KPMG

M&A and the Great Resignation

Now is the time to keep teams intact

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Introduction

It's a labour phenomenon that is keeping business leaders awake, particularly those on the verge of transformational M&A deals. Known also as the Big Quit or Great Attrition, the Great Resignation defines the surge of employees choosing to leave their old jobs behind in pursuit of (perceived) greener pastures. And while sourcing and retaining skilled talent has been a struggle long before this latest mass exodus, this surge in resignations is driving pressure for higher wages and compounding workforce issues for the many businesses experiencing growth.

No industry is immune from the Great Resignation. Based on KPMG in Canada research, Canada's financial services sector has experienced a 9% voluntary turnover, while the fields of professional services (9.9%), public services (10.5%), and healthcare / life services (10.7%) are also feeling the loss.

The threat of the Great Resignation looms large over many organizations. For those undergoing an M&A transaction, however, the timing could not be worse. At the same time businesses are attempting to maintain value and put their best foot forward, they're also contending with skill and knowledge gaps left by critical employees who have burnt out, pursued other passions, or been lured away by competing employers.

As M&A obstacles go, talent churn and attrition are nothing new. Yet, as the stats indicate, keeping teams intact during a major organizational change requires a renewed focus on retaining and engaging critical talent.

Voluntary turnover by industry

9%

financial services

9.9%

professional services

10.5%

public services

10.7%

Healthcare / life services

M&A levels remain high

Now is no time to be losing talent. Historically speaking, M&A activity remains very strong across Canada as many companies attempt to bounce back from the pandemic, make up for recent losses, and regain market shares.

Tim Prince, Head of Operations M&A at KPMG in Canada suggests that “*while the M&A market has shown some signs of slowing in the recent months, the employment market and the impact of inflation on salary expectations means there is still a fight for talent in the North American market*.” Adding “*the people aspect of deals has always been one of the most complex integration issues facing those acquiring a business, but the current market conditions are increasing the need for focus on talent retention, compensation alignment and cultural integration.*”

With many companies on the offense, the saying “all hands on deck” couldn’t be truer as pressure mounts on buyers and sellers to keep their teams stable.

Why employees leave

There are many reasons why Canadians are joining the Great Resignation, many of which can be surfaced and addressed in advance of an M&A transaction. Our experience has found that the primary reasons employees are making an exit during a deal include:

1 Compensation

Labour shortages and the intensifying competition for talent have made skilled employees more valuable in their respective markets. In an M&A market, employees deemed as critical talent are being tapped up to fill skill shortages with companies willing to offer more for the right candidate, often taking advantage of the situation that such employees are in. Many employees are finding no shortage of opportunities for higher pay and greater benefits. Employers who start approaching talent once a transaction is made public, appear to target such talent to fill critical roles, reduce recruitment and training costs. The impact of this cycle is that there is a pressure to drive wages upwards; for example, sign-on bonus packages are becoming more and more expected in this labour market.

2 Improved benefits

Physical and mental health have become a focus over the past two years. Emphasis is also being placed on benefits related to life insurance, vacation times, and pensions. As such, workers are taking a closer look at their basic benefits package to ensure they and their families are well taken care of. Employers are also recognizing the shift required here in order to remain competitive. In a deal scenario employers are having to go above and beyond basic like for like benefit offerings in order to retain critical talent in a competitive market.

3 Flexible hours

The pandemic made a strong argument for a healthy work-life balance. As such, employees are seeking positions with flexible working hours that allow them to care for themselves or their family and paid short-term leave to deal with ongoing family care issues. Across M&A transactions, there has been an increase in such requests being approved to ensure employers retain critical individuals at the expense of allowing flexibility.

Why employees leave

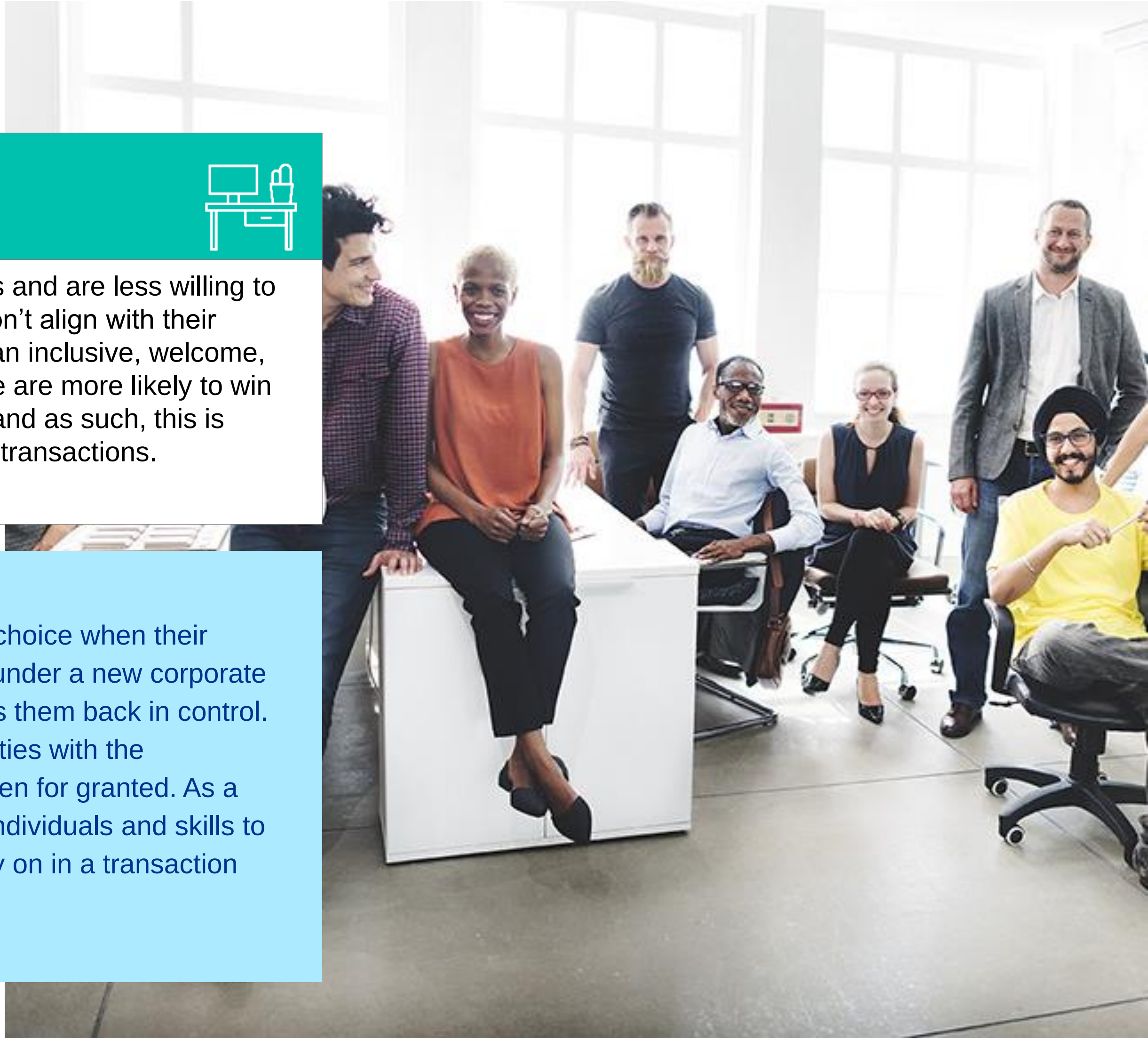
4 Job security

Rampant job loss and career disruptions in recent years have made talent cautious about committing to any one employer. KPMG in Canada research indicates that 19% of white-collar workers and 16% of blue-collar workers would consider changing jobs if they could work for a company that offers better job security.

5 Workplace culture

Skilled employees have options and are less willing to stick it out at companies that don't align with their values. Companies that foster an inclusive, welcome, and enriching workplace culture are more likely to win talent from others that cannot, and as such, this is becoming a focus area in M&A transactions.

An impending M&A deal also plays a role in talent attrition. Employees are often not given a choice when their organization is going through a deal, often facing the prospect of working for new bosses or under a new corporate structure, employees can often feel uncertain about their futures and pursue a move that puts them back in control. They may also feel empowered to leverage their importance in a deal to find better opportunities with the competition. Whatever the motivation, talent retention throughout an M&A deal cannot be taken for granted. As a consequence, organizations need to consider retention plans in advance, aligned to critical individuals and skills to ensure the acquired or divested business continues to operate. Focusing on such talent early on in a transaction allows such individuals to influence others to see the benefits of the transaction.



Retaining talent vs. retaining knowledge

One can imagine how the Great Resignation impacts day-to-day business. In our firm, we also see the impact of departing talent on companies nearing a transaction. One moment, company leaders are making big plans assuming that everyone is along for the ride; the next, they're rushing to address gaps left by key individuals who have either been poached by the competition or left their posts.

The Great Resignation is about more than losing key individuals. Saying goodbye to a once-loyal team also means losing critical skills and institutional knowledge that may not have been transferred to others in the company. This happens when retiring employees leave without imparting their decades of vital knowledge to younger employees, when technical talent crosses the street without sharing their skills and processes, or when individuals burn out and quit before sharing their insights.

Institutional knowledge loss is a key risk in the Great Resignation, but it can be prevented. Doing so begins by identifying where critical knowledge and skills rest within an organization and determining what can be done to enshrine them throughout the company. That may mean establishing knowledge-sharing programs, offering short-term retention awards, or developing resources such as playbooks o reference once knowledge-holders have gone. However it happens, it's important to ensure critical knowledge is being secured now before it's gone for good.

5 preventative solutions

Preventing the loss of critical knowledge is key. So too, is preventing the loss of talent to start. This is where HR has an integral role in helping corporations understand why their employees might leave and taking actions to keep them on the team.

First, it's essential to view M&A transactions through a people lens. People are not widgets; they're not emotionless assets to be traded or equipment to be moved from one office to the next. They are individuals with their own values, aspirations, and limits who now have the upper hand in the job market and will speak with their feet if they aren't happy in their roles.

In short: managing and addressing the employee experience prior to a deal can go a long way to retaining teams. Here are some strategies to consider:

01 Focus on transparent communications:

The thought of M&A activity can raise uncertainties that can and should be addressed through consistent and transparent communications with employees. For sellers, that means looping talent in about what changes they can expect, how they'll fit within the new organizational structure, and how the move might be advantageous for their career. It's about engaging talent in the M&A process and ensuring their questions and anxieties are heard and addressed along the way.

Buyers in an M&A transaction can also benefit from engaging with the seller's teams. They can help address anxieties about the move, communicate their gratitude, and show the benefits that await after the deal is inked, including why the future ahead is an exciting one!

02 Engagement:

M&A deals take time to manifest. Throughout the process, there is value in checking in with employees through a clear communications and engagement plan to gauge how they're feeling about the transition through fixed touchpoints, such as town halls, pulse surveys, and individual discussions.

5 preventative solutions (cont.)

03 Compensation:

It's no secret that talent are playing a part on negotiating better salaries between organizations. For many, the motivation to leave comes down to greater money and benefits. There are times when offers simply can't be matched, but there is a benefit in reviewing compensation against the market more often and focusing on the aspects that must be retained to drive performance.

The benefits of doing so are two-fold; one, it ensures companies are paying fair market wages to remain competitive. Two, it avoids employees dictating what they should be paid. Knowing what your talent is worth will inform better negotiations. Think about offering an improved package to seek loyalty from employees.

04 Manager tools:

Senior leadership are the first point of contact for frontline workers and other teams. It helps to give them tools that will make it easier to pass down information, escalate concerns, and pass on questions and feedback to the right people. These tools help to ensure employers rebalance their roles in managing talent in the organization during the M&A process.

05 Leading by example:

Leadership has a vital role in keeping teams engaged and aligned on M&A activity. It helps when those leaders are accessible, modelling the right behaviors, and setting a tone of employee engagement from the top. Companies are more insulated from the Great Resignation when those same leaders are coaching and mentoring future leaders so that up-and-coming talent are inclined to stay.

Navigating the Big Quit

It's a time of intense M&A activity as many organizations prepare to embark or close on critical transactions. If your business is among them, there are three strategies leadership can implement right now to insulate your team against the Great Resignation:

Prioritize knowledge sharing to ensure talent loss doesn't result in critical skill and knowledge gaps.

Clearly communicate career on offer to help employees understand how the transaction impacts them and their career pathways.

Complete labour market reviews throughout the M&A process to help ensure compensation is aligned with the market.

An M&A deal can be an exciting and opportune step for all parties. In a time when talent can't be taken for granted, however, there's value in looking ahead of a transaction to identify critical talent and to consider such key retention requirements, whilst also shifting your attention to institutional knowledge on your side.

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