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You Hired 'Em. But Can You Keep 'Em?

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(FORTUNE Magazine) – Over the past couple of years companies have been perfecting techniques--signing bonuses! two secretaries!--for recruiting the talented and ambitious. But lots of these recruits, being talented and ambitious, are choosing not to stick around for very long. The more who leave, the more who have to be wooed all over again, even by companies that are not expanding. If anything, the present economic turmoil is making the young, gifted, and fast track quicker to lunge at an options package with a future. And as both weak and healthy companies have been discovering, the sweeteners they used as lures can be deadly in the hands of their rivals.

"Companies don't always see the relationship between recruiting and retention, which is crazy," says Maury Hanigan, founder of Hanigan Consulting Group in New York City. "You keep hiring, and you're still not in a stronger position than last quarter."

Endless bulk recruitment is more than a pain. Ever more finicky and demanding B-school grads, and ever more numerous headhunters, have made the economic costs of an almost frictionless turnstile too high to disregard. Human resources executives estimate that when all factors are considered--not only the headhunter's fee but also the defector's lost leads and contacts, the new employee's depressed productivity while he's learning, and the time co-workers spend guiding him--replacement costs can be as much as 150% of the departing person's salary.

The costs don't end there. Increasingly, the wealth of companies is their intellectual capital, and much of that--from a perfume's secret ingredient to a big customer's favorite dessert--resides between the ears of a company's knowledge workers. While companies have been busily devising ways of capturing that knowledge, trying everything from narrative re-creations of past triumphs by the original participants to payment of bounties for information gleaned in exit interviews, enlightened companies realize that nothing compares to a real live veteran who has talked the talk but isn't even thinking about walking.

Yet failure to understand knowledge as a tangible asset remains the norm. "If a $2,000 desktop computer disappears from an employee's desk, I guarantee there'll be an investigation, a whole to-do. But if a $100,000 executive with all kinds of client relationships gets poached by a competitor, there is no investigation. No one is called on the carpet for it," says Hanigan.

How bad will things have to get before companies wake up? By 2010 the population of workers ages 35 to 44 is expected to decrease by 15%. "Companies use the word 'retention' to signal that they're getting serious about talent management," says Dave Ulrich, a professor at the University of Michigan Graduate School of Business. "How will they reward and appraise employees? How should they adapt their cultures to retain the right people? As the demand for managers goes up and supply stays flat, these become critical issues."

By now a term of art inside corporations, "retention," as Ulrich implies, doesn't mean hanging on to every employee. Rather, it bespeaks a recognition that key people can't be taken for granted. Yet few corporations have bothered to assess the depth or scope of the problem. In preparing a massive study called "The War for Talent," McKinsey & Co. polled 6,000 executives at 77 major corporations and found that few keep precise data on the attrition of a wide swath of midlevel managers, and that just 40% of HR executives keep tabs on the so-called high performers. "Companies are aware that they're losing good people, but they don't know who is leaving, or why, or even where they're going," says Ed Michaels, a McKinsey director.

A tight job market, and an economy that until recently seemed to run on laughing gas, make for easy scapegoats. In reality, the message companies preached over the past decade--down with lifetime employment, up with self-taught, portable skills--has jumped up to bite them back. "There's still a residue of bitterness in the work force, based on how companies handled downsizing," observes David Stum, president of Aon Consulting's Loyalty Institute, which studies trends in work-force and customer behavior. "Employees were told, 'This isn't personal. It's business.' Now that the work force has become more assertive, more mobile, it's saying: 'You're right. It's not personal. It's business. And I have an offer somewhere else.' "

Make no mistake: The goal of retention policies isn't to renew the old social contract, the one that culminated in the awarding of a gold watch. "The objective should be to identify and retain committed employees for as long as is mutually profitable," says Stum. "Insofar as employee commitment exists, it is to the boss, to the team, and to the project," he says. "That's different from loyalty, which previously was to the name on the building or to the brand." Therefore, any retention strategy, he argues, must be driven by individual managers and supervisors, not just the folks in human resources.

The biggest retention problems fall within the ranks of middle management. Employees in the zero- to three-year tenure range, frustrated by having to figure things out for themselves, are particularly vulnerable. If the coddling and coaching they receive isn't as generous as their signing bonus, they move on--fast.

The group most worth worrying about is in the three- to eight-year range. These managers, stuck between the novice and elite ranks, are typically younger than 40. They may be competent, and even crucial to the organization, but many toil in silence for relatively little reward. They're often what consultant Beverly Kaye, president of Career Systems International in Sherman Oaks, Calif., calls POPOs: "passed over and pissed off."

What could compel such people to stay? "The hypothesis is usually money, which is wrong," says Hanigan. "Money may be the reason people give when they resign, but it's like white noise. They're conscious of it for a while, but if they're bored on the job, money alone isn't going to keep them there."

Other hooks, companies are finding, are far more difficult to promise, or even quantify. They're things like job satisfaction, a sense of connectedness to the group, the ability to balance life and work, and opportunities for growth. Says Dennis Zeleny, vice president for human resources at AlliedSignal: "It may sound hokey, but the art and science of retention tells us that this stuff, as intangible as it may seem, is really critical." So while some retention efforts consist mainly of bonuses and perks such as corporate concierge services, which simply make life more pleasant, the more substantive strategies have development programs at their core.

These are not, mind you, the sort we saw in the '80s, when companies paternalistically decided who got what training for which job. Nor do they hark back to the early '90s, when companies treated their employees as free agents, telling them to better their skills on their own dime. Instead, says Brian Stern, a managing director of Boston-based SHL Group, "companies are coming back and saying, 'We'll meet you halfway and provide you with the tools to advance. We'll offer courses on-site to make it easier to keep your skills current, along with a catalog of resources and counselors.' " One McKinsey respondent sums up the new mentality this way: "Smart people want to know where they're headed, but they don't want to be told how to get there."

Dow Corning and AlliedSignal, among others, are now catering to the self-directed employee. At Dow, which is losing the largest proportion of its employees in the three-month to two-year window, a "career fitness" program has been designed to help employees see opportunities in-

house. Says Beverly Kaye, who advises the firm: "The idea is to teach even new recruits how to navigate different job functions so they won't have to leave the company to find something better."

Notably, the new programs stretch workers at different levels--by giving them early promotions and multiple assignments--in the hope that the future leadership of the company will be homegrown. At Mobil, for one, management has sifted the various layers of the company to identify future superstars. Each recruit in its new global leadership development program is rotated through different functional areas and assigned a "development contact," a manager who is not his or her boss.

With retention strategies still in their infancy, it's not surprising that academics and consultants are reaching outside the human resources field for inspiration. One theory, espoused by both Ulrich and Stum, recalls mass customization. It holds that a job can be as neatly tailored to a worker's peculiar goals and requirements as a pair of Levi's to an online customer's imperfect physique. "Leading companies are saying, if you produce here, you can pick your hours, your career track, and, in some ways, even the people you work with," says Ulrich.

Such a program has been in force for over a year at Ernst & Young, which is so zealous about keeping its people that it has actually created an Office for Retention. A poll of all employees on flexible schedules found that 65% would have left the firm without them, says Wendy Hirschberg, the office's assistant director. (Employees of less liberal companies should see this issue's Ask Annie.)

One can't assume, of course, that employees will readily share their aspirations or concerns with management. That's why the Money Store recently hired its first few on-site career counselors. "The program is meant to give people a sounding board infused with advice," says Rick Singer, vice president of recruiting. "When you don't see eye to eye with your boss, the career counselor is like your aunt or uncle--an impartial voice of reason." The sessions, Singer assures, are confidential.

Other companies are beginning to expect managers to be more attuned to the their staff's morale. According to McKinsey, one company in the FORTUNE 20 has recently begun requiring division heads to create what it calls satisfaction grids. One axis depicts a manager's performance; the other, to what extent he or she is at risk of leaving the company. Consultants like Maury Hanigan are popularizing models of this sort. Hanigan's so-called vulnerability maps show a specific job function and the points when the occupant's satisfaction level is likely to ebb. Before those points are reached, managers can offer incentives calculated to carry them over the hump (see chart). Suppose Bob over in marketing is well thought of and panting for a promotion, but no spots are open. Bob's boss might shuffle his staff, enabling Bob to take on a special assignment for a few months. "Something with a definite endpoint is what we recommend," says Hanigan, "since the employee would feel guilty leaving in the middle of a high-profile assignment. This can also give the company a few months' breathing room to find the promotion he's ready for."

The focus, however, cannot be exclusively on the individual worth retaining. To keep the hard-chargers, the McKinsey report declares, you have to give them the bosses they deserve. "We didn't realize the full impact of keeping 'C' players," admits Mary Steele, human resources director at SunTrust Banks. " 'C' players not only have a minimal impact on the bottom line, they rarely know how to develop, coach, and motivate 'A' players. Consequently, they may cause our good performers to leave the company." SunTrust has begun to neutralize the effects of the 'C' players by putting them into nonmanagerial, commission-based jobs where poor performance is appropriately compensated and fully exposed.

Even the best tools will sometimes fail, and key people will move out. But retention efforts needn't end at that point. For instance, companies such as Sprint and Anheuser-Busch plan to ring up defectors to ask them to submit to interviews six months after the fact ("What really made you leave?"). Others, behind a facade of friendly interest ("Hey, how's the new gig going?"), train their efforts on retrieving the ones that got away.

"The new grass may look greener, but it's often not, so call them back and tell them you miss them," urges Ulrich. "Commitment and retention may not occur with the round-one hire. But at round two, you just might strike gold."