

M&A : HR DUE DILIGENCE RED FLAGS



**What breaks deals, delays closing,
or creates post-close liability**

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CONFIDENTIAL - EXECUTIVE BRIEF



This document outlines the most common HR-related red flags identified during European transactions and explains how they impact valuation, deal certainty, and post-close risk.

It is intended for deal teams, investors, and senior leadership involved in acquisitions, exits, or integrations in Europe.

1. WHY HR RISKS RARELY KILL DEALS LOUDLY – BUT OFTEN QUIETLY

In European transactions, HR compliance is rarely a headline issue. It is usually discovered late, framed narrowly, and underestimated.

However, HR risks frequently result in:

- Purchase price adjustments
 - Deal delays
 - Expanded warranties and indemnities
 - Post-close claims and remediation costs
-

European employment frameworks amplify this risk due to:

- Country-specific labor laws
 - Strong employee protections
 - Collective agreements and consultation obligations
 - Retroactive liability exposure
-

HR issues do not need to be catastrophic to materially affect a deal.

2. THE 7 HR RED FLAGS THAT MATTER IN EUROPEAN DEALS

The following red flags consistently surface during HR due diligence and audit processes across European transactions.

RED FLAG 1: CONTRACT-PRACTICE MISALIGNMENT



What it looks like

- Employment contracts do not reflect actual working arrangements
- Remote work, working time, bonuses, or duties differ from documentation

Why it matters

- Contracts lose enforceability
- Claims can be based on practice, not paper

Deal impact

- Valuation uncertainty
- Increased litigation risk post-close

RED FLAG 2: TERMINATION AND DISMISSAL EXPOSURE



What it looks like

- Informal termination practices
- Lack of documented justification
- Inconsistent disciplinary procedures

Why it matters

- Termination errors in Europe are costly and difficult to reverse

Deal impact

- Immediate post-close claims
- W&I exclusions
- Delayed restructuring plans



RED FLAG 3: PAYROLL AND WORKING TIME NON-COMPLIANCE



What it looks like

- Overtime not tracked correctly
- Leave entitlements misapplied
- Payroll vendors operating without oversight

Why it matters

- Payroll issues create retroactive liabilities

Deal impact

- Hidden financial exposure
- Audit findings after closing



RED FLAG 4: COLLECTIVE AGREEMENTS AND WORKS COUNCILS IGNORED



What it looks like

- Applicable CBAs not identified
- Works councils bypassed or consulted late

Why it matters

- Breaches invalidate decisions and trigger disputes

Deal impact

- Deal delays
- Injunctions or regulatory intervention



RED FLAG 5: CONTRACTOR AND ATYPICAL WORKER MISCLASSIFICATION



What it looks like

- Contractors treated as employees in practice
- No documentation supporting independent status

Why it matters

- Reclassification risk is retroactive

Deal impact

- Social security back-pay
- Tax exposure
- Immediate remediation obligations



RED FLAG 6: FRAGMENTED HR GOVERNANCE ACROSS COUNTRIES



What it looks like

- No central ownership of HR compliance
- Country practices diverge without oversight

Why it matters

- Risks multiply across jurisdictions

Deal impact

- Complex integration
- Loss of control post-close



RED FLAG 7: MISSING AUDIT TRAIL AND EVIDENCE



What it looks like

- Decisions undocumented
- Reliance on individuals rather than systems

Why it matters

- Inability to defend decisions

Deal impact

- Increased reliance on warranties
- Higher integration risk



3. RED FLAG SEVERITY: PRE-CLOSE VS POST-CLOSE IMPACT

Red Flag	Pre-Close Impact	Post-Close Impact
Contract-Practice Misalignment	Medium	High
Termination Exposure	Medium	High
Payroll Non-Compliance	Low	High
Collective Agreements	High	High
Contractor Misclassification	Medium	High
Governance Fragmentation	Medium	Medium
Missing Audit Trail	Medium	High

Many HR risks appear manageable pre-close but become materially expensive post-close.

4. WHEN HR RED FLAGS BECOME DEAL BREAKERS



HR risks typically escalate when:

- The target operates in multiple European countries
- The transaction involves restructuring or integration
- No prior HR compliance audit exists
- HR documentation is incomplete or inconsistent

At this point, HR risk shifts from technical to strategic.

5. WHAT A TRANSACTION-READY HR SETUP LOOKS LIKE



Transaction-ready organisations typically have:

- ✓ Central visibility of HR compliance across countries
- ✓ Documented alignment between contract, payroll, and practice
- ✓ Clear termination and governance frameworks
- ✓ Identified and prioritised remediation actions

**This does not require perfection.
It requires control and evidence.**

6. WHAT THIS BRIEF DOES AND DOES NOT REPLACE

THIS BRIEF:



- ✓ Highlights common HR due diligence risks
- ✓ Supports early deal risk identification
- ✓ Helps prioritise focus areas

THIS BRIEF DOES NOT:



- ✗ Replace HR due diligence
- ✗ Confirm compliance
- ✗ Identify country-specific legal gaps
- ✗ Reduce transaction risk on its own

Only a structured, transaction-ready HR Compliance Audit can do that.

7. NEXT STEP

If any of the red flags described in this brief **apply to your organisation or target**, the next step is typically a Tiered European HR Compliance Audit, designed to:

- ✓ Identify material HR risks
- ✓ Prioritise remediation
- ✓ Support due diligence and post-close planning

A confidential diagnostic discussion can clarify scope and timing based on your transaction context.



GET YOUR FREE CONSULTATION NOW



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