SINCE 1979®

How to Retain Key Employees

Staying Power - How to retain key employees when selling your business

Nothing can turn a sweet business sale deal sour faster than a key employee leaving the company before the transaction is final. This kind of loss can reduce a company's selling price, hinder integration plans, turn a star executive into a formidable competitor and even shut down a deal altogether. But bonus plans and other incentives can motivate key employees to stay and help reduce the odds of this common mishap happening.

An Offer they can't refuse

Companies are increasingly using bonus plans to retain vital staff through transitions and help motivate continued productivity after a merger. Common bonuses include:

Retention. The "stay" bonuses typically are offered by the selling company to retain experienced and knowledgable staff during the integration process. They usually are provided to executives but can also be used to retain other key employees, such as top salespeople or key product developers, who add value to an M&A deal.

Most retention bonuses are awarded as a percentage of salary or a lump sum amount. But they may also take the form of:

- Stock or stock options
- Flexible working hours or extra vacation time
- A change in responsibility, work flow, of assignments; or
- A better severance package if the employee will be employed for only a limited time.

Retention bonuses typically are offered to between 5% and 10% of the employees of the overall company or division being acquired.

Project completion.

This type of bonus is offered to employees assigned to specific projects that are usually short-term (between three to six months). The bonuses may constitute 5% to 20% of an employee's total compensation for work on the project. Companies might base the payout for this type of bonus on the importance of an individual's role in the project, its successful completion and possibly the customer's satisfaction.

Management by objectives (MBO).

MBO bonuses are offered by employers to enable the successful completion of internal projects that might otherwise be neglected or overlooked as staff focuses on merger integration. Employees might receive a list of specific tasks, deliverables, due dates and dollar value for completing each assignment based on the company's priorities. These bonuses are built into employees' overall compensation plans, with dollar value buckets from which quarterly project assignments are made.

Assigned tasks should be able to be completed by the employee with minimal help from co-workers. Otherwise it may be difficult to determine how much of the task was completed to determine how much of the task was completed by the employee assigned – which could lead to disagreements, even a lawsuit.

Gain-sharing.

Companies wanting to jumpstart synergies following a merger might consider this bonus program in which individual employees or teams are rewarded for determining and implementing costsavings plans. Gain-sharing bonuses can include profit-sharing and restricted stock plans – all of which tie compensation to the company's growth and profits.

Committing to the future.

Before you offer an employee a retention bonus, be sure to thoroughly assess the individual's performance and productivity to ensure he or she is worth the financial commitment and really is essential to the successful execution of your M&A deal. Also make sure that the employee is invested in the future of the company and willing to stay on board.

Paying bonuses in installments gives employees an incentive to remain as long as you need them. But you also may want to consider asking employees to sign agreements that bind them to your company for a specified time period. Clarifying their roles and performance expectations and ensuring that changes in compensation policies and processes, bonus arrangements, benefits and share schemes don't affect them adversely will also help you retain key staff.

Not all employees receive retention bonuses, but it's still important to reassure rank-and-file workers that they're part of the team and crucial to the future success of the new organization. Early communication about the deal is essential, including the rationale behind your decision to award certain employees bonuses. A management representative – possibly from your human resources department – should be available to answer questions and address concerns about the merger and its implications.

Get an early start.

There's no simple formula for establishing an effective retention bonus plan. So start thinking early in the sale process about how you'll keep your experienced and knowledgeable team members in place. The ill-timed loss of even one key employee could mean the difference between a successful deal and one that falls apart before you reach finish line.
