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Best Practice

How Fleet Bank Fought Employee Flight

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On average, companies invest more than a third of their revenue in employees, but few know how to measure the value of that investment. For the most part, they cannot judge whether a given program or management practice—an incentive plan, say, or a new recruitment strategy or a training program—actually produces a return. Instead, decisions about where to direct such investments are based on anecdotal information, intuition, or so-called best practices.

None of these approaches can match in rigor the economic calculus that is brought to bear on decisions concerning investments in financial assets or plant and equipment. That's ironic, since in today's knowledge economy, how a company manages its human capital is for all intents and purposes the only remaining source of enduring competitive advantage. Other kinds of capital are readily accessible, and technology is easily copied.

So if human capital is an asset, not an expense, as most business leaders today acknowledge, human capital strategy can logically be considered a form of asset management. And just as asset management must be built on precise measures and carefully tailored to investor goals and circumstances, so too must human capital strategy.

Measures of human capital have been elusive—until recently. Drawing on the fields of economics and organizational psychology as well as on developments in information systems, Mercer Human Resource Consulting has created analytical tools that allow companies to measure the impact of their people practices on their workforce and business and to test and reshape those practices constructively. Some companies are already applying these techniques.

Marriott International, for example, used such an approach to unearth statistical relationships in its running record of employee, performance, and customer satisfaction data. In particular, the company found that employee participation in some benefits programs significantly reduced turnover and improved profitability in certain parts of the
company. It was then able to estimate the impact of changes in base and incentive pay and benefits on the behavior of certain groups of employees—and ultimately on the profitability of different hotel properties. Those estimates were used to help devise strategies to reshape the company’s rewards policies.

Toyota Manufacturing employed a similar methodology, together with more traditional employee surveys, to assess its policies on performance management, career development, training, and transfers to new positions within the company. The company’s annual employee survey indicated that the supposed beneficiaries of these policies actually saw little career advantage in taking part in them. Yet statistical analysis of what actually happened showed that, all else being equal, those who received more training or who made lateral moves advanced more rapidly than those who did not. Realizing that the problem lay not with the programs themselves but with perceptions of them, Toyota was able to spare itself the trouble and expense of revamping its programs and instead ramped up efforts to explain and promote them.

FleetBoston Financial has also been a pioneer in the movement to bring a disciplined, measurement-based approach to workforce management. Faced with excessive turnover resulting in part from a string of mergers and acquisitions, the bank decided to measure the effects of management practices and market conditions on actual employee behavior. As you’ll discover in this article, the results transformed the way workforce policies were determined and perceived throughout that organization.

Rapid Growth and High Turnover

Until the completion of its acquisition by Bank of America to form the second-largest financial services company in the United States, FleetBoston Financial qualifies as the nation’s seventh-largest financial holding company, with assets exceeding $190 billion. The company has served 20 million retail and 6 million commercial customers worldwide and has had more than 50,000 U.S. employees and 10,000 employees abroad. From 1994 to 2003, Fleet aggressively pursued growth through acquisition, more than doubling its workforce and quadrupling its assets.

In the late 1990s, it became clear that the most pressing human resource issue at Fleet was high and rising employee turnover, particularly in the bank’s retail operations. Overall turnover had reached about 25% annually, and among some groups, such as tellers and customer service representatives, turnover was upwards of 40%, placing the bank’s customer-focused strategy at risk. Casual comparisons suggested these levels were higher than industry norms, though such benchmarking didn’t account for the fact that Fleet operated in some of the tightest labor markets in the United States, such as Boston and Providence, Rhode Island.

In 1997, the company began analyzing information from employee surveys and exit interviews to determine why people were leaving and which aspects of their employment they most valued or were concerned about. The results of that analysis suggested that inadequate pay and heavy workloads (the latter partly due to delays in filling vacated positions) were the key drivers of turnover. Management tried to address some of these concerns by tracking market pay more systematically and by offering more flexible working arrangements on a trial basis in order to help relieve employees’ stress on the job. Yet to Fleet’s surprise, turnover rates continued to rise rapidly. Evidently, what employees said was troubling them was an unreliable guide to the actual causes of turnover.

Fleet shouldn’t have been too surprised by that discovery. Indeed, many companies have found little relationship between what employees—particularly departing employees—say motivates their behavior and what actually does. Although the position an employee is leaving for very often does pay better, better pay may not be the primary reason for moving on. Often, employees say they’re leaving for a higher salary because they think it’s an acceptable reason to give. If they point instead to the way the company is run, they risk antagonizing people whom they may one day need for a reference or a job. A thoughtful employer will want to know not only why the employee took the particular job he did but also which aspects of his current position made him receptive to outside opportunities in the first place.

The Employee As Customer

Fleet used Mercer’s methodology to determine which workforce characteristics and manage-
ment practices most directly influenced employees’ decisions to stay or leave. It examined data collected from HR, finance, operations, and sales about employee behavior and the factors that influence it in different locations and labor markets, in different departments or work groups, in positions with different pay and benefits, under different supervisors, and so forth.

Its approach, one of augmenting asking with observing, has long been standard in the area of market research. Marketing experts usually use surveys and focus groups to better understand customer needs, perceptions, and preferences. But the good ones don’t stop there. They realize that what people say and what they actually do often diverge. So they follow the dollar trail to see how customers operate when obliged to make the trade-offs that accompany real decisions. They measure consumers’ responses, for instance, to changes in the price of a product or service, and they use these measures to forecast the effects of specific policy changes. It’s now possible to understand employee behavior using similar methods.

From looking at patterns in the results, Fleet was ultimately able to uncover a link between the turnover problem and the company’s busy history of mergers and acquisitions—essentially finding that aggressive M&A increased employees’ perception of employment risk. Mergers and acquisitions often meant that Fleet had to consolidate its operations. In particular, antitrust policy frequently required the bank to close down branches that exceeded permissible market share within their regions. The increase in involuntary turnover then provoked higher levels of voluntary turnover, perhaps because the remaining employees began to worry about their own job security.

While the obvious solution to concerns about job security might have seemed to be to compensate the remaining employees for bearing greater risk—say, with higher pay—the more effective and less costly solution, the Mercer team discovered, was to broaden employees’ career opportunities within the company. Those people who moved up the hierarchy or even laterally, the team found, stayed longer. In all likelihood, employees’ perception was that mobility (that is, broader experience) enhanced their marketability, making them less vulnerable in the event of future layoffs.

The research also revealed that hiring policy and stability in management were crucial in controlling turnover.

It’s worth noting that Fleet’s solutions to its turnover problem required only modest investments. In fact, some of the most important interventions simply entailed better communication and involved no out-of-pocket expenses whatsoever.

Modeling the Drivers of Turnover
In examining turnover, Fleet and Mercer drew on four years of employee data from Fleet’s retail- and commercial-banking divisions. Instead of simply mining these data for correlations, the team constructed an explanatory model of turnover that could be used to test particular hypotheses about its root causes. The model was derived from extensive research into the literature on workforce psychology and economics as well as from Mercer’s work with other organizations.

To apply the model, the team identified the key variables that describe an individual employee and her conditions of employment and subjected them to multivariate regression analysis, revealing which of these factors, such as pay level or length of service, were most likely to influence turnover. Regression analysis allows one to render individuals or groups of individuals alike in all respects but one for comparison purposes so that the relative impact of that variable can then be gauged. Because the team had collected observations of the same variables over a four-year period, it was able to test the impact of changes on turnover of different individuals and groups at any given point in time, as well as on the same individuals and groups over time.

The model the team used takes into account three broad categories of variables that affect turnover: external market influences, organizational characteristics and practices, and employee attributes. The first category encompasses local labor-market conditions, including the extent of employment alternatives, and the organization’s market share—which would likely affect a business’s attractiveness to potential employees. The second category includes organizational factors such as the employee’s immediate work environment—unit size, work-group diversity, and quality of management. The third category relates to the employees themselves: their demographics, experience, educational background, job status, and pay and performance histories. Fleet and

Many companies find little relationship between what employees—particularly departing employees—say motivates their behavior and what actually does.
Mercer used this statistical model to estimate how these variables, individually and collectively, affected the probability that a particular employee would quit in a given year.

The important point is that Fleet looked at what employees actually did, as opposed to what they reported. The results of the analysis are displayed in “What Makes Them Stay,” which shows the relative impact of these variables. For example, local labor-market conditions—the second factor listed—represented by local unemployment rates, had much less effect on turnover than management practices and employee attributes. (Of course, the drivers may be different at other companies. But the techniques for discovering these factors would be the same.)

**Fleet’s Keys to Retention**

Once Fleet saw the patterns among drivers of retention, management could focus on high-yield, high-impact interventions. We’ll examine each in turn.

**Career Progress and Mobility.** Of all the significant factors identified, those relating to career progress and development—promotion, mobility, and pay growth—had the biggest combined effect on retention. All else being equal, an employee promoted in the prior year was about 11 percentage points less likely to leave than a similar employee who had not been promoted. Since the average yearly turnover rate had been 25%, a promotion virtually cut in half an employee’s likelihood of leaving. Simply changing jobs during the preceding year substantially reduced that likelihood, even if the employee did not receive a higher-than-average salary increase. In effect, the more rapidly people moved through jobs, the more likely they were to stay. These findings were at odds with the common belief that as employees broaden their experi-

**What Makes Them Stay**

Of the many factors hypothesized to affect turnover at Fleet, these were the ones that statistical modeling found to be the most significant. On the basis of these results, Fleet determined that a focus on career opportunities, management stability, and more selective recruiting—not pay—would do the most to reduce turnover.

![Reduction in turnover (in percentage points)](chart.png)
enability of employees gave them a compelling reason to stay and actually postponed their departures. So Fleet decided to combat this driver of turnover by tapping into its vast internal labor market and offering employees greater experience and mobility.

Fleet concluded from its modeling that employees—particularly young ones in hot labor markets—value the experience and skills that enable them to cope with the insecurity of an active merger and acquisition environment even more than they value higher pay. The bank speculated that these employees in particular may deem internal job mobility a superior form of compensation because it promises better protection than savings in the event of job loss. Not only did this conclusion help Fleet save dollars it might have wasted on increasing pay, it also revealed the value of encouraging managers to assiduously develop their subordinates, even if that meant losing them to other departments or units. After all, these managers also stood the chance of inheriting high performers from other parts of the company.

An equally valuable insight from the modeling was that individuals at highest risk of leaving fell into two categories: high-performing employees who had been in their current position two or more years and employees who had recently completed their undergraduate or graduate studies. Fleet urged supervisors and managers to make sure these employees were satisfied in their current positions and understood the kinds of inside career opportunities available to them. The idea was that by identifying those at greatest risk of leaving, the company could intervene early to address the sources of their concerns. The bank also held jobs fairs and posted all available positions throughout the organization.

The statistical modeling also revealed that exempt employees who had advanced from nonexempt status at Fleet left the company less often and earned more frequent raises and promotions than those who entered Fleet as exempt employees. In response to these findings, Fleet tried to clarify and publicize its policies for becoming an exempt employee. It also began offering career coaching to nonexempt employees, who needed to understand that they too had growth opportunities within the organization.

**Pay Patterns and Incentive Programs.** Of all the drivers of retention, pay levels had the smallest impact. Employee turnover was affected far less by an employee’s current pay level than by how much his pay had grown in the recent past. The team found that, all else being equal, improving Fleet’s pay position by 10% compared to market rates would do little to keep employees from leaving the company. Yet increasing the growth of employees’ pay by 10%—in effect, making their pay trajectories steeper—would produce a fourfold reduction in their chances of leaving. Again, it seemed that employees were more concerned with their career progress over time than they were with current rewards. Consequently, instead of relying on so-called market adjustments, Fleet realized it made sense to provide steady pay increases to those who performed well or exceptionally well and also to emphasize the value—financial and otherwise—of moving up the ranks.

One reason Fleet couldn’t count on across-the-board market adjustments in pay levels is that these adjustments either weren’t necessary or weren’t enough in particular locations. For instance, the statistical modeling showed that the pay increase that was required to achieve a 10% reduction in turnover in Providence, where Fleet had deep roots, was significantly smaller than the increase required to reach the same target in, say, New York, where employees’ choices were wider and Fleet’s roots were shallower. Because employees in places like Providence valued Fleet’s longstanding ties to the community and its market leadership there, the bank could hold on to them without having to pay more than competitors lacking those advantages.

Thus, managers’ heavy reliance on pay to combat turnover would have put the company at risk of spending too much money in places (like Providence) where the impact of pay increases would be small. On the other hand, narrowly targeted pay increases that reflected market differences among locations would have introduced pay discrepancies among employees doing equivalent jobs.

Fleet also found that employees’ mere participation in incentive programs had a more substantial impact on retention than did the actual size of the rewards. Indeed, participa-
tion was almost at the top of those factors determined to enhance retention, even after accounting for the influence of related factors such as job level, occupation, and department. One theory for why this is so is that inclusion in an incentive program suggested a commitment on Fleet’s part to the participants, which they reciprocated by extending their stay. Consequently, Fleet expanded its incentive programs and enrolled as many top performers as it could so that high performers would remain longer than low performers.

**Management Stability.** Fleet’s investigation showed that higher turnover rates among managers and supervisors lowered overall retention rates. Specifically, if an employee’s supervisor left, the likelihood of that employee’s leaving in the next year almost doubled. Why? The project team recognized that this correlation did not, in itself, point to a particular cause, of which there are at least two. One explanation is that a manager’s departure would leave direct reports feeling disconnected from the company and thus more interested in outside opportunities. A second explanation is that the manager’s departure sent a signal to subordinates that perhaps there were better opportunities for able people outside of Fleet. When talented and good people leave a company, it’s not uncommon for those workers who remain to question the value of employment there compared with other places.

To weigh the merits of these two hypotheses, the Mercer team needed to test whether the finding held regardless of the departing manager’s performance. The team also needed to test whether the result was the same regardless of whether the manager left the company or simply the department. After all, an internal transfer says nothing about external opportunities. In the end, the team found that a manager’s departure had a ripple effect only if he had received favorable evaluations by both subordinates and bosses and was leaving Fleet altogether. In short, the meaning behind the departure counted more than the departure itself. The message conveyed by good managers’ departures was that there was demand outside the company for such people. The message conveyed by good managers’ decision to remain was that the bank was surely a place where they and others like them could advance.

Such information made Fleet realize that it had to improve its practices for retaining high-performing supervisors and managers—practices that would need to accomplish two things: address the root causes of turnover among these managers and reduce the effects of their departures on everyone else’s morale and behavior.

Just as career progress trumped pay in combating turnover among staff, it did the same among managers. However, it turned out that the amount of variable pay mattered more to supervisors than it did to subordinates. The form of that variable pay also mattered: Performance-based cash bonuses far outweighed stock options. As a result, Fleet began awarding more of the former to high-performing managers.

To reduce the negative effects of manager departures on employees, Fleet acted to ensure that employees had solid contacts and connections beyond their immediate supervisor so that if a well-liked manager were to leave, employees would still have other seasoned supervisors to turn to. For this reason as well, Fleet placed greater emphasis on coaching and mentoring, practices intended to expand employees’ connections beyond their immediate supervisors. And by rapidly replacing departed supervisors with top-quality people who were already known to employees, the company demonstrated its commitment to maintaining stability and the highest standards for management. Follow-up analysis confirmed that even small improvements in retaining such supervisors had large, cascading effects on overall retention.

**Hiring Criteria.** It may seem obvious, but one of the ways to lower turnover, Fleet found, is to hire the right people in the first place. In its statistical modeling, the company identified several attributes of potential employees that were good predictors of longevity.

**Past Stability.** Fleet discovered that the more time people had spent in their previous jobs, the greater the chances they would stay longer in their current ones. In effect, movers stay movers. Realizing this, the company was able to increase its retention rates by putting more emphasis on candidates’ previous tenure patterns.

The company learned that people who had left other jobs early tended to leave Fleet before the first-year mark. So it enhanced its orientation program and tried giving new em-
employees more manageable workloads, since heavy workloads were a major driver of turnover in an employee's first six months. Data also suggested that giving feedback much sooner than at the end of the first year was important to recent hires. More training, earlier feedback, and a more careful look at work assignments during the first six months effectively addressed what the company called its “quick quit” problem.

Minority and Gender Status. The analysis also bolstered the business case for ensuring diversity in the company's workforce. Specifically, the team found that retention rates for women and minorities were higher than those for white males. But this finding was obscured in the raw statistics by factors such as location and job level that independently influenced turnover. In short, the company's diversity initiatives, such as pay equity, desirable in themselves, had the added benefit of increasing loyalty among women and minorities and improving retention rates.

Referrals. Fleet's third finding concerning its hiring criteria was that job candidates who had been referred by employees were much more likely to stay than those who came through other channels, such as employment agencies or want ads. (Perhaps those coming from recruiting agencies tended to keep moving because they were already on recruiters' radar.) In effect, Fleet was triply penalized when it hired people through recruitment agencies—first, by having to pay the recruiter's fee; second, in a certain number of cases, by having to pay it again when the initial recruit left prematurely and had to be replaced; and third, by having to pay a salary premium that the recruiter had extracted. To lower such costs, Fleet increased its special payments to employees whose referrals remained at Fleet for at least six months.

Getting Results
Within the first eight months of implementing its new retention initiatives, Fleet's turnover rate declined dramatically, by 40% among salaried employees and 25% among hourly employees—an improvement estimated to have saved the company $50 million. Even better, the reduction in turnover did not come at the cost of retaining inordinate numbers of low-performing employees. Rather, it came from doing a better job at recruiting the right people and holding on to the best talent.

One reason for the initial success of the initiatives was that HR leadership was able to galvanize management. The business case for the retention program was made on solid factual grounds—hard, quantitative facts that spoke to the realities of Fleet, not those of other organizations. No manager had to guess which choices were the best ones; the reasons for them were plain. And the measures put in place allowed for real accountability.

Such accountability may help explain why even in the face of adverse developments, Fleet's retention strategy continued to work. Between 1998 and 2000, for instance, a couple of changes threatened to increase its turnover even more: Labor markets tightened significantly as local unemployment rates reached historic lows, and Fleet and BankBoston merged in 1999, adding 16,000 employees. An increase in voluntary turnover was expected after the merger because an even greater percentage of Fleet's workforce was now located in its tightest labor markets. In addition, a wave of resignations was expected in the aftermath of layoffs following the acquisitions. Fleet's managers and supervisors were able to mitigate that outcome because they were able to anticipate and measure the layoffs’ impact.

Estimates from the turnover model showed that even in the face of serious threats, Fleet's retention strategy proved highly effective. Despite some fluctuations in the absolute number between 1998 and 2000, Fleet's overall turnover rate as of the last analysis was about ten percentage points less than expected. The positive results were due largely to Fleet's exceptional success in retaining its supervisors and managers. Turnover rates among managers remained steady, at about 10%, despite the many opportunities in the market at that time. For frontline supervisors, the rate actually declined to just over 6%, and among the top supervisors, to 4%. These are remarkably low numbers for a company growing rapidly in a booming economy.

Fleet's more recent initiative to reduce "quick quits," particularly in its call and operations centers, also produced remarkable results. The company began to focus in earnest on this problem in late 2001, and, by the first quarter of 2003, turnover of employees within their first year on the job dropped ten percentage points. Turnover among those with six
months of service or less dropped more than five percentage points. And the workforce in the call and operations centers stabilized, making it easier for Fleet to achieve its customer service goals. Needless to say, these were significant changes that improved overall retention.

A few of Fleet’s retention initiatives, it should be mentioned, did not show such dramatic results. For instance, average time in position did not decrease as much as the company had hoped it would. The company tried to make its internal labor market more accessible to employees, but it’s not clear that they fully availed themselves of these opportunities. There may be several reasons that these numbers didn’t drop as much as expected: First, changing jobs within a company takes considerable time. Second, people who recently arrived in new positions may not switch jobs for at least 18 months. Third, the decline in turnover itself meant fewer positions were staffed with new arrivals, so average time in position would have automatically risen. In short, the verdict on these numbers is still out.

Another advantage of Fleet’s model is that it can be used again and again to inform management decisions—executives can at any given time examine how specific changes in policy or in business conditions will affect retention or any other aspect of employee behavior. What’s more, because results can be measured, the company can hold HR executives accountable for their policy decisions. And the company can prove to investors that its human resource practices make economic sense.

These benefits would not have been possible if Fleet had not done the hard work of testing its assumptions. Indeed, what seemed obvious in the beginning turned out not to be. Fleet didn’t have to rely on pay to combat turnover, nor did it have to change its character; instead, it had to make relatively small adjustments to its rewards policies and take better advantage of its existing culture and workforce management practices. In other words, the mobile and youthful culture that defined Fleet could in fact be used to its advantage—employees could be mobile inside the company instead of outside it. That realization, along with the low-cost solutions that followed, in the end saved the company millions of dollars. It also helped Fleet secure a stable and high-performing workforce that was the key to fulfilling the company’s customer-centric strategy.
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