THE BUSINESS IMPACTS OF PAID LEAVE

A financial analysis of the return on investment of paid family and medical leave

October 2019
Panorama is an action tank dedicated to solving local and global problems through audacious thinking and bold action. We bring together diverse perspectives to spark new ideas that create change. Panorama partners with ambitious leaders to strengthen their organizations and achieve their goals, and we initiate projects when we see gaps that need to be filled. Working with our partners, we raise awareness and drive progress on global priorities to maximize the impact of the initiatives we support. Panorama is a team of strategists, advocates, campaigners, analysts, storytellers, resource mobilizers, and organizational designers with deep experience in foundations, non-governmental organizations, private companies, and public institutions. We are all inspired by a lifelong commitment to improve the world.

The American Sustainable Business Council (ASBC) is the leading business organization serving the public policy interests of responsible companies, their customers, and other stakeholders. Founded in 2009, its membership represents over 250,000 businesses in a wide range of industries. ASBC advocates for policy change and informs business owners, policymakers, and the public about the need and opportunities for building a vibrant, broadly prosperous, sustainable economy.

The Human Capital Management Institute (HCMI) is a leading workforce analytics software and services firm. HCMI was founded on the belief that organizations must find better ways of measuring human capital investments. HCMI’s goal is to fundamentally change the way organizations make decisions about their workforce, and strive toward a future in which human capital measurement and information is as integral to business decision making as financial information is today.

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# TABLE OF CONTENTS

I. FOREWORD
II. OVERVIEW
III. OUR APPROACH: BUILDING THE CASE FOR FAMILY-FRIENDLY POLICIES
IV. DEFINING PRODUCTIVITY
V. DATA AND KEY INSIGHTS ON THE BUSINESS IMPACTS OF PAID LEAVE
VI. AREAS FOR FURTHER RESEARCH
VII. BUSINESS AND PAID LEAVE
VIII. CONCLUSION
REFERENCES
APPENDIX A: COMPANIES IN THIS STUDY
APPENDIX B: ADDITIONAL ANALYSIS
I. FOREWORD

The American Sustainable Business Council (ASBC) is proud to collaborate on this new research by Panorama. Based on our own earlier research, surveys, and interviews, ASBC has long understood that high-road business practices such as offering employees paid family and medical leave are good not only for employees but also for business and our economy. Through this Panorama report, we now have data to support those claims and to begin providing businesses with the dollars-and-cents rationale for providing these benefits.

This breakthrough report proves we no longer need to accept arguments that insist we choose between providing high-road benefits to our employees and growing our profits.

This research validates that high-road businesses not only do good but also do well—and that these values are connected. High-road practices motivate employees to work harder, attract more capable and productive workers, reduce hiring and training costs of turnover, put more money into local economies, reduce worker reliance on the taxpayer-funded safety net, improve the well-being of families, and provide a distinct brand advantage with many of today’s consumers.

For all these compelling reasons, it is time for businesses to implement paid family and medical leave. We look forward to working with businesses of every kind and government at every level as they adopt these policies.

Together, we will build a vibrant, just, and profitable economy that works for all.

David Levine
Co-Founder and President
American Sustainable Business Council
II. OVERVIEW

Paid leave: Why it matters

Paid family and medical leave (PFML)—or simply, paid leave—is a crucial part of the conversation when considering the needs of a changing American workforce. Although the Family and Medical Leave Act requires large employers to provide 12 weeks of unpaid leave, the U.S. has no federal law requiring employers to offer paid leave. This leaves the decision of providing paid leave benefits up to employers, and more of them have recognized the importance of access to paid leave. Since 2015, more than 100 brand name companies have announced new programs or have enhanced existing benefits, spurring many private sector companies to adopt or expand paid leave policies.

However, despite these advances in the number of companies offering paid leave, it still remains that a relatively small percentage of the total U.S. workforce has access to paid leave: the U.S. Bureau of Labor Statistics reported in 2017 that only 13% of private sector workers had access to PFML.¹

For businesses that do choose to offer paid leave to their employees, there are many potential benefits both for companies and their employees. As detailed by the American Sustainable Business...
Council (ASBC), offering family-friendly benefits like paid leave—along with providing a fair wage and a workforce culture built on mutual respect—is a critical component of creating a “high-road workplace” for employees. In turn, businesses experience increased worker productivity, less waste, lower turnover, and a competitive edge in recruiting top talent—all contributing to higher, more reliable profitability.

The ASBC developed a framework for a new minimum standard of acceptable workplace practices, identifying 10 core principles that define the high-road workplace. Paid leave is an essential part of the first principle, which focuses on promoting family-friendly benefits. High-road practices are a win-win for business as well as workers.

**Biggest barrier for companies:**
**Understanding paid leave’s costs**

The biggest barrier to businesses adopting or expanding a PFML policy remains the limited understanding of the business impacts: a 2018 survey of human resources professionals found that 70% of businesses that do not offer paid leave perceive cost as the most significant barrier to voluntary policy adoption.

Thus, research specifically into the business impacts of paid leave is important for companies considering adopting or expanding a paid leave policy. A fragmented discussion around the potential returns of PFML to an employer is just starting to emerge. Something heard repeatedly is that there is a major lack of data to help companies make decisions about implementing a new paid leave policy, particularly around the financial value and impacts of such policies. To date, information on the return on investment of a paid leave program has been sparse or anecdotal.

**Unique insights of this report:**
**Paid leave and business outcomes**

The research in this report is part of filling this data gap, serving as one of the few sources of information on the relationship between paid leave and business outcomes. Our research found that, on average, companies that have paid leave saw improved productivity over the years in which they expanded or began offering paid leave. Technology and manufacturing companies that adopted paid leave were found to have superior productivity metrics when compared to their industry benchmarks. The data and insights in this report show that offering paid leave can be part of running a profitable company, and can potentially boost workforce productivity.

This research helps to shed light on how paid leave benefits are associated with productivity and financial outcomes for businesses. Further analysis across a variety of companies and industries can provide additional data to make the business case for family-friendly benefits.
III. OUR APPROACH: BUILDING THE CASE FOR FAMILY-FRIENDLY POLICIES

Looking through an employer lens

Since 2016, a cornerstone of Panorama’s work has focused on advancing solutions for a changing U.S. workforce. Panorama’s research has sought to understand the incentives and barriers to corporate adoption of paid family and medical leave policies. A strong evidence-based case for paid leave already exists when looking at employee outcomes, particularly in financial security and health. For example, research on the health impacts of workers has shown that for those who use paid leave there are lower rates of postpartum depression among mothers, decreases in infant mortality, and fewer low-birth-weight and early-term babies.iv, v

Similarly, the ASBC has conducted research into business uptake of PFML as part of their high-road workplace initiative. From their research in 2017, the ASBC found that implementing high-road practices, including PFML, had net-positive effects for all the business leaders interviewed for its study.vi These leaders reported that high-road practices motivate their employees to work harder, attract more capable and productive workers, and reduce turnover costs of hiring and training new employees. They have also found that high-road practices lead to higher customer satisfaction and increased brand equity in a hypercompetitive marketplace.

While many employers recognize the value paid leave offers to their workforce, businesses need a similarly strong evidence base to understand the value of paid leave to their bottom line. Thus, the goal of Panorama’s work—and this report—is to strengthen the business case for PFML and enable companies to make strategic decisions for both their workforce and their bottom lines.
In partnership with the Human Capital Management Institute, Panorama conducted a comprehensive analysis comparing company financial and workforce data from before to after a company introduced or expanded a PFML program. The objective was to examine how expansion of paid leave programs is related to productivity and workforce costs.

This report breaks out the findings across three levels:

1. *Broad overview*: A cross-industry analysis of 41 companies that have recently expanded or added a paid leave policy.
2. *Industry-level comparison*: Comparison of paid leave “adopter” companies’ workforce productivity to industry standards in the technology and manufacturing industries.
3. *Individual company case studies*: A closer look at companies that shared insights through company-level data or in-depth interviews.
IV. DEFINING PRODUCTIVITY

The research in this report focuses on the impacts of paid family and medical leave on workforce productivity. The definition of “productivity” varies by industry. In this report, we define productivity as the value that the workforce brings to a company while turning resources into products, services, and sales. We measure productivity by comparing financial outputs (revenue and profits) to workforce financial inputs (headcount and cost). See Figure 1 for a description of the components of inputs and outputs related to productivity.

Figure 1. Definition of productivity
Our research used several productivity metrics focused on financial results to provide information about the business impacts of paid leave. Figure 2 has details on the definition and calculation behind each of these metrics, which are:

1. Revenue per full-time employee (FTE)
2. Profit per FTE
3. Total cost of workforce (TCOW)
4. Human capital return on investment (ROI) ratio
5. Return on human capital investment

**Figure 2. Definitions of metrics in the data analysis**

<table>
<thead>
<tr>
<th>METRIC</th>
<th>MEASUREMENT</th>
</tr>
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<tbody>
<tr>
<td>Revenue per full-time employee (FTE)</td>
<td>The operating revenue the company generates per FTE.</td>
</tr>
<tr>
<td>Profit per FTE</td>
<td>The profit the company generates per FTE.</td>
</tr>
<tr>
<td>Total cost of workforce (TCOW)</td>
<td>The sum of the total costs of the workforce including all compensation costs, benefits costs, and other employee costs. Workforce is defined as employees plus contingent (contract and temporary) workers.</td>
</tr>
<tr>
<td>Human capital ROI ratio</td>
<td>Impact on profit of each dollar invested in TCOW (expressed as a dollar amount).</td>
</tr>
<tr>
<td>Example: If Company A has a human capital ROI ratio of $2.00, then Company A is receiving a $2.00 return for every dollar spent on the workforce.</td>
<td></td>
</tr>
<tr>
<td>Return on human capital investment</td>
<td>Return on investment (of money spent on workforce) in terms of net operating profit (expressed as a percentage of the amount invested in the workforce).</td>
</tr>
<tr>
<td>Example: Company A might have a 10% return for every dollar spent on the workforce.</td>
<td></td>
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</tbody>
</table>
V. DATA AND KEY INSIGHTS ON THE BUSINESS IMPACTS OF PAID LEAVE

Methodology

In this study, publicly available information on companies’ paid leave policies was matched with the Human Capital Management Institute’s (HCMI) workforce productivity database of company-level financial data for over 10,000 companies. Companies were selected for the study based on the availability of sufficient data from the past five years both on their paid leave programs and on their finances within the HCMI database.

In total, 41 companies were selected as the reference group for a broad analysis of the relationship between paid leave implementation and productivity. A subset of this reference group was segmented by industry—either “technology” or “manufacturing”—and an analysis was conducted comparing their productivity metrics to industry benchmarks. Delving into company-level human resources and financial information, an in-depth productivity analysis was done on two companies and an interview with one other organization to provide context and qualitative information on paid leave; these are presented as case studies in this report.

A summary of these findings is presented in the following sections.

A broad view: A cross-industry comparison

Our analysis of the companies in the reference group found that paid leave was associated with positive productivity changes. The companies included in this analysis are large, publicly traded U.S. companies that started offering or expanded a paid leave policy between 2013 and 2018. See Appendix A for a list of companies in the study.
Figure 3 shows that a majority of the companies in the study saw improvements in these four calculated productivity metrics: revenue per FTE, profit per FTE, human capital ROI, and return on human capital investment (HCI).

**Figure 3. Percentage of reference group companies showing improvement in productivity**

<table>
<thead>
<tr>
<th>Metric</th>
<th>Companies Showing Improvement</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue per FTE</td>
<td>63%</td>
</tr>
<tr>
<td>Profit per FTE</td>
<td>54%</td>
</tr>
<tr>
<td>Human Capital ROI</td>
<td>56%</td>
</tr>
<tr>
<td>Return on HCI</td>
<td>54%</td>
</tr>
</tbody>
</table>

For each of the four productivity metrics measured in Figure 3, Figure 4 depicts the change companies experienced, on average, from the time before to the time after a paid leave program was adopted or expanded.

**Figure 4. Average change in productivity in the reference group after introducing a paid leave program**
Industry-level analysis

Our industry-level analysis of paid leave expansion focuses on the technology and manufacturing industries. In recent years, large technology companies gained significant public attention as they expanded paid leave policies, some providing up to one year of paid leave. Thirty-four percent of technology companies offered paid leave in 2016. On the other end of the spectrum, manufacturing has been one of the industries with less adoption of paid leave, with only 9% of “goods-producing” companies offering paid leave in 2016.

Our analysis found that paid leave was associated with improved productivity for companies in both the technology and manufacturing industries. Productivity for paid leave-adopting companies in these industries was above industry benchmarks as seen in Figures 5 and 6.

Figure 5 shows the change companies saw before and after implementing a new paid leave policy in relation to revenue per FTE and profit per FTE. The technology and manufacturing industries saw, on average, an increase in both these metrics as well as an overall number that was higher than their respective industry benchmarks.

Companies in both industry categories had higher values for revenue per FTE and profit per FTE both before and after implementing a paid leave program when compared to their industry benchmarks.

Figure 5. Productivity changes by industry for revenue and profit metrics

![Figure 5](image-url)
Figure 6 depicts human capital ROI for companies in the technology and manufacturing company subsets. After implementing a paid leave program, technology companies on average experienced a $2.64 return for every $1.00 invested in their workforce, and manufacturing companies saw a $2.57 return. This is an improvement in productivity of 6.5% and 3.6% for each industry, respectively, from before implementing their paid leave policies.

Companies in this study, in both industry categories, had higher values for human capital ROI both before and after implementing a paid leave program when compared to their industry benchmarks.

**Figure 6. Productivity changes per industry for human capital ROI and return on HCI**
## Company case studies

### MERCY  
**Less turnover**

Mercy has more than 40 acute care, managed, and specialty (heart, children’s, orthopedic, and rehab) hospitals, 900 physician practices and outpatient facilities, 45,000 co-workers, and 2,400 clinic physicians in Arkansas, Kansas, Missouri, and Oklahoma.

Mercy rolled out a new paid parental leave policy in July 2018 to their general co-worker population and October 2018 to their physician population. The policy provides up to 2 weeks of paid, job-protected leave to workers employed at Mercy for at least 12 months. An analysis of Mercy’s workforce from 2015 to 2019 found that turnover has steadily decreased.

### SOFTWARE DEVELOPER  
**Paid leave leads to lower turnover rates**

A software company focusing on mobile-first solutions was also named a “Great Place to Work” in 2019. This company employs around 200 people and changed their paid leave policy in 2018 to offer 8 weeks to all employees.

An analysis of department-level human resources and financial data from 2017 to 2019 showed that, on average, departments with more paid leave taken per full-time employee saw lower turnover rates. The company’s overall turnover rate was increasing prior to paid leave expansion, but is now projected to decrease in 2019.

### FINANCIAL FIRM  
**The private sector will drive paid leave policy changes**

A financial services firm with over 1,000 employees globally recently expanded its paid leave policy to offer 16 weeks of paid leave to the primary caregiver and 2 weeks to the nonprimary caregiver.

They acknowledge that there is a cost for people to be out of the office on paid leave, but for their company this cost is worth it. They have found that there is no easy way to quantify the cost associated with paid leave, though they are trying to understand it more.

An HR representative from the company said, “Policies and changes related to paid leave will be driven by the private sector. Employers are moving the needle in this specific space. It’s up to the private sector to drive this.”
VI. AREAS FOR FURTHER RESEARCH

These research findings offer new insights into the relationship between paid leave and companies’ bottom lines. This type of information is important to businesses considering implementing or expanding paid leave benefits to their employees, but has largely been absent aside from anecdotal evidence.

The data from this research show that paid leave can be part of running a profitable company. For the technology and manufacturing industries, paid leave is associated with companies that outperform their industry benchmarks in terms of workforce productivity. More data and additional analysis are needed in order to directly link paid leave to company productivity and financial outcomes. Challenges in making a causal link between paid leave and productivity among the companies in this study include external factors contributing to changes in a company’s finances (good or bad), the difference in paid leave benefits offered by the companies, and the variations in paid leave use among company employees.

Further analysis of paid leave adopters in the current analysis could include comparisons to other companies:

1. With similar workforce makeup (e.g., hourly or salary employees)
2. With a similar number of employees
3. Located in states with PFML policies
4. Based on levels of paid leave offerings and/or use

Additional research could also include analyses of companies in other categories besides technology and manufacturing, a study of the nonprofit sector, and further analysis of individual companies with detailed human resources and financial information.
VII. BUSINESS AND PAID LEAVE

Taking the high road

With PFML and other high-road workplace practices, the employee, the business, and the overall economy win. About 80% of businesses have found that PFML improves employee morale and engagement. Many employers that provide their own PFML programs report that the option of taking paid leave made their employees more loyal to the company, more productive, more likely to return to work after an absence, and more likely to affirm they feel highly engaged at work when asked as part of in-house or independent surveys.

Another study found that 88% of all workers would take benefits over a raise in pay, with millennials being the largest demographic group supporting that view. The same study found that paid leave and a flexible schedule were among the highest-rated benefits among millennials. Talented, dependable staff who give their all on the job respond to high-road workplace values and business policies such as paid leave or sick days.

In a world of expensive advertising, high-road firms also find these practices attract consumers who want to buy from values-based firms, and help them stand out from their competitors in a way that is meaningful to customers. Companies that take the high road earn better results from vendors and contractors; more dependable, good-quality output from employees; and ample repeat and referral business from satisfied customers.

Fortunately, examples of high-road success are becoming better known. More and more business leaders find that high-road practices are the cost-effective way to get the best workers now—and the best results from them over time.

Responsible business owners that adopt high-road practices such as PFML policies are shifting our understanding toward a framework that businesses that do good do well. In terms of the impacts of PFML on workforce productivity and company profits, this report is a first step in demonstrating the positive relationship between PFML and business outcomes.
The role of policy

America has a history of successful public policies that incentivize business to build a stronger economy. Together, business and policymakers have the power to foster economic and societal improvement, but entrenched assumptions about “what business needs” must be reconsidered. The conventional business priority—short-term profit at any cost—is what policymakers have come to expect. But as costs to our society, environment, and economy rise, there is an opening for other priorities and the policies that support them.

How can we support companies to choose the high road? Many firms are constrained by outdated business models; others are limited by skepticism about the returns of investing in workers—including implementing PFML policies and other high-road practices—especially if they face “low-road” competitors.

On its own, the marketplace will take longer to spread high-road practices so they are fully mainstream. Such slow progress means lost opportunities for American businesses, families, and the economy. High-road businesses will continue to play a key role in building a sustainable and more just economy. But public policies, such as those being rolled out at the state level and under discussion at the federal level related to PFML, are needed to encourage more businesses to adopt high-road practices.

In partnership with policymakers, businesses can build an economy in which responsible workplace practices are the norm. These policies have been adopted all over the world and are proving to work for the U.S. states that have implemented them. Now is the time to advance them in more states and at the federal level.
VIII. CONCLUSION

The American workforce is changing, and demand for access to paid family and medical leave is growing. More companies have recently implemented or expanded their paid leave policies in order to improve the lives of their employees. While the benefits to employees are well documented, a business case must also be made that links paid leave to workforce productivity and a company’s financial outcomes.

Our research is one step in making this business case. The findings in this report show that offering paid family and medical leave can be part of running a profitable business and potentially provide a boost to workforce productivity. On average, companies in the technology and manufacturing industries saw improved productivity over the years in which they expanded or began offering paid leave benefits to their employees.

This report provides employers with much needed information about how paid leave can be part of running a company that does good business while also doing good by its employees. There is much more to explore around the business impacts of paid leave and other family-friendly work policies; this report is just the start.
REFERENCES


APPENDIX A: COMPANIES IN THIS STUDY

Companies were selected for this study by meeting two criteria: 1) being identified by the National Partnership for Women & Families as expanding their PFML benefits between 2015 to 2018\(^1\) and 2) having sufficient financial and workforce information within the Human Capital Management Institute’s workforce productivity database.

3M Co.
Activision Blizzard Inc.
Adobe Inc.
American Express
Bank of America
Barclays
BASF
Blackstone Group
Campbell Soup Co.
Capital One Financial Corp.
Coca-Cola Co.
Constellation Brands
Credit Suisse Group
Danone
Ebay Inc.
Etsy Inc.
Facebook Inc.
Fifth Third Bancorp
First Data Corp.
FMC Corp.
GoDaddy Inc.
Goldman Sachs Group Inc.
Hasbro Inc.
Intel Corp.
Johnson & Johnson
JP Morgan Chase & Co.
Kimberly-Clark Corp.
Levi Strauss & Co.
M&T Bank Corp.
Mastercard Inc.
Microsoft Corp.
Nestle
Nike Inc.
Procter & Gamble Co.
Scripps Networks Interactive
State Street Corp.
Stryker Corp.
Twitter Inc.
Wells Fargo & Co.
Wex Inc.
Zillow Group Inc.

* Included in the technology subset analysis
** Included in the manufacturing subset analysis

APPENDIX B: ADDITIONAL ANALYSIS

For the technology and manufacturing industry company subsets, an additional analysis was conducted to measure the return on human capital investment (HCI). These findings can be found in Figure B1. After implementing a paid leave program, the technology industries saw a return on HCI of 116% and the manufacturing industry saw a return of 128%; a change of 16 percentage points and 7.6 percentage points, respectively, from before implementing their paid leave policies.

Companies in this study, in both industry subsets, had higher values for return on HCI both before and after implementing a paid leave program when compared to industry benchmarks.

Figure B1. Productivity changes per industry measured by return on HCI
It is worth noting that those selected as paid leave-adopter companies in this study, on average, already had higher productivity metrics than the benchmark even before implementing a new paid leave policy. Because of this, an adjusted analysis was conducted comparing the change in industry benchmarks to the change in paid leave-adopter companies in the same time frame (Figure B2).

These results show that, even when adjusted for the change in the industry benchmarks over the same time period, both the technology and manufacturing industries still saw an improvement in human capital ROI and return on HCI after implementing a new paid leave policy.

**Figure B2. Industry-adjusted improvement**

<table>
<thead>
<tr>
<th></th>
<th>HC ROI Change After Expansion</th>
<th>Average Benchmark HC ROI Industry Change</th>
<th>HC ROI Industry Adjusted Change</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Technology</strong></td>
<td>$0.159</td>
<td>-$0.082</td>
<td>9.7%</td>
</tr>
<tr>
<td><strong>Manufacturing</strong></td>
<td>$0.091</td>
<td>$0.025</td>
<td>2.7%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>Return on HCI Change After Expansion</th>
<th>Average Benchmark Return on HCI Industry Change</th>
<th>Return on HCI Industry Adjusted Change</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Technology</strong></td>
<td>15.8%</td>
<td>-8.1%</td>
<td>23.9%</td>
</tr>
<tr>
<td><strong>Manufacturing</strong></td>
<td>9.1%</td>
<td>2.0%</td>
<td>7.1%</td>
</tr>
</tbody>
</table>