

# The third in a six-part series on Corporate Risk Mitigation looks at how companies can avoid a damaging mass exodus



## Guard against defection

One thing is guaranteed to give directors palpitations and keep human resources managers awake at night, it is the prospect of a hostile and well-organised exodus of top executives or highly rated specialists to a rival company.

Losing several key people in one fell swoop inevitably creates a crisis of confidence that tests the ability and resolve of the senior staff and company stalwarts who remain. And, if not handled correctly, it can easily threaten short-term profitability, morale and the future viability of the enterprise.

The effect of a large-scale staff defection can be felt in many ways. These often start with lost contracts, lower revenue, negative publicity and questions about the company's core strategies. They can also include the loss of confidential material about clients and hard-won market insights or technical know-how, which leads to a plummeting stock price and the steady evaporation of support from customers, industry contacts and investors.

The incidence of mass defections, or "group grabs", may slow at times of uncertainty. However, predatory competitors in various sectors will always be on the lookout for opportunities to hire a ready-made team, able to bring with them expertise, information, experience and active clients.

There are certain warning signs that human resources departments should be aware of and monitor closely to guard against this. There are also steps they should take to protect the company and its clients if a defection has occurred to minimise problems and maintain the necessary sense of stability.

The circumstances under which such incidents come about can vary greatly, but they generally involve at least one of the following factors:

The spark may be that mid-ranking employees feel vulnerable after a takeover and believe it is time to move on. A cash-rich new player may have entered an already competitive industry and is aiming to grab quick market share by buying in talent. Or the perception may have grown that the business is going through a difficult patch, likely to lead to major lay-offs, thus prompting pre-emptive moves to more bullish rivals.

The danger signs are there if companies are alert and know what to look for. They include

### EXECUTIVE INSIGHTS

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unusual late night or weekend work patterns by individuals, but particularly by small cliques working in the same department or on the same type of business. Then, "strange" requests for access to confidential databases and client lists. Next, changes in behaviour, signalled either by a more aggressive stance towards management or a waning interest in ongoing projects. And finally, general feedback from internal and external sources about the plans of competitors and how they are to be achieved.

If an exodus of key staff comes as a shock to management the first reaction is often a combination of panic and paralysis. Departures are often timed to take place when "defences are down", for example just before a long public holiday or during the annual management meeting. This can mean that decision makers are not around to organise swift counter measures or stake out the legal position.

Action, though, is imperative. The correct response is to think clearly and retake the initiative by conducting a quick assessment of likely damage and formulating a plan of action to combat any threat. If, for instance, a group of traders or salespeople that has generated substantial revenue in recent years are leaving en masse, the company should immediately form a crisis management team. It should comprise senior executives and HR staff, in-house legal advisers and external experts.

This team should then focus on these areas:

- Employing legal and ethical methods to prevent core clients from following the defectors and taking their business to the hostile competitor;

- Interviewing all remaining staff "gently" to identify those who are still loyal to the company and those the rival has possibly approached. If handled tactfully, these interviews can also turn up important information, including "offer of employment" letters, details of remuneration packages, and indications of meetings held or e-mails exchanged that confirm the tactics used;
- Communicating with staff to ensure that those remaining are confident, committed and willing to handle the challenges that lie ahead;
- Conducting computer forensics analysis of office systems to check for evidence of unlawful access to data or other legal or administrative infringements;
- Informing the defectors that the company will strongly defend its position in terms of confidential information and client data, and reminding them of the terms of their original contracts of employment;
- Preparing a crisis management communication plan to retain key accounts and, if appropriate, explain to them what has happened;
- And considering immediate termination of remaining staff found to be feeding information to those who have defected and those who may form the basis of a "second wave" of departures. It is also important to put together a precise sequence of events to fully understand what has been happening. A timeline that logs key incidents in the months leading up to the exodus can help trace evidence and tighten procedures.

The subsequent analysis should make it possible to identify the origins of the problem, pinpoint instigators, minimise further damage and retain other staff who may receive similar approaches.

Most organisations lack specific in-house experience and related skills to deal with such situations effectively. Therefore, it makes sense to call in professional consultants to guide and support their efforts, with knowledge of specialist methods and technology.

What is striking is how few companies prepare adequately for the possibility of such a crisis. Along with the other business risks they regularly review, they also need to examine their processes and update procedures to limit the chances of people leaving together and creating havoc with the protection of their new employer.

Three of the most essential steps are to:

- Ensure that employment contracts contain

adequate provisions to prevent solicitation of staff or customers. The terms should be drafted carefully for them to be enforceable under Hong Kong or relevant local law. Many HR departments do not pay sufficient attention to this area;

- Evaluate where the company is most vulnerable to sudden staff defections, allowing for competitive or other market factors. If necessary, consultants can be deployed to conduct this kind of "vulnerability analysis";
- And draft a contingency plan and regularly test senior management to make sure they have more than a rudimentary understanding of the requirements and can act swiftly when called on.

To prevent departing employees from accessing corporate secrets or confidential trade data, one of the most obvious measures is to keep this information carefully segregated. It should also be classified in importance to the organisation, with clear levels of authorisation established. The use of USB and storage devices should be strictly controlled, and there should be clear audit trails to trace which employees have had access to confidential data and when. Also, members of staff should be left in no doubt that failure to comply with these procedures or the company's IT policy will result in disciplinary action.

Mass defections will probably continue for the foreseeable future. Therefore, supervisors and department heads should be briefed to watch for signs and keep senior management informed. Higher-level executives should always bear in mind that those who defect almost always have a clear financial target set for them by their new employer, which relates to bringing in business. So, if measures can be put in place to prevent the transfer of client accounts and data, the chance of an early success in a new environment will greatly diminish and enticements to defect are more likely to fail.

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