Aon Hewitt
Radford

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Hot Topics Excerpt: Life Sciences Companies Turn to Retention Bonuses to Reduce Turnover

There has been a sharp increase in retention bonuses offered by life sciences companies in the past year to combat rising turnover rates and aggressive hiring needs.

When it comes to attracting and retaining talent, some things never change. Our clients' most common pain points remain finding employees with the right skillsets in key locations, motivating employees when their equity holdings decline in value, and retaining critical employees who are regularly approached by competitors. Yet, these challenges are currently aggravated by several consecutive years of aggressive hiring and renewed efforts to control costs as market volatility increases and initial public offerings become less frequent.

In particular, declines in employee equity holdings are a real concern. While the overall stock market recovered over the summer (hitting record highs in just the last week), there are still a large number of employees at life sciences companies who have lost ground in the past year. Consider this, stocks in the life sciences sector plummeted by 29.8% in the 12-months ending in May 2016, while the overall Russell 3000 dropped by only 4.5% during the same timeframe. As equity holding drop in value, employees begin to feel less secure in their current roles, and employers find it easier to poach key talent using attractive new-hire grants.

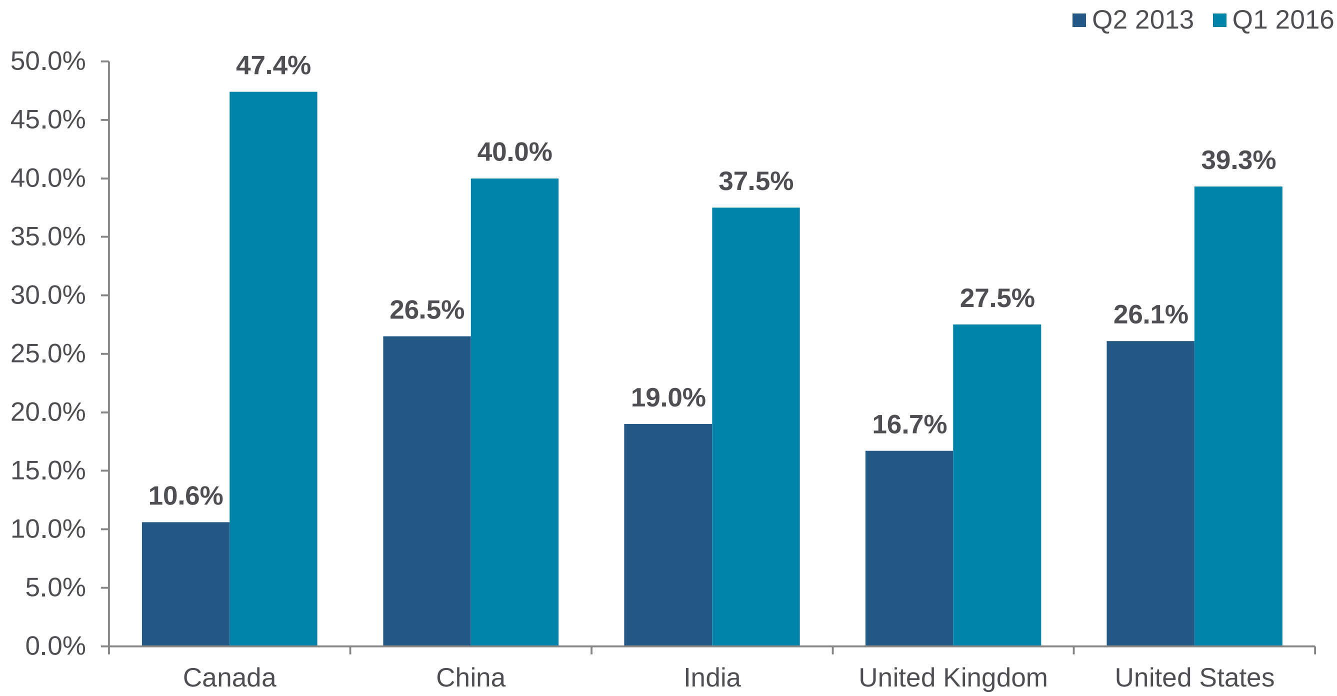
Companies can pursue a number of tactics to combat underwater stock options and stock awards that have dropped in value, including refresh grants and option exchanges (which we discuss here for private companies and here for public companies). However, as our latest data shows, cash-based retention awards are quickly climbing up high on the list of potential remedies. These awards, which can include one-time or multi-tranche payment options, provide the immediate, liquid retention boost many employees and employers seek.

Hot Topics Survey Results

To explore recent retention bonus practices, participants in the **Radford Global Life Sciences Survey** were asked to complete a special Hot Topics section of our quarterly Global Workforce Trends Report. Across a number of select countries, the prevalence of companies awarding retention bonuses, overwhelmingly in the form of cash, to at least some employees in the last 12 months increased significantly vs. three years ago— the last time Radford conducted a similar survey.

The following chart illustrates the dramatic uptick in the prevalence of retention awards in Canada, China, India, the United Kingdom and the United States from Q2 2013 to Q1 2016:

Prevalence of Life Sciences Firms Awarding Retention Bonuses in the Past 12 Months



Source: Q2 2013 and Q1 2016 Radford Global Workforce Trends Reports

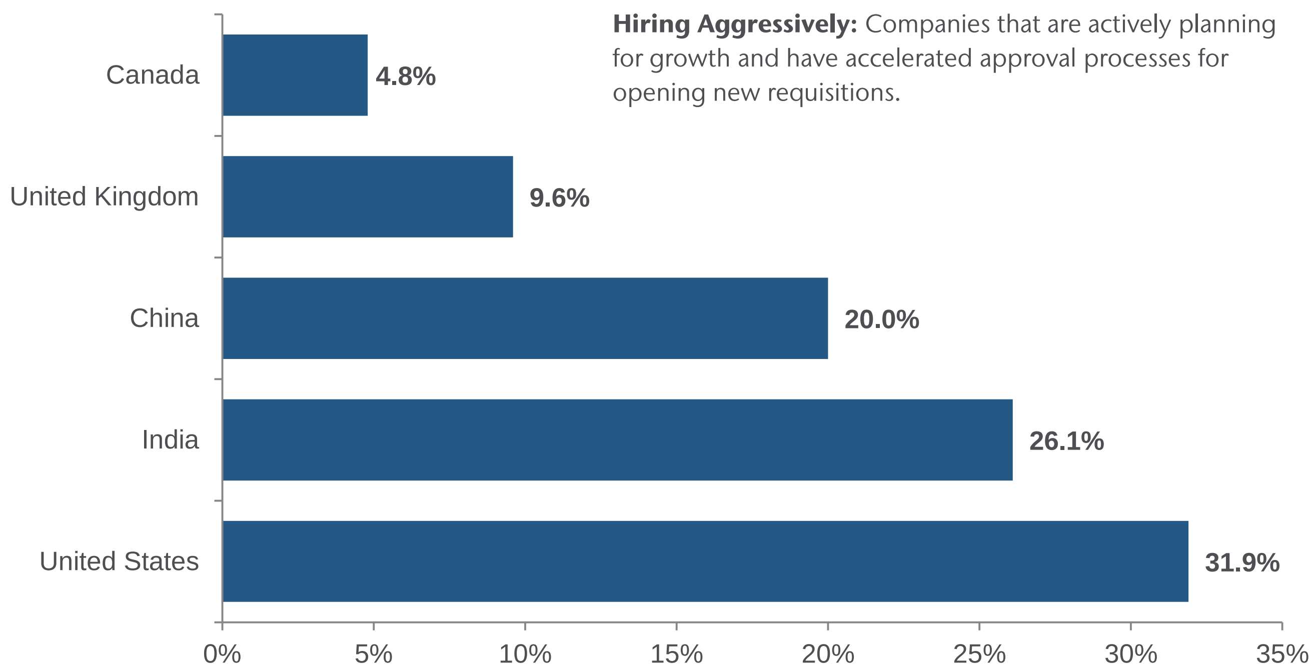
As we noted above, companies award retention bonuses for a variety of reasons, which can include motivating employees with underwater stock options, retaining key project members during the middle of a major product development cycle, or restoring confidence in a team when they see other expenses getting cut. In all cases, the goal of retention bonuses is to maintain continuity while avoiding the high costs of turnover, which some studies indicate can range from three to six times base salary to replace key employees.

Aggressive Hiring

The uptick in retention bonuses at life sciences companies can be largely explained through an increase in voluntary employee turnover and aggressive hiring plans. The biopharmaceutical and medical device industries are growing rapidly, driven by rising investment levels, new technologies, new treatment paradigms and competition from the introduction of biosimilars to the market.

The chart below illustrates the prevalence of life sciences firms hiring aggressively in the same markets where Radford has tracked retention bonus practices. In the United States, nearly a third of companies are hiring aggressively (e.g., accelerated approval processes for opening new positions) over the next year, followed by more than 20% of companies in India and China.

Prevalence of Life Sciences Firms Hiring Aggressively in Key Markets
(Plans for Next 12 Months)

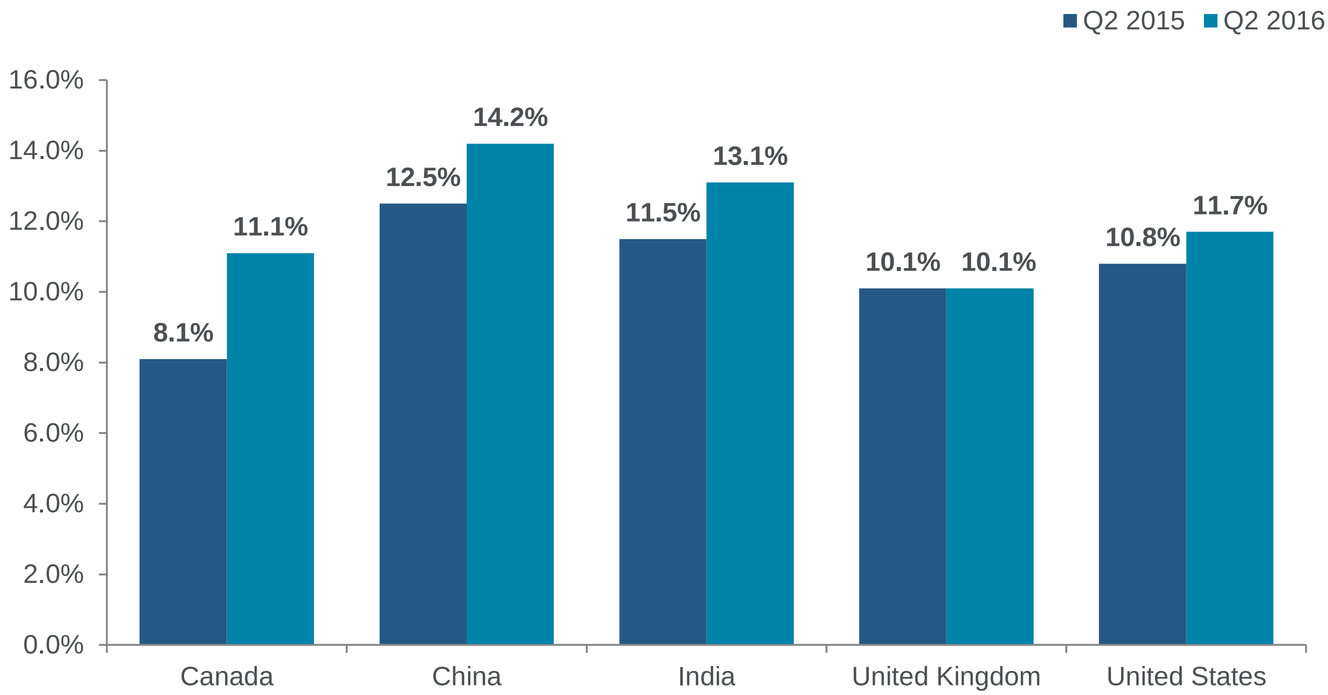


Source: Q2 2016 Radford Global Workforce Trends Report - Life Sciences Edition

As companies create and fill new job positions, they must also work to keep employees in key positions from leaving. Working against companies are rising voluntary turnover rates over the past year in the countries we analyzed, with the exception of the United Kingdom.

A voluntary turnover rate above 10% is typically the point at which companies find turnover to be troublesome and a real burden on productivity. As the chart below illustrates, voluntary turnover is rising globally within the life sciences sector, and in some countries like China and India, climbing closer and closer to 15%.

Average Voluntary Turnover at Life Sciences Firms
(Trailing 12 Months)



Source: Q2 2015 and Q2 2016 Radford Global Workforce Trends Report - Life Sciences Edition

What's Next?

When considering whether retention bonuses are the right strategy for your company, you should weigh the merits of bonuses against other options, such as increasing long-term equity awards; replacing underwater stock options with new options that have a lower strike price; increasing base salary to ensure competitiveness; improving working conditions that differentiate your firm; and communicating a clear path for future professional development and job growth.

Retention bonuses can also be tricky because, by design, they are temporary. They may help solve a pain point in the short-term but they won't solve longer-term retention issues if there is a more systemic issue at play. The competitive hiring landscape among life sciences companies means retention will continue to be a concern, and one that must also be addressed with a longer-term strategy. Retention bonuses can be part of an effective rewards strategy, but shouldn't be used as a "bandage for a larger wound" based in a strategic shortcoming.

To learn more about participating in a Radford survey, please contact our team. To speak with a member of our compensation consulting group, please write to consulting@radford.com.

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About Radford

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