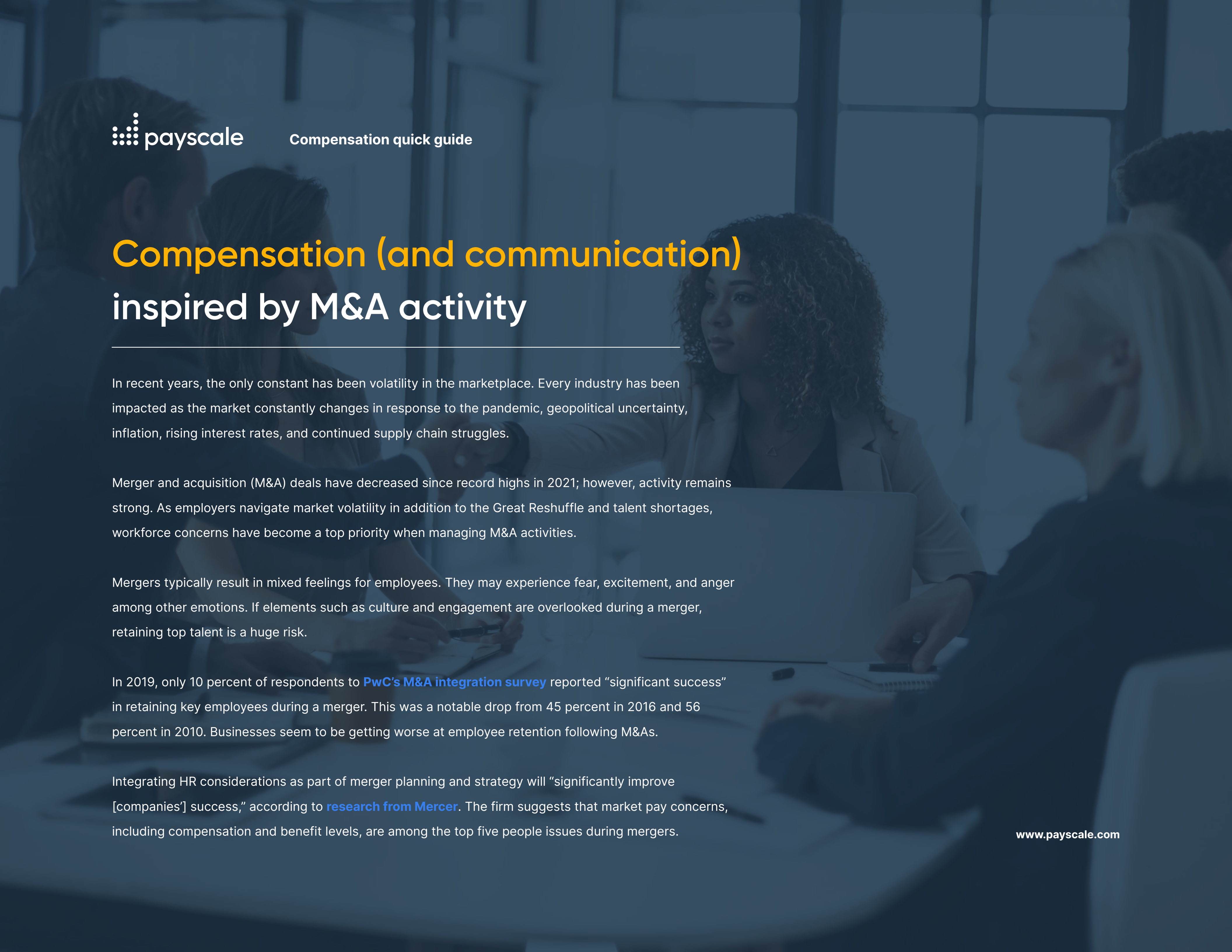

Compensation (and communication) inspired by M&A activity

In recent years, the only constant has been volatility in the marketplace. Every industry has been impacted as the market constantly changes in response to the pandemic, geopolitical uncertainty, inflation, rising interest rates, and continued supply chain struggles.

Merger and acquisition (M&A) deals have decreased since record highs in 2021; however, activity remains strong. As employers navigate market volatility in addition to the Great Reshuffle and talent shortages, workforce concerns have become a top priority when managing M&A activities.

Mergers typically result in mixed feelings for employees. They may experience fear, excitement, and anger among other emotions. If elements such as culture and engagement are overlooked during a merger, retaining top talent is a huge risk.

In 2019, only 10 percent of respondents to **PwC's M&A integration survey** reported "significant success" in retaining key employees during a merger. This was a notable drop from 45 percent in 2016 and 56 percent in 2010. Businesses seem to be getting worse at employee retention following M&As.

Integrating HR considerations as part of merger planning and strategy will "significantly improve [companies'] success," according to **research from Mercer**. The firm suggests that market pay concerns, including compensation and benefit levels, are among the top five people issues during mergers.

Compensation is a top priority for successful mergers

How you manage employee compensation before, during, and after a merger will impact your ability to retain and engage talent. For HR leaders, unifying compensation strategies is one of the most pressing challenges during M&A activity.

Regardless of what is or isn't changing with how the combined organizations will approach compensation, it's imperative to engage and communicate with its unified workforce about pay. Existing and newly onboarded employees will have concerns about what is happening with their pay. There's also a **growing trend** among younger workers to talk openly about pay. Rather than dealing with issues as they arise, respond proactively. Provide as much information as possible about any M&A-related compensation strategy changes to help alleviate anxieties and reduce retention risks.

In this quick guide, we share one company's experience as well as best practices for how to go about making company-wide pay adjustments following M&A activity.

Companies considering M&A as a factor in base pay increases

Part of consideration in 2021: 4.3%

Predicted consideration for 2022: 5.9%

Source: Compensation Best Practices Report 2022

Practitioner perspective

Company-wide pay adjustments following a double M&A

Payscale continues to push the boundaries of what's possible in the world of compensation technology. In 2016, the company purchased MarketPay, which brought the total employee count to about 300 people. In 2021, Payscale merged with Payfactors to form a company of 600 employees and some 10,000 customers. Six months later, Payscale acquired the UK-based compensation management provider, Curo.

"We needed to make sure that we took all the varied factors into account. And we needed to make sure that we had a data-driven approach along the way," says Tim Douglass, Senior Manager, Human Resources at Payscale.

The team seized the opportunity to pair the work that they were doing around unifying compensation to the larger merit cycle.

> We took a big step towards transparency and pay practices. During education sessions, we shared our methodology with managers and employees, answered questions, and gathered feedback. All employees who went through the process received an updated total rewards statement so that they could see where their pay had been, where their pay now was, and where they fell within the range.

Lexi Clarke

VP, People at Payscale

Payscale's approach

- Conducted benchmarking and market analysis in early 2022 using the most current data within the Payscale platform. Secured up-to-date market data across all roles in the company to identify gaps, issues, and challenges.
- Benchmarked all roles at the company (~255) at multiple market percentiles in core locations: Seattle, Boston, national, Canada, and the UK.
- Partnered with finance to secure additional compensation budget.
- Evaluated and adjusted pay practices to move from level three toward level four on the pay transparency continuum, where more of the "why" around pay decisions is shared with employees.

Payscale revisited and adjusted their level of pay transparency ↓

1	2	3	4	5
← **What**	**How**	**Where**	**Why**	**Whoa** →
Your organization tells employees when and what to expect on their paycheck.	Your organization shares some market data with employees.	Your organization has a comp plan and shares pay ranges with individual employees.	Your organization's comp plan reflects org culture, drives talent strategy, and is open to EEs.	Ranges and employee pay information is available to all employees.

- Created an enablement plan with manager and employee touchpoints throughout the process and used office hours and Slack channels to answer questions.
- Facilitated manager training to support and prepare people leaders for pay transparency and compensation conversations.

Three mergers and the subsequent international expansion created the opportunity for Payscale's HR team to build a unified model. With thoughtfulness and planning, they were able to harmonize three separate styles. Now, they're driving business and employee success by using a powerful and singular approach to compensation.

Five compensation best practices for M&A pay adjustments

First, HR must aim to help employees embrace that they're now one company. This means honoring the important people practices from both organizations while also implementing a unified approach that allows iteration in the future.

Learn about other ways Payscale customers are tackling compensation challenges.

Learn more here →

1 Ask key questions to inform your approach.

- What are the best compensation elements we can pull from each company?
- How do we make sure that we're minimizing change where we can, and radically changing things when necessary?

2 Review all the internal and external factors.

Take into account any external market challenges, the labor outlook, and plans for growth. Level set across the organizations to select which market salary data sets and compensation tools you'll use.

3 Outline the opportunities, goals, and key principles.

Run the market data analysis and model the budgetary impact using all employees and all roles from the merged companies.

4 Assess budget availability and options.

Work with your peers in finance to assess possibilities. Based on budget availability and salary market data, build and present a few options to leadership for approval. Connect your recommendations to retention targets to quantify the business impact that investing in your people will have.

5 Implement a sustainable approach.

As a unified organization, you'll need one approach moving forward. Align with leaders regarding the level of pay transparency for the unified organization. Use communications and training about the approach to engage employees around changes. Proactively define your maintenance rhythm and educate leaders on the fact that compensation strategies in support of employee retention are not a one-and-done endeavor.

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About Payscale

As the industry leader in compensation management, Payscale is on a mission to help job seekers, employees, and businesses get pay right and make sustainable fair pay a reality. Empowering more than 50% of the Fortune 500 in 198 countries, Payscale provides a combination of diverse and dynamic data sources, experienced compensation services, and scalable software to enable organizations such as Angel City Football Club, Perry Ellis International, United Healthcare, Vista, and The Washington Post and to make fair and appropriate pay decisions.

Pay is powerful™

To learn more, visit **payscale.com**