

Why Top Talent Looks Elsewhere

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> "The world does not pay for what a person knows. But it pays for a what a person does with what he knows."
—Baltimore

Working hard	78
Autonomy	78
High pay	75
Discretion	70
Rewards	69
Ability to build a professional reputation	67
Recognition or praise at work	61
Promotions	50
Recognition from others in the field	47

The View from Ray and Berndtson

Executives want to build something—not merely maintain a program or product that someone else has launched. They seek a challenge where they can demonstrate their talent, not a maintenance role. They want to be connected to the top of the company, play a key role, and make a difference to the organization—at a nearly age. And they want to be recognized, paid, and promoted on the basis of their performance—not political savvy or seniority. Independence, responsibility, growth, and variety of experience are essential to top performers, whether in big or small companies.

It's difficult to predict how a candidate's attitudes about compensation and intangible factors will determine his or her reaction to a specific position. However, companies can enhance their attractiveness to top talent by communicating the symbolic and intangible aspects of the opportunities.

Most executives also value compensation highly for symbolic reasons. In Corporate America, it reflects status, rank, and achievement and validates long years of effort. When this impor-

Top executives don't look for new positions because they need the money. Abstract factors such as an ability to take pride in their work, interesting and challenging work, responsibility, and variety are typically critical considerations when an executive weighs a decision to change positions. Consider which factors the 1,607 executives who responded to the Ray & Berndtson/Cornell study ranked as important in considering a new opportunity:

A Study by Ray & Berndtson and The Center for Advanced Human Resource Studies—Cornell University

Intangible work characteristics	% of respondents who indicated "very important" or "important"
Pride in your work	97
Interesting work	95
Challenging work	95
Responsibility	91
A job well done regardless of rewards or recognition	89
Variety of experiences	86
Professional growth	81

tant symbol falls below their expectations, executives are more likely to search for new positions, no matter how happy they are with their current situation.

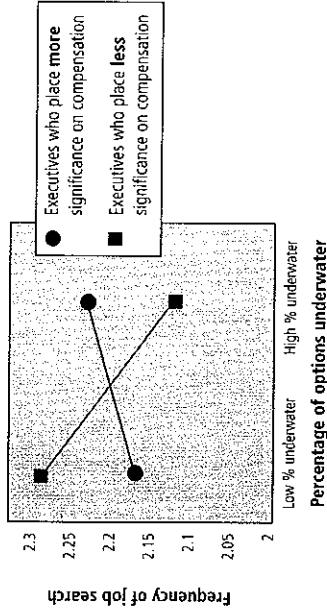
Stock options—the right to purchase company stock at a below market price—became an important symbol of success during the 1990s and have gained widespread popularity for attracting and retaining management talent. Stock options also represent an opportunity to cash in on a company's success and expand an executive's net worth exponentially. Options motivate executives to build the long-term value of their company's stock.

The Ray & Berndtson/Cornell survey is the first to comprehensively measure the impact of a key compensation element—stock options—on job search activities. Our research found that the greater the proportion of options that are “underwater”, that is with a strike price above the current stock price, the more frequently executives call recruiters, reconnect with their networks, prepare or revise their resumes, talk to prospective employers, and conduct other job search activities.

Companies committed to retaining talent should:

- **Make intangibles tangible:** Use recognition and rewards to make pride, interest, challenge, responsibility, and variety as fundamental to execute position descriptions, expectations, and revenue increases, profits, and market share.
- **Monitor market price relative to option strike price:** The point at which the market price of the stock drops below the strike price is a key psychological reference point that prompts executives to begin searching for a new position.
- **Recognize the opportunity cost of underwater stock options:** Executives who remain with their current organization can view underwater stock options as a downside risk when competitors begin offering penalty-reducing “option buyouts.”

Stock Options, Search & Compensation



Executives who place greater significance on compensation (as a symbol of hard work, success, or achievement) search more when more of their options are underwater. Those who place less significance on compensation search less when more of their options are underwater.

Study method

Questionnaires were mailed in August 2000 to a sample of executives selected from Paul Ray Berndtson's database. Respondents completed 218 written questions about their current positions, job search activity, career compensation and attitudes toward work and money. There were 1,607 respondents of which 856, or 53.3%, owned stock in their current company and 846, or 52.6%, held stock options.

Respondent profile

Respondents, who averaged age 39, were senior executives representing a variety of companies and industries throughout the US. The typical respondent, who averaged age 39, holds an executive position 1.91 levels below the CEO at a public company more than \$2.51 billion in annual revenues. He has worked there for an average of 5.5 years and has been in his current position for 3 years.

Compensation profile

The average respondent's annual compensation, including base salary and bonus, is approximately \$295,344, of which around 17.5 percent is payable in stock options. The typical respondent has already built up a significant nest egg, with average net worth of \$2,324,864.

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