

Talk is Cheap. Silence is Anything but Golden

By Steven R. Flynn

Communication has been the subject of countless books, self-help tapes, organizational management training seminars, and myriad other endeavors. However, rarely is the actual bottom-line cost of poor communication examined, discussed, and/or realized. It is far easier to analyze columns of expenses and revenues to see exactly what has a direct impact on profitability. The effects of poor communication on the bottom line are not as manifest as, say, what was spent on rent, salaries, or training. Thus, it can be difficult to justify expenses for initiatives that often take a very circuitous route to the bottom line.

When fiscal times get tight, as they have for the IT Services industry in recent months, typically some of the first initiatives to get trimmed as “fat” by the bean counters are training programs, orientation programs, and, maybe most importantly, employee and client satisfaction programs. Such initiatives are typically seen purely as costs that hurt the bottom line. However, it can be far more expensive in both the near and long term to engage in this behavior, which is considered by many CEO’s and CFO’s to be fiscally responsible.

If this sounds a little pie-in-the-sky, consider this: In Specifics’ 2000 IT Services industry studies it was shown that those firms which engage in regular employee *and* client satisfaction measures realized an average operating profit margin of 9.6% (\$11,745 profit per employee). Firms that do not utilize such measures realized an average operating profit margin of 8.9% (\$9,946 per employee). This is not meant to imply a pure cause-and-effect relationship, i.e. conducting these studies alone will not ensure greater profitability; rather these initiatives act as the stones that create the ripples in the pond. To see where such differences in profitability come from, as a result of engaging in these measures, the effects of poor communication have to be examined in greater detail on both the employee and client side.

On the employee side, the impact of not communicating can be felt in one very expensive way: Turnover. For fifteen years Specifics has examined turnover in IT organizations and what drives it, and at no time during this fifteen-year span has turnover been as significant and costly an issue as it has been over the last few years. However, though the industry has changed significantly over the last decade, the issues that drive turnover have not. There have been and continue to be a cadre of issues that drive turnover within an IT organization. Those firms that work to ascertain what drives turnover in their particular organization, and address these issues through best practices, wind up with more satisfied employees and higher retention rates. Unlike the statement above, this *is* intended to imply a direct cause-and-effect relationship.

To illustrate this point we have to look at some of these common issues and what their effect on turnover and, ultimately, profitability can be. One of these factors is the perceived or real lack of professional development opportunities. Most employees typically complain that they are not compensated for training time and that their work schedules do not give them the opportunity to avail themselves of any training

opportunities offered. Thus, they perceive the door to training opportunities to be closed. Conversely, most companies do not want to invest the resources necessary to implement or enhance such professional development programs, citing low participation by employees (on average only one in three employees will take part in voluntary training programs) and the fact that the employee is likely to leave the company anyway. Both appear to be valid complaints on the part of the employer. However, availability, not participation, is the operative word here. For example, despite the consistently low average turnout reported for voluntary skills training, companies that give easy access to employees for instructor-led or facilitated training opportunities posted an average overall turnover of 33% in Specifics' 2000 IT Services Productivity, Practices, and Trends (PPT) study. Firms not offering such training realized 60% overall average turnover. Those firms with lower turnover simply opened the doors to professional development opportunities and put the onus of responsibility on the employee to walk through.

Orientation is another area that has a significant impact on turnover, but one that companies tend to see purely as an expense, and one in which they don't like to invest resources to improve. The typical orientation program is designed primarily to familiarize the new employee with company policy and procedure as quickly as possible in order to get them fully billable ASAP. This may be a good approach for the short term when the client is screaming about on-time deliverables. However, this can prove to be costly in the long run, for this employee is more likely to turn over sooner than an employee who went through a well-designed orientation program. The impact of poorly designed and executed orientation programs on turnover can be significant. The 2000 PPT, as in previous editions, shows that total average first-year turnover increases between 3% and 5% for each hour less than eight spent on employee orientation. Thus, a company with a six-hour orientation program could have 6% - 10% higher first-year turnover than a company with an 8-hour orientation program.

Another aspect of the hiring and orientation process is screening candidates with respect to how they would fit in with the corporate culture. Cultural compatibility is easy to overlook, especially when a resource is scarce and there is an immediate need to fill. However, IT employees typically spend 40, 50, 60 hours per week or more with co-workers. While there is no empirical data to back this up, it should be no surprise to any manager that if an employee simply doesn't fit in with the culture of the organization, no amount of money, training, or orientation will keep them satisfied and retained.

The perceived (or real) lack of competitive compensation, and how it can impact turnover, is another often-discussed piece of the retention puzzle. Exacerbated in recent years by a tight labor market and the availability of suspect compensation data on various Web sites and job boards, IT employees rarely feel they are paid as much as they're worth or as much as the person in the next cube. However, compensation, if within a competitive range for a particular skill and market, will be, essentially, a non-issue as it relates to overall satisfaction and retention. Relative to other factors such as training, development, and communication, compensation is weakly related to employee satisfaction and turnover. However, when other aspects of an employee's work life become unacceptable, the thought that "I'm not making enough to put up with this" leaps

to the forefront, and can significantly impact turnover. Thus, investment in improving internal processes tends to bring far more bang for the buck than simply offering higher compensation.

So, why, in lean financial times, should firms make scarce financial resources available for what are generally perceived to be non-essential items? Turnover – it's very expensive. Consider that the average cost to hire is, conservatively, \$3,000 per employee, and the average overall turnover in IT firms is 43% (Specifics' 2000 PPT). Thus, for a simplistic example, a company with 500 employees will spend approximately \$645,000 per year to keep head count steady, not to mention trying to increase it. If that same company is able to reduce turnover by just 5%, a savings of approximately \$75,000 is realized.

The intention here is not to imply that impacting turnover is easy – far from it. However, there is an implication that starting the process is easy. In order to employ the best practices needed to make such an impact on turnover, firms must first find out what is important to their particular set of employees and then enact programs where applicable. The easiest way to start this process is to simply communicate – i.e., ask them. As mentioned above, when corporate officers are looking to make cuts, initiatives such as employee and client satisfaction studies are some of the first items to go – believe me this is true. For those corporate officers out there who happily open the floodgates of budget dollars for recruiting, consider this: It was found in the 2000 PPT, and other studies, that those firms that engage in employee and client satisfaction research realized an average total turnover of 41%, while firms that did not engage in such initiatives realized an average total turnover of 51%. At approximately \$3,000 a head to recruit, not engaging in such activities would appear to be quite fiscally irresponsible. In other words, the captains of these ships are more likely to invest big dollars in larger pumps to keep up with leaks rather than pay less to plug a few of the holes.

Even with diligent efforts to increase retention on the employee side, the ripples on the pond don't stop. They keep flowing right through to the customer base – the reason we're in business in the first place. Employee dissatisfaction always and inevitably impacts customer satisfaction and loyalty. Not talking with employees on a frequent basis becomes even more expensive when it begins to erode customer loyalty.

Through Specifics' client satisfaction studies it is revealed that a common and costly complaint is employee turnover. Employee turnover is very frustrating for the client on many fronts, like the ramp-up time for new consultants impacting the quality and timeliness of the deliverable, for one.

Further, not “talking” with clients gives a message that you don't care about them, at least by their perception, and their perception is the reality that drives the bottom line. Similar to the impact of not conducting an employee satisfaction analysis, the data collected for the 2000 PPT showed that those firms that conduct client satisfaction studies realized an average operating profit margin of 11.7%, while firms that did not conduct such studies realized an average operating profit margin of 5.5%.

Again, conducting such studies alone will not ensure greater profitability. However, these activities can and do provide companies with a set of actionable items to address, which has the ripple effect of keeping clients satisfied, keeping them loyal, keeping them buying, and keeping your bottom line growing.

What is the moral of the story? Talk really is cheap, while not talking can be quite expensive.