

Spirit At Work -- Secrets To Making Amazing Profits: Part One

Investing in people improves the bottom line.

By Lance Secretan

In my work of transforming organizations, I often am amazed at the opportunities so frequently missed by corporate leaders to increase profits by eye-popping amounts. It mystifies me that so many executives miss obvious chances to build greatness into their organizations. In this column and in the next issue of IW, I will describe two very clear, but little used, techniques for putting your organization on profit steroids: Profit Opportunity One: Being Nice.

Let's use the example of one of my clients, an organization with 10,000 employees. Staff turnover in this organization is running at an average of 22% -- an annual loss of 2,200 employees. The cost of this hemorrhaging is staggering and debilitating. The constant departure of precious talent hobbles productivity because the organization's priceless advantage in the marketplace, its wisdom, is being routinely acquired enhanced, and then squandered and freely dispersed to other organizations.

In this negative spiral, the organization fails to create greatness or a legendary reputation -- either as a supplier or as an employer -- and therefore incurs a greater cost burden for recruitment and marketing. In these environments, the remaining employees despair, causing their morale to plummet and dragging their performance with it, as they watch one out of five of their colleagues voting with their feet.

Leaders assume that this catastrophic waste is standard industry experience,

because trade association statistics show that the company is performing near the average for its industry. They rationalize away their continuing failure to act, and as a result staggering costs are racked up each year.

Let's do the math. Assume that the research findings from many sources are correct: The cost of replacing a departing employee is about one-and-a-half times the employee's annual salary. Assuming an annual average salary of \$30,000, resulting in a per-employee replacement cost of \$45,000, and an annual departure rate of 2,200 employees, we end up with a whopping bill of \$99 million. Let's add an arbitrary amount we'll call the "damage factor" of \$10,000 each for lost opportunities and impaired productivity caused by the weakened morale of the 7,800 surviving colleagues (another \$78 million) and we arrive at an annual cost for excessive employee turnover of \$177 million.

We blithely accept industry norms, believing that we can do nothing to change industry-wide trends and accepted standards. But bucking the norm is how excellence is achieved. If we honored people and invested in them, we would transform organizations. "I'd rather invest in people than give it to the headhunters," is how Jim Goodnight, CEO and chairman of SAS Institute Inc., Research Triangle Park, N.C., puts it.

SAS Institute achieves a turnover rate of 4% in an industry where 28% is the norm (and the company has done so consistently for a quarter of a century). If we set a new standard -- say, the one SAS Institute does -- then the savings would be astounding. Let's do the math again.

Applying SAS Institute's actual performance to the example of my 10,000-employee client, achieving a 4% staff-

turnover rate (4% of an employee base of 10,000 = 400) would result in an annual cost of only \$18 million (400 X \$45,000), a difference of \$159 million (\$177 million - \$18 million). In an organization where staff retention is this high, there is no "damage factor" to consider. The net savings are a cool \$159 million -- perhaps equal to or even greater than the entire profit currently earned by an organization this size.

Progress starts when we snap out of our self-delusion and refuse any longer to accept high employee-attrition rates as a cost of doing business. We need to be

brave enough to set new standards that are a fraction of the accepted norms. This is the edge enjoyed by organizations that set the standards for their industry instead of following the standards set by others.

So why is it that leaders find it so difficult to make nice with employees and add millions to their bottom lines?

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