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BY ORLY LOBEL

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Marty Beard, CEO of LiveOps Inc., a leading cloud-based contact company in Silicon Valley, recently got some bad news: One of his best project managers was leaving for another company. Beard was upset. He worried that LiveOps would suffer from the loss of talent and knowledge, and he considered doing everything in his capacity—including legal maneuvers—to prevent the move. But Beard soon realized that the manager's departure wasn't a total loss. He had gone to work for one of LiveOps's biggest customers, Salesforce.com, and his move had actually become a benefit. Beard now reports that, in a way, the ex-employee is a critical source of insights about an important client.

These days, people are an organization's most valuable asset. Given the work that it takes to recruit, identify, and hire strong talent, companies want to retain their employees at all costs. But in the increasingly mobile labor market, companies should actually view departing employees as continuing assets and employee turnover as a source of long-term strength.

Academic research is starting to quantify the benefits of this turnover. A team of researchers from the Wharton School of the University of Pennsylvania and the University of Maryland studied the effects of "outbound mobility." The researchers examined 154 semiconductor firms over 15 years, systematically exploring linkages between the firms on both sides of an employee move and any patterns in the way the firms cited patents. They found that after an employee changed jobs, both the "sending" and the "receiving" firms became more likely to cite the other firm's patents. That is, companies that lost employees actually gained knowledge.

Why? The researchers theorized that the employees left behind gained access to the knowledge generated at their ex-colleague's new workplace. They became more aware of that company and its ideas, leading to a kind of cross-pollination. The effect was more pronounced when there was a large geographic distance between the two companies, suggesting that the departing employee made his or her old employer more aware of concepts and intellectual capital that it likely wouldn't have encountered otherwise.

Other researchers have found similar advantages from employee turnover. A study published in the *Journal of Economic Geography*, for example, looked at inventors of mobile technology. When an inventor left a particular region, the "knowledge flows" to that region were 50 percent higher than if the inventor had never worked there. (The study looked at geographic transfers, but

Illustration by Phil Hackett

the logic applies to companies as well.) In many cases, the mechanism behind such flows of knowledge was social capital—personal relationships that stayed strong despite the inventor's departure.

In fact, the idea of social capital informs many of the benefits of departing employees. Part of that social capital stays with the prior employer, introducing a connection between the two firms that might not have existed in the past. When employees at two firms know each other, collaboration, and even competition, can become more effective. Ex-employees make their new firm more aware of the work done by their former firm, often building on those ideas and increasing the chances that the new firm's patents will be licensed. The sending company also strengthens its networks and industry positioning in professional associations, technical committees, and lobbying efforts, growing its industry footprint and making it easier to navigate the market. Perhaps most important, the reputation of companies becomes more relevant when potential hires know someone who used to work at a given company.

Despite these benefits, the common reaction among companies experiencing turnover is to resort to defense and retaliation. They write noncompete clauses into contracts, and they enforce such clauses, increasingly through litigation. According to the *Wall Street Journal*, employer lawsuits against former employees regarding noncompete clauses have risen 60 percent over the past decade.

To be clear, high levels of turnover generally indicate bigger and more systemic problems within a company. And in many instances, noncompete clauses—and lawsuits—are warranted. Employees have access to valuable trade secrets, customer data, and business relationships. The loss of those elements has significant financial and operational consequences for the employer.

Yet companies are often too quick to resort to measures that may succeed in retaining employees in the short term but that are ultimately counterproductive. If turnover becomes so pervasive that it affects the way a company functions, the focus should be on identifying and curing the core problem, rather than preventing the symptom. That is, the firm's leaders are better off asking why their best talent is leaving than trying to intimidate people into staying. In extreme circumstances, this approach leads to adverse selection, or keeping people around who no longer want to work there.

Moreover, to determine the real business risk from a departing employee, companies should distinguish between those leaving for current and potential cooperators—a group that includes clients, suppliers, and partners—and those leaving for companies that pose a direct competitive risk. For the first group, companies need to become better at seizing opportunities for gain. Amicable departures can help pave the way for future collaborations, turning ex-employees into allies who can provide critical insider insight into those companies. For the latter group—those who are moving to direct competitors—the loss is clearly more of a threat. But even in those cases, a caveat applies: A company that may be your competitor in one product line or service may well be your customer in others.

Forward-thinking companies are learning how to integrate this reality into their recruiting, marketing, and outreach strategies. For example, many organizations now have alumni networks that allow people to retain ties to their former employer. (Among other benefits, these networks almost always include personnel directories, which foster stronger connections among alums—even those who may not have been at the company at the same time.) In particular, although some companies used to have implicit, or explicit, rules stipulating they would never rehire anyone who had left the firm, most are recognizing how archaic and vindictive those policies seem and are scrapping them.

Companies are now actively tapping into alumni networks to hire "boomerang" employees—those who have left the firm and then come back. For example, IBM's alumni network, "the Greater IBM Connection," allows the company to reach back into the pool of ex-employees to serve its current personnel needs. Boomerang hiring is low cost, carries lower risk, and results in faster reintegration. After all, the employee and the company have much better information about each other than employees with no direct experience.

Beyond rehiring, corporate alumni programs focus on strengthening the firm's brand in the mar-

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ket, encouraging word-of-mouth referrals, and building opportunities for strategic alliances. That is, they take advantage of social capital. Pushing this idea one step further, Virgin Group Ltd.'s Richard Branson makes a habit of working with former employees to help them start their own businesses. Such corporate venture capital is on the rise; companies are increasingly funding their own ex-employees' efforts to launch new companies, blurring the lines between the formerly distinct ideas of abrupt talent departure and productive continuity.

Moving from a zero-sum state of mind to one focused on mutual benefits is not easy for anyone, especially market competitors. However, these days, competition and cooperation do not make up an either/or proposition, but rather two ends of a dynamic spectrum. Fundamentally, some turnover will always be inevitable, and in the right context, it's a sign that the company is succeeding in developing its people. Retention is important, but it's not the only objective. Equally important is the ability to turn those inevitable employee losses into gains. By adopting the right mind-set and approach, a company can gain market attention, new partners, and goodwill ambassadors in the industry at large. ✚

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