



Abstract: A sound retention or “stay” bonus program can reduce the likelihood that a key executive or other valuable employee walks out the door before a merger deal is finalized. This article talks about the types of employees who might be offered stay bonuses and the forms stay bonuses might take, such as a lump sum amount, stock options or extra vacation time.

Won't you stay?

How to retain key employees through the M&A process

It's one of a business seller's or buyer's worst nightmares: A key executive walks out the door before the deal is signed. This kind of departure can automatically reduce the value of a company — the buyer misses acquiring potentially valuable talent and the seller likely receives less for the sale. It also may imperil a successful transition for the buyer or lead to a tougher market if the key person goes to a competitor or starts his or her own company.

A sound retention or “stay” bonus program can reduce the likelihood of this scenario. It also can lower the level of stress during the negotiation process and be a key factor in completing a deal.

Stay just a little bit longer

The firm being sold typically offers retention bonuses to keep an experienced, knowledgeable and consistent management team in place during the M&A transition. This helps ensure processes continue to flow uninterrupted; current customers are well served; and rank-and-file employees are confident enough in the business's future to remain loyal and productive. During or after this period, the purchaser may extend the current retention bonus, create a new one, or offer to hire the people involved.

While stay bonuses usually are presented to executives, they also may prove valuable in holding on to other key employees, such as intellectual property developers or top salespeople. Anyone who may contribute to smooth merger integration or help a seller realize a higher sale price is a potential stay bonus candidate.

Stay bonuses typically are offered to between 5% and 10% of the members of an organization or division being sold. Retention programs are particularly important for small companies or those that are thinly staffed — and the percentage of employees covered may be higher in these cases.

Know what motivates

Most stay bonuses take the form of a percentage of salary or a lump sum amount. But money isn't the only way to entice a key player to stay and remain productive. Before offering a specific package, consider what might best motivate each individual.

For example, one might welcome an employment contract with a one-time bonus structured to prevent an undue tax burden. Another might prefer progress payments made as the company reaches agreed-upon milestones. There are a number of other alternatives:

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

While stay bonuses are generally an excellent idea, there are potential downsides to them. You may choose the wrong people to retain. Or you could retain an employee who doesn't really want to be there and whose performance suffers as a result.

Finally, you risk creating an "us vs. them" situation between those who received bonuses and those who didn't. Clearly stating the policy and rationale behind retention bonuses, as well as providing a contact person (usually in your human resources department) to answer questions, helps address this issue.

Win-win

Even acknowledging these possible risks, you should make an effort to prevent your important assets from prematurely walking out the door. The time to put a stay bonus in place, however, may be before a sale transaction is even discussed. Stay bonuses can also be used to protect a business and preserve continuity in the event of the death or disability of an owner.

A well-drafted retention plan that preserves the value of the business throughout the transition is likely to provide buyers with more motivated and productive employees. Recognizing this fact, buyers may be willing to pay more for a company.