost of severance.</p>



United States

	Situation	Impact on Cross-Border Acquirer
Benefits	<p>Only 13 percent of nonunion private-sector workers are members of pension plans. Workers represented by unions are more likely to have defined pension plans.</p> <p>Vacation eligibility typically is based on length of service, organizational level, or collective bargaining agreement. There is no statutory minimum paid vacation or paid public holidays. A majority of employers offer paid vacation to their employees. The average number of paid vacation days offered is 14 days after five years, 17 days after 10 years, and 20 days after 20 years. Most employers give their employees paid time off (PTO) during public holidays, on average eight holidays per year.</p> <p>There are no federal legal requirements for paid sick leave. The <i>Family and Medical Leave Act</i> (FMLA) requires covered employers to provide employees with job-protected unpaid leave for qualified medical and family reasons. FMLA provides up to 12 weeks of unpaid leave for certain medical situations for either the employee or a member of the employee's immediate family.</p> <p>An employer who has employees working overtime is generally required to pay premium pay. Employees covered by the <i>Fair Labor Standards Act</i> (FLSA) must receive overtime pay for hours worked in excess of 40 in a workweek.</p>	<p>Benefits integration is typically straightforward for the nonexecutive population, especially for companies with outsourced benefit plan and payroll administration.</p> <p>Mandatory benefits and overtime requirements vary by state. Benefits costs vary by industry and geography based on demand for specific skills or experience. For example, high-tech companies will offer higher salaries and a greater mix of incentive compensation than a manufacturer.</p> <p>Some PTO plans require a payout upon a change of control.</p> <p>The FLSA, with some exceptions, requires bonus payments to be included as part of an employee's regular rate of pay in computing overtime. The FLSA does not require overtime pay for work on Saturdays, Sundays, holidays, or regular days of rest, unless overtime hours are worked on such days. Extra pay for working weekends or nights is a matter of agreement between the employer and the employee or the employee's representative.</p> <p>Some change-of-control agreements include full vesting of outstanding stock options, resulting in unwanted turnover without retention agreements in place.</p>
Culture	<p>Employees build trust based on their ability to meet expectations and their reliability, rather than relationships built outside of work. Employees tend to be task-based rather than relationship-based, punctual, and use formal project management methods and tools.</p> <p>Work-life balance is a stated value, however most employees check their messages during nonwork hours and vacations.</p> <p>American business culture places a heavy emphasis on individual initiative and achievement. Competence, professionalism, and accountability for performance are highly valued. This leads to a work culture where most responsibilities occur without direct supervision. This emphasis on achievement also contributes to a competitive work ethic.</p> <p>In business communications, Americans use a direct style. The primary purpose of communication is to exchange information, facts, and opinions. More importance is attached to the words rather than the communication style. Americans will not hesitate to say "no" or criticize others in public.</p> <p>An important aspect of U.S. culture is the belief that an individual can succeed and prosper through hard work. This idea contributes to a strong work ethic and merit-based approach. As a result, workers work frequent overtime.</p>	<p>Direct communication styles are common in the United States. This approach can cause problems with people from other cultures where conflict is indirect and saving face is important.</p> <p>Regional differences affect employee perceptions of work rules and work-life balance. There is a low unemployment rate in the United States, so employees' turnover potential is high in competitive labor markets. Consistent and clear communications with employees will be critical during the integration process. Over communicating and engaging U.S. employees during integration is important to building their understanding and commitment.</p> <p>American business language is full of idiomatic expressions, many taken from sports or military organizations. Most Americans might not even be aware that they are using idioms, but it can be quite a challenge for acquirers unfamiliar with American culture.</p> <p>Schedules and deadlines are important, with great emphasis put on getting the best results in the quickest time. Acquirers with collaborative cultures might perceive this style as too rapid for necessary deliberation.</p>

	Situation	Impact on Cross-Border Acquirer
Representation	<p>Union membership has declined steadily since 1983. Even private-sector industries with a relatively high concentration of union members, such as manufacturing, have experienced declining membership rates. Unions and collective bargaining agreements, primarily in manufacturing, represent less than 12 percent of private sector employees. Large unions are politically active and seek to represent employees in service industries like retail and food services.</p> <p>Right-to-work states forbid unions from requiring employees to join a union. Private sector unions are regulated by the <i>National Labor Relations Act</i> (NLRA). Union members can request representation by a union representative in disciplinary situations and if working conditions or arrangements change.</p>	<p>Existing collective bargaining agreements and union representation will not be a factor in most private sector transactions.</p> <p>However, due diligence should include analyzing past labor organizing activity, if the location is in a right-to-work state, and the prevalence of recent union organizing in the acquisition target's industry.</p> <p>Employees in a labor union might earn up to 33 percent more income compared to nonunion employees in their geography.</p> <p>Union negotiations might be required to change working conditions and discipline employees but vary by geography, industry, and company size. Unions can be decertified based on the results of an employee election.</p>
Termination	<p>Typically, employment relationships are considered employment-at-will, meaning an employee can be dismissed by an employer for any reason and without warning. The <i>Worker Adjustment and Retraining Notification Act</i> (WARN Act) requires 60 days' notice for closing work locations or mass layoffs of more than 100 employees.</p> <p>Some U.S. courts recognize that there are instances when an employee might be entitled to enhanced job security based on contract or tort theories.</p>	<p>Acquirers might quickly achieve organizational realignment goals and headcount reduction synergies in non-WARN Act situations.</p> <p>Union agreements or state laws might affect notice periods and termination pay and limit the circumstances in which an employer can terminate its employees.</p> <p>There is no requirement in the FLSA for severance pay. Employees typically receive severance pay based on the length of their employment.</p>



India

	Situation	Impact on Cross-Border Acquirer
Benefits	<p>Companies with at least 20 employees must make retirement benefit contributions every month. A government provident fund helps employees save a fraction of their salary every month to use if they are temporarily unable to work or at retirement. Employers and employees both contribute about 12 percent of wages to contribution accounts that employers supplement by paying the administration costs.</p> <p>Staff and executives with a minimum five years of service receive a retirement gratuity equal to 15 days' salary for each completed year of service. Amounts paid to executives might have a cap per company policy.</p> <p>Executives may also receive a superannuation payment on retirement per company policy. A bonus of 8.33 percent to 20 percent (minimum ₹7,000) is payable to employees who have worked for 30 days and have salaries up to ₹21,000 per month if their entity has at least 20 employees.</p> <p>Several other benefits such as medical, maternity, workers' compensation, minimum wage, etc. will apply depending upon the number of employees, industry, and local laws. Medical and maternity benefits are also available to executives.</p> <p>Employee stock options are a typical management incentive, and unlisted entities are creating shadow schemes.</p>	<p>Buyers must obtain a full assessment of applicable obligations, company policies, and the manner in which these are accrued and funded.</p> <p>Accumulating liabilities such as gratuity and superannuation are accrued through actuarial valuations. Liabilities, stock option plans, and related schemes must be accrued per accounting standards.</p> <p>Several benefits are tax-deductible only when they are paid or funded.</p> <p>Employee retirement costs might increase separation costs.</p>
Culture	<p>The culture has changed from a top-down approach to a confrontation-based relationship created by union attitudes, to a more collaborative relationship in recent years.</p> <p>Cultural differences exist between different sectors and different parts of the country that might reflect each of these attitudes.</p>	<p>Cultural differences will be sharp throughout different parts of the country, so expect this when the acquisition involves factories or offices in different cities and states.</p> <p>Mergers are typically a cultural challenge, more so if the businesses are in different states.</p> <p>A positive culture is always a benefit when created in a positive way. Increased employee engagement is now expected.</p>

	Situation	Impact on Cross-Border Acquirer
Representation	<p>Companies might have one or more workers unions, particularly in the manufacturing sector. Unions negotiate wage agreements for three- to four-year periods.</p> <p>Contractual terms and company policies govern executive employment.</p>	<p>Companies tend to strive to avoid having unions, and several service sector businesses have been successful.</p> <p>Buyers must study the wage agreements and pending demands from unions and assess their impact. Buyers must also speak with the executives handling union relationships and understand the need for building relationships.</p>
Termination	<p>National and local laws, local practices, and union agreements govern termination of full-time workers. Defined benefits are payable and local customs might require additional payments of up to six months' wages. Termination of temporary employees is easier, unless the person has extensive service or local customs apply.</p> <p>Contractual terms and company policies govern executive and manager terminations.</p>	<p>Termination has been a challenge for several companies because of laws protecting employees and union intervention. Any acquisitions based on restructuring the workforce should determine timing and cost implications.</p> <p>The government seeks to ease current legal restrictions over time. However, local practices will continue to be a factor.</p>



People's Republic of China

	Situation	Impact on Cross-Border Acquirer
Benefits	<p>Compulsory social security contributions known as the “Five Insurances and One Fund” for both employees and employers, cover endowment insurance, medical insurance, unemployment insurance, employment injury insurance, maternity insurance, and housing funds.</p> <p>Additionally, a company might operate an enterprise annuity scheme as an additional benefit, but apart from state-owned companies, few companies offer this option. With a maximum of 44 working hours per week, annual leaves range from five to 15 days depending on years of service from first employment and 90 days of maternity leave (companies cannot dismiss a female employee during pregnancy). There are also various other state-sanctioned leave entitlements such as marriage, paternity, and childcare leaves.</p> <p>Expatriate employees receive certain tax-free incentives under the current tax rules.</p>	<p>There is no flexibility to modify statutory benefits.</p> <p>If the acquisition target operates an enterprise annuity scheme, it is sometimes possible to opt out, but that depends on the scheme particulars, size, and decision of the membership.</p> <p>There are options for reducing the Chinese tax burdens of expatriate employees.</p>
Culture	<p>Office dress code is mostly casual rather than formal. Social media apps such as WeChat and QQ are typical means of communication and payments. Chinese people often take extended lunch breaks and a short nap before afternoon work.</p> <p>In the manufacturing sector, many companies provide canteen and dining facilities offering three meals.</p> <p>It is common to give gifts of moderate monetary values to staff for holidays. Communications about work-related matters during and outside office hours are generally acceptable.</p>	<p>Workers tend to have flexible working attitudes in and out of office hours. They are results-oriented and might be inclined to look to the employer to provide a highly structured working environment.</p> <p>Culture varies based on geography, so it is important to learn about the acquisition target’s culture to identify differences in management style and employee policies.</p> <p>People value building relationships with others to develop trust, which affects working relationships with M&A teams. Employee communications are important during the integration process.</p>
Representation	<p>A company, public institution, or government organization with 25 or more staff is required to consult employees on the establishment of a workers’ union (enterprise trade union, or ETU). If the employees unionize, a committee of worker representatives leads it. In such a situation, an employer is required to notify the workers’ committee in advance of the reasons when an employer wishes to unilaterally terminate an employee’s employment contract.</p> <p>These activities, loosely defined in the trade union law, include staff education, protecting the property of the enterprise and state, making rational proposals and technical renovations, and vocational training outside of work hours.</p>	<p>The employer is required to consult with the workers’ union on major restructuring or operational matters.</p> <p>The employer must pay 2 percent of its workforce’s wages to the national union (All-China Federation of Trade Unions) to support local ETU’s activities.</p>
Termination	<p>Chinese labor laws protect workers. An employer terminating an employment contract should negotiate and provide compensation based on years of service with the employer. Every terminated employee has the right to take his or her case to the labor tribunal.</p>	<p>Care should be taken in the recruitment of staff, especially those who are highly paid, as releasing them might become costly due to mandated benefits.</p>



United Arab Emirates

	Situation	Impact on Cross-Border Acquirer
Benefits	<p>The minimum paid holiday entitlement is 30 calendar days per annum for an employee with more than one year's service.</p> <p>In the Dubai International Financial Centre and the Abu Dhabi Global Market, an employee with 90 days of service is entitled to paid vacation leave of 20 working days per year.</p> <p>An employee with one year's continuous service is entitled to an end-of-service gratuity payment on termination of their employment – 21 days of gratuity per year for up to five years of service and 30 days of gratuity per year for greater than five years of service.</p> <p>Medical insurance is provided by the employer.</p>	<p>Increased staffing expense does occur due to holidays and end-of-service costs and medical insurance costs.</p>
Culture	<p>The United Arab Emirates (UAE) is home to more than 200 nationalities, and UAE nationals constitute roughly 20 percent of the total population. UAE nationals have priority for UAE jobs, especially in government departments.</p> <p>Foreign nationals can be employed in the private sector, subject to the following: 1) passing the medical fitness test, 2) obtaining a residence visa and a labor or ID card, and 3) possessing the professional competence or educational qualifications that the emirate requires.</p> <p>If no UAE national is available to take up a position, preference must first be given to persons who are nationals of an Arab country, and then to persons of other nationalities. The Emiratization policy is applicable in the UAE but is not applicable in the free zones.</p>	<p>Because of the wide cultural mix of employees, many requirements must be met to follow Emiratization policies.</p> <p>An acquirer will incur increased costs due to visa and labor card/work permits.</p> <p>Personal relationships are critical in the UAE for establishing communication. Trust based on these relationships is more important than written communications and legal contracts.</p> <p>Speakers must observe certain rituals including body posture, voice tone, and the speaker's title and status.</p>
Representation	<p>There are no unions or workers councils.</p>	<p>None.</p>
Termination	<p>The Ministry of Labour must approve the dismissal of UAE national employees. Apart from UAE nationals, there are no other categories of protected employees. The minimum notice period of 30 days might apply.</p> <p>There is a labor court for all levels of employees if they wish to appeal against an unfair or wrongful dismissal decisions.</p>	<p>Terminating UAE nationals is difficult and takes time. Other nationalities may be terminated without restrictions.</p> <p>Employees might allege unfair or wrongful dismissal to a labor court.</p>



The opportunity to understand and mitigate employee and culture risks is deeply rooted in due diligence and integration planning. A thorough and thoughtful approach to these processes is the best predictor of achieving a deal thesis and synergy goals.

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