

Ensure smooth employment transitions during your global M&A



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Sometimes smooth transitions aren't so smooth

Mergers and acquisitions (M&A) create unique challenges for HR departments tasked with carrying out employment transitions from the existing employer to the new buyer. The difficulty increases significantly when a company has international branches and entities with active employees on a local payroll.

Although M&A continues to stall in 2023, and deal values are declining as well, there's an indication that companies are shifting toward smaller deals to pursue their strategic growth agendas.¹ But smaller deals don't make employment transitions any easier.

The goal for any buyer is a smooth transition in which they maintain uninterrupted operations and payroll. This is an issue in an asset purchase when the buyer does not have legal entities established in the countries where the existing employer currently has employees. Further challenges may arise when the buyer lacks the local human resources, payroll and benefits resources necessary to support ongoing employment in those regions.

¹ <https://www.pwc.com/gx/en/services/deals/trends.html>

Establishing your own legal entities

One option for buyers is to set up their own legal entities in each country of operation. This would allow them to then add the employees to the new payroll process. However, if a company lacks expertise and experience, this approach can take months to ensure proper compliance with local regulations.

Know before you go

Business factors: You need to understand industry regulations, trade agreements and unique setup requirements for each country of operation.

Language: Many countries require you to submit all documentation in their native language.

Location: Understand that even within a foreign country, you may have to be aware of local jurisdiction or province regulations, in addition to federal.

Business licenses: Depending on your type of company and industry, you'll need permits, approvals and more before you begin operating.

Taxes: Federal, state and municipal taxes can be challenging and frustrating if you don't set up your business correctly.



We help companies navigate these complexities and support human resources, payroll and benefits for total Day 1 readiness.

Every acquisition is different, but taking on the challenges of a global M&A alone can often increase the duration of the project, as well as the administrative and operational burden placed on your teams.

To save time, resources, and avoid potentially costly mistakes, it is best to talk to work with a partner before attempting to establish your own legal entity in a foreign country.

Managing employment transitions in an M&A

Employees are often considered to be “assets” in M&A deals. These employees serve important roles, especially in foreign markets where the company has been established because:

- The company can continue leveraging unique skill sets
- It will create operational continuity
- The company can maintain a consistent business presence

With new ownership, comes new responsibilities to the existing employees. While this can be a simple process for a domestic M&A, global M&As will require much more due diligence. This includes ensuring you have entities established in each of the countries with employees. The HR manager must:

- Provide new employment contracts
- Offer new benefits plans
- Alter payroll to indicate the new ownership
- Set up employment through native countries, not via home country payroll (no “remote payroll”)

A simple alternative to incorporation

Global M&A is complicated and overwhelming enough without establishing your own legal entity. There is an alternative: partnering with a global employer of record solution, which employs the workers in each of the countries where the deals are located on your behalf. The employer of record can employ the workers indefinitely, or until you establish your own entities and can transition them onto your direct in-country payroll.

An employer of record can help your M&A by:

- Being involved in the deal process in order to speed up the employee transition after the deal closes
- Removing the burden of employment administration, which allows the buyer to concentrate on other critical transitions
- Eliminating the challenges associated with compliance so the HR department can focus on other important areas
- Making the transition process seamless, with the employees being removed from the seller's books immediately after the deal closes (includes contracts, benefits, and payroll)
- Preserving company culture and team morale throughout the transition process, resulting in greater consistency in the business



Maintaining employment stability

A major factor for smooth employment transitions is ensuring proper continuity for payroll and benefits.

Employees expect to keep the same benefits and general terms of employment. Some may want to maintain their pension account, while others will want the same health benefits. This can be particularly challenging if a buyer isn't prepared with the necessary bank accounts or payroll registrations in a specific country.

Another issue that the buyer will need to address is employment contracts. Do the employees have commission structures? Bonuses? Other incentive structures? In many instances, this will not be a simple process of updating an existing contract. All employment contracts will need to be redrafted and then signed by the employee before they start working.

Finally, buyers need to take workforce reductions or terminations into consideration. This issue was especially prominent for companies completing global M&As during the pandemic. If a new employer isn't prepared during the M&A, the long-term effects will create legal issues and higher costs.



Your HR partner for M&A transitions

At Safeguard Global, we understand the challenges that company executives face as they focus on deriving deal value and ensuring smooth employee transitions within condensed timescales. Our in-depth knowledge of the M&A operational needs enables us to provide innovative services across the entire employee and business life cycle. We specialize in utilizing EOR hiring options, creating legal structures, and managing complex human resources issues including onboarding, benefits, payroll continuity and global regulatory compliance.



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