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# The Loss of A "Key Person": Risk To The Enterprise; How To Manage It?

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***Abstract:*** *Key of the development of entities, human resources management is one of the most important element in entities` life, whether a big one or a small one. Because of the difference between each personal capacity, background, responsibility level; there aredifferent personal's categorizations in the entities. Thereare some which have a significant responsibility and on which the entities depend, sometimes these personsare called "key persons". Itis so important to maintain this kind of person but because of circumstancesindependent ordependenttotheentity, this lattercouldlose them. The loss of a key person is among the human resources risk which is a risk to the enterprise. The most difficult task for human resources managers is to manage or control the risk of akey-person`s loss. The main question concerning this issue is the following: how to manage this risk? Thatis why Ihave chosen this topic, to help managers understand why there is this loss and how to manage it. I have divided my work into three parts,in the first part, the evaluation of the reasons of the losses will be analyzed. In the second part, the focus will be on the evaluation of the eventual situation provided by the loss.And the third and last part emphasizes on the various procedures of risk management.*

***Keywords:****Risk management, Human resources risk, Key-person, loss of the "key-person*"

## I. Introduction

Hamel &Prahalad (1994) and Ulrich & Lake (1990) discuss how people are the main sources of 'competencies' and 'capabilities' of the firm that leads to profitability.

Following these scholars, they assert that the human capital of the firm are valuable (provide returns), require investments of time and money, carries the risk of loss of value as well as the opportunity of appreciation of value, and thereby constitute a form of real asset for the firm. It is important to note that the human resources as real assets supply current and future performance.

Large or Small businesses are facing many types of risk such as production, marketing, financial, legal and humanrisks. But managers usually spend most of their time taking care of the production, marketing, financial and legal risks and give little attention to the risk of human resources and how the absence of key personnel may affect their activity. This is a serious mistake because people are the key element in many strategies for risk management and the loss of the "key person "is a risk to the Enterprises. Therefore our question is: how to manage thissuch important risk?

To answer this question, I have divided this paper into three parts.

First, it will consign to the reasons of the key person's losses. These losses due to ~~a~~ different causes such as death, disability or critical illness. It could also be caused by the departure of the key person to another enterprise~~s~~.

In the second part, the evaluation of the eventual situation provided by the losses will be analyzed in details. In all probability lead to loss of revenue for the company. Although this loss of revenue may be temporary, there will be increased spending, some of which are permanent.

Finally, the ways to manage the risk or the procedures of risk management will be studied. These procedures are so important because eachentity in the enterprises will have their responsibility. This responsibility is to prevent losses or the processes if the losses happened.

Before entering into a detailed analysis and owing to the lack of literature review and background on this topic, it is important that some definitions about the key words be given.

**Definitionof key words**

Before embarking the trunk of this paper,we will first define our key wordsfor a better understandingof the study's reasons.

The key words are the following:

- Risk management,
- Human resources risk,
- Key-person,
- Loss of the "key-person"

**1.1) What is risk Management:**

The word 'risk' entered the English language from the Old Italian word "riscare", which means 'to dare'. The very nature of business is about taking risk for reward (Zulu, 2010). Businesses invest money to yield returns on the risks they take. Risks are uncertain future events which, left unchecked, could adversely influence the achievement of a company's business objectives' (Naidoo, 2002).The definition in the International Organization for Standardization (ISO) 31 000 risk management standard is that 'a risk is the effect of uncertainty on objectives' (Airmic, 2010; ISO, 2009). The ISO guide also emphasizes that a risk may be positive, negative or a deviation from the expected and that risk often becomes visible in an event, a change in circumstances or a consequence.Thereforerisk management is a technique designed to help companies manage all the risks they face, mostly random, financial, operational and strategic. The first step is to identify and quantify these risks; the second is to adopt organizational and financial strategies to limit their impact. The purpose of this technique is to create shareholder value and competitive advantage for the company.

**1.2) Human resources Risk :**

There is no scholar definition about human resources risk but the most important element to know is that this risk has some liaison with human resources activities.Human resources risk is the risk that enterprises may suffer losses due to drain or loss of staff, declining morale, inadequate human resource development, inappropriate work schedule, inappropriate working and environmental security, inequality or injustice in human resources management or discriminatory behavior.

**1.3)Key-person:**

An clear definition of a key person was given such asan "Individual who possesses a unique ability essential to the continued success of a business firm.For example, this individual might have the technical knowledge necessary for research and development of products that keep the company at the cutting edge of its field. The death or disability of this key individual could severely handicap the company" Barron's Insurance Key personnel is sometimes enhanced to include investors and staff performing functions of direction and supervision, and staff with the essential for the establishment or functioning of investment technical expertise.Person with relevant knowledge, creativity, inspiration, reputation and / or skills are essential to the viability or growth of an organization, and the loss of which could paralyze the enterprise`s activities.Strikingexamplesof "key-persons" are Steve Jobs for Apple or Bill Gates for Microsoft.

**1.4) Loss of the "key-person" :**

A business cannot prevent the sudden loss of the key-person.

The loss of the key person consists of the departure (voluntary or otherwise) of an important employee or shareholder from the enterpriseswhich can generate a lack

## II. The Reasonsof The Losses

In this part, our question is the following: whydoes an employee leave his job? We can answer this question by dividing the reasons into two partsnamely:

- **Voluntary reasons**
- **Involuntary reasons**

**2.1) Voluntary reasons:**

Voluntary reasons refer to the reasons depending on the employee and/or the employer,thereby causing the departure of the personnel from the company to another. It can be a demission or a layoff. However for the key-person, it is sometimes a demission for a better enterprise. And in this case, it is generally due to the manager's way to manage.

**2.1.1) Bad Manager**

The first reason is the competence of the managers.

According to the authors Marcus Buckingham and Curt Coffman in their book, "First Break All the Rules: What The Worlds' Greatest Managers Do Differently," people do not leave their jobs, they leave managers. If employees do not agree, do not like or do not comply with their managers, they will leave a company despite a high salary or great benefits. A bad manager is undoubtedlyan important factor in the performance of employees. A good manager, regardless of salary, will inspire loyalty.Managers who are not creating good opportunities for their staff, do not communicate with them, and do not value frequently,will be faced with a high turnover rate. Good managers are people whom you stay in contact with even after leaving a job whereas bad managers are the people you keep a record whereby you can avoid.

**2.1.2) Insufficiency of support**

Communication with employees, creating a plan for growth within the company are significant, their deficiencies can cause the loss of the latter. If a manager does not take the time to know his employees and growth, people will certainly feel unappreciated.

As Mary Kay Ash, the founder of Mary Kay cosmetics, once said about appreciation, “Everyone wants to be appreciated, so if you appreciate someone, don’t keep it to yourself.” This company values its sales force with gifts, recognition and glamorous events. Managers do not have to go this way, recognizing the work of their employees make a huge difference in retention rates.Mary Kay Ash also added that: “People are definitely a company’s greatest asset. It doesnot make any difference whether the product is cars or cosmetics. A company is only as good as the people it keeps.”This means that, it is essential that employees (including the key-person) be given recognition and awards for their work.

**2.1.3) Bad competition**

Competition is good, wars are not. Bad competition turns people and departments against each other and does not encourage people to remain. Some people thrive in all stressful environments, most not. That is why there are many articles talking about how to cope with stress. People will leave their jobs if stress makes them sick.Because of that, they will find better environment.In sum, the most important reason of the loss lies in the lack of communication, consideration, appreciationandrecognition from the manager. As a consequence, a lack of sense of belonging of the key-person may arise and that drives employees to leave the enterprise.It is summarized by the following graph:


**2.2) Involuntary reasons**

As for involuntary reasons,they are reasons that cannot be avoided by enterprises. They can be divided into two categories namely naturaland legislative reasons.

**2.2.1) Natural reasons:**

Natural reasons comprise invalidity, death, critical illness which conduct to inability to perform. Informed by Yahoo France, 10% of companies in France in which the leader (who is the key person) died fail to overcome this loss and go bankrupt.We can take the example of Apple, after the death of Steve Jobs, a loss still fresh for many followers and industry figures, Larry Elisson, Oracle's CEO, stated that: "We have all lost something. He was our Edison, he was our Picasso. There is no one like him.”adding "Apple will continue to thrive, but not like when Steve was there”.This means that there was undeniably a voidin Apple after this.Another kind of reasons is the critical illness of the key-person or family member, illnesswhich obliges the personnel to leave their job to care for their family.

**2.2.2) Legislative reasons:**

The key-person hasto leave his jobs due to the law, such as the departure in pension.
Under Malagasy law, departure in pension or the age of retirement is 60 years for men and 55 for women.At this age, the employee has a legitimate and acceptable reason for rupture of employment contract.Thus if key-personsreach this ages, they can leave their workbut they can also stay and conclude a consulting agreement.

The main factors responsible for voluntary departures are the following:
- availability of jobs in the labor market;
- lack of recognition;
- low concern of the organization to the employee needs;
- lack of training;
- incompatibilitybetween the candidate and the organization.

The nature of management practices on human resources is therefore on turnover.

Associated with individual factors also explain the bearing of the workforce:
- dissatisfaction with compensation, interpersonal skills;
- the nature and content of work that bring little professional challenges;
- unfulfilled expectations towards work and the organization;
- deficientorganizational commitment, etc.

And we cannot forget the involuntary reasons.
After a thorough analysis of the reasons of the losses, the consequences of these losses on the enterprises` functions will be considered in the second part.

## III. Consequence Of The Losses

Risk is a normal and unavoidable element in any business. Entrepreneurs and investors pursue business opportunities despite risks. Yet, not dealing with risks can lead to business failure and even the collapse of the company.

Staff retention is a major concern for businesses. According to a survey commissioned by the Federation of Chambers of Commerce of Quebec (FCCQ) released on November 3, 2008 in Montreal, 76% of companies are already facing difficulties related to the shortage of labor and 84% of companies already have problems with shortages or plan to have in the near future.

Generally speaking, the departure of skilled employees represents a significant cost to the company. More specifically, the cost of replacing an employee ranges from 93% to 200% of the annual salary of the employee, depending on the nature of its powers and responsibilities. Businesses operating in a highly competitive economic environment cannot ignore the impact of these costs on organizational effectiveness. Staff turnover is likely to hinder the company in its economic growth and make it lose its competitive advantage. It leads tomore negative than positive consequences for the companyespecially on:

- Costs
- Recruitment’s difficulty
- Skills development
- Work’s Climate
- Laborious integration
- Manager’s effort

**3.1) Costs**

The implementation of management practices oriented towards retention high performer’s human resources requires sensitization and effort on the part of managers for this challenge. Performing employees leaving the organization generatecosts for staffing and training, while causing a decrease in productivity and sales for the company.

As forApple, its share price has dropped dramatically. Then it beats its record, there is a whole stack of the first 2013’s semester reaching $700, but after Steve Jobs death, itwas sold for $ 450 on the NASDAQ. Although the short action is still relatively high, the decline was fairly consistent for Apple. More financial forecasts are revised downwards. Although assessments are very good, they are generally decreasing. Whether it is in how to manage the business internally in decisions and even in philosophy, his style is very different from Jobs. Because Steve Jobs was Apple `s key-person.

In fact, new employees take some time to achieve optimal performance corresponding to organizational expectations and desired performance profile. In addition, due to turnover, vacancies do not generate profits unlike positions filled by employees, which generate sales for the company. It is therefore reasonable to assume that a company will not get optimal performance of its human resources if it is unable to retain key personnel.

**3.2) Difficulty in recruiting**

The departure of employees undermines the goal of making the company a sufficient number of qualified candidates as it seems increasingly difficult to recruit candidates in sufficient quantity and quality. This difficulty is due to limited manpower in many sectors.

Similarly, a high turnover rate may adversely affect the image of the company and affect the ability to attract new qualified candidates. However, drawing a small number of candidates, the company may not fill all vacancies. This phenomenon requires companies to select individuals not having the job profile, which undermines organizational effectiveness.

**3.3) Skills development focused on recruits**

The departure of key employees involves a reallocation of resources in terms of skills development. The arrival of new employees requires an investment in time and energy to help them develop the skills necessary for employment. These employees are developed first. However, the extra time recruits may constitute an obstacle to the continuation of the development of skills among existing employees. Such a resource allocation can have a negative impact on the long-term competitiveness of the company. While the mastery of knowledge and skills of existing staff does not match, the required skills can become outdated.

**3.4) Harmful work’s climate**

Departures of employees negatively affect the work environment. Indeed, vacancies forcing a shift in the organization of work, which can overload for employees still in place. Such a surplus may cause an increase in stress. These sources of dissatisfaction influence the propensity of employees to leave their employment.

The loss of colleagues is another factor that negatively affects the work environment and employee morale, as speculation about the reasons for departure may cause poor organizational image and negative attitudes among employees.

**3.5) Laborious integration of new employees**

Staff turnover leads to multiple integration initiatives and socializing with new employees. The instability of the workforce creates a break in the informal communication networks, which can interfere with the integration of new employees. Indeed, employee morale may be affected by the loss of colleagues, leading some employees to leave their turn. Such a culture bearing is difficult to remove.

**3.6) Orientation diverted the efforts of managers**

Staff turnover also affects managers (supervisors). The uncertainty surrounding the availability of labor leads managers to have difficulty to direct efforts towards the achievement of objectives. Activities in production are then compromised.

Indeed, the departure of key employees has a major impact on various issues:

- increased staffing at the expense of other activities of human resource management;
- developing the skills of new employees and reduction of training provided to employees already in service;
- difficulties in obtaining the required performance given the inexperience of new employees;
- difficulty in maintaining a stimulating work environment (demoralization, demobilization, etc.).

Considering the many negative consequences of aturnover, many experts recommend organizations to implement a policy of retaining skilled and productive employees. The issue of retention, especially priority when it comes to high performers or high potential, seems closely related to other issues in human resource management.That point introduces the third and last part, which isthe risk management processes.

## IV. The Risk management

A key employee is someone whocannot be easily replaced because he has years of experience, because he has developed and nurtured critical client relationships or simply because he is fantastic at his job. The unique value he adds makes the loss much greater.

Key employee's losses are critical for the long-term health and success of the company. Managers 'willingness and consent to keep the best employees guarantees client satisfaction, sales of products, satisfied colleagues and reporting staff, effective succession planning and deeply embedded organizational knowledge and learning. If managers can quote these facts so well, excellent employees will not leave their jobs.

This strategy could be divided into two procedures:

- Procedures to prevent and avoid the losses (it means that the losshas not happened yet)
- Procedures to deal with the losses (the losshas already happened)

**4.1) How to avoid the losses:**

Since this process aims at retaining the key-person in the organization, the first and most important challenge is to identify the key-person.

The following ways could help enterprises maintain their key-person:

- ◆ The capabilities of an employee to express himself freely within the organization are another key factor in retaining employees. The organization should ask for ideas and provide an environment in which people are comfortable providing feedbackso that employees can offer their ideas, criticism and undertakecontinuous improvement.
- ◆ The use of skills and talent is another environmental factor that key employees seek in the workplace. A motivated employee wants to contribute to work areas outside of his specific job description. The manager must know the skills, talents and experiences of its employees and take the time to use them.
- ◆ The manager must deal fairly with employees because it is an important way to retain key employees.
- ◆ The employer must provide the tools, time and training necessary for employees to ensure that the latter can do their job. This isthemost important for the retention of employees
- ◆ The key employees that the organization want to keep need to consult frequently the opportunity to learn and grow in their careers, knowledge and skills. Without these opportunities they feel stagnant. A career-oriented, valued employee must experience growth opportunities within the organization.

- The employees want tofeel that they exist. The manager must take time to meet with new employees to learn about their talents, abilities and skills, meeting with each employee periodically provide more useful information and keep the fingertips on the pulse of the organization. It is an essential tool to help employees feel welcomed, acknowledged and loyal.
- Staff members must feel rewarded, recognized and appreciated for their work that will push them to advance.
- Manager should write job descriptions. A good job description defines responsibilities and essential functions. As a bonus, a job description can become the basis for recruitment, selection and hiring in the future.
- The Enterprises should practice the risk transfer which is Key person insurance transfers the risk of the key staffers leaving to the enterprise's insurer. The policy protects against the death or disability of key employees, those of the company would collapse without including themselves. The enterprise can use the proceeds of the policy to keep the business running until it find a replacement or close the operation if necessary. This is a great policy that the company can affordto protect itself, drawing up contingency plans (like what we havementioned below) for human resource risks such as death, disability, family leave or employees quitting is a good strategy. With a good plan, enterprises can reduce uncertainty about their business' future by reducing the risk of team failure.

### 4.2) How to deal with the loses

Sometimes no matter how well enterprises treat their employees, this latter will still leave it. They may go for something with higher pay that the company just cannotmatch. They may move to a different state. They might quit to go back to school. They may just decide they want to do something else with their life. They may retire. They may become ill or pass away. Although such situation is not a pleasant thought, it is a fact of life.

It is in the best interest of any business owner to be prepared to lose key employees by having some kind of a back-up plan. The best measure of preparation is to cross train employees in as many areas of the business as possible.

- First of all, the manager shouldconduct an interview (with all the responsible in the entities) to understand why the employee is leaving. Is it for more money? Better benefits? A position with more responsibility? Or, was it corporate culture that drove him away? Whatever the reason, the manager should try to find out by conducting a structured exit interview. Uncovering the real reasons whya key employee quits may help prevent the loss of anotherand help elaborate a future strategy.
- Hiring a new employee is also one strategy in the losses' case. The most important thing to do is to look for old resumes and applications with the amount of time each candidate has spenton previous jobs. Of course, they will need to have the basic needed skills, and skills can be learned. They can be trained after the hire. If the candidate has stayed at previous jobs for long periods of time, they will be more likely to show loyalty and efficiency, which are necessary traits for replacement. With this process the enterprise will recover from the departure of a key-person and learn from it for ~~a~~ further strategies to build loyalty for theremaining or the new personnel.

## V. Conclusion

Human resources, especially key-persons, are so important within the business. A key employee is someone who cannot beeasily replaced, turnover of top performers is an inevitable part of business. These lossesare due to two types of reasons namely voluntary and involuntary reasons. The mostcommon of the voluntary reasons is the competence of the managers that leads to a bad work atmosphere and push the employee to quit the company. Concerning the involuntary reasons, it does not depend on the person but on the nature and the law such as death, illnessordeparture in retirement.

The departure of a key employee may not only mean loss of sales, credit and growth opportunities but it may also mean loss of the business itself. Losing key employees outright is difficult enough. When an employee steps out of the business only temporarily due to illness, injury, family difficulties or military duty, planning and survival logistics become even more complex.

Since key-person lossescould not be avoided, the smartest thing to do is to prepare theenterprises for that by two ways. First, prevent the losses by drawing up contingency plans of the human risk mainly the turnover which can help enterprises reducing uncertainty about their business' future by reducing the team failure.The second way is how the entities deal with the losses, managers proceed an interview for knowing the reason for the departurebefore acceding to the replacement whatsoever grooming or hiring.

People and risk are as integral to farming as are weather, prices and technology. Human resources must have careful attention if managers are to have a full understanding of their sources of risks and their alternatives for handling risk.

For a further study, the topic "could the human resources performance affect a farther investment?" is also important in that it allows us to understand why key-persons represent human resources with high performance.

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