

How Much Are Your Employees Costing You?

Tips to improve your management style and increase your bottom line

A while back, I was about to deliver a presentation to about 150 solution providers. But first, I asked them all to stand, stretch and remain standing if the primary reason they had their job was because they loved managing people.

Everyone laughed and sat down. Most VARs I meet wish they didn't have to hassle with any employees at all. Do you feel this way because your employees waste 2.09 hours per day (not counting lunch), as Salary.com estimates? Or are only 25 percent of your employees truly engaged at work, like the Gallup Organization estimates? Or is it because you were ripped off by an employee who lied to you, became a competitor or sued you?

I've surveyed VARs to identify how much money they are losing due to lack of employee productivity. Two VARs I spoke to come to mind: One had \$50 million in sales and the estimated productivity loss was \$700,000 annually—in compensation costs alone! The other VAR had 300 employees, and the loss was more than \$3 million a year.

In my 23 years in the computer industry, I have experienced both the problems bad employees can bring as well as the benefits good employees can

contribute to a business. Even the most cynical of VARs shows an appreciation for their good employees and a deep desire to have more like them. But how do you get there?

Most owners or executives of technology solution providers started out as techies, salesmen or numbers people. Most were never trained to effectively manage people, yet employees are their



second-largest expense after product costs. Good employees are expensive, but poorly performing employees are not only costly, they can kill your business.

Until three years ago, I led my companies by instinct. I loved to read business books for ideas on the latest management techniques. The problem is that ideas from books are like sugar: They produce a temporary high that fades within weeks or months. I lacked a real system to develop and sustain improved productivity over time in order to improve profits, lower costs and increase opportunities.

In 2002, I became the vice president of channel partners for KnowledgePoint, a developer of human resource-management software. I studied everything I could on the subject of how to get employees to deliver top performance. I talked with hundreds of HR professionals.

So, why do VARs have a system for installing a network, identifying a technical glitch and myriad other responsibilities in their business but not one for hiring, developing and retaining the best employees possible? Based on all of my research, I developed a system for managing people and priorities more effectively in any organization. I put my ideas into a book, *Success With People*, and will share this blueprint for success with you in this article.

The *Success With People* system is designed to be a 12-step program for managers and company owners who are addicted to inconsistent profit development through employees. We've all worked the daily grind of closing the sale, getting the order shipped and solving endless "critical" problems. Employees get ignored, as entrepreneurs and managers routinely deal with the urgent rather than the important. As a result, profits are left behind. It's time to work smarter.

10 Ways To Improve Your Productivity

Success With People divides the way you manage people and priorities into three levels of desired results—establish your foundation, balance your workload, and

manage your team's performance.

Do you think you already know all this? Then why aren't you taking the time to do it? True knowledge is understanding the processes that deliver success, and then demonstrating that knowledge through your actions.

Let me give you 10 reasons why you need to improve employee productivity.

#1: Leverage What Others Have Proved: My research indicates the key is a foundational system of people management, not just vague ideas on how to supervise. Think of the recent Accenture advertisement: "There comes a time when execution is more important than theory."

That's a reminder of the importance of a complete system.

#2: Save Time: You can save at least 10 hours a year per employee you manage when you use a systematic approach to management. (To fully experience this time savings, you have to purchase software to automate some processes.) Do the math. Even saving a fraction of that time is worth the effort.

#3: Increase Productivity: Lost productivity often costs your company half or more of your net profits. It's the annual cost of doing nothing. (Go to www.varbusiness.com for my free Cost of Status Quo spreadsheet.)

#4: Avoid Litigation: The average cost to settle an employee lawsuit today is \$300,000 to \$500,000. The Society of Human Resource Management recently surveyed members, and 57 percent of the respondents said an employee had sued them during the prior year. A systematic approach to managing people eliminates liabilities.

#5: Improve Effectiveness: How much additional profit would you enjoy if you managed your people more effectively? Only you can answer that, but in most cases, it is a lot of money.

#6: Hire the Right People: Consider slowing up and expanding your hiring process to increase your ability to hire

great people. Diligently using proven methods of hiring great talent can save tens of thousands of dollars by helping you better identify the best candidates for the job.

#7: Retain Your Best People: According to the Saratoga Institute, and independently verified by Hewitt Associates,



"As you improve results as a manager, you also demonstrate leadership skills and abilities."

—David Russell

the cost to replace salaried employees can be 150 percent of their annual salary. Other estimates are as high as \$1 million to replace an employee whose total compensation is only \$75,000. Change your management style to increase retention of your best people.

#8: Balance Personal And Professional Life: Life is too short to spend all your time on business activities. Manage people and priorities more effectively so you have more time for your personal pursuits.

#9: Motivate Your Team: The Gallup Organization reports that only 25 percent of employees are engaged at work. Disengaged workers cost American business an estimated \$292 billion to \$355 billion a year. How much more revenue could your team generate if your employees were just 10 percent more motivated?

#10: Improve Your Business: Is it more important to be an effective leader or an effective manager? Leaders set direction, whereas managers deliver results. Both are important, but develop people-management skills if you have to choose between the two. As you improve results as a manager, you also demonstrate leadership skills and abilities. ■

David Russell (david@successwithpeople.com), CEO of Success With People, a consultancy that coaches executives on how to manage employees more effectively.