

The High Cost of Employee Turnover and How to Avoid It

By John Hester

Four top keys to
keeping your best
employees happy

One of the best ways to keep costs down and continue to meet organizational goals is to reduce employee turnover. Few nonprofit leaders consider how expensive turnover is. Costs include not only finding a replacement, covering the position while it's vacant, and training someone new. There's also the loss of knowledge and skills employees take with them when they leave and the loss of close relationships with clients.

A conservative estimate of the cost of turnover is 30% of annual salary to replace a lower-skilled, entry-level employee, to as much as 250% of annual salary to replace a highly specialized or difficult-to-replace position.¹

How can you keep turnover low? Here are the keys:

1. MONITOR SATISFACTION LEVELS.

In a CompassPoint survey of nonprofit employees, meaningful work was the most decisive factor in employees' intent to stay.² The good news is that focus group members spoke passionately about the joys of their work, making a difference in their jobs, and what they're able to accomplish in their communities, and 75% of respondents felt that their work was personally fulfilling.

It's when employees lose that sense of fulfillment that they think about leaving. You need to do all you can to keep them engaged, including the following:

- **Encourage** open communication.
- **Keep asking employees** to share their concerns and suggestions. You can use formal methods such as regular employee engagement surveys as well as informal processes

such as roundtable discussions and breakfast conversations with the executive director. Or simply ask employees how they think things are going.

- **Be sure to act** on what you discover. If you can't use people's suggestions, tell them why, while letting them know how much you appreciate their input.

2. PROVIDE A FAIR COMPENSATION PACKAGE.

Many nonprofits consistently undervalue the work their employees do for the organization. When nonprofits underpay employees, they encourage high turnover and may cost the organization more than they save.

Employees know if they're being paid a fair market wage. While they may tolerate low wages for a while because of their passion for the nonprofit's mission, they won't accept such undervaluation forever.

In the CompassPoint survey, 69% of respondents felt underpaid in their nonprofit positions. Almost half of those in the "Opportunity Knocks: Nonprofit Retention and Vacancy Report" who left their nonprofit jobs cited pay and/or a competitive job offer as their reason for leaving.³

“The cost of turnover can be as much as 250% of an employee's annual salary.”

¹Based on initial results of participants using Ken Blanchard's Cost of Doing Nothing Calculator (costofdoingnothing.com).

²"Ready to Lead? Next Generation Leaders Speak Out," CompassPoint, compasspoint.org/ready-lead-next-generation-leaders.

There's a lot you can do for employees in addition to salary:

- **Employee ownership programs** are especially beneficial, since they tie rewards directly to organizational success. (See the articles in "Beyond the Group: Create a Winning Team" at the end of this article for details.)
- **Benefits** can include healthcare, life insurance, pension plans, paid time off, help with housing, and legal services.
- **Bonuses and recognition awards** are a way to tie compensation to employees' performance. Research shows that such awards are most useful when given to all members of a team after they complete a successful project.

Put great thought into what you can offer. Your salary and benefits package communicates your commitment to motivating, recognizing, and rewarding employees' accomplishments and dedication to your organization's goals.

3. OFFER GROWTH AND DEVELOPMENT OPPORTUNITIES.

Work with each employee to create a clear development plan that guides learning opportunities and presents a well-defined path for career development. Use assessment tools to identify your employees' strengths and weaknesses to include as part of the development plan.

Everyone has different desires and needs, so tailor each plan to the individual. Here are some things to include:

- **Training** has been shown to correlate with employee retention. The more training an organization offers, the more likely employees are to stay. An American Management Association survey indicated overwhelmingly that training was perceived as more effective than increased salary or benefits.⁴ Training may include workshops, courses, and skills training, but effective development programs go further. They encourage employees to grow not just in their positions but as fulfilled human beings. They include attendance at conferences and seminars, managerial and leadership programs, and interpersonal development.
- **Opportunities for advancement** are another important part of each employee's development plan. Again, nonprofit leaders need to do better in this area. Over half (55%) of respondents in the CompassPoint survey felt they needed to leave their current organizations in order to have the best chance to advance in their careers.
- **Mentoring** is a valuable way to invest in staff development. The CompassPoint survey found that a lack of mentorship was a large factor in employee dissatisfaction and frustration. A formal mentoring program provides opportunities for both the mentor and the employee.

4: LOOK FOR WAYS TO ALLOW GREATER WORK-LIFE FLEXIBILITY.

Flexibility is critical to employees and can be a key to retaining them. Longer hours are causing many nonprofit workers to burn out and leave their organizations. They're far more likely to stay in organizations that provide flexibility and work-life balance.


- **Consider what balance means to each employee.** It will vary depending on a person's age and life stage. More chances to be with their family are especially vital to those raising children. But everyone, not just those with young kids, needs a balance between work and the rest of life's activities.
- **Look at other workplaces** to identify best practices that allow greater work-life balance. These may include flexible hours, opportunities to work from home, job-sharing, family or pet friendly environments, compressed work weeks, and on-site child care.

- **Be sensitive to staff members' personal needs.** The most employee-focused leaders think beyond supporting people's family commitments. They turn the organization itself into a place of renewal and balance.

You needn't build an on-site gym and provide a cafeteria featuring healthy food. While that would certainly be ideal, it's unlikely that you can afford that level of support. You can, however, accomplish the same thing with a little creative thinking.

For example, arrange for on-site yoga classes, and have nearby restaurants deliver lunches. In lieu of a bonus, consider bringing in a massage therapist.

- **If you must ask people to work overtime, do so only on rare occasions.** Too much continuous work saps productivity. Allow for downtime throughout the day. Frequent breaks are essential to refresh the brain.
- **Be sure you have a break room or other place where employees can gather away from their computers and digital devices.** Give them time to share stories and laughter.

Such time-outs have multiple benefits. People are likely to have their most innovative ideas at such times. They'll be more productive when they return to their desks. And knowing you care for their well-being will be a powerful motivator for them to stay with your organization. 

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³"Opportunity Knocks: Nonprofit Retention and Vacancy Report," http://content.opportunityknocks.org/ok_research/ok-research-nonprofit-retention-and-vacancy-report/.

⁴*Employee Recruitment and Retention Handbook*, American Management Association, <http://www.amanet.org/training/books/9780814405529.aspx>.

Beyond the Group: Create a Winning Team

When you reduce employee turnover, you not only save money, you develop a productive, streamlined team that will create results for your organization. Use these *Nonprofit World* articles (NonprofitWorld.org) to continue to build your team.

Training Programs Need More than Good Information (Vol. 21, No. 2)

Manage for Today, Mentor for Tomorrow (Vol. 23, No. 5)

Use Employee Ownership to Motivate People & Gain Revenue (Vol. 22, No. 4)

Keeping Your Best and Brightest Workers (Vol. 28, No. 6)

How to Attract and Retain Winning Employees (Vol. 31, No. 1)

Easing Stress in the Workplace (Vol. 25, No. 4)

Avoid Headaches: Engage Your Employees (Vol. 27, No. 2)