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

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Portions of this working paper were presented at the 2010 meetings of SIOP and the Academy of Management

This work was supported by a research grant from the SHRM Foundation

Abstract

Opinion leaders in HR have called for a better understanding of how to retain CEOs and other top executives, due to concern about churn in the executive suite impairing organizational effectiveness. At the same time, investors, legislators and citizens have expressed reservations about extraordinary efforts to retain top leaders, particularly those involving financial incentives. This paper reviews the sparse literature in the management/HR, finance, and accounting disciplines and concludes that, overall, executive turnover may not be as serious a problem has been suggested. Turnover rates of executives are relatively low; the majority of executive turnover is likely unavoidable and/or involuntary (generally due to retirements or declining organizational performance for which leaders are held responsible). An exception is executive turnover in the context of acquisitions, where the negative impact may be long-term (up to nine years following the acquisition), widespread (potentially affecting the composition of the whole executive team), and critical to whether the acquisition succeeds or fails.

What We Know—and More Importantly, What We Don't Know—About Leadership Retention

A 2008 study surveyed over 500 C-Suite executives about their perceptions of the most pressing issues facing executive leadership (Morgeson, 2008). These leaders cited four areas of critical concern: leader acquisition, development, retention and succession planning. These four domains were described by the respondents as being critical to organizational success; importantly for management scholars, they were also described as topics for which leaders lacked research-based advice and guidance. This review of the HR/Management, accounting and finance literatures is a response to this concern; in particular, the goal was to determine was is known about how to retain organizational leaders.

That goal—and particularly the focus on "retention"—immediately raises a number of critical questions. Who are we referring to when we say "leaders", and why should they be a particular focus of attention? Are there fundamental differences between this group and other employee groups who have more frequently been included in studies of employee turnover? And perhaps most fundamentally, why frame the review in terms of *retention* rather than *turnover*?

Who do we include as leaders?

There is little to be gained from entering the debate over how to define a leader. For the purposes of this review, leaders were defined as senior executives, those described in academic literature as the upper echelons or the top management team, and more colloquially referred to as members of the C-suite (e.g., president, CEO, COO, CFO, CHRO, CIO and similar titles). Surprisingly few studies target this group, and the majority of those focus solely on CEOs. In many cases, the only available literature dealt with non-management employees. Thus, a portion of the review will involve extrapolation—or speculation about the extent to which extrapolation is possible—to the top management team. In many cases this extrapolation will apply as well to leaders at the second tier (e.g, vice presidents), middle management and possibly even supervisory level.

A fundamental question is whether the processes that have been studied in non-managerial populations are likely to be similar in managerial, and particularly executive, populations. On the one hand, it seems reasonable to assume that the basic psychology that underpins decision-making—in this case, decisions about whether to quit or stay—should be common. On the other hand, there are very clear differences in contextual variables that are also important to those decisions. As Dunford and colleagues note, one of the most obvious of these is the substantially greater pay and prestige that CEOs enjoy (Dunford, Oler, & Boudreau, 2008). At these levels of remuneration, compensation plays a qualitatively as well as quantitatively different role in executives' career decisions. Another significant difference between CEOs and other members of the top management team (not to mention non-managerial employees) is the responsibility that goes with the rewards. CEOs are held ultimately accountable for the performance of the firms they lead, to an extent that is often disproportionate to their actual influence, as well as disproportionate to that of other senior managers. This accountability—along with the continual threat of dismissal if firm performance declines—is likely to have a significant effect on the psychology of CEO's turnover decision process. A case in point is performance-based pay, for which the link between the executive's actions and performance-based rewards is much more tenuous than for most managers, who are likely to be evaluated more in terms of their own actions or the performance of their own division rather than in terms of overall organization performance.

Our understanding of executive retention would be greatly enhanced by more research that focuses specifically on executives, and preferably that allows contrasts between executives at different levels. We hope that this review will encourage more research of this nature. Realistically, however, there are limits to this recommendation, as executives are particularly challenging to study, and the modest rates of voluntary resignations may further limit the viability of this sort of research. In the meantime, we feel comfortable that reasonable conclusions can be drawn from existing research, including research on non-managers, as long as heed is given to the caveats provided.

Why study retention among leaders?

Writers on executive retention, as a group, exhibit an interesting ambivalence about the topic. Many reports—particularly those written by consultants—discuss executive attrition in apocalyptic terms. A book on assimilation of leaders opens by stating that there is only a 50/50 chance that a new leader will still be with the company in two years (Downey, March, & Berkman, 2001). Other reports indicate that one-third of

Fortune 100 companies replaced their CEOs in the latter half of the 1990s, and that CEOs hired after 1985 are three times as likely to be fired as those hired prior to that time (Bennis & O'Toole, 2000). The Booz, Allen and Hamilton consultancy reported that CEO departures (for all reasons) increased nearly two-fold between 1995 and 2002 (Lucier, Schuyl, & Spiegel, 2003).

However, times may be changing, whether due to the economic collapse of 2009 or to evolving philosophies. A 2009 report indicates that CEO tenure is the longest it has been since 2000 (Karlsson & Neilson, 2009). A report by the Aberdeen group found that mid-level manager turnover was only 1.5% in North America and Europe (Aberdeen Group, 2005). Recent studies of executive turnover found voluntary turnover rates of 3.4% (Balsam & Miharjo, 2007) to as little as 2.2% (Dunford et al., 2008). Executive turnover in the US slowed considerably during the recession of 2008-2009, leading some observers to conclude that in difficult economic times firms want a "battle tested captain at the helm" (Karlsson & Neilson, 2009). Then again, the situation may never have been as bad as the doomsayers suggest; a long-term study of CEO turnover between 1970 and 2000 found that attrition increased only very slightly during that 30 year period (Billiger & Hallock, 2005).

This ambivalence continues when executives themselves are asked if retention of leaders is an issue. A SHRM report concluded that senior management was mostly concerned about turnover among rank and file workers, with some concern about retention of middle managers, but nearly no concern about retention of senior executives (Frincke, 2006). Yet a survey of senior HR executives at about the same time found that 79% reported their firms were greatly concerned about continuity of leadership (Aberdeen Group, 2005), a conclusion also reached in recent interviews with senior management (Schiemann, 2009).

Part of the reason for this ambivalence—perhaps confusion is a better description—is the difficulty of obtaining reliable information about executive turnover. Reasonably sound studies seem to indicate turnover rates of about 13% for CEOs (Billiger & Hallock, 2005; Karlsson & Neilson, 2009; Khaliq, Thompson, & Walston, 2006). Others describe retention in terms of years in office rather than rates of turnover; by this metric, CEOs seem to have a longevity of 6 – 8 years, although removing a group of outlier CEOs who had been entrenched for more than 30 years brings that figure down to a more concerning 3.9 years in office (Ginsberg, 1997; Karlsson & Neilson, 2009). Other senior executives fall in similar ranges: CFOs having average tenures of 5

– 7 years (Lee & Milne, 1988; Nash, 2009); CHROs and heads of Manufacturing and Sales averaging about 6.5 years (Nash, 2009) ; and CIOs lagging a bit at 4-6 years (Gaertner & Nollen, 1992; Nash, 2007, 2009).

One of the limitations with these figures—and a major problem in understanding executive retention—is that many studies fail to distinguish between voluntary and involuntary turnover. In fact, most writers agree that 60-70% of executive turnover is due to normal, planned retirements, with another 10 – 17% due to dismissals either for cause or due to restructuring (Comte & Mihal, 1990; DeFond & Park, 1999; Vancil, 1987); Karlsson and Neilson (2009) indicate the rate of forced departures may be as high as 35%. Voluntary turnover, which is the only turnover directly relevant to this review, has been reported to be as low as 2-4% in those studies in which the authors went to the trouble to make this distinction (Balsam & Miharjo, 2007; Dunford et al., 2008).

One conclusion might be that the issue of executive retention is over-blown. Indeed, some might even suggest that the rate of CEO turnover is too low, a criticism not limited to those who raise concerns about highly paid CEOs receiving bonuses for running under-performing firms. Yet, it is evident that when a senior leader quits the effects on the organization can be dramatic. Thus, even if voluntary turnover is not at epidemic proportions, effectively managing executive retention can be important.

Retention of top executives may be particularly relevant in cases of acquisitions or other major changes in ownership or structure of a firm. This topic has received considerable attention by management researchers, and there is consensus that acquisitions are challenging, often traumatic, and frequently less successful than anticipated. A number of studies suggest that these challenges are exacerbated by the departure of executives from the acquired firm (Bergh, 2001; Cannella & Hambrick, 1993; Krishnan, Miller, & Judge, 1997). Losing experienced leaders often disrupts personal relationships that had been formed with key customers and suppliers, interferes with decision making processes, and may spell the end of strategic initiatives that had been underway. On the other hand, mergers and acquisitions provide the opportunity (if not the necessity) to prune executive ranks, and some theory suggests that the replacement of old guard managers with new leaders may provide the impetus for innovation and success in the new firm. Thus, even in the context of acquisitions, it is not clear that retention of executives is always the right goal.

Retention versus Turnover

In the turnover literature, a conceptual distinction is drawn between voluntary and involuntary separations, although this partitioning is often fiendishly difficult to make in practice. It is common for executives who have fallen from favor to be given the opportunity to resign gracefully; divining the true motive is difficult except in cases where the CEO retires on a predetermined date. With that caveat, this review focuses primarily on studies of executive turnover that is not explicitly involuntary. Readers interested in involuntary turnover are directed to the model of CEO dismissal proposed by Frederickson, Hambrick, and Baumrin (1988).

Only more recently has the focus somewhat subtly changed to employee retention rather than turnover. Obviously, what is being studied in either case is the movement (or lack thereof) of individuals from an organizational role or job, usually through leaving the organization, although in some cases it may involve movement within the same organization. So what might be the significance of the difference in labels?

From a methodological point of view, there may be advantages to studying retention because it avoids certain statistical problems. Because turnover is generally a relatively infrequent event, the assumptions underlying standard statistical procedures may not be met. This may lead to inaccurate analyses, and in general makes data interpretation difficult. This is particularly problematic for studying executives, not necessarily because their frequency of leaving is different than for other employees, but because the usual means of measuring turnover doesn't necessarily apply well. Turnover is normally measured as the rate of departures in an employee group; obviously, this statistic will be much more stable if the group is relatively large (such as all employees in a particular job or job family, division or department, or even in the organization overall). For executives, the group is small even with inclusive definitions of "executive;" as noted earlier, many studies of executive turnover include only the CEO, in which case it's impossible to compute a "rate" of turnover, unless it's done by aggregating CEO turnover over years (presumably many years) within an organization, or across firms within an industry. That kind of aggregation creates its own very serious problems, as it makes the research more challenging to conduct, and also creates potential biases due to history (i.e., factors that change over time in a longitudinal study) as well differences across organizations. As a result of these considerations, studies of executives often measure length of time in office, essentially a measure of retention rather than of turnover per se.

As important as these methodological considerations are, an arguably more important reason for the shift to retention is the focus on solving a perceived problem. As we will discuss in more detail in the next section, turnover generally has a negative connotation: a problem to be avoided or solved. Retention, on the other hand, is presumed to be positive: a focus on solutions, rather than problems. This solution-focus can have the unintended consequence of becoming preoccupied with fixing a situation (turnover) that in fact may not be a problem.

There has been substantial debate about the consequences of employee turnover for organizational performance, both in the general turnover literature and more specifically with regard to the effects of executive succession. We will begin with a discussion of the more general turnover literature, and then turn our attention to studies dealing with executive succession and of executive turnover in acquisitions.

Does Retention Matter: The Turnover Literature Perspective

The traditional assumption that turnover is undesirable is based on the significant costs associated with an employee quitting. These costs include lost productivity (reduced productivity of the departing employee while his or her attention is diverted to searching for a job, lost labor during the period between the time the individual quits and a replacement is hired, and reduced productivity of the new hire while learning the job), recruiting costs involved in finding a replacement, and likely reduced productivity of co-workers who need to fill in for the departing individual as well as spend time mentoring his or her replacement. Estimates of direct costs of turnover range from 90% to 200% of the departing employee's salary (Cascio & Boudreau, 2008).

Direct costs are significantly higher for the departure of a CEO, or for other members of the top management team (Bennis & O'Toole, 2000; Gibelman & Gelman, 2002); estimates range as high as a rather incredible estimate of 40 times base salary for executives earning \$100,000 - \$250,000 (Downey et al., 2001). Lost productivity of the top executive is likely to be much harder to cover with organizational slack; indeed, the departure of a CEO may be perceived by competitors as a period of vulnerability to be exploited aggressively (Khaliq et al., 2006). Salaries of replacement executives—particularly if they come from outside the organization—are often significantly higher than that of the departing leader. Recruitment costs—often involving search firms and an extensive time commitment of remaining members of the executive team—are orders of magnitude higher than for lower level employees, and the time required to find a replacement may be significant. And in many cases the departure of an executive, especially if it is involuntary, involves golden parachute packages that can dwarf the direct costs of replacing the individual.

Human Capital Perspective

More recent theory and research have focused less on the direct costs of replacement, directing their attention instead to the loss of human capital caused by turnover. This includes both "general" human capital that can readily be transferred across jobs or organizations and "specific" human capital, which includes formal training as well as tacit knowledge that is more or less unique to a particular setting. Specific human capital implies an investment—by both the employee and the organization—in learning the practices of the employing organization. Executives are likely to be particularly high in general human capital value relative to others in the organization (and relative to those included in most studies of turnover); depending on their tenure with the organization or industry, this may or may not be true of their specific human capital. For example, retaining longer-tenured executives (with greater specific human capital) in acquired firms may increase the likelihood that the acquisition will be successful (Bergh, 2001) because of the tacit knowledge that the experienced executives bring to bear.

Dess and Shaw (2001), among others, have also addressed the social capital costs of turnover. Organizations are characterized by rich social networks, in which who you know may be as important as what you know, and in which the departure of key players may have a crippling effect on a wide range of interdependent groups. Executives often play a linking-pin role in a wide array of such groups, so that their leaving can result in significant gaps in a series of networks. Compounding this factor is the phenomenon of "cluster," or social network, turnover. Krackhardt and Porter (1986) first referred to this phenomenon as a "snowball" effect in their discovery that communication networks among fast-food employees predicted clusters of employee movement from one employer to another.

This snowball effect is at least as applicable in the executive suite, as a number of studies have shown that departure of a CEO influences turnover of other members of the top management team (Fee & Hadlock, 2004; Hayes, Oyer, & Schaefer, 2006; Khaliq et al., 2006). In some cases this may be a matter of the other executives finding it an opportune time to explore their own options, particularly if they feel they were overlooked in the choice of a successor or don't feel comfortable with the direction or personality of the new leader. This effect may be enhanced by competing organizations seeing the loss of a CEO as an opportunity to "raid" key executives (Khaliq et al., 2006). In other cases, the collateral turnover may be more direct, when the departing executive brings along a number of trusted lieutenants to the new employer. In either case, the loss of a key executive may represent the loss of a whole executive team; under these circumstances, retention efforts directed at those likely to leave with the targeted executive may be as important—and more likely to pay off—as attempts to keep the executive.

The Benefits of Turnover: A Contrarian View

As significant as these costs are likely to be, a number of researchers have made the case that turnover is not necessarily dysfunctional for the employing organization. Dan Dalton and his colleagues (Dalton, Krackhardt, & Porter, 1981; Dalton & Todor, 1979; Dalton, Todor, & Krackhardt, 1982) showed that turnover can be beneficial to the extent that it results in the departure of unproductive employees. This "functional turnover" can occur with both voluntary and involuntary turnover, whereas dysfunctional turnover (the departure of valued or hard to replace employees) presumably occurs only through voluntary turnover. This functional/dysfunctional distinction was later modified by adding a consideration of whether the turnover is avoidable or uncontrollable (Dalton et al., 1981). In many cases—such as when employees quit because of health issues, family commitments, or to pursue educational opportunities—the employer has limited ability to control the "voluntary" turnover. There is no reason to reduce functional turnover and little ability to reduce uncontrollable turnover, so in developing retention programs, they argued that the focus should be on avoidable, dysfunctional turnover.

Dalton and his colleagues followed up their theoretical articles with an empirical study of bank employees that found that 71% of the turnover was actually functional, and that 52% was unavoidable (Dalton, Krackhardt, & Porter, 1981). While their study was not of executives, their arguments regarding the possible functional consequences of turnover are particularly relevant for top managers. Aside from the removal of mis-matched (and likely underperforming) employees, turnover can also have the effect of bringing in fresh perspectives and innovative approaches (Katz, 1982). This "new blood hypothesis" may be especially relevant to organizational leaders; a number of studies have shown that as executives remain in their roles they tend to become more rigid and resistant to change and to support existing policies and procedures even when they are no longer effective (Finkelstein & Hambrick, 1990; Hambrick & Fukutomi, 1991; Staw & Ross, 1987). Turnover of this "deadwood" may be quite beneficial to the firm.

Empirical Relationships between Turnover and Performance

While thought-provoking, the fundamental question is whether this functional turnover perspective is borne out by research. Within the HR turnover literature, most of the initial research was conducted at an individual level of analysis, exploring whether higher or lower performing employees are more likely to resign. The general finding has been that less productive workers are more likely to separate (McEvoy & Cascio, 1987; Williams & Livingstone, 1994). This is an intriguing finding, as it might be expected that high performers would find it easier to locate alternative employment (Jackofsky & Peters, 1983). Although logical, at least two studies have failed to find evidence of this effect (Jackofsky & Slocum, 1987; Rosse, 1987). However, this research has not included executives, whose job performance may be particularly visible to alternative employers who are seeking to entice top talent away from their current employment.

Other research has occurred on a more macro level--correlating aggregate turnover rates and organizational rather than individual performance—and has more specifically drawn upon the two competing paradigms: the human capital perspective that views turnover as costly and to be minimized and the costs and benefits approach (e.g., (Abelson & Baysinger, 1984; Dalton & Todor, 1979) that suggests a moderate level of turnover is most beneficial. Thus, this research looks at turnover as the cause and performance as the outcome—the opposite of the assumed relationship in studies done at the individual level of analysis. The results of these studies have been mixed, with most showing that turnover reduces subsequent organization or work-unit performance (Dess & Shaw, 2001; Shaw, Duffy, Johnson, & Lockhart, 2005; Shaw, Gupta, & Delery, 2005), but with some studies supporting an inverted-U relationship in which the optimal trade-off of costs and benefits occurs at some moderate level of turnover (Glebbeek & Bax, 2004; Harris, Tang, & Tseng, 2006).

Siebert and Zubanov (2009) attempted to reconcile these findings with a contingency model that suggests that the optimal approach depends on the work systems under which the employees work. They studied retail sales assistants in 325 stores of a large U.K. clothing chain. Some of these workers were employed under what they termed a “commitment” work system, characterized by high-performance work practices (e.g., highly developed recruiting, hiring, and training practices, as well as performance-based pay). Other sales assistants worked under a “secondary” work system, characterized by part-time work, casual hiring practices, minimal training, and restricted responsibility. They found that turnover among employees in the “commitment” group—with presumably greater human capital investments—had a negative effect on organizational performance, whereas the “secondary” employees showed an inverted-U relationship between turnover and performance, with the highest performance occurring at moderate levels of turnover.

In attempting to extend these results to executives, it is easy to assume that executives are like those in the “commitment” work system. Hiring of executives is not likely to be “casual”, the work is almost certainly complex and challenging, investment in human capital (either by “purchasing” it through hiring or through subsequent executive development) is substantial, and compensation is generally performance-based. However, it also possible that this is an idealized view of executive talent management, and that errors in hiring (or degradation of skills over time) may also apply in the executive suite. We now turn to the literature on executive succession to explore these issues in more detail.

Does Retention Matter: Lessons from the Executive Succession Literature

Like the turnover literature, studies of executive succession distinguish between executive succession that is voluntary (often referred to as “routine” succession) and that which is involuntary (or “forced”, sometimes more directly termed “dismissal.”) They also draw distinctions between internal and external successors, although the literature is mixed regarding the importance of this distinction.

Two major reviews of the executive succession literature agree that the most consistent finding is that succession is preceded by, and presumably a result of, declining organizational performance (Furtado & Karan, 1990; Kesner & Sebora, 1994). The obvious explanation is that boards of directors are expected to meet their fiduciary responsibility by disciplining ineffective leaders, by dismissal if necessary. It may also be that CEOs, recognizing this, voluntarily choose to move on before suffering the indignity of being fired. Nor are these effects limited to CEOs; some studies show that declining firm performance can also result in heightened turnover among other members of the top management team (Hayes et al., 2006; Wiersema & Bantel, 1993), and even board Chairs, although this effect seems less profound than for CEOs.

Reviews also agree that CEO succession has a substantial effect on others in the organization, particularly other members of the top management team. In one study, 22% of senior managers left when a new internal CEO came on board; when the new CEO was an outsider, this figure rose to 33%, nearly twice the turnover rate of top managers in companies not experiencing a change in CEO (Coyne & Coyne, 2007). The critical question in the succession literature—also relevant to our discussion of retention—is whether succession and the disruption of the status quo that it creates results in a return to successful organizational performance.

Giambatista and colleagues (2005) note that the study of organizational succession has long been guided by three competing perspectives, commonly referred to as “common sense,” “vicious cycle,” and “ritual scapegoating:”

- The *common sense perspective* starts with the finding that succession events are usually preceded by declining organizational performance and argues that succession should result in improved performance due to a combination of removing the (presumably) ineffective CEO, the benefits of a “honeymoon” period for the replacement, and the heightened enthusiasm and fresh outlook that a newcomer brings to the job. In many ways it is similar to the “costs and benefits” approach to turnover that was previously described, and raises questions about the utility of retaining executives (at least when performance is in decline).
- The *vicious cycle perspective* suggests that turnover of top managers disrupts routines and established networks, impairing morale and reducing efficiency. Thus, similar to the social capital analysis of turnover, the vicious cycle perspective predicts that executive succession will generally lead to a decrement in organizational performance. From this point of view, then, retaining rather than dismissing executives should be functional (as long as other corrective steps are taken to turn around the organization’s performance).
- The *ritual scapegoating perspective* predicts that organizational performance will not improve following a succession event, because the succession is merely a ritual to placate stakeholders. From this perspective, chief executives have limited control over the fates of their organization, so

retaining (or replacing) them will have relatively little effect relative to external factors.

There have been three major reviews of the literature testing these hypotheses, the first by Furtado and Karan in 1990, followed by Kesner and Sebora in 1994, and the most recent by Giambatista et al. in 2005; we also include in our review a few additional studies that were not incorporated in these reviews. At the risk of over-simplifying a complex topic, Furtado and Karan found no support for the idea that organizational performance improves following the departure of a CEO. Kesner and Sebora concluded that succession leads to changes in organizational strategy and practices; however, they found mixed results as to what effect these changes had on subsequent organizational performance.

In the most recent review, Giambatista et al. (2005) revisited the assumption that CEO succession leads to changes in organizational practices. Although noting studies since Kesner and Sebora's review that strongly suggest that leaders do make a difference (see Bertrand and Schoar, (2003), for an excellent example), they also cite studies that failed to find evidence of changes following a succession event (Boeker, 1997; Sakano & Lewin, 1999), or found such an effect only in cases of non-routine succession (Wiersema, 1995). They speculated that this might be due to the studies using too short of a time frame (typically about a year) to detect changes. Alternatively, they suggested that inertia might simply be too strong to be readily overcome by a new CEO (see also (Murphy & Zimmerman, 1993).

Despite those misgivings, Giambatista and colleagues concluded that executive succession generally has positive effects on subsequent organizational performance, typically measured as improvements in various financial indicators, such as ROA or stock prices. Khaliq et al. (2006) reached a somewhat different conclusion in a study that was instead based on CEO's perceptions of changes in the performance of the organization they left, as well as the organization they joined. They found that executives reported a number of negative effects—such as cutbacks in investments in critical programs by their successor and increased competitive moves by rival firms—following their departure. However, these findings may be attributable to self-serving bias, since the same executives tended to feel that the performance of their new employers improved once they were brought in as new CEOs!

Gibelman and Gelman (2002) tried to explain these differing conclusions by proposing that the consequences of the disruption caused by leader succession depend on the reason for the succession event. Successions due to retirements allow the most time for planning the succession process and often signal underlying stability and normalcy rather than crisis. Voluntary resignations are more disruptive because they are often unanticipated; more important, though, may be the motives others attribute to the executive's decision to depart. Forced resignations generally are still more disruptive, though they can often be managed in order to allow some time for transition planning and "spin control." Finally, dismissals are generally the most disruptive, particularly if they result from a crisis caused by the executive (Farquhar, 1994).

It has also been suggested that the consequences of executive turnover depend on whether the successor comes from inside or outside the organization. Giambatista et al. (2005) found the rather limited evidence to be very mixed. Most relevant to this review, though, was a study that found that outside successors were least successful when the departure of a CEO also results in turnover of other members of the former top management team (Shen & Cannella, 2002). This scenario is not improbable: Coyne and Coyne (2007) found that top management team turnover was dramatically higher when the successor was external. This again suggests that retention management programs should target the whole executive team, particularly when the departure of the CEO is imminent. However, Coyne and Coyne also found that nearly 80% of this collateral turnover was involuntary, as the new CEO "cleaned house." Future research should examine closely the effects—pro and con—of such wholesale changes in the top management team, as it is quite possible that resultant disruption is less functional than intended.

Does Retention Matter: The Context of Acquisitions

There is a significant literature on leader succession in the context of acquisitions that offers additional perspective on the question of whether (or when) retention of leaders is in the interests of the firm. Acquisitions are highly disruptive events; this disruption is magnified by turnover among executives, particularly in the acquired firm. Executives in acquired firms depart at much higher than normal rates (Krishnan et al., 1997), averaging 23% in the year following the acquisition (Krug, 2003). Nor is this a temporary effect; two large-scale studies found that the heightened turnover persisted as long as nine years following the acquisition (Krug, 2003; Krug & Shill, 2008). The exodus of managers is even more likely in the case of unfriendly takeovers (Bergh, 2001; Cannella & Hambrick, 1993). It may also be more prevalent when the target of the acquisition had not been performing well (Hambrick & Cannella, 1993), although the evidence is mixed (Walsh & Ellwood, 1991).

Empirical studies indicate that this turnover is associated with lowered firm performance following the acquisition (Cannella & Hambrick, 1993; Krishnan et al., 1997); loss of longer tenured executives in particular has been identified as a factor in determining whether an acquisition will be a success (Bergh, 2001).

In apparent disregard of this research, acquiring firms often encourage the departure of executives in target firms. In some cases this is because the target firm had been under-performing; according to the so-called market discipline perspective, top managers are ultimately responsible for the lack of performance, so their removal is a means of reviving performance. Another common reason for replacing managers in acquired firms is that the acquisition results in redundant positions or skills; under these circumstances, acquiring firms often prefer to retain their "own" employees and dismiss those who may be resistant to the acquisition, who don't fit the acquiring firm's culture, or whose skills may not be as good a fit with a new direction the acquired firm is expected to take (Buchholtz, Ribbens, & Houle, 2003).

In a seminal article, Bergh (2001) raises questions about the efficacy of executive purges. He found that acquisitions are less likely to be successful when longer-tenured executives were the ones that departed. Bergh explained this in terms of human capital and resource-based theory, suggesting that retaining leaders who know the ropes can be critical to the merged firm's success. Krug (2003) offers a compromise position. He suggests that experienced leaders are critical for the initial period of the acquisition, by providing ongoing leadership over existing programs, maintaining relations with key stakeholders, and providing the merged firm with expertise relevant to the target firm's established niche (i.e., by providing the benefits of specific human capital). In the longer-term, however, replacement of the old guard may be useful, as longer-tenured managers are less likely to take risks and strike out in innovative directions (the unstated assumption being that successful M&As are particularly dependent on innovation). This is an intriguing suggestion, although it has not yet been subjected to empirical test. If corroborated, it might suggest the utility of time-limited retention programs targeting short-term retention of key managers. How this might affect these "short-timer's" decisions, as well as the morale of other employees and the ability to recruit or retain potential replacements would be worthy subjects of study.

As with much of the literature on executive turnover, voluntary turnover has received less attention than have dismissals in the study of acquisitions and other major changes in firm ownership. In an important exception, Hambrick and Cannella (1993) showed that a key element in acquired managers' decision to depart is how the acquisition affects their social status. The foundation for their study was the concept of *relative standing*: the idea that leaders of acquired firms suffer a loss of social status that makes it intolerable to stay. Top executives are accustomed to being at the pinnacle of an organization, calling the shots and being responsible for the success or failure of the firm. Even if they are not dismissed, being acquired by another firm generally involves a loss of this status and relegation to a less powerful role. Leaders of acquired firms may also question their own skills relative to those of the acquiring firm's executive team, particularly if the acquisition results in a change of strategic direction. Rather than live with this reduced autonomy and prestige, leaders may decide that it's a good time to move on to new challenges or opportunities. Hambrick and Cannella (1993) confirmed this hypothesis, finding that executive turnover was higher when the acquisition process was most threatening to the status of the targeted firms' executives, such as in cases where the discrepancy between the performance of the target and acquiring firms was largest. Alternatively, acquired executives who were appointed as officers or directors of the new firm—thus minimizing the status differential—were less likely to quit. (However they also found that peers of these executives, who were not beneficiaries of this "status bestowal," had an increased likelihood of quitting, since they had suffered a double loss in relative status.) Ghosh and Ruland (1998) also provided indirect support for the relative status theory when they found that acquired executives who receive stock rather than cash payments as part of the acquisition are less likely to quit, apparently because the stock (and the accompanying voting rights) provides them with increased control over the direction of the new firm.

Age of the acquired executives has also been implicated in their decision to quit rather than join the merged firm. Buchholtz and colleagues reported a curvilinear relationship between age and turnover, with departures most frequent among the youngest and oldest leaders (the inflection point at which turnover was lowest occurred at age 54) (Buchholtz et al., 2003). The youngest leaders are more likely to move on for a number of reasons. They have the least specific (versus general) human capital; their sunk costs in their current job are minimal and given the number of years ahead of them the payoffs of developing new specific capital are greater than for their older counterparts; they are less invested in a lifestyle that would be threatened by a temporary loss or reduction in income that might accompany quitting; and because firms are more willing to invest in younger employees, younger managers believe that they will have fewer problems finding a new position. Simultaneously, older CEOs are less inclined to adapt to the new situation (not because "old dogs cannot learn new tricks" but because as one grows older there is less time to benefit from developing new skills and knowledge, according to Bucholtz) and may also have increasing interest in retirement or other alternative pursuits, as well as the resources to allow these options. In contrast, those in the middle (roughly between the ages of 45 and 65), have more to lose from changing jobs than the younger executives and more to gain from developing new skills and knowledge than the older executives; as a result, they are most likely to stay with the acquiring firm. Their preferences to stay may also match the preferences of the acquiring firm, since they have the potential to provide a balance between stability and adaptability. In fact, this pattern may represent a rough approximation of Krug's (2003) conclusion that acquisitions are most successful when longer-tenure leaders are initially retained in order to maintain continuity, and are then replaced with new leaders with greater adaptability to new initiatives.

Does Retention Matter: Summary and Implications

Thinking about turnover has evolved from the assumption that it is necessarily a costly problem to be avoided to a more nuanced assessment of costs and benefits. Turnover is more likely among lower performing employees, suggesting that turnover may play an important role in improving job-person fit and job performance. A necessary caveat is that this conclusion is based on non-executive samples, probably because it is rare to try to measure the performance of executives other than by looking at performance of the organization.

Research on executive succession has consistently found that departure of organizational leaders (often, but not necessarily, involuntarily) follows a period of decline in organizational performance. This is consistent with the generally accepted notion that chief executives are ultimately responsible for the performance of the firms they lead. That philosophy notwithstanding, researchers have cautioned of instances in which the CEO's departure may be hindered by an unwillingness on the part of the CEO or the board of directors to respond to a decline in performance (Comte & Mihal, 1990; Dedman, 2003; Gregory-Smith, Thompson, & Wright, 2009). Although mixed, the evidence as a whole suggests that organizational performance often increases with a new leader, again implying that turnover may improve the person-job fit.

Finally, the literature on changes in leadership when one firm acquires another illustrates a context in which retention of key leaders is particularly problematic. On the one hand, loss of leaders seems to result in lowered performance of the new firm, while on the other hand, sound rationales can be developed for revamping the top management team. Successful acquisitions demand a well thought out retention plan that begins with a clear understanding of executive talent needs—both for the immediate transition and for the longer-term success of the merged firm—as well as taking stock of the skills, abilities and knowledge of the executive teams in both the acquiring and target firms. This is essential for an analysis of both gaps and redundancies in the merged workforce. This understanding of the organization's needs must then be integrated with awareness of how the acquisition is likely to affect key executives' analysis of the costs and benefits of staying or seeking out new opportunities. Only then can a talent management plan identify the key targets for retention and executives who need to be dismissed (as well as a middle ground of executives whose loss is not desired but does not merit extraordinary retention efforts). Indeed, such an analysis seems fundamental in all situations, not only those involving acquisitions.

Overall, while it seems evident that turnover can have beneficial effects, it also involves significant direct costs as well as the potential loss of valuable human capital. Siebert and Zubanov's (2009) study points out that this is particularly true for jobs in which investments in talent are significant; although their study did not include executives, they should be a prototype for this kind of job. In the context of executive teams, there is also persuasive evidence that turnover of the top executive can have a domino effect on other members of the top management team, which may have negative effects even greater than the departure of the CEO.

A fundamental implication is the importance of a nuanced approach to talent management rather than reifying employee retention as a universal goal. Employee retention efforts should <u>manage</u> employee mobility by targeting voluntary turnover that is dysfunctional and avoidable, as shown in Figure 1. Simultaneously, these programs should be designed so as not to inadvertently encourage retention of employees—including executives—who are not contributing positively to the organization. The goal should be a talent management program that simultaneously targets retention of high performing and hard to replace employees and either performance improvement or dismissal of poorly performing employees (Levin & Rosse, 2001).

	Dysfunctional	Functional
Voluntary		
- Avoidable	Primary target for retention efforts	Turnover should be encouraged
- Uncontrollable	Potential target for retention efforts	Turnover should be encouraged
Involuntary	(not applicable)	Dismissals

Figure 1. Relationships between types of turnover and talent management/retention programs.

Efforts to retain leaders may be essential when those individuals are the right person for that job and that organization, not only today but also for the near-term future. But they may be the wrong strategy when those criteria are not met, or when the costs of retaining the individual exceed the benefits. Having made that point the remainder of this review will evaluate what is known about how to retain executives when that has been determined to be the correct course of action.

Strategies for Retaining Executive Leadership

Perhaps the most distressing outcome of conducting this literature review was the discovery of just how little research has been conducted on executive-level turnover. More than a quarter-century ago, Bluedorn pointed this out in his review of the turnover literature (Bluedorn, 1982). The same conclusion was reached by Harrison and colleagues, who also noted that the majority of what literature does exist has focused on the consequences, rather than the antecedents of top management attrition (Harrison, Torres, & Kukalis, 1988). Moreover, most studies are specifically concerned with dismissals of executives. While a very interesting and useful topic, it has at best only indirect relevance to the topic of retaining executives who decide on their own volition to leave (and for whom retention programming might be effective).

Because of this paucity of literature, it has not been possible to structure this review in the conventional manner of grouping studies by categories, summarizing findings, and then reaching evidence-based conclusions and implications. There is simply too little literature to make this a viable approach. Instead, this review evaluates retention strategies roughly according the “stages” in an executive’s tenure in a firm to which they apply, beginning with recruitment, moving on to the onboarding process, then considering factors that affect leaders’ commitment to their organization, before closing with a brief discussion of recommendations for special circumstances, such as mergers and acquisitions. Where possible, we have addressed the literature on executive turnover/retention for each of these stages; often, though, because of the lack of any literature specific to executives we instead reviewed findings from the general turnover literature and then offered suggestions as to how they might apply to top managers. Throughout, the review emphasizes research articles that allow evidence-based recommendations, although where appropriate we also note recommendations that are found in the non-scholarly literature, particularly as they suggest directions for needed research.

Recruitment and Hiring

Recruitment of new employees is the foundation for retention (Aberdeen Group, 2005; Levin & Rosse, 2001); this is no less true for top managers. In fact, some leading thinkers believe that ineffective hiring is the primary reason for executive turnover (Bennis & O'Toole, 2000; Drucker, 1985; Khurana, 2001; Schiemann, 2009). Executives who lack the skills to be successful will be dismissed, or "encouraged" to resign; managers without golden parachute packages may recognize the signs and depart of their own volition before this step is necessary. Not matching the right leader with the right setting may also produce situations in which the leader is successful by the firm's standards, but nonetheless quits because the job is not adequately satisfying. These departures can be particularly challenging because the leader's decision may be unexpected and seem unpredictable.

Because there are other reviews addressing the topic of leader recruitment and hiring (Howard, 2001, 2007; Sessa & Taylor, 2000; Zaccaro, 2008), I will focus on three aspects of the recruitment process that research has explicitly linked with employee retention: (1) the use of biographical data in making hiring decisions; (2) realistic job previews, and (3) consequences of similarity/dissimilarity in the top management team.

Biographical data. Biographical data refers to information about applicants' demographic background or past history that can be used to guide hiring decisions. Obviously, such information nearly always plays some role in recruiting employees, but selection researchers have developed two procedures for scoring this information to make it far more valid for this purpose. One is the use of Weighted Application Blanks, or WABs. WABs use regression analysis to develop an empirical scoring key for existing biographical data (usually that which is included in application blanks, or forms, hence the name.) In concept, WAB scoring keys can be developed to predict anything from sales performance to honesty, but research most strongly validates their use for predicting tenure in a job. Meta-analysis reports a strikingly high corrected validity (ρ= .33) for this purpose (Hom & Griffeth, 1995).

There are a number of limitations for using WABs to predict which candidate for a top management position is least likely to quit. Foremost among these is the lack of validation evidence for executive positions. WABs have been most frequently developed for clerical and sales positions (Gatewood & Feild, 2001); perhaps the closest example to an executive position was their use to predict creativity in research scientists (Albright, Smith, Gennon, & Owens, 1961). Conceptually, this is not a major problem, because the principle underlying the use of WABs should apply equally to executive positions. Operationally, however, the development and validation of WABs requires data from large samples of incumbent employees. This is because the scoring of the various items of personal information (e.g., current and past residences, years of education, number of past jobs, tenure in prior jobs) is based entirely on empirical relationships that are computed between the characteristics and the criterion being predicted (i.e., whether or not the people with these characteristics quit prematurely). This requires a sample of hundreds of employees, plus additional hundreds to cross-validate the results to make sure they are not due to chance. This makes the use of WABs impractical for use with top managers, even in very large organizations or consortiums of firms. (They might, however, be feasible for middle-level managers under these circumstances.)

A related approach that might prove more feasible involves Biographical Information Blanks, or BIBs. Like WABs, BIBs are based on scoring background information about applicants in order to predict a criterion. The key difference is that while WABs use whatever information is readily available about employees that works to predict turnover (often without any particular rationale for why), BIBs are based on items that have a sound logical relationship to the outcome. Thus, one might consider what kinds of biographical information could be obtained from applicants for an executive position that might predict their longevity with the firm. Research shows that BIBs generally have higher validity than WABs, though with the caveats that this research has generally involved lower-level workers and has more commonly been used to predict performance rather than retention. Moreover, BIBs still require fairly large data sets to validate, and require more work in advance to develop items that are likely to be related to turnover. What could make BIBs a practical strategy is the possibility of developing “generic” scoring strategies for managerial positions. Some such forms are already available, though more research on both validity and validity generalization is necessary before they can be widely recommended (Glennon, Albright, & Owens, 1966; Rosse & Levin, 1997).

Realistic Job Previews. In their meta-analysis of evidence-based retention strategies, McEvoy and Cascio (1985) highlight the research support for the use of realistic job previews (RJPs) as a predictor of employee tenure. RJPs are based on evidence that a substantial amount of turnover—particularly that occurring during the first 6 – 12 months on a new job—is the result of unmet expectations (Hom & Griffeth, 1995). During the recruitment process, employers are eager to sell themselves to applicants;, the strong temptation is to present the organization in the best possible light, to always be on your best behavior, and to do whatever you can to mask any shortcomings. Employers expect this of applicants, and probably to a somewhat lesser extent, applicants expect it of employers. The problem is that this process often leaves both parties with entirely unrealistic representations of the other. Employers have developed a battery of assessment tools to cut through this façade and reveal more about the applicant’s true nature, but applicants have fewer tools at their disposal to accomplish similar transparency about the prospective employer. Thus it should be no surprise that new hires often experience “reality shock” once they take a position; this often can be overcome this by re-adjusting expectations, but in other cases it results in costly turnover, often of the dysfunctional and avoidable type.

RJPs were developed to overcome this problem by providing applicants with a balanced presentation of all aspects of the job and employer, both good and bad. They operate in multiple ways to reduce turnover (Breaugh, 1983; Wanous, 1980; Wanous, 1992). One mechanism is self-selection, in which an applicant decides to withdraw from the applicant pool (rather than quitting after taking the job). RJPs may also confer an “immunization” effect, allowing the applicant to lower their expectations prior to organizational entry, thus reducing reality shock. RJPs can also reduce turnover—and have other positive effects—by communicating to the applicant that the employer is credible and trustworthy.

Wanous found that RJPs increased retention in 11 of the 13 experiments he reviewed (Wanous, 1992); based on their meta-analysis of 15 studies, McEvoy and Cascio (1985) estimate that RJPs reduce turnover by an average of 9%. Unfortunately, we were unable to identify any research on RJPs that has been conducted using executives. Yet, unlike with biographical data, there are few inherent limitations to using RJPs with this group. One boundary condition for RJPs is that they seem to work best with applicants who are relatively unfamiliar with the job. While most executive applicants will have prior functional experience, there is likely much about the firm that will be different from their prior experience and which may affect their fit with the new job. Providing executive candidates with an understanding of the organization's culture, typical practices, and the profiles of key players is likely to reduce surprises, including premature turnover of the new executive.

A second boundary condition is that RJPs work best when applicants are readily able to choose among different job opportunities. Applicants with limited options may ignore warning signs that they are not a good match and accept a position despite being informed of unfavorable conditions. They might even take the job fully intending to move on as soon as a better opportunity presents itself. The relevance of this boundary condition will vary from case to case; as a general statement, qualified applicants for executive jobs would likely be more able to say no to a job that's not for them than would many non-managerial incumbents. More serious, though, is some evidence that the best candidates—who are likely to have a wide range of attractive options—are less likely to accept a job when presented with an RJP (Bretz & Judge, 1998), unless there are compensating differentials to "make up" for the negatives (Wanous, 1989). Again, this research was not done with managers, whom we might expect to have a more seasoned view and more strongly appreciate a realistic picture of the job being offered.

Top Management Team Heterogenity. Management research on organizational demography has created a potential dilemma for organizations who take seriously the importance of employee diversity. A series of studies have documented that demographic heterogeneity in work teams increases turnover, particularly of those individuals who are different from the majority. Unlike the other areas of turnover research, many of these studies target top management teams specifically. The most common demographic factors that have been studied include age (Godthelp & Glunk, 2003; Jackson et al., 1991; Wagner, Pfeffer, & O'Reilly, 1984; Wiersema & Bird, 1993) and team tenure (Godthelp & Glunk, 2003; Jackson et al., 1991; Wagner et al., 1984; Wiersema & Bird, 1993). Wiersema and Bird (1993b) also found that university background predicted turnover among Japanese managers. That women and people of color are so rarely among the upper echelons of management may explain why gender and race/ethnicity has not been included in studies of top management team heterogeneity.

The generally accepted (though rarely tested) explanation for these effects has to do with frames of reference. Executives of different generations have different education and training, think and make decisions in terms of different experiences (e.g., the Great Depression, World War II, the Vietnam War, the civil rights movement) and are likely to have somewhat different values. Similarly, Wiersema and Bird (1993b) argue that university pedigrees are of great importance in Japanese society and are likely to affect managers' outlooks; although it has apparently not been tested, a similar "Ivy League" effect has often been described in US business circles.

The inference is that these differences in frames of reference make communication more challenging for members of heterogeneous groups, which in turn interferes with social integration and cohesiveness among team members. This may result in increased attrition for the whole group, as individuals find group membership less rewarding and task accomplishment more difficult. Many studies find even stronger evidence of turnover among those individuals in the group who are the most different, particularly if they are the only member with that characteristic.

The challenge is how to use this research in designing effective retention programs. While demographic diversity seems to hamper retention—particularly of non-majority team members—there is also substantial research that diversity enhances creativity, reduces groupthink, and increases the likelihood of good group decisions. Moreover, there is ample evidence that incumbents in executive positions are predominantly male, and white; as a result, organizations have been investing substantially in programs to reduce barriers to qualified women and individuals of color. What the organizational demography literature shows is that retention of these qualified individuals needs to be a critical component of glass ceiling programs.

Although there is little research to guide employers through this minefield, we can infer some reasonable implications from the studies of team heterogeneity. One is to remember that demographic characteristics have been used in these studies mostly because they are easy to measure; while they are generally assumed to act as proxies for more fundamental underlying differences in world view, values, and experiences, this assumption is often not directly tested. Realistically, it is likely that in most instances of executive hiring, the vetting process will (or should) be intensive enough that even demographically diverse hires will share the fundamental values that form the core of the organization.   Looking past superficial characteristics and assessing person-organization fit at the level of values that are fundamental to the firm's culture and business model should reduce attrition without sacrificing diversity.

A second implication is to expect that diverse groups may experience more communication and social integration challenges and to recognize that some (maybe most, at least in effective teams) of this conflict can be used for constructive purposes. Differences in perspectives can be instrumental for challenging the status quo and encouraging innovation—but only if the culture encourages this kind of response. Creating such a culture should have beneficial effects on team performance as well as on retention. This seems particularly true for groups that are diverse, though a best practice would be to encourage effective conflict resolution skills on a company-wide basis. Research testing this proposition would be highly beneficial from both theoretical and practical standpoints.

Onboarding

The hard work of developing a high performance workforce only begins when the right person is hired for the job. Increasingly, turnover researchers and human capital specialists have turned their attention to what happens once a new employee enters an organization, particularly as it relates to retaining that talent. Onboarding, rooted in the scholarly literature on employee socialization (Klein & Heuser, 2008; Van Maanen & Schein, 1979; Wanous, 1976), refers to programs designed to ensure that newly hired employees are quickly and effectively integrated into their new organizational home. The term is relatively new and is generally used with particular reference to managerial hires, although the principles of onboarding should be relevant for new hires at any level. The focus on executives is prompted by concerns about the particularly high costs of executive attrition, and the realization that the failure rate of externally-hired managers is nearly double that of internal hires (Ciampa & Watkins, 1999; Downey et al., 2001). It reflects a sea-change in the traditional thinking—by both leaders and the organizations that hire them—that leaders are smart and experienced and should be able to handle whatever is thrown at them in a new situation. However, while increasingly discussed, some reviewers suggest that fully-developed onboarding programs remain rare (Conger & Fishel, 2007).

Onboarding programs are described as having a significant effect on turnover during the first months or year of a new employee's tenure. This is a time when first impressions are being formed and new employees are wrestling with the question of whether they made the right decision when they accepted the job (Wanous, 1976). As applicants, these new employees likely received lots of attention; senior employees in particular are likely to have been wined and dined as part of the recruitment process. This lavish attention may come to an abrupt halt once the applicant signs the contract—precisely the time at which they may be experiencing “buyer’s remorse” and be most in need of reassurance that they made the right career move. Programs designed to maintain positive contact during the period between accepting the offer and actually starting work create the seeds for a strong employment relationship. It seems reasonable to speculate that this may be particularly true for executives, who may have more ego-involvement in the job, and for whom the gap in time between signing and actually joining their new organization may be longer. In addition to potentially increasing retention, ongoing contact during this period may also smooth the hand-off process between the outgoing and incoming leaders.

Once the new employee begins working, onboarding programs are likely to include much more than traditional “orientation sessions.” Studies consistently show that employees who have unrealistic job expectations are more likely to quit (Hom & Griffeth, 1995). One solution, providing applicants with Realistic Job Previews, has already been described. Another is to take particular care during the first weeks and months to establish clear expectations, and then to meet with new hires to give them feedback on how well they are doing, revise goals as appropriate, and listen to any concerns or problems the employee may be experiencing. Hom and Griffeth (1995) found that role ambiguity and role conflict are highly significant predictors of turnover—substantially more so, in fact, than role overload. Knowledge of how well one is doing may be particularly relevant for CEOs, as a number of practice-based articles recommend regular feedback meetings between CEOs and the chair or other key members of the Board (Aberdeen Group, 2005; Kaufman, 2005). Early and frequent coaching sessions with new hires may be effective means of dealing with these issues.

Onboarding programs also seek to increase retention by providing a buffer between the new hire and others in the organization. New leaders hired from outside the organization may face opposition and resentment from internal candidates who feel they were passed over, yet not realize they are walking into a minefield until too late. On-boarding programs can provide mentoring for both the new executive and the “jilted” internal managers to reduce or prevent these conflicts (Reese, 2005).

While onboarding programs make good sense, there is as yet little empirical evidence regarding their effectiveness. Much of the justification for these programs comes from surveys of HR executives or new hires who report that traditional programs are inadequate (Pomeroy, 2006; Wells, 2005). Evidence that on-boarding programs actually reduce turnover, or improve the speed at which new executives become effective performers, is mostly limited to anecdotal accounts by consultants of their work with particular firms. The general principles underlying on-boarding programs are consistent with research on socialization, unmet expectations, and sources of job dissatisfaction. Most directly relevant is the extensive research on socialization of newcomers (often non-managerial); a meta-analysis of this literature (Bauer, Bodner, Erdogan, Truxillo, & Tucker, 2007) demonstrates that socialization programs increase retention, primarily by enhancing incumbents' social acceptance and self-efficacy. Support for the principles underlying onboarding can also be inferred from research on leader-member exchange, which documents that the quality of relationship between an employee and his or her leader has a number of positive effects, including increased retention, and that this bond begins almost immediately after a new employee is hired (Liden, Sparrowe, & Wayne, 1997; Schriesheim, Castro, & Cogliser, 1999). However, more research specifically focusing on the components of on-boarding programs with executives is warranted in order to justify the expenses of such programs, which are rarely mentioned but are presumably substantial.

Developing Commitment to the Organization

Research has traditionally placed primary emphasis on the relationship between employees and the firm as the key to retention. This can be seen in theories of turnover dating back to the classical view that turnover is a function of two basic forces: the employee's perceived ease of movement (affected primarily by macro-economic conditions, but also by the quality--as well as visibility—of the employee's performance) and the desirability of movement (March & Simon, 1958). Particularly in "push" theories of turnover that emphasize factors that drive employees away from their current employers, desirability of movement is described in terms of employees' job satisfaction and commitment to the organization. Even for "pull" theories (addressing factors that entice employees to a new organization), an underlying assumption is that something about the alternative job made it more desirable than continuing in the current job.

One of the questions central to employee retention programs is what it is about an employment relationship that builds this commitment to the employer[1]. At risk of over-simplification, it is probably safe to suggest that all the various theories of turnover address this question, with the key differences among them being how additional variables fit into equation, either as antecedents, mediators, moderators, or alternative outcomes. One way of simplifying this vast literature is to refer to Allen and Meyer's theory of organizational commitment, which describes three ways in which employees develop a psychological linkage with their employer that makes it less likely that they will quit (Allen & Meyer, 1990). The first of these is <u>affective commitment</u>, in which employees stay with the company because they want to; they identify with the company, feel highly involved with it, and have developed an emotional attachment to it. Employees who experience <u>continuance commitment</u> stay with their organization because they feel they have to, based on a calculated analysis of the costs and benefits of leaving versus staying. With <u>normative commitment</u>, employees stay because they feel they ought to, out of a sense of responsibility to the organization or coworkers.

Closely related to affective commitment is job satisfaction. Both describe employees' emotional reactions to their jobs; commitment measures directly address the employees' interest in staying with the organization, whereas job satisfaction measures are more context-free. Nevertheless, job satisfaction is consistently related to employee's decisions to quit or stay. In one of the few studies that looked specifically at top level executives' turnover decisions, overall job satisfaction was one of the key factors that differentiated "stayers" from top executives who were looking for alternative jobs (Gaertner & Nollen, 1992). Similarly, Bretz and colleagues found that overall job satisfaction was related to both intentions to quit and actual turnover in their study of 1,388 managers (Bretz, Boudreau, & Judge, 1994).

Studies of turnover have also explored satisfaction with specific facets of the working situation, such as satisfaction with the nature of the work, with supervisors, with compensation, with coworkers, and so forth. Studies of general groups of employees have shown that the most important dimensions of satisfaction for predicting turnover are promotions, followed by clarity about role expectations and the quality of an

[1] Readers may wonder why we refer to this as commitment rather than the currently popular "employee engagement." Engagement has suffered from definitional ambiguity, but current thinking conceptualizes it in terms of discretionary "above and beyond" job performance, rather than in terms of retention (Macey & Schneider, 2008). Commitment and job satisfaction are elements of engagement, and have an extensive research literature linking them with turnover/retention.

employee's relationship with their leader; as we will discuss in more detail later in this review, neither actual pay nor satisfaction with pay are strongly related to retention (Hom & Griffeth, 1995). Unfortunately, studies of job satisfaction as causes of upper management turnover typically include only general measures of satisfaction, so it remains to be seen whether similar patterns exist for leaders.

Although definitive research on the relative importance of commitment factors for executive turnover is lacking, three factors stand out as deserving particular attention due to a combination of research support and likely relevance to executives: the nature of the work, development and growth opportunities, and compensation. The literature on compensation is by far the most extensive; to do it justice, it will be described in its own section.

The nature of the work. Interest in the intrinsic motivating value of work was first popularized by Frederick Herzberg, and continues to play a major role in theories of employee engagement (Macey & Schneider, 2008). Hertzberg and his colleagues distinguished between "motivators," intrinsic aspects of work (such as challenge and autonomy) that they suggested led to satisfaction and improved performance, and "hygienes," extrinsic aspects of work (such as pay and benefits, working conditions, relationships with supervisors and coworkers) that they contended were the source of dissatisfaction (Herzberg, Mausner, & Snyderman, 1959). This framework led to extensive research on the characteristics of work that make it intrinsically satisfying, which in turn leads to higher quality work and increased retention (Hackman & Oldham, 1980). The practical upshot of this work was the "job enrichment" movement, in which work was redesigned in order to be more personally and socially meaningful and provide employees with a sense of responsibility. McEvoy and Cascio (1985) found job enrichment programs to be the most valid of all programs they reviewed for reducing turnover, reducing attrition by an average of 17%.

Conventional approaches to job enrichment consist of modifying jobs so that they provide five key characteristics. The first three of these affect the perceived meaningfulness of work: skill variety (allowing the employees to develop and use a larger repertoire of skills); task identity (the extent to which employees see their work as part of a larger whole), and task significance (the extent to which the work affects others in meaningful ways). The fourth characteristic, autonomy, results in feelings of responsibility. The fifth characteristic is feedback about how one is doing at work. It seems obvious that most managerial positions should score high on each of these characteristics; indeed, the original intent of job enrichment was to redesign overly simplified jobs to make them more like managerial jobs, with the implicit assumption that doing so would make them more satisfying and lead to higher retention. If so, is there anything to be learned from this literature to further our understanding of turnover among organizational leaders?

Studies of what organizational leaders actually do indicate that the work of those at the very top may be less "enriched" than one might think. Mentally challenging work is arguably the most important factor in ensuring that work is satisfying (Judge, 2004). Yet a recent study found that 80% of a CEO's day involved meetings, visits with clients, and ceremonial events (Karlsson & Neilson, 2009). Decades ago, Mintzberg's study of executives similarly found that they had far less autonomy over their schedule and spent much less time on strategic thinking and decision-making than conventional thinking supposed (Mintzberg, 1973). Whether this means that executives view their work as less enriched than it might seem is an unanswered question, due to the paucity of research on organizational leaders.

Boards and top managers might find it useful to address the extent to which CEOs and top managers find their work intrinsically rewarding, particularly given research suggesting that significant extrinsic rewards (clearly the case with most US CEOs) can actually reduce the intrinsically satisfying value of work (Deci, Koestner, & Ryan, 1999). While "boredom" is rarely cited as an executive's reason for leaving, there are countless examples of senior executives leaving a company to begin their own start-ups. To retain these managers (and reduce competition), companies have turned to "intrapreneurship" or "corporate venturing" to provide restless managers with new opportunities without needing to leave the firm. It is also common to hear of leaders departing over differences in management philosophy; often this is a polite way of saying that they have insufficient autonomy relative to the CEO or the Board. Examples such as these argue against complacency in assuming that CEO's jobs provide adequate challenge to keep them motivated.

<u>Development and Growth Opportunities</u>. Studies of employee satisfaction commonly target both training/development and opportunity for career growth as areas that are important to employees' decisions to stay or quit (Frincke, 2006). Not surprisingly, this is also true—possibly especially so--for managers. Gaertner and Nollen (1998), for example, describe "jilted" executives as those who overall are reasonably satisfied and otherwise interesting in staying in their current positions, but

who feel that they have no choice but to quit because they don't feel they have a good chance of being promoted. In many cases, these are classic cases of dysfunctional turnover, since being passed over for promotion may have as much to do with the inevitable dwindling of opportunities as one moves up the organizational pyramid as it does with lack of competence. Gaertner and Nollen suggest one way to counter such turnover is to create a culture that explicitly values accumulated experience and knowledge, or in which lateral moves are seen as acceptable alternatives to upward mobility. A more controversial suggestion is to be wary in the hiring process about applicants who seem too driven by promotions; while such individuals are often valued for their ambition, a preoccupation with upward mobility may be driven more by their own needs than by those of the firm; moreover, it makes attrition inevitable when competing for a limited number of promotions.

Traditionally, the most common means of dealing with concerns about executive development is to develop succession planning programs. A survey of 170 HR professionals found that 82% of their firms had internal leadership development programs, and that the presence of succession planning programs was strongly linked to retention of middle managers (Aberdeen Group, 2005). However, Cappelli (2010) has warned that formal leader succession planning has become far less common, and that new models of executive planning and development are needed.

Compensation

Executive compensation is one of the most controversial management topics of our day, with widespread complaints—from shareholders to employees—that US executive compensation is out of control. These complaints have been raised for at least a decade[2], but have particular currency in 2009's environment of widespread bankruptcies and government bailouts. While we will not enter the broader debate, we cannot ignore the controversy as it applies particularly to the question of whether executive compensation broadly, or various components designed in particular to enhance retention, actually affect attrition of top managers.

[2] See, for instance, the April 12, 1997 cover of *Business Week*—"Executive Compensation: It's Out of Control" or the April 3, 2000 issue of *Forbes* entitled "The $100 Million CEO."

It is generally accepted among managers that compensation is an important driver of employee retention, and particularly so for executives. Compensation is featured in both “push” theories of turnover, which suggest that inadequate or inequitable compensation is a source of dissatisfaction that drives people away from their jobs, and “pull” theories of turnover, which describe how even satisfied employees may be drawn away by better compensation packages. This central role is due to the complex functions that compensation plays in the employee-employer relationship. Obviously, pay is vital for meeting one’s needs (and desires) in life, and increasingly employer-provided benefits have come to form a safety net for most employees. But in addition to these direct roles, compensation also plays a very important symbolic role, providing feedback about how one is doing in life and bestowing status and prestige.

This symbolic role of compensation is particularly critical for senior managers, in part because the nature of executive work—and the definition of success—are inherently ambiguous. This is challenging for executives, since most are high on achievement motivation and are driven by a sense of accomplishment. High levels of compensation, particularly relative to their peers, are a tangible sign of accomplishment, and thus highly salient. Thus it is not surprising that executives expect to be well-compensated, and that compensation specialists contend that failing to meet these expectations will lead to turnover in the executive suite. But is this assumption borne out by research?

Considering how much attention executive compensation has received, and the significant costs to organizations and their shareholders, it is quite surprising how little empirical research attention has been devoted to its effect on retention, a conclusion that was also reached in two previous reviews (Finkelstein & Hambrick, 1996; Hassenhuttl & Harrison, 2002). Substantially more research has occurred among non-managerial employees. In an early meta-analysis, Cotton and Tuttle (1986) concluded that both pay level and pay satisfaction are strong predictors of turnover. A decade later, Griffeth and Hom’s (1995) meta-analysis was more circumspect, concluding there was “very little direct support” for the view that dissatisfaction with salary and pay strongly underlie turnover. Across seven studies and 3,700 employees, actual salary showed a correlation of only $r = -.06$ with turnover; satisfaction with pay was an even lower $r = -.04$ across 16 studies and over 4000 employees. Perceptions of the fairness of pay were only a slightly better predictor ($r = -.07$). While these values are all statistically significant due to the relatively large combined samples, they raise questions about the utility of retention programs based primarily on compensation. However, given that compensation is qualitatively different for managers, we need to consider the research done on this group, with the caveat that such research is much rarer.

Hasenhuttl and Harrison (2002) suggest that the rationale for using compensation as a retention strategy for executives is not as sound as some compensation consultants say. While high compensation serves as a signal to the executive about his or her status, it also sends the unintended message that he or she is highly marketable. Simultaneously, in many cases it sends the same kind of signal to other employers, potentially making the executive a target for competing offers. Ultimately, high salaries are not an easily sustainable competitive advantage, and are likely to result at best in “continuance commitment”, that is, commitment to an organization that is based not on common values or passion, but on an assessment that one can’t “afford” to quit. At least not until someone else makes a better offer. Thus, a serious concern with using compensation as a retention device is that it is likely to result in a mercenary rather than loyalty-based bond with the firm. Based on research with non-managerial samples, we could expect such an instrumental relationship to result in more self-serving behavior. Unfortunately, we were not able to locate any research that directly tests this hypothesis among executives.

Direct Compensation and Retention. Research on the effects of direct compensation on managerial retention has generally been supportive. Mehran and Yermack (1997) found an inverse correlation between turnover and “excess” compensation (i.e., compensation beyond that paid to peers), particularly for voluntary turnover. Balsam and Mijaro (2007) found a similar effect, though they noted that the effect was stronger for equity-based compensation (a topic to be addressed next) than for cash-based compensation. On the other hand, Bretz, Boudreau and Judge (1994) found that higher pay was related to an increased tendency to search for alternative employment, though it was not related to actual turnover. Hassenhuttl and Harrison (2002) found no effect for salary or benefits, but did find a limited retention effect for stock options.

Deferred Compensation and Retention. Deferred compensation is an area in which executive compensation is distinctly different from employee compensation more generally. Long-term incentives form a large portion of most executives’ pay, and are increasingly a critical component in hiring negotiations. Compensation strategists typically explain the importance of deferred compensation from two perspectives. One is based on agency theory, which suggests that deferred compensation is important for aligning the long-term interests of shareholders and executives. By ensuring that a substantial portion of their compensation is dependent on firm success, executives are assumed to act in the best interests of the firm, since those interests are aligned their own.

In addition, deferred compensation should enhance retention, as well as firm performance, because it must be forfeited if the executive departs before completing a vesting period of three, four, or as many as seven years. This is particularly true for stock options, although a similar requirement may apply with cash bonuses or restricted shares, depending on how the arrangements are structured. Indeed, research suggests that retention is often the primary motive for offering stock options (Ittner, Lambert, & Larcker, 2003; Kole, 1997). On the other hand, critics have noted that departing executives can be “made whole” if a new employer is willing to compensate them for the value of their unvested compensation. Anecdotal evidence suggests that such “make whole” deals are common (Lublin, 1998), although Hasenhuttl and Harrison (2002) contend that more research is needed to determine just how common.

For the most part, empirical research shows that equity compensation does reduce managerial turnover. Mehran and Yermack (1997) found this was especially true for voluntary turnover, as one would expect. Balsam and Mijaro (2007) found that the effect occurred for non-CEOs as well as CEOs, and as previously noted, found that equity compensation was more effective than cash compensation for reducing turnover. Particularly encouraging was their discovery that the retention effect was more robust for executives who were strong performers—precisely the ones for whom retention is critical. Ghosh and Ruland (1998) also found lower turnover among managers who received stock rather than cash in their study of turnover following acquisitions.

Two studies were less supportive of the use of equity incentives as golden handcuffs. Hasenhuttl and Harrison’s 2002 study of 1233 firms found that stock options reduced turnover only in manufacturing firms. Interestingly, they found that providing executives with grants of restricted stocks (rather than stock options) actually increased turnover in this group. They suggested that this unexpected effect might be explained in terms of signaling: restricted stock grants are unusual and might indicate to other employers that the executive is unusually qualified, thus leading to attempts to recruit him or her. Fee and Hadlock (2002) found that equity compensation had no effect in their study of 443 publicly traded firms in which a CEO left to join another publicly traded firm. Hasenhuttl and Harrison (2002) speculate that this anomalous finding might be due to Fee and Hadlock limiting their study to CEOs who joined another large, publicly traded firm, hypothesizing that such firms might be more likely to make the CEOs whole as part of their offer of employment.

One of the consequences of relying on stock options is that the options become less valuable if the performance of the firm declines prior to the time that the option is exercised, thus nullifying their retention value. In some cases, this may be attributable to an underperforming CEO, in which case the board would most likely be happy to see the leader leave. But increasingly—most pointedly in the crash of the technology market in 2001 and the great recession of 2008-2010—executives are finding their stock options to be "underwater." Under these circumstances, the stock options can have the completely contrary effect of increasing executive turnover (Carter & Lynch, 2004; Dunford, Boudreau, & Boswell, 2005; Dunford et al., 2008). The 2008 study by Dunford and colleagues is particularly interesting because they showed that the psychological impact of being out-of-the-money is substantially greater than commonly accepted accounting evaluations of the underwater stock would predict. They suggest that having underwater stock options sends the message to executives that they are associated with a "loser," anathema for CEOs. This provides a particularly strong incentive for them to quit before their social capital is harmed further.

Firms with underwater stock options are thus understandably concerned about how to rectify the disincentive these options represent. Balachandran and colleagues report that the most common response (65% of firms in their study) is to offset the stock options by increasing base pay; other actions include increasing bonuses (52%), increasing grants of restricted stock (31%), offering exchanges for new options (2%), or re-pricing the options so that they are back in-the-money (1%) (Balachandran, Carter, & Lynch, 2004). Each option is controversial. As already noted, neither pay nor bonuses have been found to be as effective as stock options for reducing turnover; restricted stock grants basically represent giving away stock (often without a vesting period), thus diluting the value of shares and depleting organizational resources; and in all cases, shareholders and other employees are likely to complain that executives are benefitting from their own mistakes, while they are left without any protections.

Unfortunately, the research on re-pricing doesn't provide unequivocal advice about how to proceed. Chen (2004) found higher CEO turnover in firms that had policies restricting re-pricing compared to firms with more "generous" policies, implying that re-pricing should enhance retention. On the other hand, Carter and Lynch (2004) found that re-pricing had no effect on executive turnover, and in the most surprising study, Chidambaran and Prabhala (2003) found that firms that re-priced actually had higher turnover among executives. Most useful, however, is the study by Dunford et al. (2008). Rather than simply looking at whether executives were or were not underwater, they determined that the extent to which executives were out-of-the-money was important, leading to the very important implication that using re-pricing to simply reduce the gap—so that the person was less underwater, even if not actually in-the-money—had a positive effect on retention. More specifically, they found that every $1 increase in the value of the stock options led to a 1.6% reduction in turnover. They also found an important difference between CEOs and other executives. CEOs, with greater responsibility for firm performance, suffered a greater psychological impact of feeling that they were a "loser" because of the underwater stocks. For them, the key was re-pricing that would not simply reduce the discrepancy, but that would actually bring them back into-the-money. While obviously a more costly adjustment, Dunford and colleagues project that doing so would accomplish a 50% reduction in CEO turnover.

Retention Bonuses and Key Employee Retention Programs (KERPs). Long-term incentives are generally used for the dual purposes of aligning executives' financial interests with those of the firm (i.e., a performance objective) and increasing retention of those executives. At least in theory, executives will not reap the benefits unless the firms perform well, except in the case when adjustments are made to underwater options (which explains why shareholders and other employees often find these adjustments to be so unpalatable). In this section, we discuss the use of financial incentives that are more purely focused on retention and which often have no connection to performance. Broadly these are referred to as retention bonuses; in the context of bankruptcies, they are more specifically referred to as Key Employee Retention Programs, or KERPs.

Retention programs are used when there are particular concerns about employee turnover and a belief that "normal" procedures will not be sufficient to retain key employees. They usually target specific employees who are perceived as being at high risk of being headhunted, or for particularly "hot" job categories. They may also be invoked in special circumstances, such as mergers or acquisitions; KERPs in particular are associated with bankruptcies, which present a special case since the KERPs must be approved by the bankruptcy court.

KERPs are generally based on certain dates, or milestones, and payments are triggered by meeting these time-based criteria, rather than by performance-based criteria. (In some cases, these agreements are described as performance-based in order to meet certain legal constraints, but most experts suggest that in practice the real criterion is time.) As a consequence, they are particularly controversial, since they represent sizable increases in executives' salaries (often two or three times base salary) at a time when other employees are being laid off and shareholders and vendors are anticipating heavy hits to their investments. This has become even truer in the case of government bailouts, first in 2004-2005 and on a far grander scale in 2008-2009. These concerns have led to calls for restrictions on KERPs for publicly-funded reorganizations; as of July 2009, Troubled Asset Relief Program (TARP) recipients are not allowed to provide KERPs involving either retention or incentive bonuses (Thatcher, 2009).

Unfortunately, corporate boards, bankruptcy judges and public policy makers have little or no empirical data on the effectiveness of retention bonuses to guide them. Organizational decision makers believe retention bonuses are effective (Poe, 1998), but we were able to find no evidence that directly addresses their effectiveness, either pro or con. Proponents argue that retaining key executives is critical to the process of bringing a firm successfully out of bankruptcy. An interesting example is provided by the American Insurance Group (AIG), who contended that only a very few key employees understood the complex financial derivatives that formed a substantial part of their business; if they left the firm, AIG contended that it would take years to figure out the work they had done. KERP advocates argue that the investment in retaining key people ultimately benefits shareholders, for without the key players the firm will fail and their shares will be valueless. KERPs are also defended on the basis that competitors see the bankruptcy as an invitation to headhunt key employees, who will be particularly susceptible to job offers absent tangible incentives to stay, particularly if their long-term incentives are underwater.

Opponents of KERPs dispute each of these arguments, contending that if the executives were really that talented the company wouldn't be in the position it is. Following that logic, they also question why competitors would be so eager to recruit the executive team of a failed organization. Critics also point out what they see as excesses, such as Enron's declaration that 900 of their 1,100 employees were "critical" (Keach, 2003), and suggest that the negative effect on the morale of rank and file employees (and customers) offsets any advantages to be gained.

As Keach (2003) notes, resolving these issues is challenging because of the lack of empirical data. Legislators, bankruptcy judges and the public are left with an abundance of anecdotal evidence that retention bonuses are not effective, generally in the form of reports that executives receiving bonuses depart early anyway. Whether this is true more generally, and if so, whether it is a fundamental limitation of retention bonuses or a result of ineffective implementation, cannot be addressed without more research.

Special Retention Circumstances

In this final section, we consider two particular contexts in which executive retention has been addressed that do not fall naturally in our categorization by stages of an executive's career. The first deals with retention issues in the context of mergers and acquisitions, the second with counter-offers to an executive who has received a job offer from another firm.

Managing Retention during Mergers and Acquisitions. As we noted earlier in this review, retention of executive talent during major ownership transactions—mergers, acquisitions, divestitures, bankruptcies—is a major concern. Most of the empirical research has addressed acquisitions, with a clear finding that management turnover spikes at the time of the acquisition and continues at higher than normal levels for as much as nine years. We also noted that research, theory and practice disagree on whether this turnover in the executive suite is a problem, although data-based studies suggest that higher turnover reduces the likelihood of a successful acquisition.

Advice from consultancies such as Mercer is to address the need for, and design of, an executive retention program on a case-by-case basis (Passin & Smith, 2008). They suggest that whether a retention program is needed depends in part on the nature of the change; for example, executives in spin-offs will probably find the increased autonomy sufficient reason to remain, whereas the uncertainty related to a sell-off divestiture makes a good case for a retention program designed to keep key executives through the sell-off period. For mergers and acquisitions, the importance of retention programs will hinge on the reasons for the acquisition (e.g., a retention program makes far more sense if the purpose was to acquire a talented management team than if it was to expand to a new market). They also recommend analyzing whether existing programs—such as incentive and severance packages—are sufficient to retain the key personnel; they also wisely suggest reviewing existing programs to determine if any might have the unintended effect of encouraging executives to leave (e.g., equity vesting programs that might be triggered by the transaction).

The next, and critical, step is to identify which executives should be targeted by the retention program. Typically, this would be based on an analysis of each executive's contribution to the organization, both overall and with particular reference to the transition. As described earlier, there is a good argument (but little data) to suggest that retention efforts should distinguish between short-term retention (during and perhaps a year or so following the merger/acquisition, or divestiture) and retention of leaders needed to drive the new organization ahead for the longer haul. Other considerations include the difficulty of replacing the executive and perhaps the judged likelihood that the person will actually leave (although organizational justice theory suggests that treating executives differently on the basis of their perceived likelihood of quitting is an invitation to feelings of inequity, which in turn may lead to turnover among those not favored).

The biggest gap in the literature regards the incentives used in the retention program. Most revolve around the use of financial awards; while consultants offer advice on how to structure these rewards, they also lament the lack of evaluation evidence for these programs (Passin & Smith, 2008). The only empirical study we were able to locate found that stock is more effective than cash awards (Ghosh & Ruland, 1998). The authors speculate that the reason may be that stock provides the managers with more control (in the form of voting rights) over the direction of the new firm. If that speculation is correct, it suggests that other means of providing control may also be useful, and perhaps more cost-effective. Similarly, Hambrick and Cannella (1993) found that enhancing the status of the executives in the acquired firm—in their case by appointing them as officers or directors, though one might readily consider other ways of doing so—increased retention. Given the stakes involved, this is clearly an area in need of more research.

<u>Counter-Offers as a Retention Strategy</u>. We close our review with a brief discussion of the use of counter-offers as a last-ditch measure for retaining a valued executive who has received an offer of employment elsewhere. The discussion is necessarily brief because it is a topic that seems to have received almost no attention by the research community (for any level of employee, much less for senior leadership). Despite the obvious interest in the topic, there is almost no empirical evidence about how common are counter-offers (Barron, Berger, & Black, 2006), let alone whether they are effective in retaining key talent.

What research exists has primarily been done by labor economists, whose focus has been the effects of counter-offers on labor mobility and market efficiency. This work tends to be framed in terms of a dichotomy between policies either prohibiting or permitting counter-offers; as Barron et al. (2006) argue, the more likely reality is that most firms make that decision on a case-by-case basis. Labor economists argue that the basis for that decision hinges on whether the employee's productivity is sufficient to justify a counter-offer, i.e., is the employee worth the costs involved in matching an offer? While obviously a critical consideration, this approach ignores other key issues, foremost of which is the risk that a "sweetheart deal" with one employee will create issues of internal equity for other employees. This concern may have somewhat less relevance when applied to a CEO, but is likely to be pertinent for other members of the top management team. Moreover, counter-offers send the signal to both the individual seeking the counter-offer, and to other employees, that receiving an outside offer is an effective strategy for increasing your salary, even if you have no intention of actually taking the outside offer (Lee & Maurer, 1997).

A web search of the term "counter-offer" quickly reveals that the general wisdom offered to employers is not to use counter-offers to respond to the threat of an employee quitting. The rationale is that employers who resort to counter-offers are generally those whose compensation system is not in order and who have allowed the employee's salary to fall below his or her market value. But even in this situation, responding with a counter-offer only makes sense if it is part of an overhaul of the compensation system. In fact, this argument goes, a counter-offer may signal your acknowledgement that the compensation system is not working, and encourage dissatisfaction with pay among employees more broadly. While this argument makes sense, no research on this question was located.

Similarly, the general advice to applicants is not to seek counter-offers, or entertain them if offered. The basis for this advice is that the counter-offer is not likely to resolve the core issue that led the employee to look for an alternative job. Often the fundamental reason for quitting is not pay, but something else about the current employment situation. If so, as attractive as a counter-offer may be in the short-term, it will not resolve the underlying dissatisfaction. And if the fundamental issue really is pay, it will probably resurrect itself in a year or two if the employer's approach is to respond only to outside offers rather than systematically improving the compensation system.

The necessary caveat with this advice is that it does not appear to have any research support; in the case of the employer, we do not know whether counter-offers are actually effective in retaining the target employee (ignoring for a moment any effect it may have on other employees). The immediate question is whether the counter-offer will simply lead to further negotiations between the employee and the prospective employer; if so, the outcome may be that the employee quits anyway, but with a richer offer from their new employer. The longer-term question is whether the counter-offer, even if immediately successful, will have any long-term effect on retention. One might expect that it will have only a temporary effect if it does not address the employee's fundamental reasons for leaving. Moreover, it may simply condition the employee to regularly seek out alternative offers in order to negotiate counter-offers. At present, there is no research to determine whether counter-offers foster appreciation and loyalty, or simply postpone the inevitable.

Finally, it is worth noting that the sparse literature almost always seems to assume the counter-offer is financial in nature. This is ironic, since our review has emphasized that compensation is rarely the primary cause of turnover, as long as it is "fair" in terms of the demands of the job, the needs of the employee, and the market. The exception might be job offers that include dramatically higher (or "excess") compensation, but in these cases a counter-offer is probably impractical anyway, unless the current compensation is way out of alignment with the market. Rather than responding only to the financial terms of the offer, employers should try to determine the fundamental reason that the employee is considering leaving, and whether there might be alternative approaches that better fit the employee's needs. For example, flexibility (as it applies to work-life balance) is increasingly an issue for men as well as women, including those in executive ranks (Cadman, 2007). Lee and Maurer (2007) suggest that sabbatical leaves might be attractive to some managers; changes in assignments, or reassurance about promotion opportunities might be effective in other cases. Before automatically responding to an outside offer with a match in salary—or instituting a default policy of not responding to any outside offers—the employer needs to understand the real reason an employee is thinking about quitting and then respond appropriately.

Conclusions and Research Recommendations

For decades, organizational researchers have studied employee turnover, as well as other forms of employee withdrawal from work. Over a quarter-century ago it was estimated that there had been over 1,500 studies of employee turnover (Bluedorn, 1982); it is not hard to imagine that this number has doubled or tripled in the ensuing years. Against that backdrop, it is remarkable how very little research attention has been devoted to retention of executive-level employees. While there has been considerable research devoted to executive succession, it has for the most part focused on the consequences of leader replacement. To the extent that antecedents of leader turnover have been studied, the concern has primarily been for involuntary turnover, with the fairly consistent finding that dismissal of leaders is preceded by a period of declining organizational performance for which the leader is held responsible. As a result, there is shockingly little empirical evidence related to best practices in executive retention.

One plausible inference is that the lack of research means that there is not really a problem with leader retention. While such an inference flies in the face of some calls for management action to retain leaders, there is some basis for it. Rates of voluntary executive turnover are relatively low and have not substantially increased over the last few decades. In fact, the 2008-10 recession seems to have resulted in an overall reduction in turnover of top executives. On the other hand, there are situations in which retention of leaders is a significant concern, particularly in cases involving major restructurings (such as mergers and acquisitions, as well as bailouts and turnarounds). A reasonable conclusion is that retention of executives (or of any other employee group, for that matter) should not be seen as a universal goal or as a panacea. Rather, retention should be viewed in the context of a comprehensive approach to talent management that emphasizes retention of the right employees under the right circumstances, not simply the wholesale retention of current employees.

The review of plausible retention strategies reveals more questions in need of targeted research than it does answers. Before enumerating specific areas, it is worth noting a general tendency for research on “executives” to in fact target CEOs. Certainly, CEOs are a worthy topic of research, but repeatedly we have noted instances in which retention strategies targeting the CEO overlook retention among other senior managers. Indeed, in some cases, these strategies may have the unintended effect of increasing turnover among less senior members of the executive team. The irony is that in some cases it may be more productive to target retention strategies at reducing “collateral turnover” that would otherwise ensue as a result of the CEO’s departure. Other than occasional warnings about this collateral turnover effect, we saw very little research on this phenomenon or how it could be avoided.

Looking at more specific research needs, we focus first on compensation. It is evident that the primary focus of retention efforts in the executive suite has been compensation. Theory suggests that compensation is likely to be an important factor for retention of executives, and in a very general sense, research has supported that prediction. It might be worth noting, though, that the popularly acclaimed book Firms of Endearment (Sisodia, Wolfe, & Sheth, 2007) provides interesting case studies of successful firms whose CEOs consciously eschew the high levels of compensation of their peers. Whether these authors are correct in suggesting these examples portend a major shift in management practice may be worthy of more systematic study.

There is a growing consensus that deferred compensation, particularly equity-based compensation, is more effective for retention purposes than base pay. One of the critical questions about equity-based compensation is how to handle so-called underwater options; we have already seen a growing body of research on this question, and can anticipate more as a result of current economic conditions.

Within the compensation domain the most glaring research gap has to do with the effectiveness of retention bonuses for key management personnel. This topic should receive the highest priority for two reasons. One is that it is widely held (by boards of directors, as well as the executives receiving them) that retention bonuses are critical for organizational success, even survival. If they are correct, we need to know more about how best to structure these incentives in order to receive the most benefit; attention also needs to be directed towards possible detrimental effects on the morale, productivity and retention of employees who do not receive the bonuses. The other reason for conducting research on retention bonuses is the opposition they receive from many shareholders, employees and, most recently, taxpayer groups. If these critics are correct, organizations are squandering not only massive amounts of money but also goodwill in continuing these programs. Policy-makers have already begun to regulate some bonus programs; it is incumbent upon organizational researchers to provide Congress and bankruptcy judges with a sound evidence base upon which to make these policy decisions.

Although probably at a much lower level of priority, it was quite surprising to find the utter lack of research on the effectiveness of counter-offers as a retention strategy. Speculation abounds, and it would not be difficult to translate much of this speculation into research hypotheses that could be addressed empirically. In fact, this issue is basic—and apparently equally ignored by researchers—for all levels of employees.

Considering the absence of research on this topic, even research on non-managerial employees (which could be easier to conduct) might enhance recommendations for practice at the senior executive level.

At a more fundamental level, priority should also be given to basic research on the sources of job satisfaction, commitment, and engagement among managers. Once again, literally thousands of studies have been conducted on these topics, but relatively little has targeted managers, particularly senior managers. Actually, it is not that this group has not been studied, it is more that much of the data for these positions have been collected through internal, proprietary studies that have not been published and been made widely available. As a result, it is difficult to make general statements (or even determine whether it is valid to make general statements) about what is important to retain senior personnel. This gap in basic knowledge in turn makes it difficult to evaluate the likely efficacy of retention strategies that are based on sources of dissatisfaction as a driver of turnover.

One particular area that deserves attention has to do with career mobility. It is widely assumed (with some research substantiation) that growth—usually interpreted as upward mobility—is extremely important to managers. This creates an inherent conflict for senior managers because of structural limitations on upward mobility the higher one is in a hierarchy; clearly, as one moves higher in the organizational pyramid, there are fewer and fewer positions available into which one can move . We need to know more about both how senior managers think about “career growth” and how they value alternative forms of growth opportunities. Placing more emphasis and value on lateral growth opportunities, for example, could provide an alternative source of motivation for senior managers who are facing this structural ceiling in upward growth opportunities.

Although it has already been a topic of considerable research, we believe there is also merit in continued studies of the effects of heterogeneity on top management team retention (and performance). Studies to date clearly indicate that there is an issue: diverse teams tend to have higher turnover overall, and members who are “different” from the rest of the team are particularly likely to quit. But the organizational demography literature has been less effective in determining (rather than speculating about) the reasons for this effect. That seems particularly important because the usual imputed explanation of social conflict may have very mixed effects in operational teams, particularly at the top levels of organizations. What seems important is research that explores both the intervening mechanisms that have been hypothesized to result in turnover and strategies for managing these mechanisms. Diversity, retention and performance are all important to organizations—we need to learn more about how to maximize all of them.

While not wanting to limit other research thrusts, we finish with one other area that we feel might particularly benefit from more study—the mentoring and development of managers through onboarding or related programs. Popular attention to onboarding far surpasses the extent to which it has received rigorous research attention. Moreover, it seems likely that the study of onboarding processes would benefit substantially from the decades of research on organizational socialization (and, in the context of senior managers, the similar attention devoted to leader development programs) that broadly form its foundation. It also seems likely that onboarding practices could be integrated with such recruiting practices as realistic job previews, for which there is little or no research evaluating utility for managerial jobs. Better integrating these literatures is likely to produce richer and more useful research-based evidence of whether and how onboarding practices can enhance retention (as well as performance) of new executives. This is also an area in which it is likely to be important to study how the effectiveness of the practices differs according to the level of the managers; at this point, we have little more than speculation about the generalizability of many of the proposed strategies.

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