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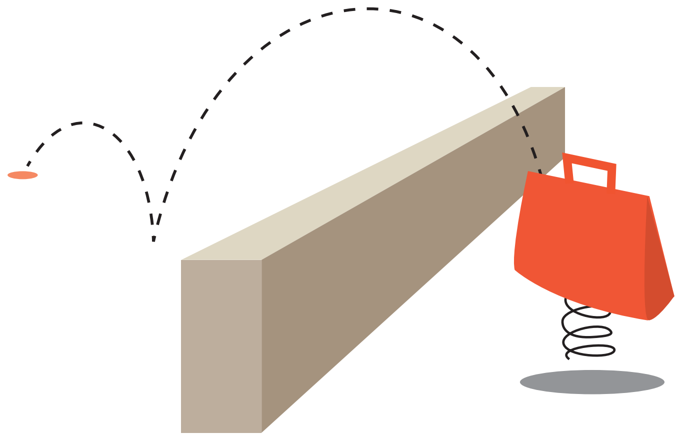

ILLUSTRATION BY DANA OELFKE

Avoiding Executive Bounce

Consider these strategies for key employee retention during economic rebounds. BY SCOTT T. ROLLIN

KEY EMPLOYEE RETENTION MATTERS. It is critical to the long-term health and success of your business. Now that many companies are emerging from the economic downturn, your key employees are more valuable than ever. Tempted by bigger salaries, increased responsibilities or greater opportunities elsewhere, the loss of even one key employee can represent a significant blow from both a financial and an operations perspective.

So how do you avoid the executive bounce?

The fact is, your key employees aren't looking for opportunities to leave; they are looking for reasons to stay. Forward-thinking companies are using a variety of strategies to prevent executive bounce—from compensation and benefits packages to creating opportunities for professional growth within your corporate culture.

COMPENSATION PLANS

Your employees want to be rewarded for their contribution to the organization's success. Profit-sharing has long been a tool for rewarding and retaining employees. As companies return to profitability, many have been adding profit-sharing elements to their compensation package as a way to help retain executive talent. Profit-sharing can take the form of additional contributions to 401(k) plans, profit-based annual bonus payments or as part of a longer-term compensation/retirement plan for management (commonly referred to as a nonqualified plan).

Companies that haven't returned to profitability yet can still use this methodology, with payments based on measurements like revenue growth, inventory management or customer satisfaction. Companies often develop compensation packages using a combination of such factors to derive potential employee payouts. Depending on the design, there may be tax and employment law issues to consider before implementing a plan like this.

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PROFESSIONAL GROWTH

Your key employees want to grow and be challenged. By engaging key employees with internal initiatives outside of their area of expertise, companies can provide growth opportunities while driving business improvements. This strategy also increases the internal visibility of high-performing employees, leading to further opportunities for growth, increased recognition and job satisfaction. In this scenario, key employees could be given increased responsibilities without requiring a title promotion or pay increase. However, companies should be careful to formalize these situations as part of a longer-term path to promotion.

Employees thrive in companies when they understand what is expected of them and their career path. Successful approaches in this area often involve younger managers who may be waiting for the retirement of a supervisor. Engaging the younger managers now in the business process helps prepare them for promotions, develops corporate "bench strength" and keeps them engaged within the organization as older managers move towards retirement. In some organizations this strategy can take the form of executive talent development and/or succession planning.

CREATIVE INCENTIVES

Your employees want to feel that they have ownership in the organization. Many companies are creating innovative ways to engage key employees in the growth process. From an owner perspective, they want managers to "think and act like owners," without actually handing them real ownership (stock) in most cases.

Smart companies are addressing this issue through the use of long-term business value sharing in the form of phantom stock or similar compensation plans. Other creative ideas include increasing the range or scope of optional benefits offered to managers (such as expanded vacation time or sabbatical leave), without creating additional corporate cost.

For these programs, the value of the business should be measured not simply by annual profits but by the long-term growth and sustainability of that growth in the value of the business. This can be done via "stock units" or a pool of future value to be divided among participants. Similar to annual compensation plans, any long-term compensation or phantom stock type of plan will need to comply with tax and employment laws.

Employee retention is a primary measure of the health of your organization. Using a combination of retention and reward strategies designed to fit the structure and culture of your company, you can realize the benefits and loyalty of key employees for years to come. mb

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