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How to make friends and gain influence …by losing employees

Fighting to attract and retain the best talent is still important but letting employees go, even in good times, is also beneficial, says a research team led by INSEAD faculty Andrew Shipilov and Frederic Godart.

Is losing employees bad for your firm? An intuitive answer would be a straight "yes" because by losing employees, your organisation seemingly loses not only its human capital (i.e. their skills and tacit knowledge accumulated over the years) but also its social capital (i.e. all the internal and external connections your employees have made over their career inside your firm). In other words, conventional wisdom suggests that by losing employees, companies lose both brains and address books. This idea is out of date.

The late 1980s spawned the *War for Talent* mantra: in essence, firms have to make sacrifices and be very creative to retain talent. Hence management should attract the best, make sure they grow, keep them as long as possible and make sure they do not leave. Twenty years ago, these were considered insightful and thought-provoking ideas. Talent was seen as a scarce resource in an increasingly competitive and globalised world. We think that the rules of the game have changed. Fighting to get the best talent is still important, but having the courage to let them go is also crucial because there are benefits in letting people go, whether in good or in bad economic times.

Our new research project at INSEAD's Europe campus in Fontainebleau, France, focusing on the antecedents and consequences of performance in creative industries, shows that firms can actually benefit from losing employees. To back our claims, we conducted an intensive study of the global fashion industry, including dozens of interviews with senior industry executives, and collected information on the careers of thousands of fashion professionals. Using this wealth of data, we analysed the impact that losing designers to competitors has on the performance of fashion houses.

Surprisingly, we found that designer departures can actually lead to greater performance of fashion houses that lose them. This can be attributed to the ability of source fashion houses to benefit from the social capital of departed designers. First, gaining information about what competitors are doing is critical, because this is how houses can gain insights into the newest and hottest trends. When designers go to work for another fashion house, they maintain contacts with their former employers, while creating new connections in the new place of employment. These contacts result in an informal communication bridge between the two houses and through this bridge the 'source' house can learn what is going on at competitors. The insights collected from different competitors can enable source houses to generate new ideas and produce more creative and critically-acclaimed fashion collections. In the fashion industry, famous designers pay a lot of attention to where their assistants and apprentices go and maintain close relationships with them. For example, Japanese designer Rei Kawakubo (who created the renowned brand *Comme des Garçons*) always kept a close eye on, and relationship with, her protégés such as Junya Watanabe, who in turn provided Kawakubo with inspiration for further creative activities. This holds also true in many other industries where alumni maintain close relations with their former employees: both the international consulting firm McKinsey & Company and global consumer products manufacturer Procter & Gamble (both unequivocal leaders in their respective fields) maintain strong networks of departed employees that feed their former organisations on the whereabouts of clients or competitors.

Second, departed employees can be a basis of a source house's influence in the industry. This is because departed employees expose competitors to the house's operating philosophy and principles, which increases the industry's perception of the house's creative thought leadership. Thus, fashion houses such as Prada or Marc Jacobs have become 'platforms' of recognised creativity. Designers join these houses for a while, learn the trade of fashion there – generally with a clear focus, for example, on knitwear or leather – and move on to work for the other fashion houses spreading the positive buzz about their prior employers. Other top fashion houses such as Lanvin are generally well known to expand their influence in the fashion industry by letting designers work at other places: for example in the case of their recent collaboration with H&M, a way for the company to grow its market. In other industries, companies like GE also rely on their past employees to showcase their thought leadership and spread their management methods, such as renowned quality management methodology Six Sigma, which leads to new business for these companies.

Third, designer departures enable organisational turnover. When designers leave, they provide room for new designers to come into the fashion house and bring their unique experiences from the outside. This brings in fresh ideas, positively impacting creative performance. Moreover, some fashion houses purposefully let some of their people go to work for competition in order to help them develop their careers and not feel upset from the lack of personal development opportunities. As one of the fashion executives interviewed for this article put it: "If our company cannot provide room for a designer to grow, we would prefer that he or she goes work for the competition as opposed to staying with us and feeling unhappy." As it turns out, unhappy designers are also not very good contributors to organisational performance, but a designer who left to work for a competitor might return at some point to the source fashion house with newly-acquired expertise. Top consulting companies know this and do not hesitate to ask their young analysts to leave for a while, before coming back as associates. This is also the raison d'être of MBA programmes: provide high-potential employees with new horizons. Let them come back if they wish; some degree of turnover is good for employers and for employees.

Whole industries, beyond fashion, are based on the premise that letting people go is not necessarily bad. Think about how high-tech firms in Silicon Valley rely on personnel exchanges to grow and get new ideas. This is also true of the Hollywood and 'Bollywood' movie industries where temporary teams of actors, movie makers, producers, technicians and script writers assemble temporarily and move across projects. In banking, analysts and investment bankers do not hesitate to move around, to the benefit of their employers who can get them back later with better skills.

Obviously, too many departures to competitors can also be bad. We found that after a certain point, losing designers disrupts the day-to-day operations of the fashion houses. Learning from too many departures can lead to a painful reality of "information overload". When too many people leave for too many places, the source fashion house simply cannot integrate all the insights received from the competition into its new collections. Information can be full of contradictory messages and can paralyse decision-making. Also, losing too many people can be disruptive to a house's day-to-day operations, increasing the uncertainty among the remaining designers and running the risk of the house's losing "the soul of its brand".

This is why companies have to develop strategies for managing departed talent, in addition to strategies for keeping the existing talent. Letting people go does not mean that firms should forget about caring for their talented people. On the contrary, they should pay extra attention to talented people long after they are gone: for example through developing and managing alumni networks (online and informal) as well as outplacement strategies.

Letting some people go is healthy and the biggest beneficiaries of talent loss will be firms which recognise that departed employees and their networks are important drivers of competitive advantage. Except that, in this case, competitive advantage is obtained not from the physical assets possessed by the firms, but rather from the social networks of the departed employees. The bottom line is that in the 21st century the whole global economy should learn how to benefit from well-managed professional mobility.

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