

What We Know, And More Importantly, What We Don't Know, About Retaining Leaders

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Starting Point

- Based on surveys and interviews with C-Suite execs, SHRM Foundation identified retention of top leaders as a crucial concern
- Reviewed HR, Management, Finance and Accounting literatures relating to retention or turnover of senior executives

Caveats

- VERY few research-based articles addressing senior executive voluntary turnover
 - Primary thrust is leader succession, but this literature is generally more concerned with consequences, and with involuntary succession
- Turnover-theory-based articles even rarer
- What articles exist pertain primarily to CEOs

Retention MAY not be so Critical

- Turnover rates are low & may be declining
 - 13% overall for CEOs, but 2 - 4% for *voluntary*
- Average tenures
 - CEO: 6 – 8 years
 - CFO: 4 – 7 years
 - Sales/Manufacturing: 6.5 years
 - CIO: 4 – 6 years
- Less data for middle level managers, but one report says 1.5%

Most CEO Turnover is:

- Involuntary
 - 60 - 70% normal, planned retirements
 - 10 - 17% dismissals or restructuring
 - Maybe as high as 35%
- Unavoidable
- Functional?
 - Turnover generally higher among lower performers
 - Succession lit: CEO attrition follows poor firm performance

Nonetheless Turnover is Costly

- Direct Costs
- Effects on Continuity
 - Vision/Direction
 - Collateral turnover
 - 22% to 35% of senior managers (Coyne & Coyne, 2007)
- Particularly in acquisitions
 - Executive turnover spikes (23%) and is likely to persist for up to 9 years
 - May affect survival, esp. if long-tenured execs leave

Caveats about Retention Programs

- Retention goals need to be targeted
 - Key role for succession planning
- Hard to develop retention strategies with limited understanding of why leaders quit
 - Even relying on well-established turnover literature is challenging if we don't know that turnover causes (or contexts) are similar

Improving the Hiring Process

- Is executive hiring state of the art?
- Do firms over-rely on search firms and informal recruiting?
- Can we adapt what's been shown to predict turnover?
 - Biographical data
 - Realistic job previews

Post-Hiring Issues

- Onboarding
 - Turnover of external replacements double
 - LMX and socialization research shows lowered turnover
 - But not much research
- Managing diverse top management teams
 - Communication and conflict management may be important

Is Job Satisfaction Important?

- Little or no systematic research on link to retention of top managers
- Not even clear what dimensions are most important, or most lacking, for execs
- But these data are likely available from proprietary surveys

Likely Satisfaction Facets

- Nature of work
 - Job enrichment one of best predictors of turnover (McEvoy & Cascio ,1985)
 - 80% of a CEO's day: meetings, visits with clients, and ceremonial events (Karlsson et al., 2009)
- Development and Growth
 - Succession plans seem to reduce turnover
 - How to deal with ceiling effects?
- Compensation

\$-Based Retention Strategies

- Generally, neither pay nor pay satisfaction predicts turnover
- “Excess” compensation may play symbolic role for execs
 - But may also signal competitors, leading to raiding (Hasenhuttl & Harrison, 2002)
- Does it build loyalty, or simply continuance commitment? (Bretz, Boudreau & Judge, 1994)

\$-Based Retention Strategies

- Equity-based deferred compensation seems most effective
 - Especially for high performers (Balsam & Mijaro, 2007)
- Two caveats
 - “Make-whole” offers may be common
 - May *increase* turnover when options go underwater
 - Repricing the options may not offset this

Retention Bonuses/KERPs

- Highly controversial
 - 2X to 3X base salary
 - Very widely used
 - Enron declared 900 of 1100 employees “critical”
 - Potential for morale and PR problems
- No empirical studies of effectiveness
- Currently, probably more anecdotal evidence against than in favor