TURNOVER AT THE TOP: ARE BOARDS READY?

Turnover risk among senior leadership teams is a top concern in boardrooms, according to *Corporate Board Member*'s latest director survey, conducted in partnership with governance consultancy Farient. We asked directors what worries them most—and what they're doing about it. Some insights.

BY MELANIE C. NOLEN

Directors are bracing for a bump in turnover among their top 10 senior executives, according to a survey of nearly 200 U.S. public company board members conducted by *Corporate Board Member* and Farient Advisors last June. In fact, 64 percent of respondents expect to lose a member of their C-Suite in the next two years, and 57 percent reported having already experienced some level of some level of voluntary turnover.

Those figures are concerning for directors, who recognize that the ripple effects of the departure of a key executive can be devastating for a company. "We're all a whole lot more worried about [turnover]," says Deirdre Evens, who chairs the comp committee at Regency Centers and is a member of Iron Mountain's executive leadership team. "I can't even count the number of times that it's come up in our conversations. We certainly spend a lot more time on it. It's a bigger challenge today than it was before the pandemic."

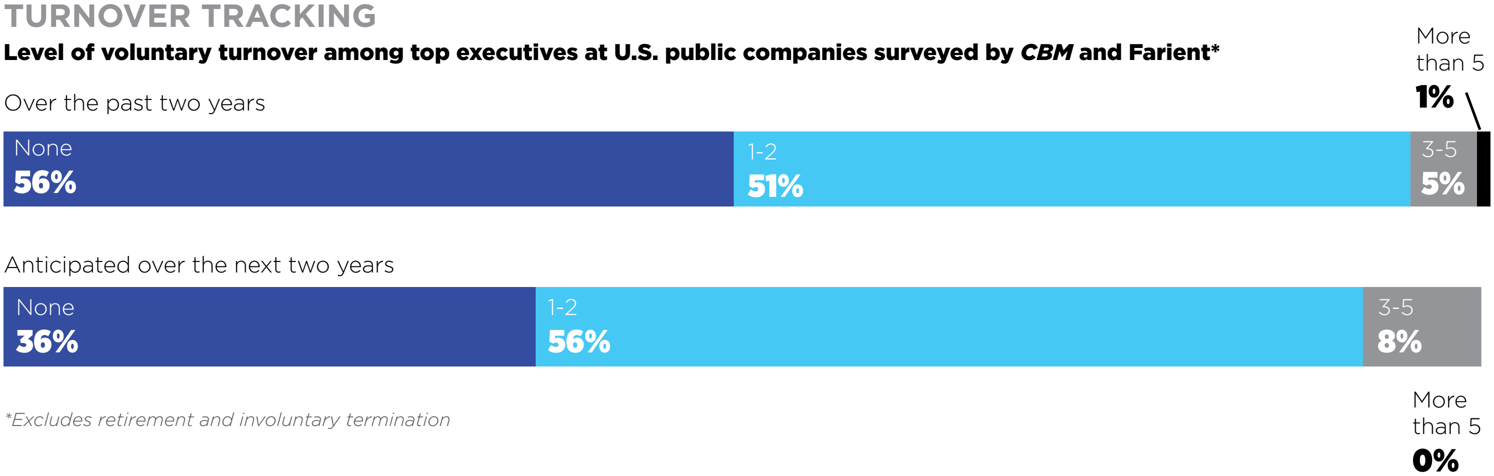
Regency Centers' board discusses the risk of executive team member departures at almost every meeting, says Evens. The board assesses the company's retention risk at the C-Suite level "and sometimes one level below," she explains, adding that open and honest conversation between boards and CEOs about what's happening among the leadership team are critical in the current talent environment.

Understanding what level of talent is at risk can help companies and boards take action to prevent premature departures, notes Robin A. Ferracone, founder and CEO of Farient Advisors, an executive compensation and governance consultancy and partner in this research, and founding member of the Global Governance and Executive Compensation (GECN) Group. "Predictive analytics around talent are currently helping boards better understand where the company is vulnerable and what interventions can be taken to keep talent and avoid the disruption of premature departures."

Several directors also pointed to the recent trend toward bringing CHROs into boardrooms as one way companies are giving boards visibility into talent pipelines and succession strategy. "[CHROs] have been helpful to those conversations," notes Linda Rutherford, who sits on the board of Cullen/

TURNOVER TRACKING

Level of voluntary turnover among top executives at U.S. public companies surveyed by *CBM* and Farient*



**Excludes retirement and involuntary termination*

Frost and serves as VP of people, administration and communications at Southwest Airlines. “We need exposure not only to the current set of key executives but also those coming up behind them, so that we have a good feeling when looking at a three-to-five-year plan that we’re not going to lose momentum in any functional area should there be a change in leadership.”

The CHRO’s presence on the board also helps to ensure that talent concerns are addressed in lockstep with strategic planning, adds Rutherford. “These plans don’t execute themselves,” she says. “We have to make sure we have the right talent in the right place at the right time.”

At the same time, quantifying the risk of departure—especially one to two levels down from the CEO—can be challenging. While the majority of directors we surveyed (65 percent) said they were confident they had sufficient information to forecast C-Suite turnover accurately, a significant number (20 percent) were uncertain, and 15 percent felt ill-informed. The majority of directors report relying mainly on feedback from the CEO and CHRO to stay abreast of the potential risk of losing individuals within and below the C-Suite.

Farient has developed a “Talent Vulnerability Heat Map” that helps boards identify executives who may be retention risks. The two-dimensional matrix assesses a person’s “holding power,” defined as the current value of their unvested LTI grants as a percentage of their total direct compensation, against their “pay positioning,” defined as how the total direct compensation ranks against market peers.

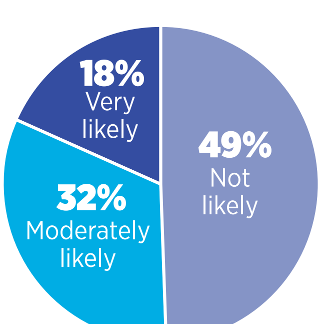
“Once holding power and pay positioning are defined and prioritized, additional analyses can be conducted on the select group of executives to determine ‘desire to retain,’” says Ferracone, who says things like succession criticality and planning, the strength and depth of next-generation talent, performance and experience factor into the analysis.

THE CULTURE TILT

Career opportunities and competitive compensation have long been regarded as the top factors for attracting and retaining top executives, but our survey found that culture—defined here as any facet of the employee experience, from leadership style and mission to burnout and job satisfaction—is the most important retention factor today. Overall, 39 percent of surveyed directors listed culture as a contributor—or detractor—to

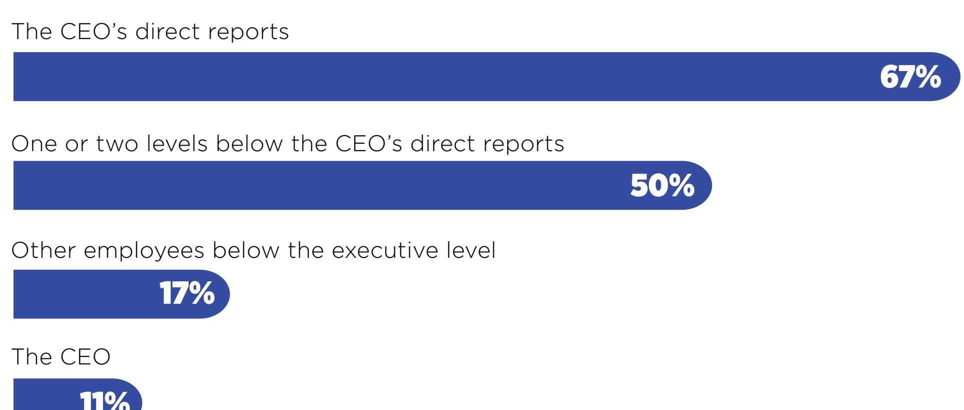
WILL THEY GO?

How likely is it that one of your top 10 executives will voluntarily depart in the next year?



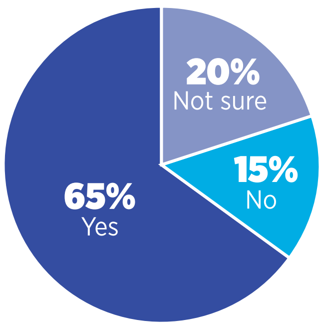
WHO’S MOST LIKELY TO LEAVE?

Which executives are you most concerned about? (Select all that apply.)



DATA TO DECIDE

Does your board have enough information and analysis to anticipate potential voluntary turnover at the top?



WHY THEY STAY

Top 3 most impactful retention drivers for senior executives

Culture/Experience

39%

Career & Growth Opportunities

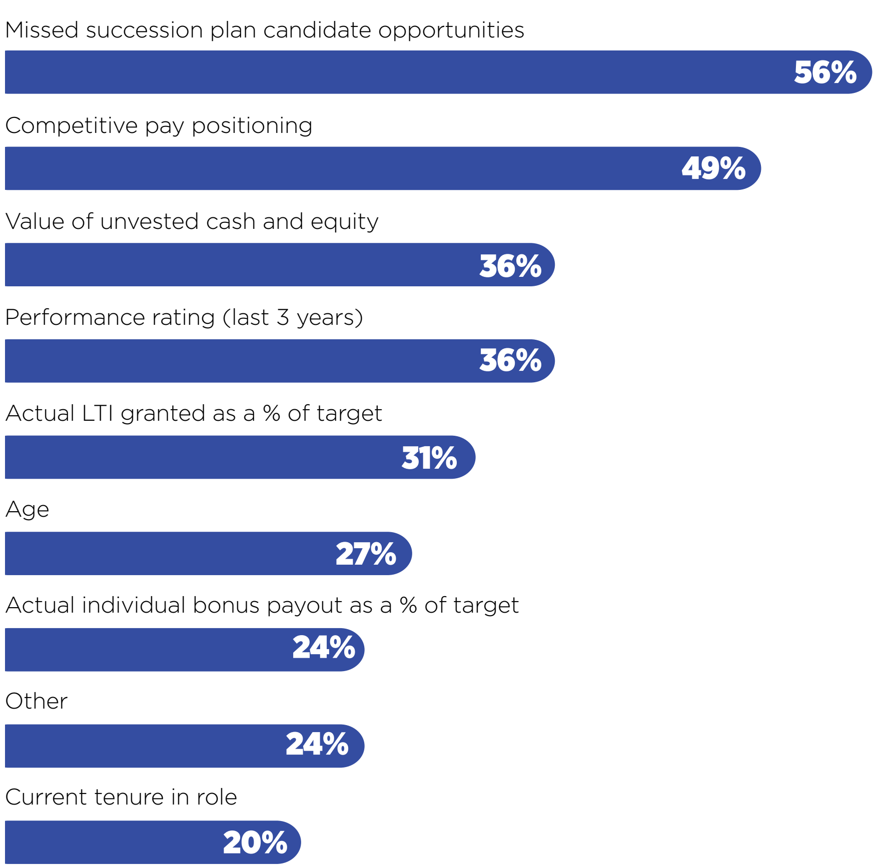
36%

Compensation

26%

PRIMARY PREDICTORS

Best metrics to forecast potential voluntary turnover at the top



**Respondents were asked to select all that apply.*

retaining top executives.

And more than 80 percent of survey participants selected "creating a strong company culture" as contributing to retention of their top C-level talent—with 74 percent saying the same for the CEO. In contrast, just 47 percent listed "above median pay positioning" as a tool used to help retain the C-Suite talent—and 45 percent said the same for the CEO, suggesting culture is gaining ground as a retention lever.

"Historically, talent, from a board director's perspective, focused on succession planning and compensation of the CEO and some of the C-Suite," says Dawn Zier, former CEO of Nutrisystem, current chair of the Hain Celestial Group and director at Spirit Airlines and Prestige Consumer Healthcare. "Today, boards must oversee and understand the corporate culture because it's critical to retention, often even more so than giving somebody an extra $10,000.... People, more than ever, want to be a part of something they believe in and are looking for purpose."

Zier sees the emphasis on culture as a reflection of the pressures today's executives face. "The leaders of today are... experiencing a very different stress level than people did in a more static environment," she says. "Things keep getting thrown at them, whether it's the pandemic, supply chain issues, inflation or new ways of working. A lot of C-Suite leaders have only led during relatively stable, prosperous times, so as things get harder, some are having to consider layoffs or other tough decisions for the first time. It's easy to lead when everything is going well, but as things get tough, cracks begin to show—and if the culture isn't strong, a C-Suite leader might take that call and jump ship."

Recognizing the growing importance of a culture that resonates with employees at all levels is leading some boards to add culture-related targets to their compensation plan. Nutrisystem, for example, tied annual bonuses to culture metrics. "It only accounted for a small percentage—10 or 15 percent," says Zier, "but it made a big difference, because how we do things is just as important as what we do. What gets rewarded gets done. If you met all your business goals but were a cultural detractor, you got dinged."

Citizens Bank also has culture targets embedded in the senior leadership's compensation plan, says Wendy Watson, who chairs the audit committee and is a member of the risk, HR and comp committees on the the bank's board. "They flow from the CEO down—not to the very bottom of the organization," she says, "but certainly the CEO, his directs, their directs and the next directs, which would be close to 400 people out of a population of probably now 22,000. That makes sure everybody walks the talk."

BEST VS. POPULAR

Despite wider recognition of the importance of culture, compensation remains a fundamental retention strategy, according to survey participants. The majority of directors (70 percent) expressed willingness to offer a special retention award to retain a top performer even if it meant risking a negative say-on-pay vote. In fact, 87 percent of directors said investors and proxy advisors have only limited influence on their executive compensation decisions. Only 8 percent of directors reported that say-on-pay votes matter greatly.

Evens, for example, acknowledges that most boards are mindful of proxy advice but adds that "at the end of the day, they're going to do what they think is the right thing—which might be an extra retention grant to retain someone crucial. They're going to be mindful of what the proxy advisors are saying, and they need to ensure executive comp is aligned with shareholder value, but when it ultimately comes down to

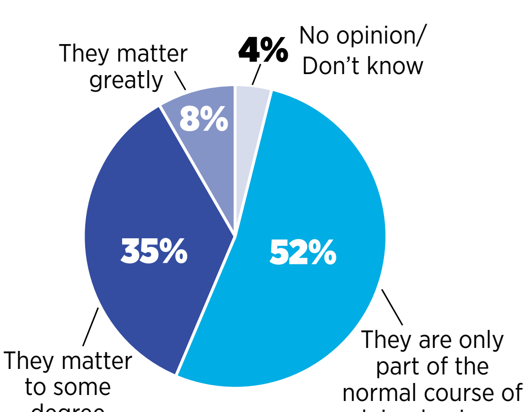
LEVERS TO LEVERAGE

What mechanisms does your company use to retain top talent at different levels in the organization?

	ENTRY LEVEL	MID-MANAGERS	SENIOR MANAGERS	C-SUITE (EXCL. CEO)	CEO
Above median pay	5%	11%	27%	47%	45%
High realizable pay due to consistent performance	8%	11%	32%	64%	64%
Use of special retention awards	7%	12%	39%	57%	43%
Comprehensive talent management programs	19%	32%	53%	66%	49%
Strong succession plans	4%	9%	32%	63%	62%
Strong company culture	37%	42%	58%	83%	74%
Flexible work arrangements	32%	32%	36%	33%	22%
Other	2%	2%	2%	1%	2%
N/A; the board does not oversee that level of talent	42%	34%	22%	2%	3%

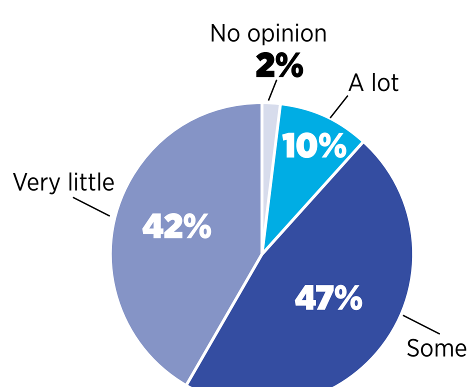
PROXY PRESSURE

In your view, do say-on-pay votes matter?



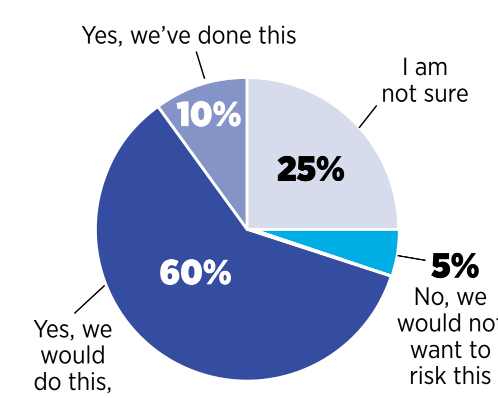
INVESTOR INFLUENCE

How much influence do investors and proxy advisors have on your executive compensation decisions?



PAYING FOR STAYING

Would your comp committee risk a low say-on-pay vote if a special award would help retain a high-value executive?



> **“You’ve got to make sure the brain trust stays. That’s worth taking a little heat for.”**
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> ***—Larry Sorsby, CFO and Executive Director, Hovnanian Enterprises***

decision-making, they’ll put the business needs and the right critical talent first.”

At the same time, boards that resort to extraordinary measures risk alienating investors. “No one likes surprises, especially shareholders,” says Ferracone. While the need to attract, retain and appropriately compensate top talent can result in tension or outright conflict with the need for good governance, one-off awards and other special compensation can create a lack of alignment between pay and performance. “That lack of alignment can raise the ire of both proxy advisors and investors, which results in ‘against’ say-on-pay votes and, eventually, ‘against’ director votes in elections,” she explains, though cautioning that it’s often repeated offenses or lack of responsiveness that add to investor concerns.

Still, boards sometimes opt to accept that risk and exercise discretion in order to retain a key executive. “You’ve got to make sure that the brain trust stays,” explains Larry Sorsby, who serves as CFO and executive director on the board of Hovnanian Enterprises. “It’s worth taking a little heat for that.”

Used judiciously in situations of extenuating situations, discretion doesn’t always trigger a no vote, notes Watson. When it became clear that its senior executives would be taking “a big haircut” due to market conditions that the company’s HR consultants had expected to be market-wide, Citizens realized they had been negatively hit by the decision and adjusted their compensation accordingly. “We really felt it was a fairness issue and a retention issue,” explains Watson, who says the company was able to appease proxy advisors with robust disclosure of the decision and rationale behind it.

BUILDING A DEEP BENCH

Career advancement and growth opportunities ranked second on the list of factors that influence retention at the C-Suite level. Understanding advancement practices at all levels is essential for boards, says Rutherford, who urges directors to scrutinize talent pipelines in each of the functional areas of the business. “Does someone have eight years, 10 years, in the role that they’re in?” she asks. “Knowing this helps a board ask management the right questions…. You might, for example, pay more attention to the C-Suite officer who is within three years of retirement to make sure people have been identified and that there’s intentional accelerated development a level or two down.”

Beyond those planned departures, Rutherford’s board generates “executive tally sheets” to assess retention, identify executives at risk of leaving and report what the company would do if it lost a key member of the team. “That’s good governance—to just make sure that for the few roles that are crucial you know what would happen on both an interim basis and to identify a permanent successor,” she says.

Boards need to be deliberate in these discussions, says Watson, who notes that at Citizens, the HR and comp committee does full examinations of each business unit’s succession plan annually. “Every business function gets a full review, including succession data for the highest-level executives as well as two levels down,” she said. “And everybody on that review would have a designation as to whether they’re in a critical job, whether they have unique skills and whether they’re a diversity candidate.”

Citizens also partners with an external party to conduct an independent risk assessment, role by role, every year, which in most cases results in assigning mentors to help individuals with their growth plans. “For example, I mentor the head of technology at Citizens Bank,” says Watson. This exercise helps the company identify the extra development candidates may need to grow in their role or be ready for a new one.

At Sorsby’s company, development opportunities are offered to individuals beyond the immediate pipeline who may not yet be on anyone’s radar. The company designed advanced leadership development programs to give those interested, both internally and externally, the chance to learn about the business and prep for leadership roles. “It’s almost like their own little mini MBA class,” Sorsby explains. “They keep in close contact with each other and call on each other’s help with issues.”

While the board doesn’t select the candidates for the program, “they’re very interested in the quality of individuals that are going through it,” he adds. “We have from time to time brought some of those people before the board and had them talk about the experience. Although we initially designed it for division president positions, it was such a success that we’ve pushed it another level or two down into the organization. It’s all about people. It’s all about talent.” **CBM**