

Retention Bonus Trends – April 2006

A retention bonus is a short-term cash incentive offered to key employees with essential knowledge and skills in order to retain them during a critical period, such as a merger. The Corporate Leadership Council (a global membership organization providing best practices research on human resources issues) and Lee Hecht Harrison (a global firm specializing in human resources solutions) have compiled a variety of information regarding the use of retention bonuses. This information may be useful to you if you are considering utilizing retention bonuses as part of your council's retention strategies.

Selected Key Research Findings

Research results reported by the Corporate Leadership Council include the following:

- An American Management Association study found that 25 percent of top performers leave their organization within three months of a major change being announced.
- In a PricewaterhouseCoopers study of 418 organizations, 43 percent reported providing retention bonuses to key employees. This percentage has nearly tripled since 1995. Approximately 70 percent of those using retention bonuses reported they were effective as a short term retention strategy.
- In a recent Watson Wyatt study, 92 percent of employees indicated that short term bonuses/incentives were a valuable retention tool.

Such research results support exploring the use of retention bonuses as possible short term retention tools during a period of change, such as council merger.

Retention bonus practices vary by organization, function, and level of employee. Organizations with higher revenues are more likely to offer retention bonuses than those with smaller revenue pools. A 2001 WorldatWork survey found that Information Technology workers were among the most frequently targeted for retention bonuses, followed by middle managers and professional staff. In recent years, retention bonuses are being offered to a wider range of employees at various levels of the organization.

Determining Amounts

A recent survey by Lee Hecht Harrison found that although the use of retention bonuses is on the rise, there is no common formula for calculating them. Many organizations who offer retention bonuses negotiate them on a case-by-case basis. The Lee Hecht Harrison report suggests that this one-on-one negotiation process may make employees feel more appreciated and provide more flexibility for the organization. When organizations do utilize a common or pre-set formula for calculating retention bonuses, they are often calculated as a percentage of salary or as additional severance. The Lee Hecht Harrison study reports that if a percentage formula is used, retention bonus amounts typically increase with position level, as illustrated by survey responses in the following chart.

Survey Responses: Bonus Formulas Used for Various Position Levels

Formula Used	% Respondents Using Formula for Each Position Level			
	Senior Exec	Exec	Professional	Admin
Less than 10% Salary	14%	18%	24%	38%
11-20% of Salary	43%	42%	50%	46%
More than 20% of Salary	43%	40%	26%	16%

Adapted from *Retention Bonuses: Why and How Companies Use Them in Times of Transition* by Lee Hecht Harrison

Survey research reported by the Corporate Leadership Council found that retention bonus amounts ranged from an average of 15.2% of base salary for salaried employees, to 23.5% of base salary for executives. Hourly employees received an average of \$2200. Most organizations pay the retention bonus in a lump sum when the employee has fulfilled the terms of the retention bonus agreement.

Structuring a Retention Bonus Program

- Decide who should be included in the program and why. It is best to limit the program to those employees whose skills and knowledge are essential to the organization. Evaluate the consequences or impact of the employee's departure on the organization's operations.
- Determine what attracts people to the organization and what motivates them to stay. It may be that employees value work-life balance and flexibility over cash. In such instances, cash bonuses may not be the best option for retention.
- Structure the program around the challenges faced by the organization and key items that employees value. Remember that retention bonuses are most effective for short term retention. Career development options such as educational opportunities, job rotation, and mentoring may prove more successful for long term needs.
- Analyze the organization's financial capacity to offer a retention bonus program. Consider the impact of employee turnover on the bottom line versus the financial impact of implementing the program. Conduct an overall cost benefit analysis, evaluating the impact on operations, services, and finances.

The Human Resources Consultant assigned to your council can provide additional information and assistance on developing and implementing retention bonus programs.

Reference Sources:

Corporate Leadership Council, *Literature Key Findings: Utilizing Retention and Stay Bonuses*, Washington: Corporate Executive Board (May 2003)

Corporate Leadership Council, *Literature Key Findings: Attraction and Retention Bonuses and Rewards*, Washington: Corporate Executive Board (July 2005)

Lee Hecht Harrison, "Retention Bonuses: Why and How Companies Use Them in Times of Transition" (Retrieved from www.LHH.com, April 2006)

SAMPLE EMPLOYEE RETENTION AGREEMENT
(Should be reviewed by local employment attorney before finalizing)

This agreement is made by and between _____ (“Employee”) and the Girl Scouts of _____ with reference to the following facts:

1. Purpose. Girl Scouts of _____ is undergoing an organizational re-structuring as part of the realignment of Girl Scout Councils and the merger with _____. Certain job positions will be eliminated. The Employee is being offered an incentive (“Retention Bonus”) to continue employment beyond the regular termination date of _____ for employees whose positions are being eliminated due to the re-structure. Girl Scouts of _____ desires that the Employee facilitate the transferring of knowledge regarding her/his job position to others.
2. Termination of Employment. Employee understands and agrees that his/her employment with Girl Scouts of _____ will terminate on the Regular Termination Date. However, should Employee agree to the conditions set forth in this Agreement, her/his termination date will be extended to _____ (“Extended Employment Period”).
3. Retention Bonus. In consideration for extended employment and cooperation during the Extended Employment Period, and the execution of this agreement, Girl Scouts of _____ will pay Employee a one-time Retention Bonus equal to () month(s) gross salary (x percent of annual base salary), less applicable withholding amounts, at the conclusion of the Extended Employment Period. This payment will be in addition to all benefits and salary payments Employee currently receives from Girl Scouts of _____, as well as any severance payments for which Employee is otherwise eligible to receive. Should Employee accept this offer of a Retention Bonus, Employee will continue to receive his/her current salary throughout the Extended Employment Period on Girl Scouts of _____ regular payroll dates, until Employee’s employment with Girl Scouts of _____ terminates.
4. Retention Bonus Eligibility. Employee shall be eligible to receive the Retention Bonus if: (i) Employee is employed by Girl Scouts of _____ through the Extended Employment Period and meets all performance expectations (as described below) or (ii) if employee’s employment is terminated by Girl Scouts of _____ without cause (consistent with normal Girl Scouts of _____ personnel policy) prior to the end of the Extended Employment Period.
5. Performance Expectations. It is expected that the Employee will continue to perform all duties per her/his job description. In addition, the Employee will:
 - Maintain an outstanding attendance through the Extended Employment Period;
 - Facilitate a smooth and complete handover of job responsibilities, including the transfer of all documentation and knowledge for others to properly assume Employee’s responsibilities;
 - Participate in and be available for the training of others in all aspects of Employee’s current responsibilities;
 - And, maintain a collegial and cooperative working relationship with Girl Scouts of _____ management, staff, and outside personnel working with Girl Scouts of _____.
6. Payment and Withholding. Upon fulfillment of the terms of this agreement, Girl Scouts of _____ will pay the Retention Bonus indicated above, less applicable withholding amounts.

AGREED AND ACCEPTED

Date

Date

Employee

Girl Scouts of _____