Employee Retention Techniques

Whitepaper

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Introduction

When succession planning, you often have key employees you must retain to ensure a successful transition. This is not always a simple task, especially when that employee is talented.

Discover proven techniques for key employee retention:

#1 Bonuses

Bonuses are flexible. Bonuses are simple. Everybody understands bonuses.

Bonuses can be short-term, long-term, or both. Bonuses can be tied to goals: goals for the individual and goals for the company. Some companies provide a flat percentage of salary across the board regardless of individual performance. While it is important to reward everyone when the company does well, the superstars deserve and expect more. Conversely, a superstar should not be penalized when he or she does well, but the company overall is lagging. It’s not fair to an operations manager who can produce more than the sales area can sell.

#2 Equity Plans

Stock options are key tools to incentivize employees. The employee ends up owning equity. This can be a positive tool, but it may lead to issues. Owners can have a vote. They may become contentious and exercise minority shareholder (and like) lawsuits. As owners, they will now be subject to the terms of your shareholders’ agreement. If the shareholder/employee departs, you may need to buy out these shares.

#3 Synthetic Equity Plans

Synthetic equity plans include phantom stock and stock appreciation rights. Both reward the holders of these with the increase in the value of the company. Neither transfers ownership interest.

These plans can work in conjunction with annual and longer-term bonuses. Synthetic equity plans reward key employees based on the performance of the company as a whole. They reward teamwork. Only if the team works together will the company grow. Your operations VP will work with the sales VP to design units that are more saleable. They won't just produce units that are less costly or are quick to make.

The plans can be very flexible. They can be based on the "value" of a segment of the company, not just the company as a whole.

This concept of synthetic equity is important. The objective is to maintain control of the company in your hands, not to dilute it. Using real equity often creates other issues.

For more information on synthetic equity plans, visit the National Center for Employee Ownership: www.nceo.org

#4 Employment Agreements

An employment agreement is a simple way to tell your employee you want him/her to stay on. It will carry all the standard clauses including expected duties, compensation, bonus arrangements, stock options, synthetic equity, benefits, term, causes for termination, confidentiality, etc. This is a legal document, so an attorney is required to help set it up. But it gives peace of mind to key employees, especially in a family business.

For every company, there comes a time when the owner must transition out of the business.

Often a succession plan hinges on the ability to retain your key employees throughout the process. Retention techniques must be considered and established as a critical part of the transition plan.

For expert guidance on business transition planning options, contact JBV at 516-882-4878 or KevinJennings@JenningsValuation.com