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How Do You Handle Recruiting and Retention During a Crisis?

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Pearl Meyer's Pete Lupo and Matt Turner recently discussed two related questions directors have been asking: "Can we recruit in this environment?" and "Do we need to be concerned about executive retention?"

Pete: Just a few months ago, we were seeing a lot of companies get very proactive and aggressive in the war for talent and it was often at all levels of the organization. I think now, if there is recruiting happening, it's most likely going to be at the leadership level.

Does it do damage internally if an employee's view is that the CEO is hiring a star from the outside—which, of course, often comes with a very attractive compensation package? There may be risk in the perception that they're overlooking the company's existing talent and doing so in a down and very uncertain economy. From an employee's view, that can be very demoralizing. From an executive's viewpoint, the action could send an unintended message that an executive has peaked in his or her career.

Matt: There are companies that have been on the prowl for key talent. Going into this crisis, they're still searching for that key talent and I don't think we can fault them for that. But at the same time, they've got to be very careful.

It's tough in normal times when an executive goes from company A to company B and in doing so, they're getting a reset on long-term incentives that may have affected the entire industry, as well as a cash package that may challenge the existing internal equity. There can be a feeling of unfairness in the organization. And I think that's amplified today when many companies are implementing austerity measures, asking "everyone" to bear some of the pain. That factor—and more—have to be part of an overall cost/benefit analysis that I'm encouraging all of my clients to undertake if they have any inclination to go down the recruiting path.

Pete: Well, say a company does want to go out and actively recruit at a senior level. There are two reasons they might do this. One is just maintaining the business; there's a critical hole to fill and no internal candidate. That seems pretty straightforward, although right now, perhaps a tough internal communication challenge.

Reason two is more long-term—and one might say challenging or aggressive—such as expanding a line of business or because there is an obvious opportunity to recruit and build your team. Some companies are struggling and why wouldn't you try to bring on some newly available high-caliber talent who might find the new opportunity to be appealing?

Matt: I agree, there are circumstances where companies may have no choice but to recruit or feel loathe to pass up an opportunistic hire. However, they've got to be cautious about what it is they use to induce the person to join the organization because that package will become known. Even if it's below the level that's publicly disclosed, that kind of information is permeable and people find out. Existing folks will certainly presume that this new person is coming in with their equity effectively reset, yet the rest are sitting there with zeros for the next couple years in terms of their LTI.

Pete: On the surface, that communication does look tough, especially when we say we want to be the employer of choice, because I think the initial impression would be "What's going on here? Why is that person being treated better than I am?"

But what if we went down the path that says the reason we are a high performing company and an employer of choice is in part due to the fact that we actually manage our performance at all levels of the company at all times? What if we say that by bringing on this individual—let's say it's a business unit head—that we expect this business unit to be even more successful down the road and in turn, that gives everyone employed here more opportunities?

Matt: It's true, market forces are going to be what market forces are. But I have to come back to the cost/benefit analysis. Imagine a company that sees a need to do this, but at the same time, they have closed down plants during the year and that was clearly relatable to the current economic and health crisis. That's an internal problem and there are the optics externally that can't be overlooked.

Pete: What about retention? Is the argument different if you're trying to hold on to key talent? I ask because the question has come up recently in the context of a smaller company getting poached by a big, public company that's not currently impacted in a severe way. I could see why a company could conclude as crazy as the world is today that they need to do something to avoid a retention problem three months from now.

Matt: I see your point and that could definitely be the case here and there. Although I do have a hard time thinking that there are a lot of companies out there that have a significant retention issue. Today, for the most part, it's not like a company is going to engender ill will in a person of good character by not doing something special for them.

To build on that, I will say there's a parallel to somebody being enticed to go to another employer. There are probably individuals out there for whom, even in this crisis, there's potentially a better opportunity available. And I think those individuals also need to consider maybe taking a little more in the goodwill column than in the tangible, vesting equity column. In other words, they need to consider the signal they may be sending in a crisis—that they saw leverage and took advantage of it.

Pete: Overall, I'd say we're framing this particular discussion as financial considerations versus cultural considerations. I think those two terms probably hit it spot on. I'll just digress for a minute. If you go back to 2009, what I recall is a significant focus on financial consideration because of the potential demise of the global banking system, which was terrifying. Today, there is much more consideration and conversation around the cultural implications versus financial—a larger consideration of stakeholders versus shareholders.

Matt: Stakeholders to include the broader community but right, that's it. It's a different time. There's a communitarian spirit and the very nature of this crisis is what is making it different than other times. The scales are tipping this time more toward fairness and compassion versus the invisible hand of free-market economics.

Ultimately, it's a gray area. This is all about governance decisions and risk management; culture and reputation. In practice, companies are going to face more challenges than they normally would and that's even from the reactions of people who understand, you know, the invisible hand. This is truly a black swan and not the normal ebb and flow of economic competition. And so that's why companies just need to recognize the cost benefit/analysis has changed.

About the Authors

Pete Lupo is the president of executive compensation and leads the executive and broad-based compensation consulting practices at Pearl Meyer. In this role, Pete works closely with the firm's senior leaders helping clients build innovative compensation programs that retain, motivate, and reward senior leaders and employees. Pete has worked extensively with compensation committees and management teams on a variety of strategic needs including the development of total compensation programs for the senior leadership team, aligning pay to performance, designing annual and long-term incentive plans, developing board of director pay programs, and advising on change-in-control, executive benefits, perquisites, and governance-related matters.

Matt Turner is a managing director and consulting team leader at Pearl Meyer. In his management role, he oversees a team of senior compensation consultants in the execution of the firm's growth strategy and in the development of consultants at various stages in their careers. He specializes in advising company boards and senior management on executive compensation strategy, incentive plan design, tailoring of performance measures, and the setting of shareholder-focused performance objectives.

About Pearl Meyer

Pearl Meyer is the leading advisor to boards and senior management helping organizations build, develop, and reward great leadership teams that drive long-term success. Our strategy-driven compensation and leadership consulting services act as powerful catalysts for value creation and competitive advantage by addressing the critical links between people and outcomes. Our clients stand at the forefront of their industries and range from emerging high-growth, not-for-profit, and private organizations to the Fortune 500.