

The Defectors

You are the Chief Executive Officer (CEO) of Embry Corporation, an established producer and distributor of sanitation and cleaning supplies. At 4:00 P.M. on a Friday afternoon, your Chief Operations Officer (COO) calls and asks if you can spare a few minutes for a brief conversation. You agree.

Minutes later, the COO arrives accompanied by four other managers, two from headquarters and two Regional Vice Presidents. You're surprised and ask, "What's going on here?"

The five visitors announce that they are giving their two week's notice and each gives you an envelope containing a resignation letter. You respond by saying, "Are you sure you know what you're doing?"

The resigning COO informs you that the five of them have formed a new company that will compete against Embry Corporation. Another manager states that since they have no employment contracts with Embry, there is no legal impediment to resigning and going into business for themselves.

All five turn toward the door and are about to leave your office.

Question:

1. How do you respond?

Case Number: 606C29.1

The Defectors

Points for Instructors

Purpose: To alert students that, as leaders, they must be willing to take swift and effective action when faced with resignations that threaten the success of an organization.

Discussion Points:

Alternatives to discuss include:

Caution: Know that whatever you do (or don't do) will set a precedent for dealing with similar situations in the future. Word will get around the company as to what happened with the defectors and how you managed the situation.

What not to do:

- Don't discuss the situation with them. The five resignations are "fait accompli" (accomplished fact). The time for discussion is long past. Their minds are likely set and locked onto their new company. Questions you ask them now will likely get polite but ingenuous responses.
- Don't negotiate the situation with them. If you keep them in the company by offering raises and promotions, would you ever really be able to trust them? Would they think that they are managing you? What if they do the same thing a year from now? What would you do then?

What to do:

- Immediately separate the defectors from the company. Although they gave a two-week's notice, you don't want them "hanging around" talking to your employees, or worse, recruiting your employees to work for their new business.
- Make it clear to the defectors that law suits will be drafted against them if they use any of the company's resources, or if they libel or slander the organization in any way.
- Assign security personnel (or other appropriate staff) to watch them pack their belongings and escort them out of the building. This helps secure company documents and files. It also keeps their conversations with staff members at a minimum.
- Inform the corporate attorney. Let counsel know exactly what happened so the legal department can be prepared for any eventuality.

- Quickly fill the vacancies created by the separations—preferably by promoting current staff members. Not filling the positions right away might lead others to perceive you as indecisive and lacking in confidence (both in yourself and in current staff). Once the vacancies are filled, immediately issue press releases announcing the promotions.
- You should visit/call key customers and assure them that all is well in the organization and that they will not experience any decrease in quality, product, service, etc., as a result of the changes. If they have not done so already, the defectors will contact your customers and try to take them from you. As a counter strategy, consider reducing prices for a period of time or initiating long-term contracts with your major customers.
- Don't be surprised if one or more of the defectors has "second thoughts" about resigning. You may get a call from them asking to have their resignation letters rescinded. Generally, in these cases it's not a good idea to "forgive and forget," but there are exceptions.
- To help prevent defections like these in the future, consider putting in place employment agreements with key employees that would preclude them from entering into or joining a competing business for a period of time (usually, one year). Consider "golden handcuffs" for key employees. These are benefits (such as stock options) that employees would lose if they were to leave the organization.