NASCENT IDEA

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SAVE ON RETENTION, BUILD EQUITY

/ DR. ZIA KHAN /

The year 2021 is a pivotal transition point. The COVID-19 pandemic, and the resulting economic and social crises, have led to a great reveal of systemic inequities—including dramatic disparities in economic security and opportunity.

Designing our response will bring us face to face with hard choices. At the same time, though, there's hope that society's greater awareness of these challenges will create the window for bolder solutions that set the stage for an equitable recovery.

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Central to that recovery is employment. As the economy transforms beneath our feet, helping people who have been disproportionately affected get back to work and stay in their jobs will determine our success or failure. Meanwhile, state and local governments are facing extraordinary financial pressures; more than ever, we should look toward opportunities to draw in the private sector as a collaborator in social change.

It's been a decade since The Rockefeller Foundation helped to bring Pay for Success to the U.S. Though traditionally a tool for governments to drive policy goals, outcomes-based funding strategies have a role to play in helping to usher in better workforce models. These models were gaining traction before the public health and economic crises; in the recovery to come, their benefits will be even more important.

THE HIGH PRICE OF ENTRY-LEVEL TURNOVER

Even prior to COVID-19, annual turnover among employees across the retail, food, and accommodation sectors was 64%. In a staff of 100, employees typically quit or are fired 64 times overall over the course of a year. Some employers have turnover of up to 200% among entry-level employees.[1]

[1] FSG, *Best in Class Strategies for Entry-Level Employee Retention*, October 2016. This report draws from U.S. Bureau of Labor Statistics, 2015 turnover data.

Turnover among entry-level employees often results from immense pressures of scarcity that employees face outside the workplace.[2] Given their "overtaxed bandwidth," many employees living in poverty are overburdened such that they do not have the necessary safety net to fulfill their responsibilities when, for instance, child care falls through, a car breaks down, or an elderly parent is unwell.

Employees who quit or are fired due to the consequences of poverty clearly lose valuable opportunities to improve their economic situations. What is the cost of turnover to employers? Surprisingly, there's limited published, formal research addressing this question, and businesses that rely on entry-level workers largely consider turnover to be inevitable.[3]

For the past few years, The Rockefeller Foundation helped to fund research in collaboration with Social Finance, the NYC Center for Youth Employment, and JobsFirstNYC to better understand the impact of turnover. Through detailed quantitative interviews with small and midsize employers in New York City and Memphis, we found that a single instance of employee turnover costs an average of $3,300.[4] Employees frequently simply stop showing up with no notice, creating additional burdens for employers.[5] This cost adds up—and it disproportionately impacts smaller businesses, where economies of scale are less helpful in reducing the burden of turnover.

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While employers have not typically defined these types of challenges as falling within their purview, developing strategies to support employees in overcoming barriers outside the workplace could yield not only benefits for employees but also significant cost savings for employers by reducing turnover.

PAYING FOR EMPLOYEE SUPPORTS—IF THEY SUCCESSFULLY IMPROVE RETENTION

One of our grantees, WorkLife Partnership, is a pioneer in exploring the impact of robust, workplace-based supports on employee retention. It offers individualized guidance and resources to help workers navigate challenges ranging from transportation to housing in order to reduce employee stress and boost engagement. WorkLife Partnership also helps workers utilize preventative care, understand their health benefits, and, in some cases, access small-dollar loans to prevent unexpected expenses from triggering financial crises.

Piloting these tools is a good use of philanthropy, but philanthropy is too small to fund these solutions at scale without partners. To bring employee supports to a national scale, it is essential to develop a sustainable funding mechanism. What if the resources currently spent by

2 *In Scarcity: Why Having Too Little Means So Much*, (New York: Times Books, 2013), Sendhil Mullainathan and Eldar Shafir write about the impact of scarcity of a broad array of resources on human behavior. They argue, "Poverty means scarcity in the very commodity that underpins almost all other aspects of life. … The poor are not just short on cash. They are also short on bandwidth." (p. 150).

3 The strongest public source of analysis on the cost of turnover we found was in Boushey and Glynn's report *There Are Significant Business Costs to Replacing Employees*, which reviewed 11 studies with 30 individual case studies on the cost of employee turnover. They estimated the cost of turnover overall is approximately 20% of annual salary, though the estimates vary from 6% to >200%; for employees making less than $30,000, the cost of turnover is typically 16%. Heather Boushey and Sarah Jane Glynn, *There Are Significant Business Costs to Replacing Employees* (Center for American Progress, November 16, 2012), https://cdn.americanprogress.org/wp-content/uploads/2012/11/16084443/CostofTurnover0815.pdf.

4 The study found that costs of turnover ranged between $1,500 and $5,000. The most significant driver of cost was typically onboarding; loss of productivity and expenditures associated with recruiting and hiring also contributed to the costs of turnover.

5 Andrew Babbitt and Jake Segal, *Making Entry-Level Talent Stick* (Social Finance, May 6, 2019), www.socialfinance.org/resource/making-entry-level-talent-stick.

employers managing high turnover could be reallocated to preventing turnover in the first place?

It's a reasonable enough idea. But businesses are (fairly) hesitant to make a significant investment in employee supports, since they might not work.

Pay for Success lets employers offload that risk. **Using outcomes-based funding models, employers can engage service providers to test intensive support programs—and only pay for them if they're successful at improving retention.** As Jordan Nottke, director of operations at Zuul Kitchens, observed, "Shared risk across multiple organizations strengthens partnerships as we are all striving toward the same objectives."

Following Rockefeller-funded turnover research, NYC-based nonprofit Seedco and Social Finance developed a model for simple, retention-focused Pay for Success contracts. We worked through the contracting terms in partnership with a set of small food service employers to pilot this approach. We were scheduled to launch in April 2020. The global pandemic had other plans.

Nottke explains his company's interest in the model: "Zuul is invested in our employees, and we were excited to find a partner like Seedco which was clearly similarly invested in their success. When the opportunity came along to fund the needs of our employees outside of work—something that most companies don't have the capacity to provide themselves—we saw a lot of value in providing that type of support for our employees. It was an exciting chance for us to try out several different services and only pay for the ones that were effective in achieving our objectives."

As we recover from the COVID-19 crisis, we are hopeful that ideas like this can continue to drive innovation at the intersections among workforce organizations, businesses, and philanthropy. At Rockefeller, we imagine an equitable recovery in which results-driven programs help people obtain and retain stable employment and enable them to conquer the perils of poverty. We imagine a world in which these programs break the cycle of rapid turnover and prove their value to both employees and employers.

The time is right to scale up these models. The need is enormous. We must make sure we put forth solutions that are proven, low-risk, and cost-efficient to help people get back to work and achieve stable livelihoods and economic security. Retention-based contracts may be a useful tool to help drive an equitable recovery.

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This chapter came from the book *Workforce Realigned: How New Partnerships are Advancing Economic Mobility.*

Learn more at workforcerealigned.org