

## Comment by Chris Mumford

### Pay to stay

If the moods of the recent hotel investment conferences in Berlin, Mumbai and Dubai are reliable indicators, it appears that there is still plenty of hiring going on despite the daily tales of economic woe reported in our newspapers. Indeed, these three conferences, with their focus on the European, Indian and South Asian, and Middle Eastern, hotel markets respectively highlighted just how global an issue attraction and retention of talent continues to be. Emerging and mature markets alike are faced with healthy development pipelines and a shortage of manpower to build, open and run the eventual hotels. Holding on to the staff already in a company's employ becomes even more critical and, if it fails to do so, more and more costly.

Counter-offers have become more pervasive in recent times as companies fight to keep talent from defecting to the competition. Frequently however the counter-offer is too little too late. By that stage the employee has already made the mental, if not physical, jump to the new employer-in-waiting and also questions why there was no raise or promotion before now from the existing employer.

Although retention tactics do not always need to be financial in nature in order to be effective, money does talk. Many companies recognise that a successful way to hold on to staff is to reward them

financially before they reach the point of jumping ship to a competitor company.

The retention bonus is often used by companies to keep key talent in the organisation and to entice employees to stay during times of change such as mergers and/or reorganisations. It can however run the risk of being seen as 'money for nothing' as Royal Dutch Shell and a number of other public companies are beginning to experience. Shell recently hit the news with plans to pay one-off retention bonuses to three of its directors in the region of €1m (£790,000) each. Shell's reasoning is that these rewards (made in the form of stock) will be made to the three directors in line with a chance of succeeding the current CEO.

On the assumption that one only, or none, of the three will actually get the CEO seat, the retention payment protects Shell from losing the unsuccessful Directors and thereby maintains organisational continuity. All the individuals need do in order to collect the vested stock in 2011 is remain in Shell's employ, regardless of their performance in the interim. Some Shell shareholders may of course have plenty of questions to ask at the next meeting.

Retention bonuses are however typically used in an ad hoc fashion in response to a particular set of circumstances. In a tight labour market companies need to do what they can to hold on to what they

have. Studies by the WorldatWork have also found however that the use of retention bonuses is more prevalent during tougher market conditions when companies cannot afford the cost of losing someone and recruiting a replacement. Of the companies surveyed by WorldatWork, 84% indicated that the retention bonus is an effective tool in retaining top talent. Hotel companies are no exception. Hilton for example has a history of making occasional retention pay-outs to key management. Although not a widespread practice, bonuses are made at the senior manager's discretion and are typically a flat amount rather than a percentage of salary.

Retention is also important below management level at the grass roots of an organisation. An annual pay increase for example tied to an employee's length of service or a cash bonus on the anniversary of an employee's start date can play a small part in helping an associate put down the classifieds and stay with the company.

As with most successful strategies, early planning is key and companies in markets faced with rampant new supply as well as in those heading into a downturn, would do well to consider how the occasional retention bonus may negate the need for a hefty counter-offer down the road.

*Chris Mumford is managing director of HVS Executive Search*