

Retaining Employees when Faced with Consolidations At



CIGNA

A Business of Caring.

The decision to consolidate two operations meant that more than 100 people would lose their jobs. Yet if people left the company before the other operational areas could assume the additional workload, major customer implications would result. The employment market was relatively strong, so the risk of losing people, especially top performers, was high. Yet there was a strong viewpoint that retention packages do not work. “These retention programs never work,” expressed a frustrated senior operations director in a meeting with Mike Jaques, vice president of compensation and benefits for CIGNA Health-Care. “What if we had offered them a full year’s salary to stay with us? Would that have worked?” asked Jaques. “Well, of course,” the senior operations director responded. “But we can’t afford that.” “Then, it’s not that these programs don’t work; we didn’t offer them enough,” Jaques countered. “How important is it for us to keep the operations going until we can make a smooth transition, and how much would it take to keep these people over this time?” When the meeting concluded, Jaques and the local human resource managers agreed to develop a different approach than company practice. This time would be different.

Why Do Things Differently?

This was the Healthsource experience prior to its acquisition by CIGNA HealthCare in June 1997. As companies like CIGNA acquire others, it is often important to consolidate operations. This creates greater economies of scale for the operational areas and often increases customer service or reduces costs, hopefully both. The merger between CIGNA and Healthsource was a major move in the managed care industry; the challenge to CIGNA was to make the transition work. One of the most critical areas impacted by this acquisition was in operations. This function creates patient accounts; processes healthcare claims; provides reimbursements to physicians, hospitals, and other care providers; handles member questions and needs; and makes a significant number of necessary transactions for patients and their employers. This is the informational backbone of the healthcare insurance organization. After the acquisition by CIGNA, two Healthsource operational areas, one in Indiana and one in upstate New York, needed to be closed down and the records and service systems consolidated with other operational centers. While a few employees would be transferred, more than 100 employees would lose their jobs.

To make this process more complicated, Healthsource had managed its business in a decentralized manner. Many of the customer managed-care contracts were unique and had to comply with different state regulations.

This meant that the operational provisions of the contracts were different, known by the local centers, and needed to be processed in specialized ways. So transferring customer accounts to other centers was a major undertaking.

Furthermore, if people in these affected locations were to leave prematurely, the company was likely to experience major customer problems. The consequences of these potential problems and many others like them could be catastrophic to CIGNA in its attempt to build market share in the areas served by Healthsource.

Background on Retention Programs

When companies seek to develop retention programs for employees of units that are targeted for closure, they traditionally first determine the prevalent practice in the marketplace and then determine what they can afford. They develop a policy of providing employees X number of weeks of pay and benefits for Y number of years of employment. They often do this regardless of the employment market, the impact on the company and its customers. They seldom consider what employees want. In contrast, employees often know that their positions will be eliminated long before management makes the formal announcement. This situation poses a fundamental threat to their income and survival, each person assesses the situation and makes personal decisions on what to do. People will often start looking for jobs many weeks before they need to. The high performers or self-starters often do this without hesitation and can often find employment quickly. The “slow starters” may need to work through the emotional issues of job loss and fear of being unemployed before they begin their search for a new job. In both cases, the work of the organization suffers because people will do only the minimum level of work to retain their positions during this transition period and spend most of their energy on the job search. They see neither a future for their careers nor an opportunity for rewards; they no longer feel any commitment to the organization because the company has broken the ties.

Each employee makes a decisions based on what is best for him or her. The potential impact on the company can be serious. As strong performers find employment elsewhere, a gradual implosion in performance occurs. The company does not seek to replace employees that leave. The work is often not diminished, and the remaining employees become burdened and see little personal benefit for increasing productivity. The customer suffers as well as the company. Items take longer to process and errors increase. Improvements in the process are minimal and there is little concern by employees (and sometimes managers) about managing costs. This is simply a crisis that is building and building. This was the potential risk that CIGNA was facing. The program CIGNA developed to retain employees in the two operations centers was relatively simple. The important point was the thinking process used to develop the program.

Once the decision was made to consolidate the operations and the positions to be eliminated were selected, the task then focused on how to retain employees through this transition period. A team of human resources and operational managers assessed the impact on the company if the operational areas experienced premature terminations. So

the retention plan was viewed as a “preventive investment” that would have significant benefits to the company—or serious business implications if it were not successful.

A New Approach to Retaining Employees

The decision process began in the fall of 1997 and the target date for consolidating the operations was set at November 15, 1997. Given past experiences with other organizations, Mike Jaques knew the more likely target date would be early to mid-December. This immediately surfaced a problem: Should they set the retention date in the middle of the holiday season? Even though this is a business, they did not want to have strong negative backlash by employees; timing is often a sensitive and critical issue in developing these programs. The next decision was to determine the date through which CIGNA wanted employees to remain with the company. Until this was determined, CIGNA needed employees to stay focused on their current jobs. Then they should start job searches. The target date for closing the operations was December 31, 1997. People were assured that their jobs would continue until that date unless there were serious performance problems. It was critical to establish a firm date around which people could plan their lives and organize their activities. Then the severance pay should provide them with sufficient income during the “post target date” period until they found a new job. Next, Jaques and his staff worked with the managers to determine how long it would likely take for these employees to find other jobs. They wanted to see the situation from the employees’ viewpoint. They examined the marketplace in the existing cities and identified the potential employers of people with the skill sets similar to those at CIGNA. It was determined that people would most likely need approximately two to three months to find similar employment. The next decision was to determine the length of the severance program.

How long should people receive salary continuation? The corporate policy was the market-standard one week of pay and benefits for each year of employment, with a minimum of four weeks. For many employees, this policy would not fit the time needed to find new employment and the organization knew these people would begin looking during the performance period. This would likely disrupt the operations. Also, CIGNA knew that people would seek to find a job before the holidays if there was not sufficient incentive to stay with CIGNA. Through this analysis it determined that eight weeks should be added to the standard company policy. This was not a scientifically derived decision but was based on what the managers believed would reflect an effective incentive for people to remain until the target date.

The important consideration in this process is to determine when people will begin their job search and how long it will take them to find a good job. Obviously, high performers will move more quickly. The company also realized that once people started looking seriously, their job focus and performance would begin to decline, at least at the discretionary level—that extra level of performance that is above standard. CIGNA wanted to encourage people not to begin looking for new jobs until the operations were past the major transition period, in order for customers to experience no disruption in

service levels or quality. Furthermore, it wanted people to feel that the organization was concerned about their personal circumstances and would be appropriately generous and supportive.

As a contingency if the closing target date needed to be extended beyond December 31, the company would provide additional bonuses to individuals who remained to complete the transition. This was to ensure that there was no interruption in the work. The bonus amount was set at between two and four additional weeks of pay. In summary, the program provisions were these:

1. Employees would need to remain with the company until December 31, 1997, or release date, whichever occurred first. Anyone resigning before this date would not receive benefits of the program.
2. CIGNA would pay the company's severance package of one week of pay for each year of employment, with a minimum of four weeks, with a continuation of healthcare benefits for the appropriate time period.
3. In addition, CIGNA would provide a special bonus of eight weeks of pay and continue with the healthcare benefits for this additional time.
4. If individuals were needed past the December 31 date, then CIGNA would provide an additional bonus of two to four weeks of pay and benefits, depending on the timing.
5. Employees were expected to continue their high level of performance and service to customers and help make the transition as smooth as possible.

What Really Happened?

People were not surprised by the announcement of closing the operations. They were surprised that they were told about the severance program three months before the target date. CIGNA wanted to avoid the problem of people getting into the job market too early, especially their high performers. Because of rumors and uncertainty, it wanted people to have a firm date they could plan around. It also wanted people to understand that this program and this closure were not going to be rescinded. When facing turbulent times, people will often seek security and certainty. Remaining with the company represented uncertainty; finding a new job represented certainty. Thus, it was critical for CIGNA to establish certainty and provide an attractive "bonus" that would encourage people to remain committed to providing their customers with services and assist in the transition. It was important for people to feel they had enough money to find a job before it ran out and to have a chance to get something extra.

The impact of this program was remarkable. The two operational groups experienced minimal turnover. People remained until the December 31 target date. The customers continued to receive the same level of high service, and the operational groups were able to make the transitions to the new systems. The company continued to increase renewals and retain credibility with healthcare providers. Most employees found new positions before their severance payments ran out and several used the extra income for something

special for their families. By all accounts, the program was a success from the viewpoint of the customer, the employee, and CIGNA HealthCare.

Primary Lessons

There were several important lessons for CIGNA in this experience. First, it was important to understand the time of year, the employment environment, and how they would affect the employees' perspective on the situation they faced knowing that they were going to lose their jobs. For the program to be successful in retaining these individuals, people needed to see how they would be better off to remain with the company for the given time period, than to find employment elsewhere. From the organization's business perspective, it was essential that the high performers remain. Only by understanding the employees' perspective and addressing their primary concerns could a sound program be developed. Second, it was important to communicate the program early to prevent rumors and uncertainty from forcing people into the job market while the company still needed their full work efforts. Some companies address this problem by delaying the communication; this often has a disastrous effect. CIGNA chose to communicate the date clearly and early. People appreciated knowing the situation, so they could plan their lives accordingly. CIGNA actually created certainty out of uncertainty.

Third, CIGNA learned that being conservative about spending money on retention can actually cost the organization a lot more. The return on investment of the program needs to be based on the total costs and impact on the business, not just the simple costs of the program. CIGNA's analysis included comparing the retention program costs with:

- Revenues from customer retention
- Costs of lost productivity and increased error rates
- CIGNA would be prudently generous in order to maximize its return on investment.

Fourth, providing a "sweetener" to the standard program was a major benefit. People felt that if they remained they could actually come out ahead on the transition, and this incentive provided that extra-special component that persuaded people to make the mutually beneficial decision. Finally, this was a one-time program with a clear end point. CIGNA did not need to change company policies, but it did need to be flexible. Each program needs to be custom designed. Each situation has unique issues, and the program needs to be structured, communicated, and managed to address them effectively.

CIGNA learned the important value of customization. Like other companies that consolidate operations, CIGNA found that retaining employees during the transition time is a critical business issue. Care and attention are needed to ensure the desired financial and customer objectives are realized. People make decisions about their employment circumstances and discretionary performance based on what they view as being in their best interests. Aligning employee interests with the business interest is the key to success.

This simple situation is rich in its demonstration of what can be done and what should be done to make major transitions successful.