

Harmonization of employment conditions



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Deal completed? Ready for harmonization? Time for cost and content effectiveness!

Many mergers and acquisitions are followed by harmonization of employment conditions, aiming for synergies and cost optimization. Peculiarly, these ambitions also withhold companies from harmonizing. Harmonization is a tough process, however, not harmonizing employment conditions is sometimes even tougher. Leaving things as they are without being transparent about why no changes are being made, often results in unforeseen cost increases and retention problems.

This article provides insights in the basics of cost and content effectiveness during harmonization, together with some practical tips on how to manage these.

Companies offer groups of employees different sets of employment conditions. In some cases this is intentional, but it is often the result of historical events like mergers or acquisitions. Employment conditions may also vary when old conditions are grandfathered.

“If you don't know why you want to harmonize, don't do it. If you have a reason to do so however, don't hesitate”

Justifying different employment conditions to employees is challenging, especially when employment conditions vary within the same job level. How do you explain to someone that the reward package only includes 25 vacation days, while a colleague has 30 days?

This becomes even more challenging when employees work at the same location, right next to each other and perform the exact same job. Employee perception plays an important role here. Even if employees receive an equal (overall) package value across employment conditions, they may feel that their package is lower in value compared to that of others. This can result in dissatisfaction, less engagement and decreased motivation to perform well. Turnover rates may subsequently increase, while increased effort and costs are required for recruitment and employee replacement.

A **grandfather** clause (or grandfather policy) is a provision in which an old rule continues to apply to some existing situations while a new rule will apply to all future cases. Those exempt from the new rule are said to have grandfather rights or acquired rights, or to have been grandfathered in.

Don't grandfather

In addition to invoking (employee) perceptions of unfairness, offering different employment conditions may result in an additional administrative burden for various supporting departments. Although the functionality of HR systems has improved considerably in recent years, the input and interpretation of deviations in employment conditions, remains a labor intensive process and is therefore associated with high risk.

“ Avoid grandfathering, as it may result in misunderstanding and operational hassles ”

Harmonizing working conditions is a time consuming process, especially if there are many deviations. The employer will have to inform the Works Council or employee representatives about the impact of a change, which becomes more difficult with the amount of deviations. And then we have not even addressed the complexity of communicating this to employees yet.

Choose a clear package

More and more companies recognize the importance of a reward strategy that is aligned with the business strategy. However, companies perceive harmonization of all employment conditions to be complex and therefore impossible. It is often thought harmonizing all conditions at once will lead to resistance, resulting in no agreement.

“ Choose a clear package (existing or new) that fits the reason why you are harmonizing employment conditions, and apply this package to all employees. Avoid 'over the top' harmonization ”

Therefore, companies sometimes opt for a step-by-step approach to harmonize employment conditions. For example, first variable pay programs and then working hours. In practice, this approach can significantly increase personnel costs. Each employee expects to receive at least what the previous package offered for every employment condition. They will only accept a decrease in value if they are compensated in some other way and they will always accept

an increase in value, but this will make the overall package more expensive. In practice, a step-by-step approach to harmonization is always associated with higher costs, a prolonged change process and debates about employee workload.

Avoid cherry picking

If effectiveness of personnel costs is one of the goals of harmonization, it is crucial to harmonize all employment conditions at once. While keeping the essentials in mind, you may also consider getting rid of conditions that are not valued by employees. Since this is an extensive project, a clear planning, strategy and approach must be agreed with all parties involved upfront. The reason for integration must be crystal clear. Otherwise, matters like stakeholder management and cost development will result in high risks (and headaches).

If you consider harmonization, remember to effectively manage your costs, content and process

- 1 Only harmonize if you know why you want to.
- 2 Don't grandfather, choose one package (existing or new).
- 3 Do it all at once to avoid 'over the top' harmonization and cherry picking.

Contact

Would you like to know more about how the harmonization of employment conditions can increase your business performance? Please feel free to contact us.

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