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Retention plans in M&As

People and Organisation
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Key phases

Timing is crucial to overcome uncertainties between signing and closing of a transaction. Understanding the different key phases can help to take effective steps in order to successfully mitigate the risk of losing key talents during the process.

Pre-sign phase → Signing → **Sign to close phase** → Closing → **Post-close** → **Integration**

Key activities

Pre-sign phase

- Identify impact of deal objectives on workforce
- Draft retention assessment criteria and framework (group tier assessment and individual assessment criteria)
- Establish design options including budgeting and conditions
- Consider financial and non-financial incentives
- Draft high-level timeline
- Draft retention communication plan

Sign to close phase

- Management to agree and decide on design, timing and communication
- Detailed planning of activities based on agreed decisions
- Include non-financial incentives such as new roles and opportunities in the communication, especially for employees not benefitting from the financial retention plan
- Get key talents and 'opinion leaders' on board and make leadership visible

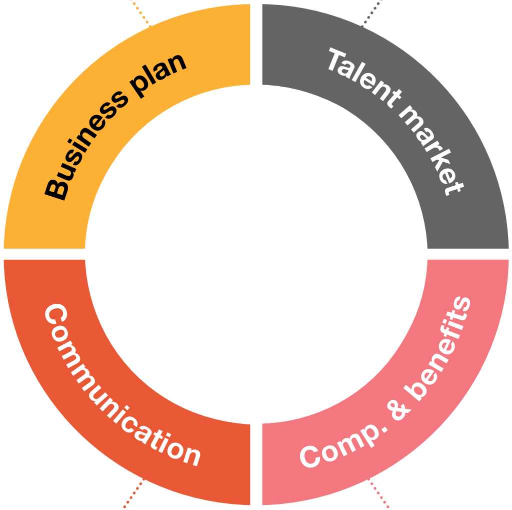
Post-close / Integration

- Administer retention plans (keep track of leavers etc.)
- Emphasise new opportunities and roles, focus on creating a new corporate identity
- Ensure clear and transparent communication – communication is a key success factor
- Manage expectations with employees regarding new roles and responsibilities
- Monitor results and measure success of retention plans (e.g. attrition rate, employees who take over internal roles, training and development participation etc.)

Retaining key people through a transaction

Many factors have an impact on the environment of companies and therefore play a crucial role when drafting retention plans. Generally, the following four areas should be considered when designing a retention plan.

- Transaction between equivalent businesses vs different sizes/market
- Integration of different cultures and structures
- Business strategy (driver of the deal, priorities)
- Likelihood of redundancies
- Budgets/spend
- Talent management strategy (importance of talent retention/priorities)



- Fluidity of labour market
- Ability to transfer skills or find replacements
- Absence of talent (scarce skills, location, situation)
- Individual development opportunities
- Appropriate classification of critical employees and
  success of retention plan (risk of only temporary stability)
- Replacement time

- Attitude towards transaction, concerns
- People value proposition (purpose, employee experience, values, development opportunities)
- Clarity of individual roles and responsibilities
- Clarity and transparency of retention plan objective and selection process
- Leadership roles, people management and managerial support
- Organisational design and reporting structure

- Existing compensation plans (i.e. above/below market)
- Harmonisation target
- Past and future incentives (e.g. benefit structure, elements, change of control, LTI design)
- Compensation structure and relevance of performance
  and risk
- Possibility for adjustments (e.g. budget)

Design principles

There are several key decision points that should be addressed when designing a retention plan.

Participation

- Highly selective, approx. 5% of employees participate in retention plans
- Early identification of key employees
- Securing senior leaders before others
- Focus on those with the greatest ability to affect the success of the transaction (expertise, key skills, critical knowledge)
- Senior leaders and unit leaders to identify retention candidates
- Identify ‘second chair’ participants

Timing

- May vary by role (executives vs non-executives)
- Payments for non-executives typically not extended over a year
- Limit the number of payment dates (eases admin)
- Balance pay-to-stay with pay-to-perform agreements

Number of payments

- Generally in one to three installments
- Limited payment dates ensure strong ‘hook’ (participants may not stick around for the last third of their payment if presented with another offer)

Conditions

- Individual and/or collective performance conditions
- Typically time-based
- Business growth, retention of clients, revenue or quality

Amount

- Typically a percentage of the base salary (rather than fixed amount)
- Varies by criticality of role, seniority
- Standardise awards by tier
- Consideration of uncertainty of long-term role (e.g. the amount may exceed the standard award)
- Median cost of a retention plan is 2% of total transaction cost with costs usually borne by the buyer

Delivery

- Typically cash (pay-to-stay approach)
- Mixture of cash and equity for long-term talents
- Non-financial retention incentives (e.g. career opportunities) for remaining employees

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Retention plans…
can enhance the deal success and help mitigate the risk of losing business critical talents during times of high uncertainty. To be fully effective, leadership visibility and communication are decisive success factors of retention plans which need to be considered carefully.

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