Viewpoints

Q&A

Job leveling: A critical step in M&A success

In this conversation, Dave Hunt, a director in the M&A practice, discusses the importance of job leveling in an M&A deal. Joining him are Benjamin Viney and Scott Cullen, both senior directors in the Talent and Rewards practice.


Dave Hunt


Benjamin Viney


Scott Cullen

Q **Dave Hunt (DH): Thanks for joining me, Benjamin and Scott. Job leveling is one of those exercises that can be – and often is – dismissed as an administrative practice, but too often in M&A deals we see the pitfalls of not seeing it through.**

In one deal, for instance, the acquiring company did not undergo a job-leveling exercise and found itself in a position where, two years after the deal, it still had not harmonized employee arrangements. Employees in different parts of the organization were still on different pay plans. Some employees had a lower base and a higher bonus, while others in the same role had a higher base and lower bonus. Not only did this practice make moving talent around the business more difficult, it opened the company up to enormous risks, including discriminatory pay practices, reputational risk and so on.

A **Benjamin Viney (BV):** Absolutely, Dave. Job leveling can be crucial to setting up people structures that ensure all employees at an organization have a consistent experience in terms of their career. Without these structures, employees may not understand how they can progress through an organization or how their pay is determined and may feel that their experience is different from that of their peers. And of course, when two companies join together in a merger or acquisition, there is a much greater risk in these inequalities becoming more polarized.

Q **DH: Scott, let's start from the basics. Can you give us a definition of what job leveling is?**

A **Scott Cullen (SC):** Sure. Job leveling is a process by which jobs are assigned a relative size based on a number of factors – for example, problem solving, interpersonal skills and leadership capability. It enables employers to easily compare jobs across business units, geographies and the external market; enables far better people analytics; and can be linked to a wide variety of people process that are a key driver of employee engagement and business performance.

Job leveling can be a simple back-office exercise where jobs are slotted into a framework, and this is used to align and manage pay and benefits but not necessarily communicated to the employee. Or it can be a more transparent process, where a job framework is created and communicated to all, for instance, underpinning a career framework – a key driver of employee attraction and retention.

You're right in that it is often dismissed as an administrative practice – but job leveling is actually an effective way to understand your organization better. It allows employers to dig deep and understand their workforce, and understand where its talent strengths – and weaknesses – lie.

Q DH: Thanks, Scott. Benjamin, can you describe how job leveling can impact an M&A deal?

A BV: When a job leveling framework is in place, the integration process becomes simpler from a people perspective. Pre-merger it helps with due diligence. Post-merger it is easier to identify candidates for roles in the "NewCo," roles that may overlap or talent gaps that need to be filled. Even if two companies come together that have different job-leveling frameworks, typically a read across can be created between the two systems to help understand relativities. All of this can be much more difficult without using a job-leveling tool.

Broadly, the benefits of job leveling on an M&A deal can be felt in two areas:

- **Financial:** Companies that have undergone job leveling can be valued more easily and accurately as it relates to the human capital component.
- **Human capital:** The human capital side of the business, so critical in most M&A deals, becomes easier to understand.

Q DH: It's definitely been our experience that not undergoing this process leads to hard costs and unnecessary complications further down the deal cycle. So given that, Scott, in your opinion, when should job leveling be done?

A SC: Job leveling is a fantastic underpin for all people processes within an organization and, if implemented effectively, will help drive employee engagement and improve attraction and retention. It will benefit most organizations that have reached a size where it becomes harder to manage their employee population.

Going into an M&A with leveling in place will make the whole process easier from a people perspective; however, if job leveling is not in place, it can be implemented in stages through the M&A process starting with critical leadership positions that will be first to be considered in the NewCo and probably provide the most critical people risk.

Q DH: Once a deal is done, is it too late?

A BV: If a company enters into a transaction without undergoing job leveling, it's not too late. Those leading the human capital integration can start with a pilot exercise, undergoing leveling for critical-skill roles, leadership or other areas integral to the success of the deal.

It can also then be used to help set up people structures in the NewCo, and it makes post-merger harmonization much easier as the organization will be able to far more easily compare legacy organizations, identify differences and plan the harmonization process.

A DH: I agree. The key is to not wait, like the company in the example above, as not only will the company be opening itself up to unnecessary risk, but it also misses an opportunity to manage change efficiently – for right after a deal is when employees are most open to change. They may not welcome it, but they expect it; however, a sudden change in their roles or levels one or two years down the line will likely be met with hostility and cause potential anxiety.

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