Taking a Strategic View of Employee Child Care Assistance: A Cost-Benefit Model

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Executive Summary
A growing number of organizations offer employee child care assistance, but few analyze the impact of these programs on productivity and organization effectiveness. Human resource managers should adopt a business planning approach when initiating child care programs to evaluate the feasibility and usefulness of alternatives. A model based on utility theory is developed and used to assess the costs and benefits of an employer-sponsored center. The utility analysis directs management to take a strategic approach to the adoption of child care initiatives instead of merely copying competitors’ programs.

The Boom in Employer-Sponsored Child Care
As a result of changing work force demographics, the number of employers providing child care assistance has mushroomed during the past decade. A recent government study of employer-sponsored child care (U.S. Department of Labor, 1988a) notes that the figure has grown from about 100 employers sponsoring child care programs nation-wide in 1978 to nearly 61% of all establishments offering at least one program that aids working parents. A study by The Conference Board (1989) indicates that over 6,000 large employers in the U.S. provide child care support in the form of financial assistance (50%), information and referral (25%), and on-site or near-site child care (25%). Other forms of assistance include: support of licensed family home care, parental leave, sick care, flexible work arrangements such as flextime and part-time work, and flexible benefits (cf. Bureau of National Affairs, 1984; Levine, 1986; Conference Board, 1989). Adoption of such benefits has been called “clearly a growing trend” by labor relations experts. More benefits designed to ease conflicts between family life and work have been negotiated in 1989 than any previous year (Bureau of National Affairs, 1990).

Environmental Pressures Fostering Adoption and Experimentation
A combination of environmental forces has fostered increased adoption of dependent care programs as a means to gain advantage in attract-
uring and retaining quality employees. These environmental forces include: (1) increased competition for skilled workers due to shifts in the gender, race, age, and skill mix of the labor force; (2) changing employee expectations; (3) growing research evidence about the negative impact of work-family conflict on productivity; and (4) the short supply of quality care.

The widely read Workforce 2000 (Hudson Institute, 1987) and other studies (Schneider & Kench, 1988) suggest that organizations need to adjust HR policies to help manage demographic diversity and to obtain and retain the best new workers. A decline in the number of working-age workers is projected between now and the year 2000 due largely to the decrease in the number of young workers (16-24 years) entering the labor force (Hartman, 1994). Of the new entrants, about 47% will be female or minority (Hudson Institute, 1987). Women will account for 65% of new labor force growth (U.S. Department of Labor, 1988). Also, a dramatic increase in the proportion of single-parent and dual career families is expected, the traditional two-parent household with both spouses employed no longer will be the norm (Hudson Institute, 1987). Currently about one third of all children under six years old have working mothers (U.S. Department of Labor, 1988a).

The aging of the baby boomers and the need for both partners in the family to work will place increasing pressure on firms to offer benefits to help workers manage work-family conflict. The growth in the supply of quality child care is very real, but government has not jumped to deal with the issue.

Rationale for Cost-Benefit Model

Evaluation of the costs and benefits of child care assistance programs seems like an awesome task; however, the microcomputer-based financial spreadsheet models (e.g., LOTUS) can be invaluable tools in the planning process. The remainder of this article will present a model to estimate the costs and benefits of offering child care assistance programs. The model is a planning tool to tailor child care support to unique employer and employee needs. By estimating the feasibility and expected level of utilization of various options, companies will be more likely to reap the fullest benefits of adopted programs in a time of fewer available dollars for competing HR policy areas.

The framework presented estimates the expected payoff from an increasingly popular program, an employer-sponsored near-site center. It could be easily applied to other child care options. An employer-supported center was chosen for our example because it represents an effort to increase the supply of quality day care, which typically requires a sizable allocation of resources. Employer-sponsored centers are seldom financially self-sufficient and are usually subsidized throughout their lives (LeRoux, 1986). Employers view cost as the number one disincentive to providing such child care benefits (Solomon, 1986). Hence, a center may be rejected out of hand if no attempt is made to estimate the financial benefits of offering assistance. (For a review of the advantages and disadvantages of on-site and near-site centers, see Burd et al., 1984; Bureau of National Affairs, 1984).

The growing trend of employer child care assistance is occurring with little systematic analysis of the potential financial impact of these programs on the "bottom line." A U.S. Department of Labor Task Force report (1986a) states that scholarly research relating child care to productivity, absenteeism, tardiness, turnover, recruitment, quality and competitiveness is almost nil. To date, the best evidence on the benefits of employer-sponsored child care involves gut feelings, speculative tes-
among human resource managers and inadequate empirical study (Muller, 1984; National Council of Jewish Women, 1988; LeFleur and Newman, 1988). Understanding the need for more empirical research, preliminary reports indicate that companies with programs tailored to their particular labor markets may have a competitive advantage in attracting and retaining employees. Given the predicted demographic and skill shifts in the labor market, firms taking aggressive efforts to address employee child care needs will be more attractive to the new labor force entrants, who are largely female or minority. Also, such programs have been estimated to save firms thousands of dollars in recruitment and retention (cf. Scott, 1987; LeFleur and Newman, 1988; Solomon, 1985). Companies that retain workers who otherwise might have left the company for child-rearing reasons can also avoid incurring heavy in workers who leave and then have to be replaced with new, less experienced workers (Pfen, 1985). Obviously, however, firms can only reap these benefits from programs that are accepted and used by their workforce. In Pfen's (1985) study, for example, 75% of eligible employees used the facility.

The model we present is designed to encourage employers to approach child care in terms of the needs of their unique work force populations and to avoid the temptation to mimic competitors' programs. It provides a practical application of how to evaluate the utility of child care initiatives, which is valuable because employer support does not guarantee effective use of programs nor does support guarantee that child care problems will be solved. Flexible spending accounts, a popular benefit that allows employees to use tax dollars for child care expenses, typically have low utilization rates, for example (cf. Kosek, Sperber and Sullivan, 1989; Kosek, 1989). Another example of poor utilization is Transamerica's experience of disappointing initial usage of its sick care program (Hallock, 1983). Another alternative, participating in a child care consortia, may result in assistance of a company's employees, even building an on-site center may not solve all of a firm's problems, because space availability limits enrollment. In addition, it is likely that the lowest paid workers, who have probably in serious need of child care assistance, may not be able to afford usage fees, without company subsidization (LeFleur, 1986). Thus, programs that work well for one firm may be ineffective at another.

Assessing Child Care Needs, Costs, and Benefits

A survey conducted by the Bureau of National Affairs (1984) indicated that 11% of firms with on- or near-site care rated their programs as unsuccessful, largely because they did not meet the needs of employees. To avoid these problems and to begin to estimate the utility of child care alternatives, the first step in planning for any program is assessing current and potential employee needs for child care. Needs assessment focuses on determining the gap that exists between supply and demand (Burud et al., 1984). Exhibit 1 summarizes some key issues related to needs assessment (cf. Adolp & Rose, 1986). Organizational assessment of child care needs might involve collecting data on workforce demographics, the link between child care needs and work problems, employee preferences for and likely use of child care options, and special issues such as the concerns of employees with handicapped children or the feasibility of work-at-home arrangements.

Needs assessment is typically done through a task force and employee surveys, methods that must be carefully managed. In addition to raising expectations, they may fail to accurately identify needs and predict utilization of alternatives (Bureau of National Affairs, 1984). Key to compiling accurate data on employee needs is the use of carefully worded questions that avoid bias. These can be developed with the help of a consultant or existing validated instruments can be used (cf. Divine-Hawkins, 1989). One needs assessment study, for example, found significant differences in the child care assistance preferences of employees who currently had children and those who were likely to be parents within the next two years (Kosek, 1989). Parents-to-be thought they would be more likely to use nearly all possible forms of employer assistance compared to employees who actually had children. Also essential is the assessment of current child care resources within the community and examination of the current degree to which absenteeism, turnover, recruitment, and productivity are being affected by child care problems.

Exhibit 2 lists the common costs for an employer-sponsored near-site center, which relate to staffing, setup, fixed and on-going costs, and out-of-pocket costs. It is by no means exhaustive, but should be used as a guide for thinking about the types of costs that may be incurred. Other than the large investment required in the physical plant, ensuring that administrator and staff salaries and benefits remain competitive will be the major on-going cost. Particularly because the quality of staff is highly related to the overall quality of care. Obviously, the greater the number of days care staff work for the com-

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<th>Exhibit 1</th>
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<td>Needs Assessment Issues</td>
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Demographics:
- Gender, age, race, education, means of getting to work, marital status, family income, number and age of children, type of care currently used, hours of use, cost, how care was found.

Attitudes:
- Employee definition of quality care, preferences for type of care.
- Time needed to find care, satisfaction, absenteeism, productivity decline as a result of child care problems.

Link Between Child Care Needs and Work Problems:
- Children with special needs, lack care, interference in and feasibility of flexible hours or work at home arrangements.

Special Issues:
- Children with special needs, lack care, interference in and feasibility of flexible hours or work at home arrangements.

(Adapted from Adolp & Rose, 1986)
Exhibit 2 Cost Factors for an Employer-Sponsored Child Care Center

<table>
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<tr>
<th>Factor</th>
<th>Description</th>
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<tr>
<td>Starting</td>
<td>Desired teacher/child ratio, required level of staff education, compensation and benefits, number of children to be served, administrative salary.</td>
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<tr>
<td>Fixed Costs</td>
<td>On-site/offsite location, purchase, lease or utilize space, utilities and maintenance insurance.</td>
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<tr>
<td>Set-Up Costs</td>
<td>Furniture and fixtures, initial set-up, move-in or lease, equipment, supplies, licensing fees.</td>
</tr>
<tr>
<td>Ongoing Deductions</td>
<td>Educational materials, supplies (food), parental contributions from fees.</td>
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Exhibit 3 identifies the possible benefits organizations might evaluate when considering alternatives to child care (Peterson & Massengill, 1988). Human resource accounting theory (Cascio, 1987) enables one to estimate the dollar savings related to benefits, such as decreased turnover, absenteeism, and recruitment and training. In addition, benefits such as improved morale, favorable public relations, and social support to the community should be considered (Solomon, 1988).

Using the Model to Calculate the Utility of a Near-Site Center

The model is based on utility theory, which has been used to measure the payoffs expected from the training and selection. Utility theory provides a decision maker to consider the expected consequences of alternative courses of action (Cascio, 1987; Cronbach & Gleser, 1965). Like training or selection, employer-sponsored child care is a long-term investment that is adopted to add value to employees' contributions to the firm. In addition to adding value, preliminary research indicates that failure to have a program may increase turnover, absenteeism, and lower productivity—all important considerations in deciding whether to have a program. A recent study (Huffman & Schrock, 1987) of the restaurant and hotel industry found that, on average, employee-parents were absent five days a year due to child care problems. Each year one-third of all employees needed to change or locate care. Similarly, in a study at ATT, Fernandez (1988) found that 94% of the women and 77% of the men with child care problems reported lower productivity stemming from dealing with child care issues while at work. The specific utility model we use here was adapted from a program assessing the utility analysis of training (Boudreau & Milko, 1988) and has been applied to a case example for Mid-America Corporation.

Example: Mid-America Corporation

Mid-America Corporation is a bank located in the Midwest, which employs 500 people. Based on a management review of child care alternatives and a needs assessment, the company determined that a near-site center was the most desirable option. The initial estimate for the center's needed capacity was 60 children. The number of employees who would use the center was estimated at 50. The average salary at the bank was $20,000 or $9.61/hour. Separation, replacement, and training costs were estimated at $20,000 per employee. This was a conservative estimate of 100% of the annual salary. A study by Merck & Co. estimated that turnover costs for their firm were 1.5 to 2.5 times the annual salary paid (Solomon, 1988). The turnover estimate used in our example is based on the 1980 annual average of 22% (Cascio, 1987). Assuming that turnover of bank employees, particularly lower level workers such as tellers and proof operators, is typically quite high, the figure is conservative.

Calculating the Cost Factor

Exhibit 4 shows the annual costs for operation of a near-site day care center in Lansing, Michigan. Exhibit 5 presents a breakdown of these costs (XYZ Child Care Center Board Minutes, 1989; Crawford, DeNietro, & Sullivan, 1989). To estimate costs, assumptions need to be made regarding (a) the teacher-child ratio, which will be partially dependent on state licensing requirements; (b) the probable age configuration of the group of the children cared for, and the child care costs and ratios vary by age with infant care being the most costly and having the lowest ratio. Obviously, salary costs will vary de--
Very, Very Happy!

The Three Bridges--Has Become

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