

Stephens Associates, Ltd.

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Thoughts on Retaining Key Executives

Losing Key Employees

In 1997, the Society for Human Resource Management (SHRM) conducted a survey resulting in 74% of their respondents indicating that they were concerned about the number of **voluntary resignations** at their organizations. The corresponding 2000 survey by SHRM shows that the concern for voluntary resignations by corporations jumped to 84%. SHRM, who conducted both of these surveys, polled 473 human resource professionals in various organizations.

The 1997 survey had a 50% response that there was no change in the voluntary resignations in the previous five years, yet the 2000 survey shows that just the previous year, 1999, only 40% of the respondents felt there was no change in voluntary resignations in their organizations. The new survey also shows that employee voluntary resignations have risen from 35% in 1997 to 41% in 2000.

Of companies with 1000 or more employees', 50% of the respondents thought voluntary turnover had increased compared to 39% for organizations with less than 1000 employees.

When one considers voluntary turnover, there are some **significant costs** associated with an employee leaving. The real costs are often calculated by adding up the actual dollars spent on things such as, recruitment or headhunter fees, cost for advertising in local and national papers, the orientation cost associated with training and acclimation of the new employee as well as something called "opportunity costs". Opportunity costs would be in the simplest form an executive who creates an initiative for a major acquisition or a major plant capital improvement and, due to his voluntary turnover, that initiative lies fallow for a period of time or is never completed. Another example would be a sales representative whose territory lays fallow and new revenue, via production of new clients, is not realized.

When a corporation loses a customer, several things happen; the revenue stream is affected and certainly profitability, but more importantly, other customers may, in fact, hear of the rationale for switching loyalties. When an employee leaves, the tendency is to verbalize the rationale for leaving to other potential employees, friends, relatives, neighbors, and, generally speaking, it puts a cloud over the company's ability to attract new employees in the future.

Reasons For Leaving

Back to the year 2000 SHRM survey, 87% of the organizations that responded to the survey conducted exit interviews with employees who were resigning. The two most common reasons for resignations were, **1) pursuit of career opportunities and 2) better compensation and benefits.**

A question posed to the respondents in the 2000 survey regarded the most significant threat to employee retention; 75% indicated that it was from higher salaries/compensation offered by other organizations; 61% felt it was potential career development and 53% felt it was the rising acceptability of job-hopping.

It is evident, from these survey comparisons, that corporations need a specific strategy to retain the work force in the short term and a more potent long range view of employee retention as people become acclimated to the organization, gain experience and have some skill set to offer to the outside world.

An executive search firm, whether retained or contingent, works from a unique vantage point to view the susceptibility of growing, successful and high profile companies having key executives leave for what may be perceived as "better opportunities." We believe it is incumbent on these companies to not only be sensitive to and vigilant about the possibility of key executives being recruited away, but to act clearly and decisively to put an effective "retention plan" in place for each executive. These retention plans could be in the form of long term stock options/long term performance awards or further deferred compensation programs.

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What would prompt an executive to accept or return a call from an executive recruiter? We would suggest that this conscious action is not without careful thought and is precipitated by an interest in one or more of the following areas:

Compensation

The executive is asking, am I competitively paid, fairly compensated and, is our equity or executive compensation package in line with the industry or marketplace? This prompts one to talk to a recruiter to learn what compensation may be in line with the next opportunity.

Career

Executives are always comparing their career progression in a satisfactory way with others. What is my next step or opportunity to rise on the corporate ladder?

Fulfillment

Is the function that I perform fulfilling for me personally and for the corporation? Do I have an impact on the organization? Am I enjoying or having fun at what I am doing?

Wealth

In the current situation that I enjoy, do I have an opportunity to participate in the good fortune of the company in the form of equity participation, deferred compensation, professional services, etc? Will I be able to attend to the long-term needs of my family and my retirement?

Commitment

After many years with the same corporation, executives will ask themselves the question relative to the company showing them their commitment over the long haul. Does the company view me as a valuable entity within the organization and am I on board with the strategy and direction of the company relative to this functional responsibility?

Areas representing significant opportunities in developing retention programs

? **Does the company have current and comprehensive information on executive compensation in their industry?**

- There is an abundance of information through professional and trade organizations; industry surveys and directly from compensation/benefits consultants. It is necessary to obtain and maintain current information, with openness to considering effective alternatives to the status quo.

? **Does the company express openly their intention to have an effective executive compensation program in place and encourage the executive team to assist in gaining the information required?**

- Reluctance to language in a dialogue about this issue is often an admission that the company may not be competitive in its compensation practices.
- A well-intentioned, ongoing review of the issue provides assurance to executives that the company will continue to look out for their best interests.

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Areas representing significant opportunities in developing retention programs

- ? **Does each individual understand their position on the career ladder and does the company have a program in place to tend to their career development needs and desires?**
 - The call here is for periodic, formal feedback, assessment and evaluation. Many companies, today, fail to follow through in this practice.
 - A strong succession planning process, within the corporate culture, will provide the forum for executive aspirations.
- ? **Does the company communicate regularly with the executive staff relative to the organization structure and change?**
 - A fear of disrupting the traditional structure can lead a company to ignore “best practices” and the opportunities that exist to make effective modifications to the business. This is the clearest indicator of a company’s willingness to embrace “change”, and the cultural foundation that is driving the business.
- ? **Will the company draft an equity plan that provides both incentive to the individual and a firewall to the unwanted raider?**
 - For many companies, this can be the most effective tool in attending to the “retention issue” for key executives.
- ? **Does the company allow latitude in the compensation plan to address the needs of the individual, being cognizant of various life stages that may be included in a single management team?**
 - An executive preparing for children’s college expenses may view the company’s program quite differently from one whose children are grown and who is focused on retirement savings. A program flexible enough to appeal to such personal differences is clearly most effective.
- ? **Has the company directly and actively expressed its commitment to the individual over the long term through succession planning and/or career development programs?**
 - If the company is perceived as having a comprehensive plan for succession, it will lead to an improved sense of commitment, participation and interest on the part of the executives.

One of the key elements of executive retention is the executive’s knowledge and understanding of their performance and where that performance fits in the organization’s requirements. Annual performance appraisals and detailed feedback on a monthly or quarterly basis allows executives to understand exactly where they stand and their relative position worth within the company.

Regardless of the direct efforts and specific components or golden handcuffs used by corporations to retain key employees, if another entity wants those executives’ skills to help their businesses, they will pay for that expertise.

Corporate retention efforts cannot completely stop voluntary resignations, but it “should make the executive targeted for recruitment think twice before jumping ship.” “The grass is not always greener on the other side of the fence, the brown spots are just in different places.”

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