Job churn

Need a job? Probably not today. Times are good for employment of engineers, and thanks in part to our incredible foresight in creating the Year 2K bug, anyone who can program is being desperately sought. Newspapers are full of ads for people in the information technology area, and engineering graduates this past spring had multiple job offers from which to choose.

Of course, as a profession, we've been there, done that. It isn't so long ago that the stories about out-of-work engineers opening hot dog stands got a lot of publicity. The bad times will undoubtedly come again, but for now let's enjoy the demand for our talents. What I worry about, though, is the job churn quandary.

As the demand for engineers escalates, people are churning—milling about between companies, as it were. I have mixed emotions about this churn, from both the individual's and the corporate standpoint. Wherever I go these days in the information technology business, I hear executives moaning about their attrition rate. Then they pause, smile, and say that, nevertheless, they're doing great at recruiting. They don't seem to realize that these things are not unrelated. My attrition is your recruiting success, and vice versa. What we have here is an arms race. How you view it depends on whether you're a warring country or an arms dealer.

For a corporation, the churn of people increases the cost of business, both in the real cost of hiring new employees and in the hidden costs of training and integrating these employees. Of course, it also leads to escalation of salary expense. Managers see their key employees courted by outside offers. The details of these offers have a way of spreading quickly through the company. Other people shake their heads in amazement and are secretly jealous. "Why not me?" they think. They look with new suspicion on their own management, and wonder why their own company doesn't get with the times and start rewarding its own employees in a like manner.

Unfortunately, there is an issue here that is seldom discussed. Throughout my career, any place I've been and any place I've heard about, there is always a discrepancy between what new employees and old hands are paid. Years of experience within a company appear devalued by the high starting salaries of new employees. People always say that this should be fixed, and that existing employees should all get a big raise because salaries for new hires have increased. But the idea is a nonstarter. The market doesn't work that way.

An employee has not one market level but two—the level it takes to retain him or her and the level it takes to lure one from another company. I think of it like the work function in physics—a certain quantum of salary is required to dislodge a person in the ground state. Corporations take advantage of the fact that a body at rest tends to remain at rest. Other things being approximately equal, most of us would prefer not to have to uproot our families and go through the stress of changing jobs.

Managers scheme on how to retain their key employees. What they would like is something akin to frequent flyer miles to build loyalty for employees with longevity in the company. They come up with so-called golden hand cuffs in the form of vesting bonuses, options, or stock, with the idea that this will lock in their critical people. Simultaneously, these same managers are dicker ing with key people from outside companies, arranging how to buy out the packages that have been given to them by these other companies. All that has been accomplished is to escalate the arms race to a new level of expense.

Not only do the golden handcuffs fail to work as intended, they create unrest and churn in themselves. Nothing stays secret within a corporation, and the existence of any special deals quickly becomes known. This creates two classes of people—disgruntled employees who have been left out, and gruntled employees who have had their market worth affirmed. The latter class is newly attuned to the possibilities of leveraging their value on the outside.

The disgruntled (but loyal) employee is sometimes forced to consider playing a tricky game of blackmail. The basic idea is simple: threaten to leave, and get your salary raised without actually having to leave. There is a fine edge here, though. First, the threat must be real. "I was thinking about leaving" doesn't do it. Best to have an explicit offer in hand. But there is a risk. "Gee, that's a good offer, Joe," says your boss. "I'd really recommend that you take it." Oops! Your bluff has been called, and something irreparable may have happened between you and your manager.

Corporations study exit interviews to understand why people are leaving. The data never say that people are leaving for higher salaries but that they are leaving for "the challenge of the new job." "Challenge" is a good word. It sounds high-minded and principled. It is often used in industry, and it is always a euphemism for something else. What it means in this case is, "Hey, I went for the bucks." There seems to be a secret pact among everyone involved not to admit that this is the case, as if the admission would demean them.

So job churn seems bad for the corporation, at least past a certain point. Some level of job churn is, of course, necessary for corporate vitality—say, about 10 percent annual attrition. On the other hand, churn seems good for the individual. Opportunities abound, and the general level of compensation increases. The question for the individual, though, is this: why do we have to leave our jobs, homes, and friends to prosper? Why not, in a perfect world, stay where we are, yet see compensation increased to market levels? How could this be done?

I could imagine a world in which salaries were keyed to some market index, a sort of Dow Jones of engineering salaries, where compensation for everyone would float at market level. Or perhaps in the new world of telecommuting, we would be traded like commodities. One morning you would come in and be told that you've been sold to, for example, Microsoft, but you needn't move. Just print up some new business cards, and stay where you are.

However, I'm only dreaming about this churn, and affirm that nothing in this column resembles the behavior of any real company, living or dead.

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