Brain Drain

Twenty-Two Steps to Reduce the Impact of Retirement and Increase Employee Retention

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Executive Summary

Is your organization ready to lose up to 25 percent of its intellectual capital in the next decade? More than one quarter of the U.S. working population will be old enough to retire in less than three years, according to the US Bureau of Labor Statistics. This may lead to a shortfall of nearly 10 million workers. Add this flight to an average job stay of four years, where today's employees switch to a competitor without so much as a backward glance, and businesses in America are at risk.

America is poised for a brain drain so dramatic that many companies will find themselves unprepared to face the upcoming talent shortage. Yet it appears few companies are taking proactive steps to deal with the coming talent crunch.

This paper explores actions companies can take to manage looming intellectual losses. Some are straightforward; some will take more planning. Any organizational change comes from the top, so industry leaders must take proactive steps to deal swiftly and strategically with the changes our work force will undergo in the coming years.

As companies increasingly rely on intellectual capital, the value of work force intelligence to an organization cannot be overstated. This paper offers solid solutions to address the looming loss of intellectual capacity. There is little doubt that the insurance industry, so reliant on intellectual capital, should be at the forefront of addressing this important trend.

Where did all the experts go?

Brain drain historically has been defined as the loss of human skills in developing nations, usually due to the migration of trained individuals to more industrialized nations or jurisdictions. However, as baby boomers begin to retire, the term is increasingly used to describe the loss of intellectual capital to U.S. organizations. Downsizing also takes its toll on work force intelligence.

The U.S. work force has changed dramatically. A baby boomer's parents may have held one job in their entire careers; experts estimate a typical young American will hold from seven to ten different jobs before retirement. Insurance organizations, while they may not yet feel the pinch, are currently experiencing brain drain as long-term employees leave a company to retire, switch employers or change careers. There is little doubt—insurance organizations are about to see dramatic changes resulting from this exodus.

Future employment demographics should sound an alarm to insurance companies in America. Over time, the lack of top talent can be devastating to an organization, especially in an industry as complex as insurance. Add an increasing dependence on technology, and future employee skill deficits are a certainty, not just a theory. While this exodus is beginning to hit the insurance industry now, it will accelerate greatly in the next few years as aging boomers, those best placed to assume senior management roles, retire. This talent shrinkage must be managed now, before organizations find themselves in crisis.

Penny-wise, pound foolish?

It may seem profitable to replace an older, more costly employee with a younger person. However, organizations may lose a great deal more than they bargained for with that replacement. With the departure of these highly experienced employees, companies lose more than their individual expertise. Also lost is what psychologist Daniel Wegner calls “transactive memory.”[1] Transactive memory is information a person accesses which is outside of his or her own memory, information routinely called up by using another person’s memory.[2] Groups where this transactive memory is understood and valued function better than groups that lack this trait.[3]

Take co-workers, for example. On a difficult property claim, an adjuster may turn to a co-worker and ask, “What is the name of that engineer we used a few years ago in Georgia on that storm-surge claim?” Our brains can store only so much information. If we have access to people around us who may be more suited to remember a particular type of information, then we don’t have to work as hard to remember items that we don’t understand, don’t recall or that we don’t need at the time we hear it.

Brain drain slows down the work process and impairs a company’s product quality. It can result in inefficiency due to the time it takes employees to find new co-workers with the information they may need. It can also result in costly mistakes resulting in lawsuits, lost subrogation opportunities or claims paid, that with a thorough investigation, would have been denied. Probably most importantly, a work force lacking robust intellectual capital loses its strategic advantages and abilities to respond quickly to business opportunities.

Insurance professionals are concerned about brain drain, yet even a casual review of insurance literature shows that much of the focus in industry research centers on improving technology to enhance operations. Even the term “human-resource management” seems to be morphing into a robot-like term, “human-capital management.” This disembodied approach seems to negate the fact that we’re still dealing with people; yes, they may be “capital’ to a company, but most employees would be offended to hear themselves referred to in that manner. “Talent management,” the new euphemism for recruiting and retaining employees, again seems to dehumanize the worker. Few people appreciate being “managed” or referred to as “capital.”

The emphasis in insurance companies seems to have shifted away from quality toward quantity. How much faster can we complete a process, appears to be the question. Can we settle a claim in 30 days, even if we have to throw more money at it? Has customer service and quality been forgotten in the effort to improve company operations? Have we, in an effort to increase profits, driven much of our brightest talent right out the door?

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1 Wegner, Daniel, Paula Raymond, and Ralph Erber. “Transactive Memory in Close Relationships,” *Journal of Personality and Social Psychology* 61 (1991): 923—929.

2 Gladwell, M. (2000). *The Tipping Point: How Little Things Can Make A Big Difference*. New York: Little, Brown & Company.

3 Ibid.

The devalued older worker.

Insurance message boards are filled with complaints from older, highly experienced insurance professionals who cannot find work, some with two-to-three decades of knowledge. “I have a solution to the brain drain in the insurance industry. Hire me and all those still looking for work … and some of the people whose resumes are posted on the Broward County RIMS website, among others,”[4] one frustrated professional said in a June 2007 on-line risk management discussion. If these complaints are true, the widespread reluctance by insurance organizations to hire older, experienced workers may backfire due to the lack of new talent breaking down doors to enter the industry.

Nowhere is brain drain felt more acutely, it appears, than in claims departments nationwide. According to Conning Research & Consulting,[5] 70 percent of the nation’s adjusting staff is age 40 or older. “I have found this [talent leakage] particularly true in the claims arena,” according to James Brittle, a producer in the National Accounts division of Cobbs, Allen & Hall in Birmingham, Alabama. “Coming from the highly engineered chemical and energy field, try to find one carrier that still has experienced and knowledgeable adjusters to handle property claims. There are two options—young and inexperienced or experienced and independent. The latter group is getting smaller and smaller. It’s not real comforting.”[6]

How can companies prevent brain drain? Here are some possible solutions to this problem.

Analyze current workforce strengths and talents to determine core competencies.

If an employee’s store of knowledge is known only to a few co-workers, then it is largely useless to the organization as a whole. It becomes an information silo, a vertical information cluster that is not transmitted laterally to co-workers, usually to the detriment of the organization. Analyzing employees’ expertise and knowledge and categorizing it so that it becomes accessible by other employees and departments is critical to improving and strengthening the work force.

Determine, through surveys or informal meetings or email queries, where employees go for specific information.

Who are your employees’ “information agents” in given areas? Imagine this scenario—a Lloyd’s underwriter wants to issue a binding authority to an agent in Florida. Before agreeing, however, the underwriter must determine wildfire hazards in the counties where the agent wants to write business. If the underwriter can, with a few keystrokes, search a database that shows Lloyd’s experts who understand catastrophe modeling and perhaps understand wildfire exposures particularly well, the decision to issue the binding authority can be made more easily and accurately, not to mention more quickly.

4 RiskList Users Group, http://finance.groups.yahoo.com/group/RiskList/, June 23, 2007.

5 “Generational Talent Management for Insurers: Strategies to Attract and Engage Generation Y in the U.S. Insurance Industry,” Deloitte & Touche, 2007.

6 Private communication.

Knowledge Asset Mapping, written about extensively by British researcher Bernard Marr, allows organizations to locate and diagram internal knowledge. This visualization of intellectual capital, which Marr states is the “principle basis for competitive advantage,”[7] can then be used as a strategic planning tool so that organizations can predict future intelligence gaps before they occur.

Today’s organizations must be agile to compete. Classifying employee knowledge to make it more accessible to others in the organization can help companies make decisions rapidly. It goes without saying that companies like Apple Computer have seized marketplace opportunities to catapult themselves into leadership positions. Without sufficient intellectual capital, however, a company may not be robust enough to respond to opportunities as they arise.

Prepare to replace exiting information agents when those employees retire.

In smaller organizations, this process may not be formal. It may be as simple as acknowledging an employee who is an expert on a subject is leaving. Notify all employees of the loss of this person, then, direct them to another employee who may not have as much knowledge, but has some knowledge in that area. The company must develop incentives and time frames so that newer information agents can become experts on specific topics as gaps arise, and hopefully before they arise.

Determine which employees are potential flight risks, whether to retirement, recruitment or family pressures such as aging parents.

Talk openly with employees who are considering retirement or having home/work difficulties to determine how you can retain them. Flexibility is the key—the employee may need more time off or greater leeway to work non-core hours or to work at home. If the Family and Medical Leave Act (FMLA) is voluntary, your organization should consider allowing FMLA leave.

Hire retiring employees as consultants on a part-time basis to retain their expertise.

With increasing cost of medical care for retirees, many welcome a supplement to their retirement income. Adding benefit package components that appeal to older workers, such as long-term care insurance or prorated health coverage for part-time work, may help retain them, as well.

[7] Marr, Bernard, and J.C. Spender. "Measuring Knowledge Assets - implications of the knowledge economy for performance measurement." *Measuring Business Excellence* 8(2004): 18–27.

Provide incentives for employees to consider postponing retirement.

When an organization considers the total impact of losing a long-term employee, it is generally cheaper to retain that employee than to hire and train a replacement, especially if the employee's knowledge routinely saves the company money. Consider the following scenario:

> A claims manager will retire in two years, working over 30 years for just two carriers. He is one of the top arson investigators in the Midwest, taking dozens of arson claims to trial or to closure. Currently, there is no one else in his company who handles arson files without his supervision, and no one who remotely approaches his level of expertise.

What happens to this company when he leaves? How much will his departure cost the company in terms of claims payments that might have, with his expertise, been compromised or denied? Can this organization really afford to lose the employee's expertise without a solid exit strategy?

Use technology to drive intra-company communications.

Intranets, videoconferencing, peer-to-peer technology, and podcasts are information portals that allow workers to communicate over distance and varying time zones. Encourage disparate and divergent workers to develop virtual relationships to share ideas and solve problems using these tools. Why not take advantage of your global work force?

Establish "practice communities" where individuals from various departments—claims, underwriting, marketing and reinsurance—meet regularly to solve problems.

According to James Surowiecki, author of *The Wisdom of Crowds*, a crowd is a group of diverse people with differing levels of intelligence and information who collectively make smart decisions. A good example of this wisdom, as many claims managers have found, is "round tabling" a claim. Allowing a group of adjusters with varying amounts of experience to determine a claim's value or to develop a plan of action to kick a stalled claim forward often provides excellent results and acts as a learning tool for less experienced team members.

Surowiecki defines four elements that make a smart crowd. He recommends a diverse group because each person will bring a different set of experiences to the process. The crowd should have no leader so that the group's answer can emerge, but there must be a way to articulate the crowd's verdict. Finally, people in the crowd must be self confident enough to rely on their own judgment without undue influence from other group members.

With today's sophisticated technology, organizations don't have to rely solely on local talent. A company-wide initiative can be implemented readily with some help from your organization's information technology department. Practice communities build virtual relationships which in turn make employees more connected to the organization.

Organize and memorialize your practice community results with wikis, a decade-old web application that allows many people to collaborate on a single document.

There are several sites dedicated to collaborative writing, including www.writeboard.com, and www.writer.zoho.com. Visit www.wikipedia.org, the on-line encyclopedia written by collaboration, to view an example of wiki technology at its finest.

Implement a formal mentoring program.

Some insurance organizations have implemented mentoring programs. The National Association of Catastrophe Adjusters www.nacatadj.org formed a mentoring program in 2005. While not online, it matches new adjusters eager to learn CAT adjusting with experienced field adjusters.

Aon Services Corporation is almost a year into an ambitious mentoring project. With 600 Aon employees in the pilot program developed with assistance from Triple Creek Associates, Inc., in Colorado, Aon expects to roll out the program company wide. The program was not limited to senior manager mentors; anyone in the organization with good performance was eligible to participate. “This challenged our operational paradigms, to have a junior person mentoring a senior person,”[8] according to Talethea M. Best, Aon’s Director of US Talent Development.

The results have been positive, she reports. Eighty-six percent of the mentees and 62 percent of the mentors who responded to a recent survey felt that the mentoring process improved their own performance. Eighty-five percent of the mentees and 78 percent of the mentors would participate again if asked.

“We encouraged a protégé-driven process,” Ms. Best said. Potential mentees used a computerized platform with specific parameters to search for what they wanted in the mentor relationship. “It was a win/win for all involved,” Ms. Best said.

“This [mentoring project] was an opportunity for us to think more strategically,” Ms. Best reported. “To retain employees it is critical to make people feel invested and engaged. How do you make folks feel like they make a significant contribution? Mentoring is a way to address that,” at a cost of pennies per employee, Ms. Best said.

Not all managers are mentor material. To be effective, mentors must receive some training in how to mentor. Aon addressed this concern with initial employee development workshops.

To ensure the highest quality mentorship for your employees, it is critical that mentors are carefully selected not only for their technical skills, but for their ability to communicate effectively in an increasingly diverse work force.

[8] Private communication.

Pool knowledge across organizations.

Your Encore, founded by The Procter & Gamble Company and Eli Lilly and Company, is a society of retired research scientists and engineers who "continue to provide value—at its highest level—to companies on a consulting basis," according to its website. The insurance industry is particularly well suited to this approach because risk pools changed the face of insurance, so the models to implement this approach are already well accepted by our industry. Don't be unreasonable with information, but do set some ground rules and ensure employees comprehend which information is proprietary and which can be shared.

Cross train employees.

"A former employer of mine combined the loss control and underwriting functions to 'Loss Control / Field Underwriting Consultants'."[9] It worked out well, reports Mike Benisheck, Director of Risk Management for Pacific Tomato Growers, Ltd. "They had a historical loss ratio of 30–32 percent annually for about 15 years." When they separated functions, losses once again spiraled, Benischeck reported.

Cross training can limit employee burnout and provide new motivation for employees who feel stymied in their career. It also strengthens an organization's operational team.

Cultivate a culture that values expertise.

To prevent brain drain, an organization must provide an atmosphere that values aging workers and the knowledge they possess. Recognizing, but more importantly, *acknowledging* their overall contributions to the organization, not just the number of claims they close or the amount of new business they produce, may mean keeping employees just a few years longer. Small changes in any organization, as anyone who read the book *The Tipping Point* knows, can mean enormous changes overall.

Younger workers should be made aware of the demographic trends and what it means to their careers. Many younger workers are eager for career advancement. The demographics pointing to a sharp talent drop are in their favor if they prepare themselves, and organizations help them prepare, to take supervisory and management positions. Few younger workers recognize this trend. Organizations who speak frankly of these developments and what they mean to each person, not just the organization itself, will build loyalty and perhaps help to cultivate patience in generations that are used to quick answers and quick solutions.

Encourage employees to join on-line insurance groups like RiskList or PRIMA-Watch.

Insurance professionals are notoriously generous with their time and information when it comes to helping their counterparts, as any insurance industry employee knows who belongs to a professional organization. Insurance server lists have been on-line for many years with a faithful membership. List members will respond to just about any inquiry with an impressive depth and breadth of knowledge, with some humor thrown in, as well.

9 Private communication.

Support employee membership in professional organizations like your local claims association, Insurance Women, RIMS or CPCU Society.

'Support' means paying dues and supporting the absences necessary for employees to both attend conferences and to hold committee positions. This gives employees a strong network to turn to for information and support. There has been a mindset in the industry that allowing employees to network outside the company increased the employee's flight risk. More enlightened managers realize that if employees feel valued for their expertise and encouraged in their professional development, they are generally more loyal to their employers.

Offer incentives for obtaining professional designations. Offer greater incentives for attending classes rather than on-line participation.

According to the CPCU Society, in 2006, 88 percent of CPCUs were age 40 or older. Taking a class from an experienced instructor with students from other companies and disciplines gives students a much broader experience. It also exposes them to others with whom they can network or seek advice. Designations are a clear indicator that employees see insurance as not just a job, but a career.

Avoid the human resources "silo."

An information silo is a pool of information that is not well integrated in an organization. Human resources departments often act as "silos," gatekeepers in the hiring process, by determining which applicants get interviewed. Forming inter-departmental hiring panels, teams that develop job descriptions, review applications and give input on general hiring and other personnel issues like employee retention, can greatly improve a company's work force.

Don't underestimate the impact that younger generations and their different work standards have on older workers.

There are four generations of workers in today's increasingly diverse workforce. With Millenials, Gen Xers and Yers in the employment mix, many young people are either intimidated by older workers or downright contemptuous. Older workers, in turn, often cannot comprehend their younger peers' thinking and may be intimidated by their ease with technology.

Forming intergenerational teams can bring divergent employees together so that they can benefit from each others' strengths, not just complain about their weaknesses. Utilizing younger workers who are good communicators *and* technologically proficient to train older workers in new technology can bridge two gaps—the generation gap and the technology gap. In turn, older workers can mentor younger employees and model appropriate and ethical behavior.

Consider the Total Cost of Jerks (TCJ) to the organization.

Verbal abuse, intimidation and bullying are widespread in the American work force.[10] But some companies are taking notice. There is a growing trend in companies to consider the TCJ impact on the work force, including several organizations on Fortune's "100 Best Places to Work."

Robert Sutton, Ph.D., Professor of Management Science and Engineering in the Stanford Engineering School, views 'jerks' in a much more explicit light. Sutton authored *The No Asshole Rule*, a business bestseller that provides steps organizations can take to quantify the cost of jerks and eliminate them.

He lists the "dirty dozen," the top twelve actions taken by those who use organizational power against those with less power. "It just takes a few to ruin the entire organization," Sutton writes.[11]

Older workers may have seen it all, but they don't always have the patience to put up with twits. That jerk in the cubicle next to a long-term employee may be the final nudge that pushes a valued older worker out the door. Most employees who have options like retirement tolerate jerks for just so long, and then they clean out their desk.

Eliminating toxic employees can improve more than the organization's internal structure, because if an employee treats co-workers badly, how is he or she treating your customers?

Make the most of the existing work force.

Studies have found that up to 40 percent of the time spent handling a claim can be spent in administrative tasks that don't impact the claim's outcome significantly. It makes sense, then, to drive work down to its lowest possible level of the organization. Are adjusters still issuing checks, composing the same letters over and over, and answering calls that could be delegated? According to employment consultant Peter Rousmaneire, some corporations are outsourcing their claims-support systems. "[Outsourcing] offers the potential of injecting into the claims management process some very intelligent, well educated people who are very motivated to perform functions which, due to global information systems, they can do proficiently."

Don't overlook diversity.

Many employees are overlooked in the promotional process because they are of different nationalities, ethnicities or gender than the dominant makeup of an organization. Whites follow a different career path than their non-White counterparts, according to David A Thomas, author of an article on minority mentoring that appeared in the *Harvard Business Review*. Whites frequently get more attention from their managers and hence more opportunities.

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[10] Lutgen-Sandvik, P., Tracy, S. J., & Alberts, J. K. (in-press). Burned by bullying in the American workplace: Prevalence, perception, degree, and impact. *Journal of Management Studies.*

[11] Sutton, Robert. *The No Asshole Rule: Building a Civilized Workplace and Surviving One That Isn't*. 1st. New York: Warner Business Books, 2007, p. 180.

Thomas's research showed that the one common attribute people of color who rose to the tops of their organizations had was mentorship, but mentorship that went beyond what he termed "instructional." They had mentors that provided a deeper relationship which increased their mentees' confidence and did not shy away from frank discussions about race.[12] If we fail in our organizations to see beyond employees' gender, skin color or religious beliefs, we may overlook our brightest talent.

Address the problems of brain drain strategically.

To date, there is a great deal of discussion on brain drain in the insurance industry, but little empirical evidence to use to determine which methods might avoid this loss. Many insurance executives are talking about the problem in conferences and trade journals, but what are insurance companies doing to address it?

To create organizational change, an organization must start with a vision. What are the problems we face and what are their consequences both short-term and long-term? Where will our work force needs and realities stand in five years?

Effective organizational change begins with a plan

Without a roadmap, even the savviest traveler occasionally gets lost. To address brain drain strategically, a company must develop a strong vision and a stronger plan. This plan can be implemented over time, but it must have clear goals and time frames to avoid becoming mired down in processes.

From top management to line supervisors, there must be a shared sense of urgency to this problem, because any critical initiative can go astray due to the competition all organizations face in today's highly competitive global market. To solve the coming talent crunch, organizations must commit the resources to tackle this problem strategically, while there is still time.

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[12] Thomas, David A. "The Truth About Mentoring Minorities: Race Matters." *Harvard Business Review* April 2001.

