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In industries where human capital represents a significant company asset, the key to a successful acquisition is employee retention. It's only when key employees stay with the company during and after the acquisition that the acquiring company realizes the value it has invested in.

To maximize employee retention when an acquisition takes place, it is important to properly design and communicate total rewards programs. This article illustrates best practices for that task by presenting a case study of a North American company that acquired a Chinese company.

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Maximize Employee Retention Through Total Rewards Programs

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Case Study Background

A North American technology company with 3,500 employees worldwide was a market leader in a high-tech market segment and had built its research and development capability by acquiring small design firms in emerging markets like India and China. In particular, it had set its sights on a 60-employee company in China. The Chinese company had a young and educated workforce. The majority of its employees had engineering degrees; approximately 25 percent had a bachelor's, 50 percent had a master's and 25 percent had a Ph.D. The local market was very competitive, and these highly educated technical employees were the targets of many competitors.

Given these circumstances, the North American company felt a pressing need to present a fair and competitive total rewards package to the acquired company's employees to ensure the value of the acquisition did not erode during and after the acquisition. The North American parent company's acquisition project team approached the program design by aligning each component of the total rewards program with the corporate culture and business strategy, and placed big emphasis on communication.

Alignment with the Corporate Culture, Organization Design and Career Path

The Chinese company had a very hierarchical structure. There were 14 levels of positions that depended on a combination of the level of education, the universities and programs the employee had graduated from and his/her work experience. Figure 1 shows the internal job titles for the technical career path.

On the other hand, the North American company had a flat organization design and career path to support the company's business model, which required product execution through teamwork across geographies. Figure 2 shows this company's technical career path.

While the gap in organization design posed a major challenge for merging the acquired employees into the parent company's organization and total rewards structure, the project team decided to introduce the change from the very beginning and integrate the acquired employees into the parent company's egalitarian culture, which was essential to innovation and teamwork.

The HR manager on the project team reviewed the job descriptions, gathered input from technical managers who were going to lead

Figure 1 | Chinese Company's Technical Career Path

| Level | Technical Career Path |
|-------|---------------------------|
| 14 | Senior chief engineer |
| 13 | Chief engineer |
| 12 | Senior fellow engineer |
| 11 | Fellow principal engineer |
| 10 | Senior principal engineer |
| 9 | Principal engineer |
| 8 | Senior staff engineer |
| 7 | Staff engineer |
| 6 | Senior engineer |
| 5 | Engineer 2 |
| 4 | Engineer 1 |
| 3 | Associate engineer |
| 2 | Assistant engineer |
| 1 | Technical assistant |

the Chinese team after the acquisition and performed an initial mapping of all positions into the parent company's career path. When the project team arrived in China, it interviewed every Chinese engineer to understand his/her technical expertise and level of responsibility. The information was then used to validate and adjust the career-level mapping.

Introducing Incentive Programs to Further Align with Business Strategy and Total Rewards Philosophy

While incentives are a key feature of total rewards in North America, the Chinese company didn't have a true incentive program. Rather, it had a technical training program that sent employees to work in its U.S. subsidiary for one to six months on an ongoing basis. This became a primary incentive, as many young Chinese professionals embrace the opportunity to be trained or work outside China. Also of note: The company had a very

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complicated retention program that paid bonuses to returning employees for completing a certain length of service after the training, and a penalty system for anyone who left the company prior to completing the service commitment.

The new parent company, however, had always used an annual incentive program to reward accomplishment of certain product development and financial goals. It also had a broad-based long-term incentive program with restricted stock units (RSUs), and stock options to align the employees' effort with the interest of shareholders.

To support the parent company's "one global team" business strategy and pay-for-performance philosophy, the finalized total rewards program for the new Chinese operation had the same components as the parent company's global total rewards program. This integrated design with the following components ensured global alignment at the program level with local benchmark data and local practice recognition:

- Base salary, benchmarked locally.
- Annual incentive, expressed as a percentage of base salary and differentiated by career level.
- The performance measurements for determining annual incentive payment were a combination of company performance, business unit (BU) performance and individual performance, all of which drove the message of pay for performance and succeeding by working together as shown in the formula below.
- $\text{Payment} = \text{salary} \times \text{target \%} \times (\text{co. results} + \text{BU results}) \times \text{individual performance}.$
- Long-term incentives and RSUs with grant size for various positions were set as a blend of the company's global guidelines and data gathered from local practice.

Simple and Easy to Understand Benefits Program

The Chinese company's benefits program consisted of three basic parts:

various social security premiums as required by law, extended health benefits and paid time off. The new parent company's benefits strategy was to be comparable to prevailing market practice and to compete through straightforward — rather than rich and complex — benefits offerings. This practice matched the local employees' expectations, since they were mostly in the early stage of their careers and therefore had a stronger focus on cash rewards than benefits. The employees' key concern on benefits was vacation.

The acquiring company offered similar benefits, with enhancement aligned with the company culture, and addressed employees' concern. For example, the acquired company had a very stringent vacation policy and complicated administrative procedures; the new vacation policy was more relaxed and easy to administer, which emphasized the importance placed by the new parent company on results, not face time, and reinforced the company's culture of innovation, initiative and trust.

Communicating the Total Rewards Program

The success of any total rewards program depends on communicating its value to employees. This is even truer in an acquisition. The project team communicated the overall value proposition face-to-face with the Chinese employees in various formats within a tight timeframe.

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After the Chinese company's management announced the acquisition, the acquiring company's senior business leaders presented the company's overall business results and strategy to employees in a town hall session to get across the message that they were becoming part of a successful global company, and they would have the opportunity to work on new, cutting-edge technologies.

Figure 2 | North American Company's Technical Career Path

| Level | Management | Professional | Support |
|-------|----------------|--------------------|-------------------|
| 6 | Director | | |
| 5 | Senior manager | Principal engineer | |
| 4 | Manager | Staff engineer | |
| 3 | | Senior engineer | |
| 2 | | Engineer | Senior technician |
| 1 | | | Technician |

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Following the senior business leader's presentation, the HR manager presented the various elements of the total rewards package offered by the acquiring organization:

- A culture of innovation and performance
- Learning and development opportunities
- Monetary rewards
- Benefits, including vacation policy.

Each employee was then presented with an individual offer confirming base salary, annual and long-term incentive target, benefits and vacation eligibility. The HR manager then met with key employees one-on-one to help them understand their offers and answer their questions. By then, many had internalized and accepted the change and therefore responded very positively by starting to discuss their future with the company. They were particularly impressed with the overall message of fairness, commitment and trust that this process conveyed. A couple of key employees were still weighing their options and focused more on the money. The one-on-one provided an opportunity for these employees to further the internalization process.

Project Outcome and Learning

As a result of integrating the acquired employees into the parent company's total rewards program and communicating the company's value proposition extensively, 95 percent of the acquired company's

employees stayed on board beyond the first year of the acquisition. Furthermore, the new Chinese team designed a new product, which was successfully launched in the first year.

While the overall program design and communication was a success, one of the lessons learned was that rewards must match the recipients' past experience to have perceived value. For example, even with the comprehensive communication strategy used and an HR manager who spoke Chinese, some local employees had trouble accepting the value of RSUs for two reasons:

- 1 | Many employees didn't have and didn't know anyone who had experience with any North American long-term incentive vehicle like stock options or RSUs, let alone any positive experience of benefiting from them. People cannot see value in something they don't understand.
- 2 | The employees lived in a very fast-paced market. With their short work experience, it was very hard for them to see beyond one year. Therefore, RSUs that would have value in three years were significantly discounted.

Alternatively in this case, the long-term incentive program could be designed and communicated as a three-year retention bonus, with the company's share price as performance criterion. By describing this incentive in a language that

local employees could understand, it would have much more value in their minds.

Best Practices for Your Company

Based on the case study presented, several best practices useful for companies engaged in merger and acquisition activity emerge:

- Align your total rewards design with the company's culture, business strategy and rewards philosophy
- Understand what is important for the new employees and match your offering to their experience
- Communicate a consistent message through your program
 - In various formats
 - In a timely fashion
 - By adding a personal touch.

Adhering to these best practices will help your company retain employees so that the acquisition will have maximum impact on your bottom line. **WFS**

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