

InterNuntius

More than *tech*Knowledge™

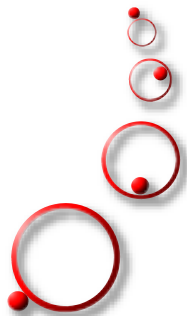
Employee Retention Strategies

By
Felice M. Avey

Copyright 1999, InterNuntius, Inc. All rights Reserved

Understanding. Experienced. Effective.™

InterNuntius, Incorporated | (612) 719-1174 | 15050 Cedar Ave. S., Suite 116-262 | Apple Valley, MN 55124 | InterNuntius.com



Employee Retention Strategies

By Felice M. Avey

No doubt about it, employers looking to staff IT projects will find the going tough over the next several years. Experts have been projecting a labor shortage for some time, but the numbers are just coming in. Figures released earlier this year from the Information Technology Association of America, (ITAA) estimate that there are currently 190,000 job openings for IT workers in this country.¹ That demand will increase by 95,000 jobs per year, according to US Bureau of Labor Statistics. These numbers are startling, but employers hoping for a quick fix are out of luck as the U.S. Labor Department estimates another 1.3 million workers will be needed over the next 10 years.

The US Bureau of Labor Statistics estimates that job demand for IT workers will increase by 95,000 jobs per year.

The shortage of employees has a dramatic effect on the bottom line for businesses. According to Howard Rubin, consultant and chairman of computer science at Hunter College in Pound Ridge, NY, the shortage will cost US businesses \$500 billion per year in lost revenue, \$10 billion in lost business income and \$15 billion in lost compensation per year at current economic growth. The loss occurs, he states, because for every \$1 spent on IT salaries, a corresponding \$43 dollars in revenues is generated. Under that assumption, a company could lose \$2.4 million per year for each IT employee not hired.² A recent Coopers & Lybrand, LLP survey cited a lack of highly skilled employees as the number one barrier to

growth by 70 percent of technology company CEO's. 60 percent of CEO's in non-technical industries named a shortage of highly-skilled employees as an inhibitor of growth. Karen Steckler, a group manager for Microsoft's training and certification unit, estimates revenue losses approaching \$200 million for the software vendor due to a shortage of technical talent.

Exacerbating the problem of the labor shortage, according to *Solutions Integrator Magazine*, is the number of computer science graduates with insufficient job skills, and a drop in the number of college grads with computer science degrees.

Over the last ten years, the number of degrees awarded to computer science graduates fell 43 percent from 42,000 in 1993, the most recent year for which figures are available, to 24,200.³ Low number of computer science graduates notwithstanding, many managers are unhappy with the skills of the college students who do graduate. College curriculum is out-dated with institutions teaching languages like Fortran and Basic, while leaving out pertinent courses in Client Server, and languages like JAVA altogether. A number of colleges confer degrees upon students with skill sets based on outmoded technology. Some companies, like Price Waterhouse, have found the curriculum at the nation's schools so outrageously outdated, they now only recruit at a dozen or so target schools. Other companies like solutions integrators, Cambridge Technology Partners and Deloitte and Touche, hire

¹ ITAA Press Release

² *Computerworld*, January 1998

³ *Solutions Integrator*, February 1998

Understanding. Experienced. Effective.™

based on core values rather than skills, and provide all new hires with a period of intense training for the needed skill sets.

Obviously the labor crunch has serious implications on a company's profitability. It is, however, a fact of life in the current business landscape. Just as dramatic, and perhaps more discouraging than the shortage of IT workers, is the exceedingly high turn-over rate for IT staff. In an industry where vendors, solutions integrators, and businesses are locked together in what amounts to an all out war to sign IT talent, companies are finding it more difficult than ever to retain staff. According to a recent survey conducted by *CIO Enterprise*⁴, a survey of 316 U.S. companies showed an average IT turnover rate of 14.5 percent. Of companies surveyed, 57.9 percent expected turnover to increase.

The Hidden Cost of Turn-Over

High turn-over extracts an even *higher* cost from companies that don't act to stem the tide. Not only does the company lose a valuable employee, but in many cases, valuable systems knowledge can also be lost, sometimes to the detriment of the company.

In addition, the company must now incur the costs of hiring and training. For the companies in *CIO Enterprise's* survey, estimates as to the cost of filling a vacancy ranged from approximately \$10,000 to \$30,000, excluding salary.⁴ These numbers don't include the lost revenue from unfinished or delayed projects. Nor does that amount reflect the \$43 of missed revenue referenced above.

⁴ *CIO Enterprise*, December 1997/January 1998

The *CIO Enterprise* survey noted the average length of time necessary to fill a non-management staff slot, (i.e. programmer, analyst, etc.) as approximately 6.2 months. Using these numbers, a technical employee earning an average salary of 60,000/ per year, employed for a period of 5.8 months will earn out \$29,000 and generate an estimated revenue of \$1,247,000, or \$43 per every dollar paid in salary. Conversely, a position remaining open for 6.2 months generates lost revenue of \$1,333,000.

John F. Russell, vice president and editor-in-chief of *Solutions Integrator Magazine* sets lost revenue at \$3 to \$5 billion, stating, "Even if these numbers are wildly wrong, the problem is immense."⁵

CIO Enterprise estimates the time to fill an executive management vacancy at 7.6 months. Experienced Staff time to fill is 6.2 months and entry level time to fill is 3.8 months.

Undoubtedly, estimating lost revenue based on these numbers is, at best, an inexact science; nevertheless, it's important to factor in the contribution technical employees make to generating revenue. Given the revenue impact of losing an employee, it's corporate suicide not to have retention strategies in place.

What Can Be Done?

What can companies do to successfully negotiate the raging tide of the labor shortage? The remainder of this report is divided into four sections designed to help examine some of the most important

⁵ *Solution's Integrator*, February 1998

Understanding. Experienced. Effective.™

components of the retention issue on an individual and more detailed basis. These categories include:

- Strategies
- Communication
- Training
- Motivation

Paying attention to these four components will help your company raise the stakes in a war that promises to drag on for the next several years.

Strategies

1. Have strategies in place to deal with retention issues-including separate retention plans for entry level workers, and for high impact individuals.

Retention of technical talent is an important business issue, yet, according to a survey of 613 companies by Watson Wyatt Worldwide, a global management company in Bethesda, MD, only one-third of those companies surveyed had a retention strategy in place. Worse still, half of the companies reported high turn-over.⁶

In an essay from the book *The Organization of the Future*, published by the Drucker Foundation, Marshall Goldsmith of KCG Consulting states:

“Leaders can no longer afford to let the vagaries of the job market determine who leaves and who stays with the organization. We must learn to manage our human assets with the same rigor we devote to our financial assets.”

⁶ “Master Motivators”, Sales and Market Management, April 1998

Goldsmith then gives several steps for retaining high-impact performers. While it may seem obvious, his first point is to:

“Clearly identify which employees you want to keep.”

Identifying valuable employees is a luxury for most technical departments. The tight job market makes every employee vital, but to retain high-impact individuals requires that companies take note of those employees that make a positive contribution to the company's core values.

Please note, however, this valuation and the resulting recognition should start from the moment the employee is hired.

In an article for *CIO Enterprise*, writer Peter Fabris notes that:

“Entry-level IS workers are most likely to change jobs, with 78% percent of them leaving their company before their fifth anniversary.”

Entry-level workers aren't the only workers changing jobs. James Kinney, vice president and CIO of Kraft Foods says, "Experienced employees are hitting the street, looking for more lucrative packages."⁷ With the competition offering a plethora of hiring incentives, Kinney is seeing employees with eight to ten years experience making the corporate jump.

2. Determine which projects are critical to your company's well-being. Assign these high-profile plums to talented employees. Outsource the dull, the legacy maintenance, and the low-

⁷ *CIO Magazine*, December/January 1997/98

Understanding. Experienced. Effective.™

talent technical pieces to the consulting firms.

This is one of the most effective, low cost methods of retention available. As Catherine Meek, president of the Los Angeles based compensation consulting firm Meek and Associates notes, while cash compensation is always important, it is

“often overshadowed by employee’s needs for growth, challenge and the feeling of being valued and appreciated.”⁸

One of the most attractive benefits offered by consulting firms is the opportunity to continually expand job skills. Make this a part of your corporate environment, and employees will be less likely to listen to the siren call of the consulting firm recruiters.

Steve Kepple, managing director of strategic systems development at Federal Express Corp., (Fed Ex), in Memphis, Tennessee, tries to focus a core group of his available talent on "key design and architecture" jobs. He states,

“We’re creating a core group to get the base framework established.”

3. Do an in-depth values based analysis of IT environmental issues. Is training important to your employees? What about flex time? Telecommuting? Salary isn’t the only factor in keeping employees happy. Know what rings your IT unit’s bell, and make sure you’re ringing consistently.

According to Tim Walsh, director of strategic planning and information management at Blessing/White, a management consulting firm in Bethesda, MD., one company

⁸ The Changing World of Compensation, FED, Catherine Meek

conducts focus groups among current employees to find out what keeps them on board. This internal market research enables the company to gain insight on which policies are working to retain employees.

It also enables the company to learn about their IT worker's hobbies, thereby allowing company recruiters to target non-traditional outlets for other IS candidates.

4. Do a corporate head check. How do other employees-especially corporate decision-makers-see IT? Is IT viewed as those geeks with their heads in the clouds?

According to Russ Maney, an analyst in the Leadership Strategies Service at Forrester Research Inc. in Cambridge, Mass., *“More companies are realizing they can use technology as a competitive weapon as opposed to simply a cost-reducer.”⁹*

While there has been a recent trend to fill CIO positions with non-technical staff, techno-phobes might be dismayed to find that, for the most part, technology is fast becoming a new inside-track to the boardroom. Any company that ignores the role played by its IT staff will find itself fighting a losing battle in retaining highly productive technical staff.

5. Educate your company’s Human Resources Department on the dynamics of the IT marketplace.

Traditional HR departments have a difficult time recruiting top notch IT talent, and even mediocre talent for IT. No doubt about it, IT is a different animal when it comes to human

⁹ CIO, February 1998

Understanding. Experienced. Effective.™

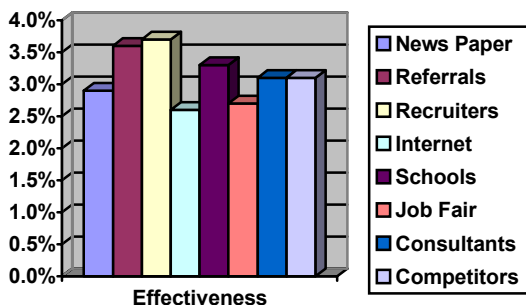
resources. Many IT managers find themselves working as hard to convince human resources to hire a qualified prospect, as they do convincing the prospect to take the job.

Many HR departments don't understand the tight job market that exists for IT, and no wonder, according to Albert J. Dunlap, in his book, *Mean Business*, "*Personnel or human resources groups are a crutch between management and the workforce. . .*"

At Scott Paper, Dunlap insisted that the human resources department "... *existed strictly to establish policy, coordinate benefit issues, and set up compensation plans.*"

Such is the case for many human resource departments. They are not trained in assessing quality IT skills, nor in the quick-hiring cycle required by the IT staffing crunch. Nor are they properly motivated to promote benefits which may not be corporate wide, and compensation that must, in many cases, be disproportionately larger than corporate standards.

"*IT workers are getting more like pilots,*" says Steve Kepple of Fed Ex. "*Computing is becoming one of those groups that's different from the rest of the company in the*



dynamics of salary."

CIO for Mary Kay Cosmetics, Trey Bradley, told *Information Week* that he was

investigating, "creative bonuses" in order to compete for talented employees and to get around the corporate compensation system.¹⁰

Still, human resource's lack of understanding can be your worst enemy. To offset the problems with HR, get authorization to hire an IT recruiter, or at least one IT-dedicated HR rep.

The graph to the right lists the most popular recruiting methods, and their relative effectiveness:

Communication

6. Market the benefits of working at your company to your existing IT staff.

Not only are your existing staff important because of the revenue they generate, but they are also a great resource in terms of referrals. A good attitude among existing staff is one of the best marketing tools a company has.

Do a walk-through of your IT office. Look at the expressions on employee faces. You can bet prospective employees notice such things. The importance of a positive environment cannot be overstated. So, when, and if, you offer great benefits, promote them extensively among the staff.

Furthermore, make sure staff members utilize company benefits, after all, a great benefit isn't so great if no one uses it. Paper benefits don't work any more. Prospects want to know if a company's purported great benefits are real. If they are real, are employees penalized for taking

¹⁰ *InformationWeek*, November 3, 1998

Understanding. Experienced. Effective.™

advantage of them? Make sure that's not the case.

7. Create an intranet "hot spot" for IT staff to sound off about issues that concern them. Make sure that top-level decision makers read the board and address employee concerns.
8. Encourage employees to take part in *reinventing* the organization. Allow them to feel like they are a part of the company's success-which indeed they are- foster and support entrepreneurial ideas from employees.

3M is master at the technique of creating "internal-corporations".

These types of entrepreneurial endeavors are vital as the era of corporate behemoths diminishes.

In his essay on *The Emergence of the Entrepreneur*, Joel Kotkin states, "*the percentage of jobs represented by Fortune [500] firms has dropped since the 1960's from nearly one in five to roughly one in ten.*" Kotkin refers to a 1994 poll of 150 top company executives, noting, "*90% felt that the best opportunities for the future [lay] in small and middle-sized firms.*"

ComputerWorld Magazine agrees. In a November 1997 article entitled, "Super Programmers", the magazine observes, "*Thanks to a booming economy and three figure hourly rates for temporary programmers, many of today's rising software hotshots shun traditional information systems organizations. Their [computer programmer] wants: the big money, satisfaction, freedom, challenge, and growth offered by software*

entrepreneurship, self employment, or contracting."

According to *Computerworld*, "*The biggest motivator for many up and coming programming stars is the chance to do high-impact work with exciting new technology. It's the perceived lack of excitement, recognition, passion, self determination and fun that keeps them out of traditional IT environments.*"

A survey of 1,700 companies by Advanced Technology Staffing, a placement firm in California found that workers in IS shops make 35% less than counterparts with the same skills in consulting and professional services. Independent contractors can earn up to 50% more.¹¹

While there's no guarantee that creating an opportunity for internal entrepreneurial endeavors will keep employees forever, some companies are testing the waters, giving employees a stake in the corporate success by offering entrepreneur fast tracks and group management tracks for employees who show motivation and interest.

Training

9. Don't offer wasted training.

Implement a "just-in-time", or an "after-the-fact training program". Both methods have shown significant results in helping employees to retain information, especially in the tech-retraining of non-technical employees.

¹¹ *Computerworld Magazine*, November 24, 1997

Understanding. Experienced. Effective.™

10. Don't just train employees in IT, train them in other business disciplines, including management techniques, office relations, business process, etc.

In his book, *Thriving on Chaos*, Tom Peters lists six key guidelines for creating a training program. They are:

- Invest in human capital as much as in hardware.
- Train entry-level people; retrain them as necessary.
- Train everyone in problem solving techniques to contribute to quality improvement.
- With every advancement, train.
- Use training as a vehicle for instilling a strategic thrust.
- Insist that all training be line-driven so all programs should consist primarily of input from the line, be piloted in several line locations, and be taught substantially by line people.

One of the unforeseen consequences of the reengineering mania of the 1980's has been the loss of employee loyalty to the company. Employees, and especially technical employees, now view employment opportunities in light of how it will advance their careers.

It has become vitally important to the technical employee to keep up with the fast-paced changes in technology. A good in-house training programs is one of the key ways employers can limit turn-over.

11. View IT as part of your team.

Mentoring/coaching has replaced reviewing employee performance. To achieve such a mind-set, IT managers must look at IT staff members as part of the same team. When one person falls, it affects the whole team.

Motivation

12. Pay market rates

J. Robert Beyster, founder of Science Applications International Corp. (SAIC) conducted a study and found that turnover rates for employees who bought stock in the company fell from 12% to 5%. This led him to implement a stock incentive program designed to reward and retain particularly good workers. Each year SAIC sets aside shares to be offered as stock bonuses to individuals as rewards.¹²

SAIC isn't the only company implementing creative salary incentives. Hiring incentives such as signing bonuses, higher salaries, flex time and stock options are now common place.

According to Kenneth Tress, skills manager for

Top 5 incentives used to recruit I.S. staff.

- Higher Salaries
- Signing bonuses
- Schedule Flextime
- Training
- Telecommuting

Source: CIO Magazine

Cap Gemini America, a New York City based consulting firm,

"Most employees can get a 20 percent salary increase on the open market."

¹² Forbes, December 1997

Understanding. Experienced. Effective.™

And while it might be comforting to believe that employees don't know the opportunities are out there, it's also highly unrealistic in an atmosphere where employees are fiercely recruited commodities.

package. She states, "*employees are more likely to look at what a company pays rather than what it says.*"

Key corporate values should be reinforced through compensation.

Microsoft Strategy

The Microsoft strategy for managing skilled technical employees encompasses four main principles:

- Establish Functional specialties, but work in small teams and overlap responsibilities.
- Let functional experts define and hire for their technical specialties.
- Educate new hires through learning by doing and mentoring.
- Create career paths and "ladder levels" to retain and reward technical people.

13. Don't just offer rewards, offer growth opportunities. Develop an IT career path.

In the book, Microsoft Secrets by Michael Cusumano and Richard W. Selby, the authors share the tenets that have made Microsoft such a successful competitor. According to the authors, Microsoft excels at managing creative people. One of the core principles of people management at Microsoft is the creation of career paths and "ladder levels" to retain and reward technical people.

Microsoft implemented technical career paths in order to retain and recognize skilled employees, as well as to offer them compensation comparable to what general managers received.

14. Make sure your staff is on-target with the goals they set for themselves.
15. Be aware of the message your compensation package sends.

Catherine Meek of Meek and Associates, feels that it is important to identify the messages you send with your compensation

For instance, a base pay with benefits and annual increases sends a message of security. There is no need to be productive, endurance is more desirable than quality. When Managers are paid more than skilled labor the message is, become a manager.

Incentives that are solely for executives say status and hierarchy are important.

Meek encourages companies to keep the following in mind when designing compensation programs:

- *Compensation should be integrated with business strategy.*
 - *Compensation should be should be cost effective, but don't be stingy. If you want outstanding results, pay outstanding rewards.*
 - *Compensation messages must reinforce the link between the company's ability to achieve business goals, and succeed in the marketplace.*
16. Finally, foster an atmosphere based on intrinsic motivation, rather than extrinsic manipulation.

Understanding. Experienced. Effective.™

In an age where emotional exhortation is often viewed as motivation, it's important to keep in mind that employees may feel differently about the corporate environment than do corporate leaders. There is no such thing as a quick fix motivator. Employees are motivated by long term qualities like trustworthiness, fairness, and justice. When seeking to retain employees through motivation, it is imperative to keep the following guidelines in mind:

1. Set goals that are mutually beneficial to employees and your organization. Realize that money is a motivator, but it

is not the sole motivator of good employees.

2. Form a partnership to help your employees achieve goals
3. Allow employees to make their own choices in regards to rewards. There is no single motivator that works for every individual. To find out how to motivate the people you want to motivate, ask them.

And we might add, to find out how to retain key employees, ask them.

**This white paper is a service of InterNuntius Academe.
Copyright 1998 ©, InterNuntius, Inc. All rights reserved.**

Understanding. Experienced. Effective.™