

# **International literature review on the business case for work-life balance**

## **I Executive Summary**

This literature review reviews the international and New Zealand literature on the business case for adopting work-life balance policies. The business case is established by weighing up the costs and benefits of introducing work-life balance policies and determining if the net impact is positive. In New Zealand, the EEO Trust's Work & Life Awards highlight a number of strong case studies for the business benefits of work-life balance policies.

Both the local and the international literature identify the benefits of work-life balance policies, which are:

- improved recruitment and retention rates, with associated cost savings;
- reduced absenteeism and sick leave usage;
- a reduction in worker stress and improvements in employee satisfaction and loyalty;
- greater flexibility for business operating hours;
- improved productivity and
- an improved corporate image.

The costs of implementing work-life balance policies include:

- direct costs, such as parental leave payments or providing equipment to telecommuters and
- indirect costs associated with temporarily filling the posts of absentees and temporary reductions in productivity arising from disruptions.
- costs associated with implementing work-life balance policies

Firms may have difficulties in assessing the net impact of work-life balance policies as the costs are easier to identify and measure than the benefits. Some employers use cost-benefit analysis and others decide to implement work-life balance policies because they intuitively make sense.

Even in the absence of work-life balance policies there are costs and externalities associated with unresolved conflicts between work and personal lives. These costs are borne by the firm (through reduced productivity) as well as by employees and their families and communities. In some circumstances, extended working hours have negative impacts on employees' health or their families and communities. Work-life balance policies can reduce or mitigate the effects of work practices such as extended hours.

Which businesses are most likely to implement work-life balance policies? What is the business case for small and medium enterprises and lower-skilled workers?

- The type of work which employees perform constrains the types of work-life balance policies (formal and informal) which can be offered, so industry type is one of the best predictors of work-life balance policies. The public sector, finance and insurance stand out as industries most likely to offer work-life balance policies. Wholesale and retail are the least likely to offer policies.

- Firm size is also an important predictor of the presence of work-life balance policies, with large firms generally having the most generous policies.
- Firms employing a large number of professionals and technical workers are the most likely to offer work-life balance policies.
- Firms employing a large proportion of low-skill workers are the least likely to offer work-life balance policies.
- Firms with a large proportion of women in their workforce are more likely to provide work-life balance policies, but the proportion of women in top executive positions was a better indicator.
- In the international literature, SMEs are often defined as having fewer than 500 employees. Work-life balance policies in SMEs are generally informal and individually negotiated, making them difficult to pick up in surveys. We do, however, have EEO Trust case studies and these indicate that SMEs identify similar costs and benefits as larger firms. There needs to be a specific focus on SMEs in the consultation process as the literature does not cover very much about the business case for work/life balance for SMEs

Work-life balance policies affect business performance in a number of ways:

- In a competitive labour market, employers can attract better recruits by offering work-life balance policies alongside competitive remuneration packages.
- Work-life balance policies can reduce costs. Assuming that these policies improve staff retention rates, then businesses save money on recruitment costs, lose less institutional knowledge and receive a greater return on investments in staff training.
- Work-life balance policies can enhance productivity. There are different theories about the connection between work-life balance and productivity. Some argue that policies will decrease negative spill-overs from workers' lives, leading to productivity gains. Policies can also reduce extended hours and fatigue, which has a negative effect on productivity. Other arguments use an exchange framework and suggest that in return for the 'gift' of work-life balance policies, employees offer the 'gift' of discretionary effort, thereby increasing productivity.
- Work-life balance policies also minimise stress and contribute to a safer and healthier workplace by combatting fatigue, thus reducing the chance of accidents occurring in the workplace.

What is the evidence for the business benefits of work-life balance policies?

- There is clear evidence of a strong business benefits in the case studies, however these conclusions are context specific, and not necessarily generalisable. There is no "one size fits all" business case for work-life balance policies.
- The larger, econometric studies are less common than the case study work but they do find a correlation between productivity and the presence of work-life balance policies.
- The evidence of the business benefits of work-life balance policies is reasonably strong, and increasing.

## **II Introduction**

### **The Structure of the Paper**

The purpose of this paper is to review the existing literature on the business benefits and costs of work-life balance policies. The business case for work-life balance policies relies upon the tangible costs and benefits of the policies – their “bottom line” effects. This means that the implications of these policies can be objectively assessed and put in context. The business case does not rely on notions of moral or social responsibility, although these may motivate business owners to adopt work-life balance policies. The following section identifies and describes some of the costs and benefits of work-life balance policies, and discusses how firms assess the net benefits. The fourth section explores which businesses are most likely to implement work-life balance policies and what the implications are for lower-skilled workers and small and medium enterprises. The fifth section examines how work-life balance policies affect business performance. The sixth section assesses the strength of the evidence on the business benefits of work-life balance programmes. The seventh section draws some preliminary conclusions.

### **The literature**

The literature surveyed is a mixture of academic literature and surveys of firms by other experts. Some of the literature is peer reviewed and some not. The bibliography lists the literature that was reviewed for this paper. Some of the literature is not specifically referenced in the paper.

Not all the literature refers to the whole set of work-life balance policies. Some studies measure flexibility and others measure work-family policies. In this literature review these have all been subsumed under the heading “work-life balance policies”. In this paper, “work-life balance policies” refers to policies created by businesses, as part of their human resources or management strategies. The term is not used in this paper for government policies, except in so far as businesses’ work-life balance policies may also fulfil statutory obligations.

### **The firm**

While much of the literature surveyed focuses on the private, for-profit sector; work-life balance policies have similar effects in the public and not-for-profit sectors. The terms “firm”, “business” or “enterprise” have been used in this paper, but are not meant to exclude public or not-for-profit organisations. The public and not-for-profit sectors are significant employers and have as much to gain as profit-making enterprises from implementing work-life balance policies.

### **The intentions and effects of work-life balance policies**

Another point to note is that work-life balance policies are not uniform in their intentions or effects. Some work-life balance policies are designed to fit people’s lives around work by minimising any outside interference with work. Intentionally or unintentionally, this can enable a long hours culture, which is unlikely to be “balanced” with non-work activities. Some work-life balance policies are aimed at fitting work around the other aspects of people’s lives. For example, term-time working has this goal. Other examples in the literature of firms’ work-life balance policies are those that aim to integrate employees’ work and lives.

### **III Costs and Benefits**

#### **New Zealand case studies**

The “case study method” is a common method of research in the business literature. While case studies are not necessarily representative, they offer insights that cannot be gained from aggregated, statistical studies. There are a number of compelling case studies testifying to the business benefits of work-life balance policies. New Zealand case studies have been prepared around the EEO Trust’s Work & Life Awards and, certainly in the case of the winners, the cases show that work-life balance practices can result in a high net benefit for the firm, for the employee and for the teams and divisions where work-life balance strategies are implemented. The annual awards were inaugurated in 1998 and cover both large and small organisations, as well as recognising those organisations that are embarking upon creating work-life balance policies.

This year’s large organisation winner was Westpac Banking Corporation who cited a number of business benefits as a result of the introduction of their work-life balance policies. These benefits include increased morale, productivity and employee and customer engagement. Westpac also cited increased retention and improved customer service, as well as reduced costs associated with turnover, absenteeism and sick leave. The Muscular Dystrophy Association of New Zealand was the joint winner of the small to medium organisation award this year. The MDA noted lower staff turnover and improved staff satisfaction as a result of implementing work-life balance policies (EEO Trust 2003). The EEO Trust Work & Life Awards publications offer a number of case studies of the business benefits of work-life balance policies.

In New Zealand, Pohlen Kean (2002) undertook a survey of the employees of 25 organisations. They found a clear relationship between the work-life balance policies on offer, employee’s intentions to leave and actual turnover rates. Their study suggests that the work-life balance policies have a small overall net positive effect on staff turnover rates. The study is harder to assess because we have not had access to the study methodology but the results are consistent with the international literature.

#### **Benefits**

The literature reviewed for this paper indicates that the following benefits can result from the implementation of work-life balance policies:

- Reduced staff turnover rates (Dex and Scheibl, 1999; Managing Work/Life Balance, 2003; Center for Ethical Business Cultures, 1997; Evans, 2001; Galinsky and Johnson, 1998; Eaton, 2001)
- Less loss of knowledge workers to competitors (Dex and Scheibl, 1999)
- Lower recruitment and training costs, associated with reduced turnover (Dex and Scheibl, 1999; Center for Ethical Business Cultures, 1997; Evans, 2001; Eaton, 2001)
- Becoming a good employer or an employer of choice (Dex and Scheibl, 2001; Center for Ethical Business Cultures, 1997)
- Broader recruitment pool (Center for Ethical Business Cultures, 1997; Evans, 2001)
- Improved quality of applicants (Dex and Scheibl, 1999)
- Increased return on investment in training as employees stay longer (Dex and Scheibl, 1999)

- Reduced absenteeism (Dex and Scheibl, 1999; Managing Work/Life Balance, 2003; Center for Ethical Business Cultures, 1997; Human Resources Development Canada, 2002; Galinsky and Johnson, 1998; Comfort, Johnson, and Wallace, 2003)
- Reduced use of sick leave (Dex and Scheibl, 1999; Center for Ethical Business Cultures, 1997)
- Reductions in worker's stress levels (Evans, 2001)
- Reduced liability for stress under the Health and Safety in Employment Act
- Increased return rate from parental leave (Managing Work/Life Balance, 2003)
- Reduction in worker stress from conflicts between work and family roles (Evans, 2001; Human Resources Development Canada, 2002; Galinsky and Johnson, 1998; White, et al. 2003)
- Improved morale or satisfaction (Dex and Scheibl, 1999; Managing Work/Life Balance, 2003; Center for Ethical Business Cultures, 1997; Human Resources Development Canada, 2002; Galinsky and Johnson, 1998; Comfort, Johnson, and Wallace, 2003)
- Greater staff loyalty and commitment (Dex and Scheibl, 2001; Center for Ethical Business Cultures, 1997; Human Resources Development Canada, 2002; Galinsky and Johnson, 1998; Eaton, 2001)
- Greater flexibility in deploying staff such as an ability to offer extended hours of business to customers (Evans, 2001; Human Resources Development Canada, 2002)
- Improved corporate image, which can lead to greater sales or improved stock price of ethical investment choice (Dex and Scheibl, 1999; Center for Ethical Business Cultures, 1997; Evans, 2001)
- Improved productivity (Dex and Scheibl, 1999; Center for Ethical Business Cultures, 1997; Galinsky and Johnson, 1998; Eaton, 2001)

All of the above contribute to more a more effective staff and as such, combine to enhance the productivity of the business.

### **Costs**

The literature indicates that the following costs are associated with implementing work-life balance policies:

- Direct costs of policies which involve payments, such as childcare subsidies or paid parental leave (Dex and Scheibl, 1999; Dex and Scheibl, 2001)
- Costs of extra spaces associated with increased facilities such as breastfeeding rooms or childcare facilities (Evans, 2001)
- Costs of equipment to facilitate working at home (Evans, 2001)
- Costs of investigating work-life balance policies
- Costs of implementing new work-life balance policy systems. This may include costs associated with changing processes or culture.
- Fixed costs associated with the number of staff
- Maintenance or transaction costs for managers in implementing work-life balance practices. (Evans 2001)
- Disruption costs for temporarily filling absent colleagues posts (Dex and Scheibl, 1999; Evans, 2001)
- Temporary reduction in productivity from disruption (Dex and Scheibl, 1999; Evans, 2001)
- Reduced morale of those employees not benefiting (Dex and Scheibl, 1999; Evans, 2001)

This list of costs and benefits is drawn from a number of sources. The exact mix of costs and benefits in an individual firm will vary with the work-life balance policies offered and the characteristics of the firm itself.

#### *Assessing the costs and benefits of work-life balance policies*

So how do businesses make decisions about whether or not to introduce work-life balance policies? Ideally, firms would identify all the costs and benefits involved in implementing work-life balance policies, undertake some form of cost-benefit comparison<sup>1</sup> and implement the policies if the net impact is positive. Obtaining an accurate measure of the savings gained from work-life balance policies is problematic and many companies do not or cannot make explicit calculations of the costs and benefits (Dex and Scheibl, 1999). While the costs of introducing work-life balance policies are relatively direct and easy to measure, the benefits are often more difficult to identify and measure. As not all the benefits may have been identified or measured, the net impact of these policies is often regarded as negative

Given the difficulties in comparing the costs and benefits of work-life policies, and assessing their net impact, employers often make decisions based on their values, attitudes or beliefs. Some employers implement work-life balance policies because they intuitively make sense. Some employers undertake an evaluation of their work-life balance policies after they have been implemented, in order to justify the decision (Evans, 2001).

There is great variation in the costs of work-life balance policies. Some will cost an employer almost nothing and others can be quite expensive (but may offer greater benefit). The “package” of work-life balance policies offered may be determined by the costs and benefits of each individual measure, however this approach may discount the synergies involved in offering a number of policies. A range of work-life balance policies are more likely to offer something to everyone, and avoid feelings of resentment among employees who may not otherwise benefit from entitlements such as family-friendly policies.

The business case will vary between firms and industries as the costs and benefits of work-life balance policies are quite different in different situations. The strength of the business case for work-life balance policies is also likely to vary with changes in the economic cycle. The case for some work-life balance provisions may be weaker in times of recession or downsizing (Evans, 2001).

#### *Other costs and externalities*

Even in the absence of specific work-life balance policies within firms, there are costs associated with balancing work and other commitments such as family life. These costs are borne outside the firm, by families and communities, but they can also have consequences for the firms. Traditionally, these costs have disproportionately fallen on women who have had to provide the necessary unpaid support and caregiving for men to enter the workforce, unhampered by interferences from the rest of their lives. By implementing work-life balance policies, the firm is internalising some of these costs (and may even benefit from employees who are less stressed by their home life).

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<sup>1</sup> Further information is available in Appendix I about different methods of cost-benefit analysis

There is considerable evidence that extended working hours have generated a number of negative externalities for all staff, employers and employees. Extended hours of work are linked to a number of health problems including heart problems, high blood pressure, gastrointestinal disorders, psychological wellbeing and circadian disruption. The business or enterprise bears some of the cost through sick leave. An unbalanced share of the cost may be borne by the worker and the taxpayers who fund health and other social services (Dawson, McCulloch and Baker, 2001).

Extended working hours also impose costs on families and communities which have reduced capacity as workers no longer have time to invest in them. In the short-term, extended working hours can lead to increased productivity (as measured by total productivity, not hourly productivity). In the longer term, however, these practices become unsustainable due to reduced safety and the greater risk of accident and the costs to families and communities (Dawson, McCulloch and Baker, 2001). Work-life balance policies are a means of reducing extended working hours and mitigating the effects.

#### **IV Which businesses are most likely to implement work-life balance policies (and what are the implications for lower-skilled workers and small and medium enterprises) ?**

An examination of which businesses already offer work-life balance policies may give some indication of where a strong business case can be made. The characteristics of firms that adopt work-life balance policies vary across countries and so these results should be interpreted in context. The type of work that employees perform also constrains the options for the types of work-life balance policies that are suitable for adoption in particular industries and firms.

##### **Industry type**

Galinsky and Bond (1998) found that industry was the best predictor of the presence of work-life balance policies in the United States. Finance, insurance and real estate stood out as the most generous industries, while the wholesale and retail industries were the least generous. Evans (2001) found that in Australia, Japan, the UK and the US, family-friendly arrangements were most common in the public sector, presumably because this sector is not subject to commercial pressures. The public sector is also more likely to have legislative requirements to be a good employer and work-life policies are often one of the easier strategies for them to implement. In Australia, the retail, construction and hospitality sectors are the least likely to offer work-life balance policies (Evans, 2001).

##### **Enterprise size**

Firm size affects the type and extent of work-life balance policies that are offered. In their study of US firms, Galinsky and Bond (1998) found that company size was the next best predictor of the presence of work-life balance policies, after industry type. Larger companies (more than 1,000 employees in this case) were more likely to provide flexible work options and longer and paid parental leave.

In Canada, flextime and telework are much more available to employees in small workplaces (fewer than 10 employees). Other policies such as child or eldercare, where economies of scale can be achieved, are most available in large organisations

of 1000 employees or more (Comfort, Johnson and Wallace, 2003). In general, work-life balance policies are more likely to be reported in large firms in Australia, Japan, the UK and the US (Evans, 2001).

### **Small and medium enterprises**

There is some New Zealand evidence about the effect of work-life balance policies in small and medium enterprises. The EEO Trust Work and Life Awards has small and medium organisation case studies. The case studies suggest that small and medium-sized organisations experience similar costs and benefits from implementing work-life balance policies as larger organisations. Further research in this area is needed as the number of case studies is small, and we do not have very much information about the effects of work-life balance policies in New Zealand SMEs.

It is difficult to gather relevant evidence from the international literature about the effect of work-life balance policies on small and medium businesses because the definition of small and medium differs between countries. In the UK, a firm with less than 250 or 500 employees is considered an SME. This differs significantly from New Zealand's definition of between 5-25 employees. Eaton's USA (2001) study found lower levels of organisational commitment in the smaller companies in her sample, where the median size was 150 employees. This is consistent with other American studies, as in the US small companies are said to offer less job security.

SMEs are less likely to have formal or stated work-life balance policies, meaning that many surveys may not capture the extent of the benefits available to employees through informal negotiation. SMEs have certain advantages in implementing flexible policies. It's probably easier for SMEs to undertake internal reorganisation; in small organisations there is likely to be less role specialisation as people need to be able to multi task.

As SMEs have flatter management structures, work-life balance policies are often less costly as there is less bureaucracy. Some flexible options might however be more expensive as SMEs have fewer staff to cover for each other. Worker productivity is easier to monitor in an SME, so employers may be less convinced by the business case used by larger firms. However, employees and employers in SMEs are much more likely to have informal relationships based on trust and giving. The gift exchange model (see Section V) may be more applicable in small firms, where the relationships are much more personal (Evans, 2001). These findings on SMEs are extrapolated from case studies and theoretical insights. There is not very much information on work-life balance policies and practices in SMEs and this is an area which should be more fully explored in the consultation process.

### **Professional and non-professional staff**

It is theorised that firms employing large numbers of professionals are more likely to implement work-life balance policies as they are scarcer, harder to attract, more valuable and more expensive to recruit and retain than less well-paid employees. Monitoring and controlling the productivity of professional workers is difficult and costly, because the outputs of professional staff are not as tangible as the outputs of, say, a manufacturing process. Professional staff are also more likely to resent intense supervision and scrutiny. Work-life balance policies may be an extra inducement for a professional's discretionary effort. The hypothesis of firms with a higher percentage

of professionals having greater work-life balance policies is supported by research in the United States (Konrad and Mangel, 2000). Other research indicates that in Australia, Japan and the UK, firms with a greater proportion of professional and technical workers are more likely to have work-life balance policies (Evans, 2001).

### **Lower skilled workers**

Work-life balance policies appear to be least available to low skilled workers, especially those in generally low skill industries. In the US, Galinsky and Bond (1998) found that companies employing a greater proportion of hourly workers, people who are generally concentrated in lower-paid jobs, were the least likely to offer work-balance policies.

An Australian report into the retail sector suggests that work-life balance policies are just as important and relevant in an industry with extremely low profit margins (3.4% in 1997/1998). This is because the cost of recruiting and training low-skilled part-time employees is high, relative to the employees' wages. Work-life balance policies can reduce these costs by reducing staff turnover rates (Work and Family Unit, 2002). It's also important that front-line service staff are not stressed or worried about family issues as this can spill-over into their interactions with customers or clients. Disgruntled employees can also sabotage customer relations.

In New Zealand, an action research project funded by the EEO Contestable Fund highlighted the fact there can be a high impact from very low cost initiatives in low paying organisations. Initiatives such as staff having access to a phone to check on their children after school, allowing the tea room to be a place for homework and making sure that parents could be reached for family emergencies had noticeable benefits to the firm. Many of these things probably do happen in workplaces but would not necessarily be accounted for in work-life terms, and therefore would not be calculated into the benefits side of the ledger.

### **Female employees**

There are a number of theories about whether or not firms with more female employees develop more extensive work-life balance policies. Konrad and Mangel's (2000) research in the United States found that firms with a greater percentage of female employees were more likely to have more extensive work-life balance policies. Of the firms employing higher numbers of women, they found higher productivity levels in those firms that had a greater number of work-life balance policies. This finding counters "adverse selection theory". Adverse selection theory claims that firms with more attractive policies will attract individuals who have greater need for those policies. As an example, adverse selection theory would predict that firms with more generous maternity leave policies would attract pregnant women, or women who were planning to become pregnant. If most of the employees in a firm used the more expensive work-life balance policies most of the time, then their provision would become uneconomical and reduce profitability. This study is important because it has findings that are opposite to the predictions of adverse selection theory.

Galinsky and Bond (1998) found that in the US, having a larger proportion of top executive positions filled by women is associated with greater provision of work-life balance policies. They also found that companies with a larger proportion of women

in their workforce were more likely to invest in policies such as job sharing, part-time work, flexible time off policies and childcare. Companies were more likely to invest in costly options such as paid parental leave when women constituted a smaller proportion of the workforce.

Given the proportion of sole female parents in New Zealand, in female-dominated industries or workplaces there may be increased benefits to employers of assisting with work-life balance. This is an issue that could be further explored in the consultation process.

### **Employee demographics**

Comfort, Johnson and Wallace (2003) examined which Canadian employees are more likely to have access to work-life balance policies. Over one third of employees had access to flextime which was the most commonly available policy. The demographic data refuted adverse selection/sorting effect theories. Sometimes, the relationships were opposite to what would be expected. For example, women reported lower flextime participation rates than men. Flextime was highest amongst youth, suggesting that schedule flexibility was more characteristic of entry-level jobs.

The Canadian study also found that access to (rather than the take-up of) childcare peaked at the 45-64 age group, suggesting that formal childcare services were a function of firm or industry factors, rather than employee needs. University graduates had considerably greater access to work-life balance policies. There was also a clear link between job characteristics and work-life balance policies. Managers and professionals had a much higher level of potential access to these policies than other occupational groups. Access to flextime and telework was associated with non-unionised environments whereas child and eldercare services were associated with union settings.

### **What is being offered?**

In New Zealand, the EEO Trust Diversity Index measures the type and extent of work-life balance policies (Burns, 2002). The results of this survey question are reproduced in Appendix II. The most common policies offered are flexible working hours and flexibility in work location. There is a relatively low level of firm provision of services such as childcare facilities. We should note that most of the sample comes from the EEO Trust Employer Group, which is not a representative sample of New Zealand employers.

Another survey in New Zealand by TMP/Hudson shows that flexible working hours is one of the more commonly offered work-life balance policies (West and Burroughs 2002). The sample for this survey is drawn from the TMP client pool. The survey methodology is not very robust and the results should be seen as only indicative. The results of this survey are reproduced in Appendix II.

## **V How do work-life balance policies affect business performance?**

There are different routes by which work-life balance policies affect business performance. The pathways are often inter-connected; business performance may be influenced by any, some or all of these routes.

The ways that work-life balance policies affect business performance are:

1. by being necessary in a competitive labour market,
2. reducing costs and thus increasing profitability,
3. improving labour productivity levels and thus increasing profitability,
4. reducing the risks of workplace accidents and stress, hence reducing liability for health and safety issues.

### **Competitive labour market**

In a competitive labour market, there is evidence that firms enhance their ability to attract the best recruits if they offer flexible policies, alongside competitive remuneration packages (Konrad and Mangel, 2000). In a strategic model, if a critical mass of firms in an industry offer work-life balance policies, it would be difficult for the other firms to hold out and not offer work-life balance programmes (Dex and Scheibl, 1999).

### **Cost reduction**

As indicated by the list in Section III above, there are many cost savings available to firms and other enterprises through implementing work-life balance policies. They rest upon the assumption that work-life balance policies will improve staff retention. Reducing staff turnover leads to lower costs, as recruiting new staff is a costly process. Staff loss leads to direct costs associated with recruiting, such as advertising and interviewing as well as indirect costs such as the loss of institutional knowledge and contacts. Greater staff retention also reduces training costs. Having staff staying longer in a firm, increases the returns on investments made in their training. There are also cost savings if work-life balance policies reduce absenteeism.

### **Productivity improvements**

The arguments that work-life balance policies will increase productivity are more complex and take different routes. The literature search has not found any sources that develop a coherent theory of how work-life balance influences productivity. Instead, each study seems to have a variation on general theories. Section VI covers some studies that have measured the productivity effects of work-life balance policies. Productivity is difficult to measure and these studies generally do not measure the underlying mechanisms through which productivity gains are made. The studies do not necessarily support any one of these productivity theories over another.

There appear to be at least three basic ways of thinking about the relationship between work-life balance and productivity:

1. Examine how work-life balance policies affect another variable such as job satisfaction or organisational commitment, and then correlate these variables to productivity.
2. Consider how work-life balance fits into an exchange theory model, inducing workers to increase their discretionary effort and raise productivity.
3. In the absence of work-life balance policies, there will be productivity losses.

There are variations on these three themes, which are discussed below.

#### *Job Satisfaction*

When work extends into family time, it can create stresses which then extend into the workforce. One meta-analysis suggests that there is a consistent negative relationship

between work-family conflict and job satisfaction. As far as work-life balance policies can reduce the conflict between work and family, they can increase job satisfaction (Konrad and Mangel, 2000). There is no strong empirical evidence of a positive association between high employee satisfaction and high productivity, but job satisfaction does have a clear negative relationship to absence and turnover.

A satisfied workforce may be valuable because employees are then less likely to be absent and consequently affect the bottom line (Comfort, Johnson and Wallace, 2003). Other commentators suggest that work-life balance policies can increase organisational commitment. Higher levels of organisational commitment are then correlated with lower turnover and better job performance (Eaton, 2001).

#### *Exchange theory*

Work-life balance programs are posited as a means to encourage workers to expend extra effort, beyond the minimum required to maintain their jobs. An exchange framework is used to explain this general mechanism. In situations with some mutual trust and commitment, more general investments by the employer may be rewarded by greater employee effort. Akerlof's gift exchange model offers a possible explanation for why this may be the case. His model assumes that workers develop sentiments for the firm. Gift giving is governed by norms of reciprocity. Workers can give firms the gift of extra effort in response to the gift of work-life balance policies from the firm (Konrad and Mangel, 2000).

More recently, frameworks focus on general exchanges between employer and employees. Where firm investments go beyond specific monetary incentives, to include investments in general well-being and career development, firms may see greater discretionary efforts from employees. There are some empirical studies to support these claims (Konrad and Mangel, 2000).

#### *High performance management*

Another variant, using the exchange framework, examines "high-commitment" or "high-performance" management styles which involve greater mutual commitment between employers and employees. Employees only provide the necessary degree of commitment if they are treated with sufficient consideration in return. Work-life balance policies are perceived as an indication of concern for employee's welfare and as such could assist in engaging employee commitment (Evans 2001).

White et al. (2003) hypothesise that high-commitment or high performance management practices can, however, have negative impacts on the private lives of workers, as they elicit discretionary effort, which often takes the form of additional hours. Work-life balance policies are then an effort to offset these adverse effects. White et al. found that high commitment management practices have a negative effect on employees' lives, even after controlling for the hours worked. They also found that flexibility reduced negative spill-over for women but had little effect for men. The authors concluded that employees do not always benefit from high-commitment management practices.

#### *Reducing Negative Spill-over*

A further way of arguing for the productivity gains of work-life balance policies, is to argue that in their absence, work-life conflict leads to stress and negative spill-overs

from the home and a consequence of this is a decrease in productivity at work. There is a body of research that links work-life conflict to productivity loss (Comfort, Johnson and Wallace, 2003). There are fewer studies of the firm level productivity gains from implementing work-life balance policies. White et al's (2003) finding that flexibility reduced negative spill-over for women is important. It provides empirical evidence to support the theory that work-life balance measures will decrease negative spill-over and hence increase productivity. This theory of the connection between work-life balance policies has strong empirical support.

#### *Countering the effects of long hours*

A number of firms have made aggregate productivity gains from increasing the hours of work of their employees. However the evidence suggests that we have already reached, or passed the point of diminishing returns in many industries, particularly those working more than 50 hours per week. The relationship between extended hours of work and productivity is complex.

Historically, most work was relatively less skilled and more routine. This would suggest that increased hours of work may not have had as much of a negative impact on productivity. As workplaces have become increasingly complex from a cognitive perspective, they now require much higher levels of problem solving and teamwork. The impact of extended hours on fatigue and subsequent performance and productivity is well documented.

Studies show that employee productivity per hour for 10-12 hour shifts is significantly lower than for an 8 hour shift. Fatigue, which is often caused by extended working hours, negatively affects:

- The ability to comprehend complex situations without distraction
- The ability to monitor events and improve strategies
- Risk assessment and accurate predictions of consequences
- Thinking laterally and being innovative
- Controlling mood and behaviour
- Monitoring personal performance
- Recollecting the timing of events
- Effective communication (Dawson et al. 2001)

In other words, there are clear benefits to businesses from staff not working excessive hours, having breaks, enough time at home every day for rest and recuperation and holidays. Work-life balance policies are a way of reducing excessive hours and allowing employees to recover from the negative effects of short periods of working extended hours.

#### **Health and Safety**

In addition to the effect that extended hours and fatigue have on worker productivity and performance, high fatigue levels increase the risk of accident. Studies show an exponential increase in the risk of an accident beyond the eighth hour of work. Research has demonstrated that fatigue-related impairment is not dissimilar to the effects of moderate alcohol intoxication (Dawson et al. 2001).

Fatigue is a context-dependent safety hazard. In some industries, such as some professional services, fatigue induced accidents can be inconsequential. In other industries, especially those with greater safety hazards such as heavy machinery or

medicine, fatigue induced accidents are very serious. Work-life balance policies that counter a long hours culture, such as flexible working hours and time off in lieu, allow employees sufficient time for sleep and rest, reducing their fatigue levels and reducing the risks of workplace accidents.

Stress is another workplace hazard that employers and employees are now explicitly required to take all reasonable steps to eliminate, isolate or minimise, under the Health and Safety in Employment Act . Work-life balance policies can be an effective way of minimising employee's stress levels and can be an important part of any stress management system. Work-life balance policies are useful tools for creating a healthy workplace and can reduce an employer's liability and risk of infringing the Health and Safety in Employment Act.

## **VI What is the strength of the evidence?**

Much of the evidence for the claims of the costs and benefits of work-life balance policies comes from case studies. There is clearly extensive information that could be used to prepare a business case for work-life balance policies in these case studies. However, the evidence must be seen in the context of the particular case study. Case studies are not necessarily representative and so the results cannot be generalised to all situations.

Evans (2001) is of the opinion that it is difficult to reach a general judgement about the importance of the business case on the basis of current knowledge. There are specific situations in which the business case is strong but it is more difficult to make robust generalisations about the business benefits of work-life balance policies. This finding confirms the diversity of firms. Just as there is no "one-size fits all" model of work-life balance for individuals, we cannot expect there to be one generic business case for firms.

### **Formal and informal policies**

Other studies have attempted to make a more general case through the use of larger sample sizes and econometric techniques to assess the benefits of work-life balance policies. These studies face a number of challenges in quantifying both the benefits and the policies. Almost all the studies rely on reports of the formal work-life balance policies available to employees. Informal work-life balance policies often exist, but they generally aren't measured.

The culture of a workplace has a large effect on the use of work-life balance policies. Work-life balance policies are not very effective in an unsupportive workplace because they either will not be used or they would harm an employee's prospects. Employees may not necessarily feel free to use these policies for various reasons. For example, they may feel that doing so would lead to negative impacts on their career progression, as they would be perceived as lacking commitment to the company. Eaton (2001) got around this problem by constructing a "usability" measure that included employees' perceptions that the policies would not be detrimental to their careers. Eaton's "usability" measure is a means of assessing the supportiveness of a workplace. Eaton's study, of workers in biotechnology companies in the US, found that neither the presence of formal or informal work-life balance policies were correlated with organisational commitment. However, if these policies were perceived

as “usable”, there was a significant positive association with organisational commitment. All three types of work-life balance policy (formal, informal and usable) were positively associated with higher levels of self-reported productivity. This association is greatest with usable policies.

### **Employer and employee reported data**

Many studies use either employer or employee reported data. There are often differences between the two data sets. Employees often know surprisingly little about the firm, while some working hours arrangements are introduced by firms to suit their production needs and then labelled family-friendly to improve employee acceptance (Evans, 2001). Comfort, Johnson and Wallace’s Canadian study (2003) used linked employer-employee data, which created a richer data set and more robust findings. They found that flextime was related to increased job satisfaction, increased satisfaction with pay and benefits, a reduction in paid sick days, and higher participation rates in work-related training. All of these relationships appeared stronger for women. Flextime was also associated with an increase in the number of hours worked.

### **Productivity**

Individual productivity is hard to measure (Eaton 2001). Measures such as profits, are the result of the contribution of a number of people. Researchers either use firm productivity measures such as profits, or rely on self-reported productivity measures. Konrad and Mangel’s US study (2000) used firm profitability (as revealed by public disclosure laws) as a measure of productivity. This meant that their study of the relationship between work-life balance and productivity had a bias towards larger firms. 7% of the variation in productivity of the firms in their random sample, was explained by the presence of work-life balance policies. They did not however directly measure the underlying mechanisms through which work-life programs increased productivity.

The authors of these econometric studies generally caution that the associations between work-life balance policies and productivity are correlations and not proof of causation. It may be that more profitable firms are better able to afford work-life balance policies. The association between providing work-life balance policies and employee productivity may go either way. The policies may encourage a greater output by workers or the policies may attract more productive workers. However, it is almost impossible to set up a large, randomised econometric study to prove a causal relationship between work-life balance policies and productivity. Productivity has multiple causes and work-life balance policies can only be part of the equation. The econometric studies discussed above offer strong evidence to support the business case.

### **Business opinion on cost-effectiveness**

Another way of assessing the strength of the business case is to assess how many businesses offer work-life balance policies and ask businesses if they believe they are cost-effective. Bearing in mind that the direct costs of implementing work-life balance policies are more easily measured than the benefits, employers may consistently underestimate the cost-effectiveness of work-life balance policies. This means that business opinions on the cost-effectiveness of work-life balance policies may not be a very robust measure of their actual cost-effectiveness.

Galinsky and Bond (1998) found that around 90% of US companies offer at least one policy which would fall under the work-life balance policy umbrella. Similarly, in the UK, nine out of ten employers in 1996 provided at least one family-friendly arrangement<sup>2</sup>. In a study of a representative sample of US businesses employing more than 100 people, Galinsky and Bond (1998) found that only 17% of companies think that the costs of leave programs that exceed the statutory minimum outweigh the benefits. 42% thought the programs were cost-neutral and another 42% believed there was a positive return on these investments. Of the companies offering flexible work arrangements, 18% viewed the costs as outweighing the benefits, 36% saw them as cost-neutral and 46% claimed a positive return on investment.

The literature tells us very little about why employers do and do not adopt work-life balance policies. It may be due to a lack of awareness or understanding of the issue. Their opposition may also be based on business case reasons, ideological principles or risk aversion. Roper, Cunningham and James (2002) undertook a study of the attitudes and beliefs of a random sample of British employers, on the eve of the Government introducing work-life balance legislation. They found that a greater number of employers objected on business case grounds to the proposed family-friendly legislation, than those who supported it on business case grounds. The social justice case actually attracted more support than the business case.

Opposition to work-life balance, based on the perceived negative impact of the policies, was higher than opposition based on principles. Support for the business case was strongest amongst those in transport/communications and the finance sectors. Those in the manufacturing and wholesale/retail sectors were the most likely to oppose the legislation on business case grounds. Those identifying as managers, CEOs or directors were far more likely to perceive negative organisational impacts than human resource specialists. The human resource specialists were also more likely to be personally in favour of the new measures. The findings of this study are interesting. The study could not assess to what extent beliefs about the business case were shaped by socially conservative beliefs or a rational, fully informed cost-benefit analysis.

## **VII Conclusions**

Over the last decade the evidence for the business benefits of work-life balance policies has been growing in volume and strength. The studies show strong links between work-life balance policies, and reduced absenteeism and increased productivity.

A starting point for firms to assess the cost-effectiveness of work-life balance policies is to identify all the costs and benefits. This gives a fuller, more comprehensive picture, even if it is difficult to find information to quantify the net impact of work-life balance policies. Some work-life balance policies are almost costless but can have large pay-offs, if not immediately, then in the future. It's important to assess all the policies offered as a package because there are often synergistic effects from having a diverse number of policies. It's likely that the benefits, which are harder to measure,

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<sup>2</sup> Dex and Scheibl (1999)

will be under-estimated and the costs over-estimated, as they're easier to measure. This can lead to a generally pessimistic perception of the net impact of providing work-life balance policies.

Certain work practices such as extended working hours generate a number of negative externalities in certain contexts. These costs are borne by workers, their families and their communities. Extended hours of work are linked to a number of serious health problems. Fatigue, which is often caused by extended working hours, reduces people's cognitive ability. Fatigue also increases the risk of workplace accidents. Work-life balance policies can curb damaging work practices, such as extended hours, or mitigate their effects. They can both reduce the costs associated with these work-practices (a win-win situation) or at least make the firm internalise some of the costs.

Work-life balance policies can reduce the stress associated with work-life conflict, as well as reducing the stress caused by a workplace. Reducing worker stress can improve productivity. Work-life balance policies can play an important part in creating safe, healthy and productive workplaces.

The nature and extent of work-life balance policies are constrained by the type of industry and what sort of work is involved. From the evidence on which firms provide work-life balance policies, it appears that the business case is strongest for large firms, which can achieve economies of scale. However, this result could also be because large firms are studied far more than small firms. The business case appears particularly strong for firms employing a greater proportion of professionals. Low skill and low paid workers are the group least likely to be offered work-life balance policies. Some argue that the business case is just as strong for them as retention rates for low skill workers are often very low and the cost of recruiting and training new staff is high, compared to their wages.

SMEs have more personal working relationships between employers and employees. These are probably more conducive to the productivity gains promised by exchange theory. There is a need for a greater focus on SMEs in the consultation process, as the literature does not tell us much about how work-life balance policies function in SMEs.

The theoretical models that explain the links between productivity and work-life balance policies are promising but could be more fully developed. They offer different explanations based on different assumptions. The main insights to be drawn from these models are that:

- work-life balance policies are very important in a competitive labour market,
- they can reduce costs (including retention, recruitment and retraining costs) and
- they can enhance productivity through mechanisms that go beyond the scope of economics but take into account the social context of employment relationships.

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## Appendix I

### Cost-benefit assessment methods

Comparing the value of a benefit, such as improved staff morale, with a cost such as the expense of hiring extra office space is a difficult task. In order to compare the costs and benefits of work-life balance policies it is necessary to first identify all the costs and benefits. There are then three general approaches to comparing the costs and benefits<sup>3</sup>. These are:

1. Cost Benefit Analysis (CBA)
2. Cost Effectiveness Analysis (CEA)
3. Listing categories of costs and benefits, quantifying these where possible, or qualitatively described

All three of these methods involve weighing up the costs and the benefits of something to determine if there is a net positive or a net negative impact.

#### *Cost Benefit Analysis*

Cost Benefit Analysis (CBA) involves identifying benefits and costs and quantifying them with dollar values. The costs and the benefits are then summed up to calculate if there is a net cost or benefit from the project or programme being analysed. Cost Benefit Analysis is difficult to undertake if the costs and benefits are not all easily expressed in dollar values. How do we put a price on the level of staff morale? Opportunity costs are often used in CBA. For example, the cost of providing childcare assistance to retain an employee is compared to the cost of replacing that employee.

In order to undertake cost benefit analysis, it is important to be able to quantify the costs and benefits using a common measure. As many key costs and benefits are not regularly measured, this means that assumptions need to be made about their monetary value. The results are generally quite sensitive to changes in the assumptions. This difficulty has led to the development of other methods of comparing costs and benefits.

#### *Cost Effectiveness Analysis*

Cost Effectiveness Analysis (CEA) is a method of assessing the costs to achieve particular outcomes or outputs. In a work-life balance context this may mean calculating the costs of a package of work-life balance initiatives that will achieve a desired outcome, such as a certain percentage point increase in retention rates. The advantage of CEA is that the benefit no longer has to be reduced to a dollar amount; we can measure benefits in some other unit.

#### *Listing costs and benefits*

Listing costs and benefits involves identifying and acknowledging all costs and benefits and quantifying those that can be quantified. This is an alternative method to both CBA and CEA. The advantage is that no assumptions need to be made about the value of certain things. However this method does not allow for a very easy comparison of costs and benefits. Instead, there is a process of “mental juggling” and a judgement is made about whether or not the project has a net positive or net negative effect.

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<sup>3</sup> This general outline of the three methods is drawn from Hyman (2003)

### *Time*

Time is another important factor in assessing costs and benefits. Short term and longer term outcomes can be quite different. In conventional CBA, discount rates are used to discount the value of future benefits. However, much of the human capital literature emphasises the importance of investing in people's education, skills and training as these have a longer term pay-off. Similarly, implementing work-life balance policies may have initial set-up costs, with benefits that are not immediately apparent.

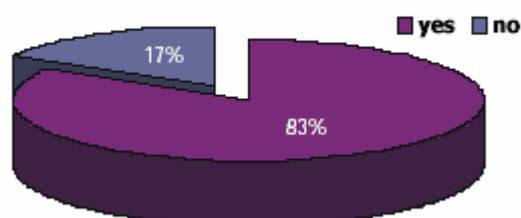
## Appendix II

Table C8: Work and life provisions or support 2002 and 1998

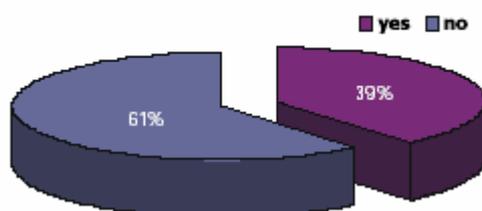
	All 2002 (1998)	EEO Employers Group members 2002 (1998)	Non-EEO Employers Group members 2002 (1998)
Childcare facilities	14% (16%)	19% (20%)	6%
After school care	9% (7%)	11% (10%)	5%
School holiday programmes	14% (18%)	18% (20%)	9%
Eldercare services	4% (3%)	5% (3%)	3%
Work and family information	40% (31%)	49% (37%)	24%
Flexible work location	61%	69%	47%
Flexible work hours	82.5%	89%	71%
On-site breastfeeding area	18%	21.5%	12%
Expressing milk/storage facilities	12.5%	16%	6%

Source: EEO Trust Diversity Index, Burns 2002

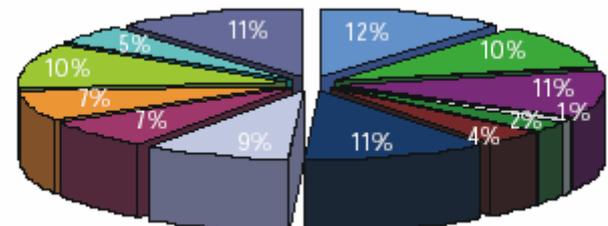
Does 'work life balance' exist within your organisation?



Do you think the term work life balance is merely a catch phrase that's bandied about?



If yes, which of the following benefits are offered by your organisation?



Source: TMP/Hudson New Zealand Job Index Survey, West and Burroughs (200