Great employees are the lifeblood of any small business. However, as the job market accelerates, even happy workers may be tempted to explore whether the grass is greener at another company.

Losing employees is a concern for most small businesses, not least because of the cost: a study from the Center for American Progress estimated that replacing an employee costs, on average, 20 percent of the employee's annual salary.1 So if a worker making $50,000 a year quits, you'll pay roughly $10,000 to cover the lost productivity costs and then recruit and train someone new.

“At a small business, everyone is that much more important; you're a bigger piece of the pie,” says Dawn Fay, New York-based district president for staffing firm Robert Half. “There's the cost of losing someone, but you also run the risk of losing other employees or burning people out as they carry a larger workload, which can affect your client service and product and ultimately impact your revenue.”

For small companies, keeping the right people in the right seats is paramount. Here are five ways to improve your employee retention and ensure your best and brightest stick around.
1. Hire well

It may seem obvious, but retention begins with hiring.

In fact, the consequences of a bad hire can have a negative ripple effect across your company, and even cause others to leave. A recent survey of 2,100 CFOs revealed that lower staff morale was the single greatest impact of a bad hiring decision.2

Jessica Mah, founder of San Francisco-based inDinero, which makes accounting, payroll and tax software and employs just under 100 people, uses her company’s values to help guide hiring decisions and ensure she’s finding people who are a good fit from the start. The values provide a framework for articulating to potential employees the behaviors that are important to the organization, such as constant learning and collaboration. “We know exactly what we want,” she says. “It makes it ten times easier.”

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<th>The True Cost of a Bad Hire</th>
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2. Stay competitive and get creative

For many small businesses, beating the salaries of bigger companies may be a challenge. However, Robert Half’s Fay says remaining competitive does help. “Salary isn’t everything, but it’s a piece,” she says. If you’re unable to boost base salaries, then consider getting creative with your compensation models.

For example, John Crossman, president of Crossman & Company, a real estate firm based in Orlando, Fla., ties his employees’ bonuses to the profitability of the company. “That way they’re all equally yoked and it creates unity around saving money because the size of their bonus depends on it,” Crossman says.
Small businesses may also be better able to bolster the packages they offer with other non-monetary benefits including flexible work schedules and non-medical benefits such as life, disability, dental and vision insurance. Such benefits can add to your employees’ job satisfaction and come into play if and when they’re weighing the merits of another opportunity.

3. Acknowledge achievements

Beyond money, most people want to be recognized for their work. Given the size of their company, many small business owners and leaders have a solid understanding of their employee’s daily work and accomplishments; acknowledging those contributions is key.

“None of us wants to feel ignored or like a cog in a machine,” says Rick Backus, founder and CEO of CPC Strategy, a San Diego-based company that specializes in online search management for retailers. Backus regularly sends his 35 employees simple messages, such as “you are awesome.” The effort is small, but the constant recognition ensures that his people feel appreciated and helps engender loyalty to him and the company. “Especially for millennials, there’s a strong fear of being average,” Backus says. “It’s important to let people know that you appreciate their efforts.”

4. Create connections

In a company of thousands, having coffee or a quick chat with senior leaders may be a rare event for most employees. But the leaders of small businesses have the opportunity to connect with their employees more often, whether over coffee or even stopping by their desk. Much like acknowledging hard work, making time for people makes them feel valued.

Crossman prioritizes connecting with his 65 employees as well as giving them the chance to connect with each other. For example, meetings at Crossman & Company might include a brief presentation and then pizza and a lot of time for informal conversation. Crossman makes a point of sitting with people he sees less often, and the other executives do as well. “It creates a really open, transparent and welcoming environment,” he says. He gets to know people better. Co-workers become friends. And that cohesion creates bonds that employees are reluctant to leave behind.

For Backus, maintaining healthy relationships with his co-founders is also paramount, and sets an example about the types of connections he wants to foster. “In a way, our business is like a family: we’re the parents, and the family will replicate what we’re doing,” he says.
5. Listen to your people

While retention is typically a management priority, company executives aren’t the only ones who should be in the conversation. “Involving the rest of the organization will help you get more buy-in and more ideas,” Fay says. She suggests regularly asking employees what they need and want from their individual jobs as well as from the company. Such conversations can happen during formal annual reviews or a casual lunch.

Crossman says he’s been surprised by what his employees want, and often glad he asked. He recalled organizing a committee to be in charge of his firm’s annual holiday party, a catered affair that Crossman assumed his employees loved. The group came back with one request: though they liked the party, they wanted it to be a potluck. “They really wanted to cook for each other,” he says. “So now we save money on the catering and we have a better event.”

For small businesses, keeping good employees is a crucial piece of your company’s success. Putting some thought into whether your employees are happy and how you can facilitate even more job satisfaction is time well spent.

“It’s important to consider what you can do to keep your best people and then make it a priority.”

“Especially now when the market heats up and good people have options, you don’t want to think about retention once it’s too late,” Fay says. “It’s important to consider what you can do to keep your best people and then make it a priority.”
1 “There are Significant Business Costs to Replacing Employees,” Center for American Progress
https://www.americanprogress.org/issues/labor/report/2012/11/16/44464/there-are-significant-business-costs-to-replacing-employees/

2 “The Costliest Part of a Bad Hire Isn’t What You Think,” Robert Half