ExecuNet
Connecting Leaders Since 1988℠

2009 | EXECUTIVE RETENTION REPORT:

ENGAGED BUT NOT MARRIED: RESTLESS EXECUTIVES POISED TO PURSUE OPPORTUNITY ELSEWHERE

BROUGHT TO YOU BY EXECUNET AND OUR SURVEY PARTNER:

FINNEGAN | MACKENZIE
THE RETENTION FIRM℠

2009 | EXECUTIVE RETENTION REPORT

EXECUTIVE DIRECTOR
Lauryn Franzoni

SENIOR CONTRIBUTING EDITOR AND AUTHOR
Joseph Daniel McCool

MANAGER, REPORTING AND ANALYSIS
Jim Ashman

ONLINE EDITOR
Will Flammé

COPY EDITOR
Carol Hamilton

SENIOR PRODUCER
Sophia Jones

PRODUCER
Steven Markus

PRODUCTION MANAGER
Kathy Miller

CHIEF CREATIVE OFFICER
Susan DiAmico

CREATIVE DIRECTOR
Nick Brenia

DESIGN
Rob Hudgins, 5050design.com

ExecuNet
Connecting Leaders Since 1988℠

FOUNDER AND CEO
Dave Opton

PRESIDENT AND CHIEF ECONOMIST
Mark M. Anderson

ExecuNet is a private network for high-level executives. Since 1988, we have helped thousands of executives connect to the people, opportunities and insights they need to reach their career and business goals. A recognized authority in executive recruiting and human capital, ExecuNet also helps corporate and search firm recruiters build their businesses through direct connections to executive talent and access to critical market intelligence.

ExecuNet
295 Westport Avenue
Norwalk, CT 06851
(800) 637-3126 or (203) 750-1030
info@execunet.com
www.execunet.com

FINNEGAN | MACKENZIE
THE RETENTION FIRM℠

Founded by Dick Finnegan, Finnegan Mackenzie provides clients with real employee retention solutions based on Dick's book, *Rethinking Retention in Good Times and Bad.* Clients have spanned all industries, and Dick has worked across six continents with clients, including African gold mines and the CIA.

ABOUT THE REPORT

This inaugural *Executive Retention Report* is the result of a joint ExecuNet/ Finnegan Mackenzie survey of 1,627 employed business executives in a variety of corporate leadership roles, from president and chief executive officer to vice president, director and manager.

The survey reflects the job satisfaction, engagement and career transition motivators and influences, as they relate to executive management retention and leadership churn in companies large and small, public and private across a survey population that spans the United States and nearly every industry.

The survey was conducted in July 2009 via email invitation from ExecuNet, a private business network, and completed by the respondents through an online survey. The results separate data into two categories: first, from 271 chief executives, chairmen, presidents, chief operating officers and managing partners; and the second, from 1,356 other management leaders in a variety of job titles, ranging from CxO, executive-, senior- and other vice presidents, directors, managers and others. Fifty-four percent of respondents were from public companies, 37 percent from private companies, and 9 percent from not-for-profit or government institutions.

The survey set out to answer this question: *If executives are engaged and satisfied in their jobs, does that guarantee they will stay?* The answer appears to be, "No."

The data gathered and analyzed for this report is intended to inform corporate hiring, talent management and human resource leaders about the state of executive engagement in today's economic environment.

Further, it identifies key retention challenges and new business practices that may be required to retain top management performers before they leave their current employer organizations.

Data reflected in this report regarding the eagerness of business leaders to explore new career opportunities once the economy and job market improve further documents a steady decline in employee loyalty and should push organizations to take management retention seriously, before it's too late.

Engaged but Not Married: Restless Executives Poised to Pursue Opportunity Elsewhere

As ExecuNet founder Dave Opton has cautioned since his career as a leader in the human resource departments of Xerox Corporation and later, Sterling Drug International, "A counteroffer to a departing executive doesn't constitute a meaningful management retention policy."

During his 40 years at General Electric, the last 13 of which he served as the company's senior vice president of corporate human resources, Bill Conaty learned, as he recalled during the recent 2009 World Business Forum, there are four critical talent management mandates required to build a world-class company with the best talent: **Attract, Develop, Assess** and **Retain**.

"I would say the lion's share of companies put their time on the first, to attract [the best talent]," Conaty said. "But spending time on the other three is just as important...we all want world-class talent. If we do the first three right, retention should be a piece of cake."

Conaty's observations raise a compelling question: With so many companies focused on securing their technology infrastructure, supply chain, brand identity and cash reserves, shouldn't they be equally committed to preserving their current ration of top executive talent?

The findings of previous ExecuNet research initiatives have revealed the emergence – from 2006 through 2008 – of a widespread, enterprise-wide "Retention Deficit Disorder" among many organizations. This data has shown companies professing "concern" about retention largely without following it with specific action steps to counter the potential outflow of high performing business leaders.

DEFINING RETENTION INFLUENCES

For the purposes of this report on executive retention, we felt it important to offer a definition of executive engagement and executive satisfaction, acknowledging that each will be the sole domain of their beholder and that many of the same retention influences on executives may also apply to individuals further down the organizational chart.

> **Engagement:** The commitment made and revisited regularly by individual business leaders to stay in the game, that is, to *remain proactive in accomplishing* their day-to-day management responsibilities; to remain engaged with superiors, colleagues and subordinates; and to refrain from reducing their output despite their potential dissatisfaction with organizational issues. Engagement is more about what executives *actually do* on a daily, sustained basis.

> **Satisfaction:** The feeling that an executive's sense of self-fulfillment, meaningful rewards and reputation are aligned with, continually built by and reinforced through their current management role and responsibilities as well as with their employer, its reputation and its prospects for future growth. Satisfaction is more about what executives *feel and perceive* about the value of their current job.

Engagement and satisfaction are influences on executive retention, yet neither may actually be a predictor of just how long an individual business leader will stay with any employer.

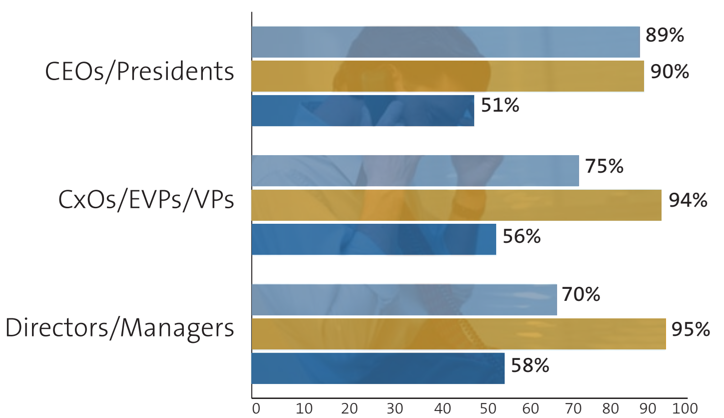
Executives are Engaged but Eager to Explore New Career Opportunities

Despite being asked to do more with fewer resources and, in many cases, a significantly reduced workforce, a clear majority of executives report they are indeed engaged in the day-to-day duties of their roles.

However, fewer executives are satisfied with their jobs than are engaged in those leadership roles. A look at executive job satisfaction by function shows chief executive officers are most satisfied, as 63 percent report being satisfied or very satisfied in their current leadership role, compared to 52 percent of other C-level officers, 41 percent of all vice presidents and 44 percent of director-level business leaders.

Yet more than 90 percent of these same business leaders across all functions (CEO – 90 percent, CxO/VP – 94 percent, and Director/Manager – 95 percent) would take an executive recruiter's call about a new, promising career opportunity with a different company.

THE LOOMING EXECUTIVE RETENTION CHALLENGE



Source: ExecuNet/Finnegan Mackenzie 2009 Executive Retention Report

- ENGAGED IN CURRENT ROLE
- WOULD TAKE RECRUITER'S CALL
- ACTIVELY LOOKING NOW

Public company CEOs, more than any other segment of the survey population from either public or private companies or not-for-profit institutions, are poised to take such calls: 97 percent of them said they would take such calls.

More than 50 percent of all responding executives are actively looking for a new job now (with the highest number of those CEOs, 65 percent, now leading not-for-profit institutions). And more than 40 percent of these respondents report they will launch or ramp up their job search activities once the economy improves.

This portends not only a significant exodus of experienced, senior-management talent when confidence in the six-figure job market escalates, but also a subsequent return to the kind of frenetic recruiting activity that companies grew accustomed to in the late 1990s and middle part of this decade.

So how to account for the gap between executive satisfaction and engagement? An assessment of their stated reasons for why they would stay with their current employer versus the catalysts for their eventually leaving sheds some light on this question.

Top "stay" reasons for chief executives relate to their current leadership roles. Chief executives stay mainly because their jobs fit with their skills and interests, they like their work, and enjoy the opportunity to control their companies' agendas.

Chief executives would leave for more total cash compensation, more future potential to earn cash, and because of their current industry's prospects for success.

Other executive management leaders would leave for more total cash compensation, more opportunity for input, and more opportunities to learn and grow. It may be that respondents associate engagement with day-to-day job duties but satisfaction with compensation, development, and other longer-term aspects of their work. To move to a new role with a new employer, most operating level leaders will demand a 12-15 percent raise in compensation.

When asked why their team of direct management reports stay, chief executives indicated the top reason was "Their relationship with me," as opposed to the reasons outlined above.

Employers would be well served to continually nourish executives' desires to develop new skills and enhance their reputations. This could translate into accelerating their professional development, perhaps by exposing them to stretch assignments or offering the opportunity to transfer into a different business unit or perhaps even a different function. The more an individual feels he or she is developing and being given the opportunity to apply their newest thinking and skills, the less likely they'd risk a move elsewhere.

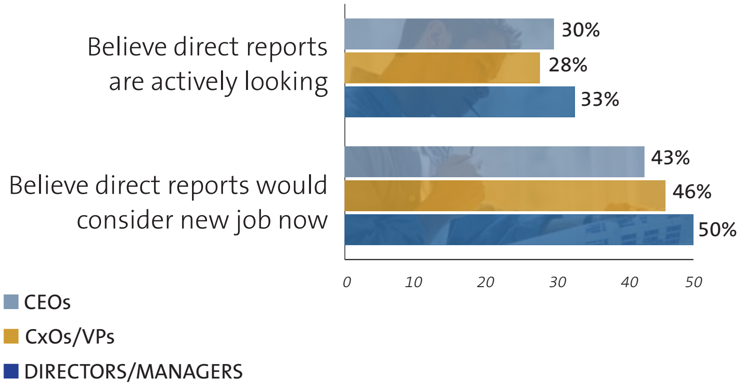
Says ExecuNet President and Chief Economist Mark Anderson: "The rough economy has made it easy for us to focus on numbers instead of people, bolstered by the assumption that everyone – even those in corporate management roles – feels lucky to have a job. Yet the data tell us that much of our top talent is actively looking and will look harder as more jobs open up."

CALL TO ACTION: *Corporate talent management and human resource leaders would be wise to focus on executive management retention now, before the departure of key business leaders begins to impact productivity, morale and the retention of those leaders' own direct reports. Avoiding the potential cascade effect of even one high-impact business executive's departure will help ensure continued high performance at an enterprise level and keep others within the enterprise focused on business priorities rather the how the departure of key leaders may impact their jobs and their futures.*

Management Myopia About Workforce Angst Suggests Serious Retention Challenges

Business leaders are disconnected from the management talent angst around them if their attitudes about the retention of their direct reports and their direct reports' job search plans are any indication.

Consider the following data points that underscore the disconnect between perceptions about career transition plans and attitudes about new opportunities versus the self-reported reality among leaders in a variety of leadership roles:



Source: ExecuNet/Finnegan Mackenzie 2009 Executive Retention Report

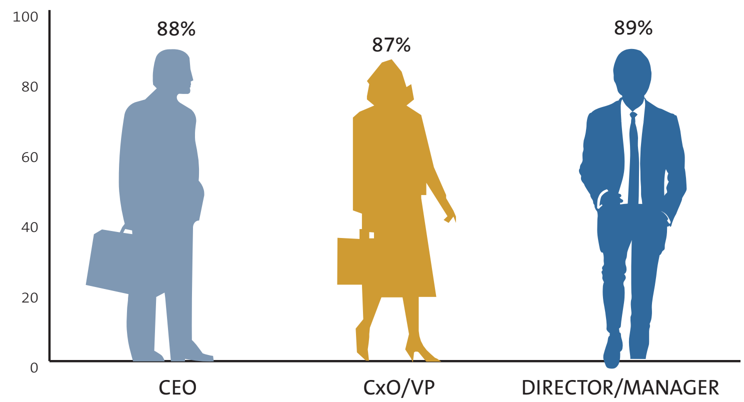
At all levels of management, business leaders are seriously misjudging the percentage of their direct reports who are inclined to pursue new career opportunities when and if they come. When asked what percentage of their direct reports are looking, chief executives significantly underestimated the count.

In truth, however, there is a far higher percentage of business leaders – across all levels of management – who would make or strongly consider a near-term career move if presented with such an opportunity.

Former Medtronic CEO Bill George, now a Harvard Business School professor and author of the just-released book, *7 Lessons For Leading In Crisis,* shared his perspective on the executive retention challenge with ExecuNet during a recent online program.

To keep your top business leaders on-board, George said, "Put them in tough jobs. Make them responsible for something. Promote young people; flatten the organization, and give people opportunities to lead right now and they'll stay with you and be true to you."

PERCENTAGE OF EMPLOYED BUSINESS LEADERS WHO WOULD ACCEPT OR STRONGLY CONSIDER A BETTER CAREER OPPORTUNITY IN THE NEXT 30 DAYS



Source: ExecuNet/Finnegan Mackenzie 2009 Executive Retention Report

He added, however, that in order to keep top executive-level performers, organizations must reward them for their performance and not simply reward their decision to stay with the company. If business leaders are given the right opportunities to lead and demonstrate their abilities and talent at motivating and inspiring their teams, George added, their performance should be rewarded. But giving them token tenure-related bonuses or raises alone, without considering how they've performed as individuals and team leaders, he said, misses this important point about rewarding performance. That, in and of itself, should be enough to retain top management talent.

CALL TO ACTION: *Business leaders must act swiftly to identify the top-performers their organizations cannot afford to lose and find ways to keep them engaged, satisfied and looking for new opportunities within the enterprise as opposed to somewhere else. The clock is ticking, and the retention challenge will only multiply when the economy and the executive hiring environment improve. For must-keep executives, choose an outcome you would pay more money for, and give them that assignment. Then pay them for results.*

Managers Know Their Direct Reports' Stay/Leave Levers

Management leaders actually have a very good sense of why their own direct reports stay with the company and also why those same subordinates might ultimately decide to leave (see supporting charts below).

Yet, in the context of the broader data collected by the same survey, the findings show executive engagement is not indicative of executive job satisfaction, and satisfaction doesn't guarantee that top performers will stay with their current employer.

Corporate management is well-aligned to the reasons why fully engaged direct reports who may or may not be satisfied with their current role or employer would be motivated to stay or leave for greener pastures.

Given the astute observations by business leaders about why their direct reports would stay and what would prompt them to leave, moves to proactively address direct reports' developmental wants and needs could be streamlined.

However, the disconnect between perceptions and reality of who's already looking for a new job elsewhere and who will begin a job search soon suggests a significant gap between what business leaders know and what they do when it comes to capitalizing on retention opportunities. While many business leaders understand their direct reports' motivations to stay or leave, far fewer understand the severity of the career management disconnect.

There was clear consensus among public and private company respondents and leaders of not-for-profit and government institutions that roughly one-third of their executive team and direct reports will leave once the economy improves.

Particularly in these resource-constrained times, businesses and business leaders lack the kind of resources to incent better performance through bonuses, salary increases and other forms of higher pay.

CALL TO ACTION: *The challenge for corporate HR and talent management leaders is to inspire more communication between business line leaders and their top performers. Confronting organizational challenges head on and over-communicating if necessary are the best ways to address direct reports' non-pay "stay" motivators.*

WHY DIRECT REPORTS STAY

ACCORDING TO CEO	ACCORDING TO CxO/VP
Their relationship with me – 13%	11%
Their jobs fit with skills/interests – 12%	10%
How much they're learning, growing – 10%	5%
It's work they like to do – 10%	7%

ACCORDING TO CxO/VP	ACCORDING TO DIR/MGR
Their relationship with me – 12%	11%
How much they're learning, growing – 12%	5%
Their jobs fit with skills/interests – 11%	10%
It's work they like to do – 11%	8%

WHY DIRECT REPORTS LEAVE

ACCORDING TO CEO	ACCORDING TO CxO/VP
Cash compensation – 25%*	22%*
Our company's performance – 11%	11%
Degree to which they trust ownership – 8%	N/A
Opportunity for input in company decisions – 8%	11%
Work/life balance – 8%	6%

ACCORDING TO CxO/VP	ACCORDING TO DIR/MGR
Cash compensation – 25%**	23%**
Our company's performance – 13%	9%
Degree to which they trust ownership – 9%	N/A
Work/life balance – 8%	5%
Opportunity for input in company decisions – 7%	13%

**combines "total cash comp" responses of 14 percent with "future potential cash compensation" responses of 11 percent*

***combines "total cash comp" responses of 13 percent with "future potential cash compensation" responses of 11 percent*

Source: ExecuNet/Finnegan Mackenzie 2009 Executive Retention Report

The High Cost of Losing Top Executives

Executives in a variety of management functions indicate they will stay with their current employers for a shorter time than they anticipated they would stay when they were first promoted or recruited into the role.

The sheer cost of replacing a departing executive – including direct expenses and usually overlooked indirect costs – exacts a high toll on the organization and its shareholders. When companies lose richly experienced, high performing business executives, they often lose momentum, fail to capitalize on new opportunity and risk losing other top performers.

When asked to calculate the cost of replacing themselves, CEOs and CxOs and VPs at both public and private companies pegged the cost at roughly $600,000 or more, whereas they estimated the cost of replacing a top subordinate at roughly half that amount. The replacement cost appraisals by leaders of not-for-profit institutions was lower but also merits note, as it averages nearly or well more than $200,000 as reported across all levels of management.

EXECUTIVES' ASSESSMENTS OF THE COST OF LOSING TOP TALENT

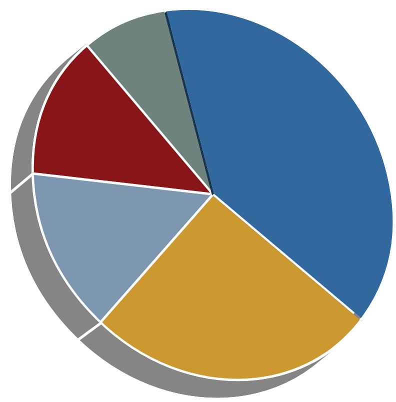
	COST TO REPLACE SELF	COST OF REPLACING TOP SUBORDINATE
CEO	$630,370	$325,836
CxO/VP	$594,650	$298,251

Source: ExecuNet/Finnegan Mackenzie 2009 Executive Retention Report

CEOs believe the management function that would cost their organizations the most to replace is the top sales executive.

The high retention premium assigned to top sales executives and new business developers – the roles that have consistently risen to the top of ExecuNet's ongoing, monthly market surveys about the leadership functions most in demand even in this turbulent economy – is borne out in their being picked as CEOs' key subordinates.

INDIVIDUALS IDENTIFIED BY CEOS AS THEIR MOST IMPORTANT DIRECT REPORT/SUBORDINATE



- Top sales executive 39%
- Other (including business development head) 26%
- COO 14%
- Top marketing executive 13%
- CFO 8%

Source: ExecuNet/Finnegan Mackenzie 2009 Executive Retention Report

CALL TO ACTION: *The cost of losing top management talent is revealed not only through the cost of replacing him or her, but also counted in a potential loss of unit productivity, lower morale and higher rates of disengagement among disenfranchised subordinates to a respected leader now departed. Those are potentially avoidable costs that few companies, especially in this economic environment, can continue to shoulder, and they merit immediate review.*

Lack of Retention Accountability Perpetuates Status Quo for Corporate Retention Programs

When asked if and how they are held accountable for the departure of a high performing executive, CEOs reported the biggest consequences relate to lower team productivity and disappointment among peers.

Only 6 percent of responding CEOs said losing a top executive would hurt their pay or bonus and 7 percent indicated there is no accountability at all.

Among other top managers, even fewer are held accountable for their failure to retain high-performers, and a full 27 percent of them indicated there is absolutely no accountability for their failure to retain a high performing direct report.

This may explain, particularly among underperforming organizations, why there appears to be a revolving door at the management level. Yet this dynamic will remain as long as senior management leaders aren't held to account not only for the development and growth of corporate earnings, but also the growth of their greatest intangible asset – executive leadership talent.

"Being in the business of employee retention, we know employees are looking for new opportunities now," says Richard Finnegan, president of Finnegan Mackenzie, The Retention Firm, and founder of the Retention Institute. "What's most disturbing," he adds, "is that corporate America has yet to understand the price of losing good talent and the importance of building retention accountability into the ways companies are managed. Talent is literally walking out the door and few executives seem to care." Finnegan is also the author of the just-released book, *Rethinking Retention In Good Times And Bad*.

CALL TO ACTION: *Organizations cannot expect to retain top business performers if they don't make it a business priority. In fact, a lack of concentration on executive retention has increased management churn, lowered enterprise productivity and contributed to a broad loss of loyalty among leaders at all levels of management. Companies that want to improve their retention of talented executives have to develop a plan that includes executive accountability, lest they be forced to deal with equally consequential fallout from the unexpected departure of mission-critical leaders.*

Conclusion

TOP TEN RETENTION IMPERATIVES YOUR COMPANY MUST UNDERSTAND

1. Engaged executives aren't necessarily satisfied executives, and satisfied executives won't always stay. Align executives' roles with their interests and you'll be far likelier to retain them when opportunity knocks elsewhere.

2. High-performers are ready to explore new career options. They are poised for headhunters' calls, and more of them will ratchet-up their job search and networking activity once the economy shows demonstrable signs of improvement.

3. Corporate leadership is largely unaware of the extent of workforce angst and is seemingly unprepared to counter higher levels of management turnover that can be expected when more employers return to hiring mode and boost demand for talent.

4. An increase in executive management turnover will come at a high price, especially given the cost of replacing just one high-performing business leader. Corporate staffing and talent acquisition leaders would be wise to build talent pipelines now to accelerate hiring later and minimize the opportunity cost of vacant management roles.

5. If the CEO and other senior-management leaders are not accountable for retaining top business producers, shareholders should look for productivity and earnings sustainability elsewhere.

6. CEOs value their top sales executives most, which may explain why they're so often willing to pay through the nose to replace them.

7. Management is pretty closely attuned to the reasons why direct reports stay and leave. It's just that senior business leaders rarely do what it takes to keep top performers who believe the balance of risk and opportunity is better if they leave.

8. Although concerns about work/life balance have abated in the dismal management-hiring environment of the past 12 months, talented executives won't overlook work/life balance when it comes to assessing new career opportunities.

9. Executives don't plan to stay in their current roles as long as they first thought. Expect employer loyalty and management tenure to decline yet again as the economy and corporate hiring increases.

10. Executives, more than any other workers in the US labor force, know that networking is their best way to find their next job, and more of them are embracing social media and social networking to increase their visibility and boost their all-important face-to-face relationship building activities.