

# Dealing with Mass Staff Defections

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It's the board of directors' and HR's worst nightmare – a hostile and well organized exodus of executives to a rival company. Losing key people in such dramatic circumstances creates a crisis that tests the ability and resolve of senior management and, if not handled correctly, can threaten the future of the enterprise.

The damage a mass staff defection can do to a company is enormous and includes serious financial losses, negative publicity and a damaged reputation, loss of client confidential materials and core clients, a plummeting stock price and the evaporation of staff morale.

Although the incidence of Mass Defections, or “group grabs” as they are sometimes referred to, may abate during times of uncertainty, predatory competitors will be on the prowl, looking for groups who can bring in active and profitable business. What are the warning signs that HR departments should be receptive to and what can be done after the “horse has bolted” to protect the company and its clients?

The circumstances under which these types of incidents occur can vary greatly but they normally involve at least one of the following factors – middle-ranking employees feeling vulnerable after a takeover by a bigger company, the emergence of a cash-rich new player in an already competitive industry, the perception that instability at the company being targeted is about to lead to major lay-offs. A number of these scenarios are being witnessed in the financial

sector in the United States amid its economic crisis.

The danger signs can be spotted if companies are alert and know what to look for. A small clique in the same department resigning at the same time (which may be a “first wave”), unusual late-night or weekend staff work patterns, particularly aggressive behavior by a competitor, strange IT requests for unusual access to confidential databases and client lists – these are all indications that trouble is looming.

The grand exodus comes as terrible shock to senior management and to HR and the first reaction is often a combination of panic and paralysis. To make matters worse, the defectors and their backers often initiate their hostile action when the company's defences are down – for example, a long holiday such as Chinese New year or during the annual management meeting. This means that key decision makers are not around to organize swift counter measures.

## Potential Damage to the Organisation

- Serious Financial Losses
- Negative Publicity
- Damaged Reputation
- Loss of Client Confidential Materials
- Loss of Core Clients
- Plummeting Stock Price
- Low Staff Morale

But doing nothing is not an option; the future of the company could be at stake. The correct response is to think clearly and act swiftly. Taking no action is a decision in itself and is a tacit admission of defeat. The management must quickly retake the initiative by conducting an assessment of the likely damage and formulating a plan of action to combat the threat.

If it is obvious that large numbers of staff are leaving, the company should immediately form a crisis management team, which typically comprises senior management and HR staff, in-house legal and external experts. The crisis management team should concentrate on the following:

- Evaluate the likely damage;
- Employ methods to legally and ethically keep core clients from being transferred to the hostile competitor.
- “Gentle” interviewing of all remaining staff to identify those who are “friendly” to the home company and those who might have been approached by the rival. These interviews can also produce important intelligence, including “offers of employment” letters, details of remuneration packages and indications of meetings or emails that the defectors may have had involvement with.
- There may often be a “second wave” preparing to leave and those remaining behind may be feeding information to the hostile party – if so consider immediate termination.
- Communicate with staff to ensure that those remaining are confident that management is capable and willing to handle the challenge.
- Conduct computer forensics analysis on defected staff’s company computers for evidence of unlawful access to

data or other legal or administrative infringements (this is an important tool).

- Inform defected staff that the company will strongly defend its position in terms of confidential information and client data.
- Prepare a crisis management communication plan calculated to retain key client accounts through the course of the challenge.

It is also important to put together a precise sequence of events, a time line that logs key incidents in the months leading up to the exodus and matches them with evidence of the defectors’ conspiracy. This includes examining unusual working patterns and telephone calls or meetings between defectors and individuals in the rival firm. The analysis can identify the origins of the problem, while helping to minimize the damage and retain any remaining staff who received similar approaches.

Typically, most commercial organizations lack in-house personnel with specific experience in crisis management, business intelligence and related skills. In such circumstances, professional consultants such as FTI-International Risk should be brought in to support the crisis management team and advise the board.

Lessons learned suggest that companies often fail to prepare adequately for the possibility of such a crisis. Companies need to examine the processes and procedures to see whether they could be updated so as to minimize the damage done when people do leave together.

- Firstly, it is important that employment contracts contain adequate provisions to cover no competition, no solicitation of staff or customers, and that these are carefully drafted so as to be enforceable under Hong Kong or local law. Many HR departments do not pay sufficient attention in this area.

- Secondly the company should evaluate whether it is vulnerable to sudden staff defections due to competitive or other market factors and should conduct a vulnerability analysis using consultants.
- Thirdly, a contingency plan should be drafted and regularly tested by senior management so that a rudimentary understanding of the requirements is understood by senior management.

There are processes and procedures that can be put in place to prevent departing employees from accessing corporate secrets. One of the most obvious is to keep confidential and client data carefully segregated and classified in terms of its importance to the organization.

USB and storage devices should not be permitted, except under strict control. Audit trails should be in place as to which employees, access which confidential data. Employees should be informed that failing to comply with the company's IT policy will result in action against them under such circumstances.

Finally, supervisors and administrators should be briefed as to identifying patterns which might suggest a mass staff defection is imminent and to report this to senior management.

Mass defections are likely to continue for the foreseeable future. Companies must be ready to mitigate the impact of any exodus, implement effective counter measures and develop contingency plans to minimize the risk of a similar problem happening again.

Despite the chaos involved in a mass staff defection, senior management should always bear in mind that the defectors almost always have a clear financial target set for them by the acquiring party. If measures can be put in place to prevent the transfer of client accounts and data to these parties, then they will fail.

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