RETENTION AWARDS: A TOP TEN LIST

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While many have been focused on the volatility in energy commodity prices since 2014, we at Longnecker & Associates note that volatility and uncertainty impact all industries at various times. From cost-cutting measures to layoffs and bankruptcies/reorganizations, companies have explored numerous strategic alternatives to help them best navigate the downturn in the industry. No matter the strategy and the industry, there is one constant for all players working to navigate down cycles: the need to retain and motivate top talent.

Oftentimes when a company is in the midst of a downturn, there is a corresponding drop in stock price value. As stock values tend to translate into retention, concerns may arise whether or not top talent is retained and motivated properly in that environment. In this scenario, management and compensation committees begin the discussions of whether or not retention awards, cash and/or equity are appropriate and in the shareholders' best interests.

Considering the last time oil prices were at today's levels the "Late Show with David Letterman" was airing on CBS, we thought we'd put together a top ten list for you to use as a guide to retention award discussions.

10 THINGS TO CONSIDER FOR RETENTION AWARDS

10. It is okay to utilize retention awards in a down cycle for an industry. Many companies limit fixed G&A costs in a down environment, allowing them more flexibility to focus compensation capital through the effective use of retention awards.

9. Retention awards are effective in times of change, whether during acquisitions, change in controls or bankruptcies/reorganizations.

8. Retention awards should be targeted to key talent with a vested interest in the viability of the company.

7. Retention awards are a reinvestment in a company's employees, not "paid servitude."

6. Retention awards won't enhance retention if the value of compensation is not the reason an employee wants to leave.

5. If stock value performance is historically poor, consider utilizing cash bonuses to increase the competitiveness of a recipient's total compensation package.

4. Utilize a specific eligibility approach when determining who to consider for retention awards.

3. Cash retention award values typically start at a 1x multiple of a recipient's base salary for the most senior executives, and they progress downward from there, notwithstanding other factors that may impact award value decisions (available cash resources, historical performance, etc.).

2. Equity retention award values require a degree of a premium due to their variability and risk of forfeiture. Awards typically start out at a 1x multiple of a recipient's annual equity grant value, notwithstanding other factors that may impact award value decisions (burn rate, share pool availability, historical performance, etc.).

1. Roughly 40% of survey participants in L&A's 2016 Energy Pay Pulse Survey indicated they provided or are considering providing retention awards to key talent in 2015 and 2016.

To summarize, there is a time and a place for the effective use of retention awards. If approached improperly, retention awards can have little result on their intended purpose. However, done right, retention awards become investments in the continuity and stability of the organization.

Today's energy environment is providing unprecedented challenges to its players. The challenges for talent management in the industry have shifted from how to attract top talent in a limited labor market to how to efficiently retain and motivate this experienced talent to stay engaged and lead. Refer to the above top ten list when discussing the use of retention awards, and feel free to reach out to the L&A team as you have questions.

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