

The Retention Award Paradox:

Why a Durable Pay Program Often Beats Another One-Time Grant

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When a critical executive becomes a retention risk, the instinctive response is often a special retention award. Sometimes, that is exactly the right tool. A transaction, transformation, leadership transition, or other period of uncertainty can create a legitimate and immediate need to keep key talent in place.

But when “one-time” retention awards start to become recurring, Compensation Committees should ask a different question: “Is the regular compensation program doing enough to retain executives?” If the answer is no, the focus should shift to the core program itself.

A well-designed compensation program should have natural stickiness, meaning it combines current and future compensation in a way that makes staying attractive. Executives should see competitive pay today, a credible opportunity to earn meaningful payouts for performance, and enough future value that leaving requires giving something up.

Each element of executive compensation can contribute to the program's overall stickiness, though not always in obvious ways.

Base Salary May Matter More Than You Think

Base salary is rarely seen as a retention tool, but it can create more stickiness than many companies realize. In fact, a strong salary can make an executive more difficult for another company to recruit.

Most companies operate within salary structures and maintain internal pay relationships among executive roles. If an executive's current salary is already at the upper end of the market, another company may struggle to match it without exceeding its normal range for the position, disrupting internal relationships, or creating an exception it is unwilling to make.

Salary also frequently serves as the basis for other elements of compensation, including annual incentives, severance benefits, and potentially long-term incentives. Matching an executive's existing package can therefore become considerably more expensive than matching salary alone.

In practical terms, an executive may be highly marketable, but their compensation package may not be easily portable. This does not mean companies should inflate salaries to make executives harder to recruit. But thoughtful salary positioning can provide more retention value than its relatively modest share of total executive compensation might suggest.

Annual Incentives Need Credibility to Have Retention Value

Annual incentives are also rarely described as a retention vehicle, but perhaps they should be. Executives are more likely to remain engaged when they understand what success looks like, believe they can influence the outcome, and see a meaningful connection between performance and payout. Because the award is earned and paid annually, it becomes part of the compensation an executive gives up by leaving mid-cycle, and it can be difficult for another employer to replicate.

A target bonus has limited motivational or retention value if executives view target performance as unachievable. Goals should be rigorous, but executives also need to see a credible path to earning the award. That calls for careful performance measures, appropriate goal-setting, and payout curves that meaningfully differentiate performance. Ultimately, the annual incentive needs to offer a reward opportunity that executives believe is worth pursuing.

Long-Term Incentive Retention Value Depends on What Executives Leave Behind

Long-term incentives are generally the most powerful retention element of executive compensation. One useful question for a committee to ask is simple: What does this executive give up by leaving today? Ideally, the answer is a meaningful amount of future compensation.

Competitive grant values are important, but so is how those grants build over time. Consistent annual grants with overlapping vesting schedules create a rolling pipeline of future value. As one award vests, another remains outstanding, and another is granted.

Vehicle mix matters as well. Performance-based equity creates alignment with long-term results, while time-based equity can provide more predictable retention value. The right balance depends on the company, but the overall design should reinforce both long-term performance and retention.

Of course, unvested equity is not an absolute barrier to leaving. For a highly sought-after executive, a new employer is often willing to replace forfeited equity through a make-whole award. That is one reason retention cannot rest on LTI alone. Competitive salary and annual incentive opportunities matter too, particularly because they become part of the executive's ongoing pay package and may be more difficult for a prospective employer to replicate within its existing compensation structure.

Treat Special Awards as an Exception and Understand Why They Were Necessary

Special retention awards still have a legitimate place in executive compensation. An unusual business event may create a retention risk that the regular program was never intended to address. In those circumstances, a targeted award can be appropriate.

However, if the company needs to provide incremental compensation to keep a critical executive, the committee should understand why. Is the ongoing LTI opportunity too low? Is there a vesting cliff? Has the executive's role outgrown their compensation? Is the mix of performance- and time-based equity providing insufficient retention value? Or is the issue not compensation at all?

That last question is very important. Career opportunities, leadership dynamics, succession, company performance, and confidence in the strategy can all influence an executive's decision to stay. Not every retention problem can, or should, be solved with more pay.

Retention Should Start with the Core Program

Special awards can protect value at critical moments, and a one-time retention award may be entirely appropriate in an exceptional situation. But if a company repeatedly needs special awards to retain the same people, the regular compensation program may not be doing enough of the retention work. Each award also buys time only until it vests. At that point, the company faces another retention decision and, often, another request. That is the signal Compensation Committees should not ignore.

The stronger approach is to build retention into the annual structure of executive pay: appropriately positioned salaries, annual incentives that executives believe in, and long-term incentives that provide meaningful value over time. This will help keep one-time retention awards as the exception, not the expectation.

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