



2019/2020 INSIGHTS REPORT: **CRO INDUSTRY**

Turnover Escalates While Compensation Levels
and Practices Remain Status Quo

INTRODUCTION

One of the biggest challenges facing Clinical (or Contract) Research Organizations (CROs) is the management of escalating turnover levels. This report focuses on current industry turnover levels, trends, and what companies can do to combat this issue. The findings and insights are based on the recently published BDO CRO Industry Global Compensation and Turnover Survey, a rich source of information about compensation levels and plan design for industry-specific roles in the U.S. and in 55 countries outside the U.S.

EXECUTIVE SUMMARY

Turnover levels for Clinical Research Associates (CRAs) in the U.S. have been persistently high in recent years, and hit a five-year high of nearly 30% in 2018, an increase of 4 percentage points over the previous few years (see figure 1). Turnover for these roles outside of the U.S. is at 16.3%, (see figure 2). The lower rate as compared to U.S. total turnover might be due to less intense travel requirements, as CRO offices typically serve one country, which significantly reduces required travel.

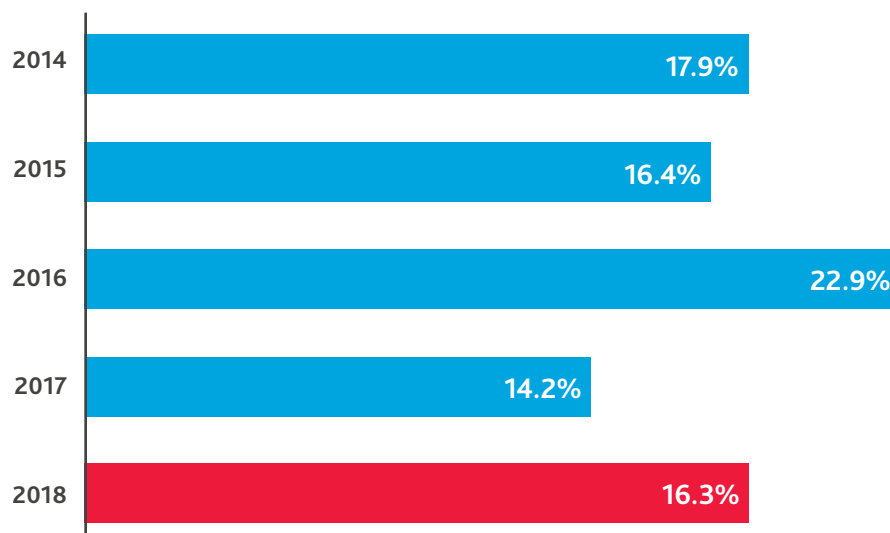
FIGURE 1

AVERAGE U.S. TOTAL TURNOVER FOR CLINICAL MONITORING FROM 2014 -2018



FIGURE 2

AVERAGE TOTAL TURNOVER OUTSIDE THE U.S. FOR CLINICAL MONITORING FROM 2014-2018



While turnover outside the U.S. hovers around 16.3% for clinical monitoring, several countries are experiencing turnover at levels comparable to those in the U.S. (see figure 3).

FIGURE 3

TOP 10 COUNTRIES WITH HIGHEST AVERAGE TOTAL TURNOVER – 2017 & 2018*

Country	n	2017 Turnover %	Country	n	2018 Turnover %
Finland	5	43%	Ireland	6	33%
China	9	40%	China	7	32%
Hong Kong	9	35%	Sweden	7	30%
Taiwan	8	32%	Taiwan	7	27%
Sweden	8	32%	Denmark	5	26%
Ireland	5	32%	United Kingdom	12	25%
Argentina	7	30%	Hong Kong	5	24%
Romania	6	30%	India	9	24%
Mexico	7	28%	New Zealand	6	24%
Turkey	6	28%	Singapore	6	22%

*Countries in bold are represented in the top 10 lists for 2017 and 2018. Lists are based on countries with five or more data points.



Reasons for Turnover

Contract research organizations experience turnover to a greater degree than general industry in the U.S., which is estimated to have an annual turnover rate of 19%.¹ Given the escalating turnover rates, it is critical for CROs to understand the driving forces behind turnover and implement effective remedies.

The following is a summary of key reasons for turnover within the CRO industry based on BDO's extensive research and client experiences.

- ▶ High performance expectations coupled with a steep learning trajectory that greatly increases the value of the employee in the marketplace.
- ▶ Desire for an increase in compensation/new hire bonuses.
- ▶ Low/no barrier to change jobs when working from home office.
- ▶ Career opportunities that can build out the employee's CV.
- ▶ Merger and acquisition activity that disrupts relationships and creates uneasiness among employees.
- ▶ Need for improving work-life balance due to burnout from long hours, travel, and the desire to take advantage of slower schedule during wind-down/ramp-up during transition.

Turnover becomes most pronounced for the CRA role at a specific career point when an individual's skill set growth outpaces growth in pay. CRAs typically have a steep learning trajectory early in their career, which makes them very valuable after a few years of hands-on experience.

TRUE COSTS OF TURNOVER

Turnover is a critical issue because of the impact that costs related to sourcing, recruiting, and onboarding can have on a company's bottom line profits. These "hard costs" are estimated to be about 33%² of annual employee earnings. Harder-to-measure costs include productivity interruptions and loss in knowledge/intellectual capital, which are estimated to be 67%² of a worker's earnings.

In addition, reputation and level of experience is cited as most important when selecting a CRO, per a recent study by Pharma IQ.³ Losses of team members can disrupt clinical trials, and ultimately damage the relationship with the trial sponsor. High levels of turnover may deter sponsors from engaging in a strategic partnership with a contract research organization.

1 "Workplace Turnover Rates on the Rise," Workspan Daily 13 November 2018, WorldatWork, Web, 28 October 2019.

2 "To Have and to Hold," SHRM, 2019.

3 "Top 10 Clinical Research Organizations in the Pharma and Biotech Industry," Pharma IQ, 2018.



COMBATTING TURNOVER

CROs have developed and implemented various retention programs to help combat turnover. These programs often focus on building more connection among professionals and reducing “travel fatigue.” Companies offer various travel perks, tools for connecting with colleagues, and accelerated promotions (though human resource professionals admit this is usually done in reaction to a potential loss, rather than proactively).

However, based on BDO's analysis of historical compensation levels and pay delivery mechanisms, CROs have failed to increase compensation levels for the positions with the highest turnover. We found that companies' approaches to compensation levels and delivery mechanisms have remained largely unchanged during the last five years. CROs' salary increase budgets have been 3% or less (see figure 4). For several of the years, their budgets lagged behind general industry.⁴

At this rate, CRAs with three to five years of experience have developed a level of skill that has likely exceeded the size of their paycheck (see figure 5). Unsurprisingly, many of these employees view switching companies as their best career choice.

FIGURE 4
MEDIAN ACTUAL SALARY INCREASE BUDGETS FROM 2015-2019

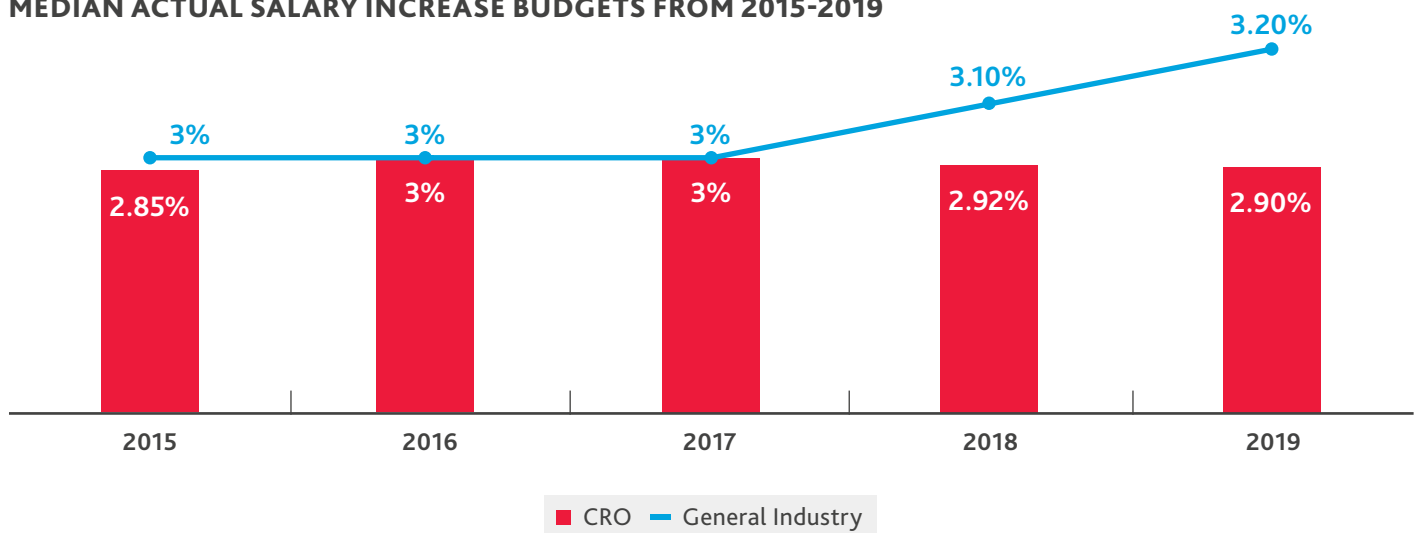
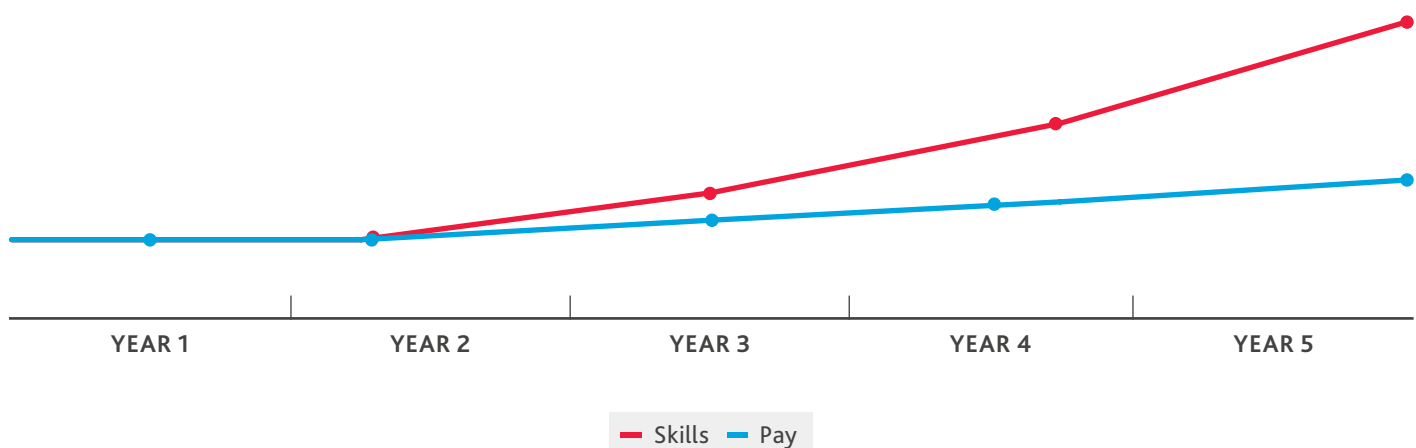


FIGURE 5
GROWTH IN SKILL VS. GROWTH IN PAY



4 Source: WorldatWork 2019/2020 Salary Budget Survey

To retain talent, CROs should consider reviewing the overall size of their merit increase budget and their approach to linking pay to employee contribution.

Annual incentives (AI) are another tool for attracting and retaining key talent. Performance-based incentives are an effective way to motivate employees with an added advantage to the company because it is only paid if specific performance criteria are met.

Despite the excellent opportunity that incentives offer for rewarding and retaining top performers, the industry has not increased its use of incentives:

- ▶ Annual incentive eligibility has either remained constant or declined from 2015.
- ▶ Receivership increased at professional level III, remained constant for professional level II and declined at professional level I.
- ▶ Target and actual annual incentive awards by job level and salary level also remained relatively flat during the past five years signifying minimal change in compensation overall.

"Quite simply, companies need to link the size of the raise to the increase in an employee's contribution. This may mean increasing the size of the merit budget. Utilizing a competency model can help companies quantify this linkage."



JUDY CANAVAN
Global Employer Services
Managing Director

FIGURE 6

ANNUAL INCENTIVE ELIGIBILITY AND RECEIVERSHIP FOR 2015 AND 2019

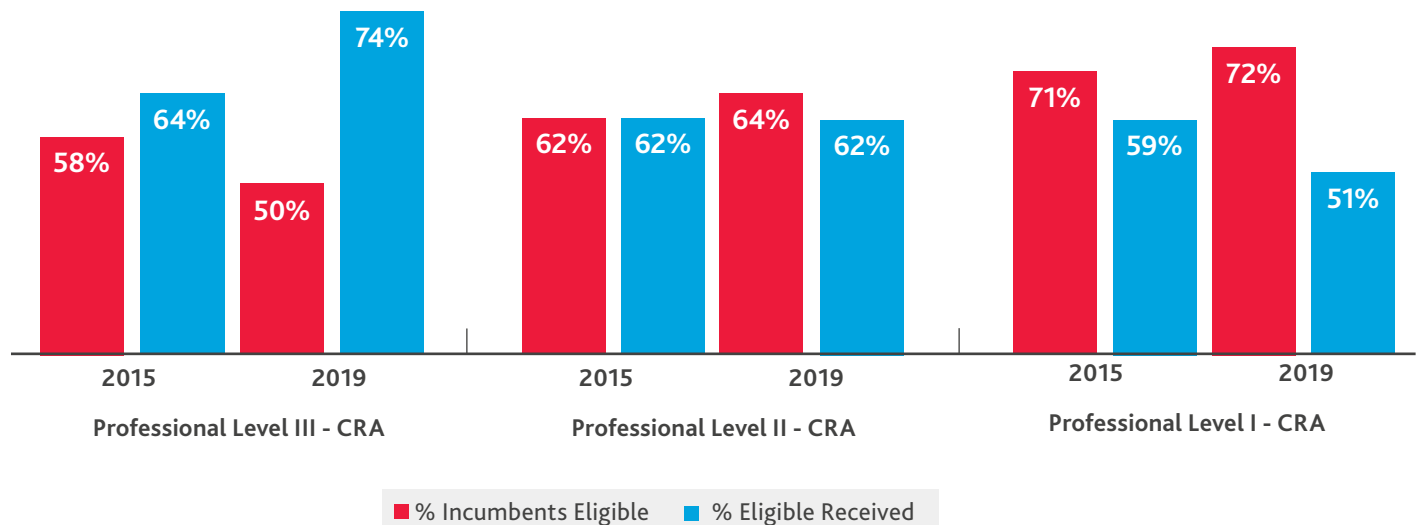


FIGURE 7

ANNUAL INCENTIVE AS A PERCENTAGE OF SALARY BY JOB LEVEL 2015 VS. 2019

Job Level	Target Annual Incentive		Actual Annual Incentive	
	2015	2019	2015	2019
Professional Level III	8%	8%	6%	5%
Professional Level II	7%	6%	6%	4%
Professional Level I	6%	6%	5%	4%

As noted earlier, turnover generates real costs including hard costs for recruiting new talent, and soft costs in terms of intellectual capital loss and project continuity. In addition, loss of project team members undermines relationships with sponsors. To avoid the financial and intellectual capital losses that accompany high turnover, CROs should consider taking a proactive approach to increasing pay levels commensurate with contribution. This can be accomplished through:

- ▶ Salary increases that are tied to increased contribution. This may be effectively implemented through a competency system.
- ▶ Increasing the use of performance-based incentives. These can come in many forms including annual corporate incentives, project incentives, or team-based incentives.



About the Survey

The annual CRO Industry Global Compensation and Turnover Survey collects data for positions in the U.S. and 55 countries outside of the U.S. (O.U.S.). This survey is designed to help clinical research CRO outsourcing companies develop confidence in their pay levels by providing data necessary to gain insight into their compensation practices relative to the market. Specifically, the survey covers:

- ▶ Compensation levels
 - Annual base salary
 - Annual and long-term incentives
 - Pay based on clinical phases and geography (region and metropolitan statistical area)
- ▶ Turnover rates for biostatistics, clinical monitoring, database management and project management
- ▶ Plan design and prevalence
 - Annual and long-term incentives
 - Benefit plans
 - Other compensation arrangements (perquisites, deferred compensation, employment contracts)
- ▶ Allowances, time off, and additional months' pay (countries O.U.S.)

Following is a summary of this year's survey coverage:

- ▶ Total participants: 26
- ▶ Companies participating in U.S. edition: 23
- ▶ Companies participating in international edition: 21
- ▶ Organizational position levels covered: 12
- ▶ Positions surveyed: 217
- ▶ U.S. regions reported, besides U.S. areas combined: 7
- ▶ U.S. Metropolitan Statistical Areas (MSAs) reported: 6

U.S.	Survey Timing	O.U.S
February	Participation Opens:	March
March 1	Data Effective:	April 1
August	Results Publish:	September



Survey Overview

- ▶ Job descriptions reflect the unique variances among CROs (pharmaceutical companies are not eligible to participate)
- ▶ Pay elements included:
 - Base pay
 - Commissions/sales bonuses for business development roles
 - Corporate incentives
 - Actual and target annual incentives
 - Long-term incentive levels
 - Total direct compensation (salary, AIs, and LTIs)
 - Additional months of pay and allowances for countries O.U.S.
- ▶ Regional pay differences included:
 - All U.S. areas combined
 - Northeast
 - Southeast
 - Midwest
 - North Central
 - Southwest
 - Mountain
 - Pacific
 - Select Metropolitan Statistical Areas (MSA):
 - Metro California
 - North Carolina
 - Chicago-Naperville-Elgin, IL-IN-WI
 - Atlanta-Sandy Springs-Roswell, GA
 - Boston-Cambridge-Newton, MA
 - Southern CT; NY; NJ; Philadelphia, PA; DE
- ▶ Early-stage vs. late-stage pay levels
- ▶ Detailed turnover data:
 - In the U.S. survey, U.S., O.U.S., and global turnover data was collected covering four organizational areas: biostatistics, clinical monitoring, project management, and database management
 - In the O.U.S. survey, turnover is reported by country
- ▶ Extensive coverage of CRO compensation, plan design, benefits, and perquisites. Specifically:
 - AI plan design and prevalence
 - LTI plan design and prevalence
 - Benefit plan design and prevalence
 - Perquisite prevalence
 - Prevalence of other compensation arrangements, such as deferred compensation, employment contracts, change-in-control, and severance agreements
 - Special analyses of pay and incentive practices for business developers

In addition to the global compensation and turnover survey, a separate annual CRO Global Salary Planning Survey is also conducted.

About BDO's Global Employer Services Practice

BDO's Global Employer Services practice consists of an experienced and dedicated team of professionals who are committed to assisting companies with developing strategies and compensation programs designed to attract, retain, and reward talent. Our services include designing and benchmarking compensation programs including salary administration, broad based and executive annual incentives, cash- and equity-based programs, board remuneration, board and executive talent reviews, compensation committee development, non-qualified and deferred compensation plans, advising on tax and accounting issues, and other related services.

Our services are tailored and scalable, designed to accommodate the unique needs of public, private, and nonprofit clients of all sizes and across all industries including multinational Fortune 500 companies.

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