

Retention for the Technology Solutions Group At Fleet Financial Group, Inc.

The advent of the new millennium is a cause of growing concern to corporations across the country and around the world. Exactly what will happen at the stroke of midnight on the last day of this century is largely unknown. What is certain, however, is that market demands for the technical personnel necessary to prepare companies for this event have already reached unprecedented heights. All computerized systems, whether used to monitor a Boeing 747's flight path, the federal government's payroll, or your own ATM card, must be Year 2000 compliant. For most companies, compliance extends beyond their own front door to include all systems of their vendors, suppliers, and customers, thus making the scope of the project enormous.

If the scope of Year 2000 compliance is enormous, then the cost is extreme. For many firms, total compliance will be measured in the tens of millions. Not the least of these costs is that of attracting and maintaining a stable, critically skilled workforce. With many organizations facing the choice of becoming Year 2000 compliant or closing their doors, an employer's technical (human) resources become pivotal to their continued success. Fleet's retention plan was developed in response to the unique conditions precipitated by Year 2000 project demands. It is a three pronged strategy aimed at retaining key technical personnel in the face of severely competitive market pressures. The plan components are:

- A Merit Augmentation Program designed to provide highly competitive base salaries to all technical personnel
- An enhanced nonqualified stock option offering
- A retention bonus award for key contributors to be paid in March of the year 2000

Background of the Situation

Fleet Financial Group, Inc. (Fleet) is a diversified financial services corporation based in Boston, Massachusetts, with assets in excess of \$85 billion and a rich history spanning more than 200 years. Fleet is the 11th largest commercial bank in the United States, employing more than 35,000 people in 36 states. As a financial services institution regulated by the Federal Reserve Board and the Office of the Comptroller of the Currency, Fleet is subject to an accelerated Year 2000 compliance deadline of December 31, 1998. Fleet Technology Solutions (FTS) is the formal name for the technical services arm of Fleet. FTS includes all systems and programming personnel as well as related data processing, operations, and technical functions. This plan was developed to retain these highly skilled and specialized employees.

Reasons for the Program

By early 1997, competition for critically skilled technical employees was beginning to grow, causing increased turnover and recruiting difficulty (note: since early 1996, New England has been experiencing its lowest unemployment rates in nearly two decades.) By midyear, Fleet's annualized turnover for key technical staff was tracking at more than 20%, an increase of nearly 150% from 1996. Consulting firms beckoned, with promises of increased salaries (some by as much as 500%), flexible work hours, and paid overtime. Recruiting costs skyrocketed due to the "seller's market" philosophy employed by individual candidates and search firms alike. Fleet was faced with three choices: continue to run on the "recruiting treadmill," hire consultants to fill open positions, or develop an aggressive retention plan. The cost to fill positions as technical staff turned over was increasing. Market demands and the lowest unemployment rates the Northeast had seen in 20 years teamed up to inflate salaries at all levels. Sign-on bonuses, once a trump card use to attract key players, were becoming a standard part of most job offers. Relocation packages, usually reserved for high-level personnel, were now necessary to attract qualified candidates at all levels as local labor pools dried up. Search firm and headhunting fees grew along with market demand. Fee structures that normally capped at 20% to 25% of a candidate's first-year base salary began to climb to over 30%. In addition to the direct costs of the "recruiting treadmill," indirect costs (e.g., productivity downtime due to the learning curve and low morale due to increased workload of remaining staff) were also on the rise.

However, of greatest concern was the largely unquantifiable opportunity cost of strategic initiatives not undertaken due to a lack of qualified staff. A second option was to fill open positions with contract employees. In 1997, the average annual cost to hire a consultant was two and one-half times the position's average market salary. Add to this the indirect costs associated with the learning curve, low morale of existing staff due to consultants' higher salaries, and the mobile nature of the consultant, and it becomes an unattractive alternative. After reviewing the options, the answer was clear; FTS needed to work quickly and aggressively to retain the staff it had, while positioning itself in the market to attract new talent. It had to do this, but the question was, how?

How the Retention Plan Was Developed

To say that the Fleet Technology Solutions Year 2000 Retention Plan (the Plan) was challenging to develop is an understatement. FTS was attempting to anticipate future market conditions caused by an as-yet-unprecedented event. Consulting and survey firms, usually excellent sources of information, were dry and asked their usual client companies, like Fleet, to let them know if they came up with a solution to what was becoming a widespread problem. Competitor companies were also seeking answers, and those who had been quick to develop retention strategies were hesitant to share their findings for fear of losing their competitive edge.

This lack of hard data not only made the plan difficult to develop, but nearly impossible to sell to management. As with any project of this scope, the Plan evolved over time. Each piece was developed and introduced separately, allowing for maximum impact while giving employees an opportunity to digest the information. The first step was to collect competitive salary data and determine where the company stood in relation to the rest of the market. To do this, FTS relied on specialized information technology (IT) salary surveys.

Upon reviewing the composite survey data, it was clear that many of employees' base salaries were not keeping pace with the rapidly rising market, making adjustments necessary. Using monies set aside in a corporate market equity pool, Fleet provided increases to more than 600 technical employees in September 1997. This effort was known as the Merit Augmentation Program. Now that the company had created a level playing field, it was time to address the issue of retention. To accomplish this, Fleet first turned to a traditional long-term incentive strategy, the use of nonqualified stock options. Fleet has a three-year vesting schedule for stock options, so this time frame was appropriate (it surpassed the critical date of January 1, 2000). In October 1997, a pool of options, separate from the company's regular annual grant, was created for this initiative and distributed to recommended employees.

The Merit Augmentation Program and the stock option grant were both well received; however, Fleet continued to be plagued by high turnover and recruiting difficulties. The option grant, although an excellent long-term retention tool in theory, did not reach enough people or provide enough monetary reward to be effective. To be eligible for a grant, an employee's salary level and managerial responsibilities were heavily weighted. Many of the employees Fleet aimed to retain either fell below the salary threshold or were individual contributors. The company needed another retention tool that would significantly benefit a broader population. This last piece, a retention bonus award, turned out to be the most difficult to create. The elaborate plan document had numerous schedules, attachments, and exhibits. The first attempt resulted in a complicated deferred compensation scheme with staggered contributions, interest calculations, and participant statements. Managers labored for months over eligibility requirements, award amounts, funding issues, payout schedules, and the treatment of new hires, terminations, retirees, and transfers. They wrote long-winded managers' tools and meeting agendas. In the end, the final product was surprisingly simple.

In December 1997, a one-page letter was presented to each of 500 eligible employees. The letter thanked each employee for their commitment to the company and indicated the award amount they would receive if they remained in their critical role until March 31, 2000. (Award amounts were roughly 50% of base salary.) A single page of terms and conditions accompanied the letter and addressed administrative issues. This brief, personalized correspondence said more than all of the elaborate documents that preceded it: "We appreciate you, we need you, we entrust our future to you."

Primary Outcomes Attributed to the Program

It is impossible to predict the outcome or overall success of this plan, as its term stretches two years into the future. However, the short-term success of this plan is clear, turnover is down, and the morale is up. FTS is attracting people (new hires receive competitive salaries and are eligible for a retention bonus award if hired before January 1, 1999) and it's keeping the people it has. The week the retention bonus award program was announced, HR staff began leveraging it to salvage external job offers and enhance counter offers to save existing employees. The greatest success, however, is the most difficult to calculate. How do you measure goodwill, employee satisfaction, and positive morale? Looking ahead, Fleet realizes that continually escalating market pressures may make it necessary to repeat one or more of the initiatives of the FTS Year 2000 Retention Plan. If that happens, it will be ready.

Key Lessons Learned

The lessons learned from this project may seem fundamental, but had Fleet focused on them from the very beginning, it could have been more effective earlier in the process. The key lessons are:

1. Simple is best. People react more positively to things they understand.
2. When you give someone a monetary award, don't overshadow it with lots of verbiage. Remember, money talks.
3. If you appreciate someone's efforts, always say "Thank you."

Closing Comments

Few initiatives come along that are as closely linked to an organization's ultimate success or failure as the Year 2000 project. Many firms have already determined the cost of compliance is too burdensome, and they are choosing to close their doors. For those, like Fleet, they choose to remain viable, maintaining a stable, critically skilled technical workforce is the key to future success. No one knows exactly what will happen at 12:01 a.m. on January 1, 2000, but at least now Fleet is confident that it has a strategy in place to handle whatever comes.