

## Cost benefit/effectiveness analyses

### Crunching the numbers

What's the payoff of a work/life policy within an organization? While the intrinsic value of work/life policies are evident, organizations are typically not convinced of bottom line benefits until a cost benefit analysis is conducted. This section of The Employer Tool Kit will provide specific methods for presenting the financial benefits of instituting work/life policies and the potential liabilities of not instituting them.

You may wish to do a separate cost benefit analysis for each of the options you are considering. It is important to realize that in most cases, an analysis is not an exact science since it often involves estimates. But by comparing expected benefits with estimated costs, management can begin to get an idea of those options which would be more cost effective to implement. Involving the organization's fiscal person or a work/life consultant in this process may help you look at the information you have in different ways, or may give you additional useful information.

The two methods of comparing costs and benefits described below are the cost benefit analysis and the cost effectiveness analysis. In both types of analysis, only real benefits (those that involve real resources) should be included. Most planners include both direct and indirect benefits in their calculations, although the latter are more difficult to identify and measure. An example of a real and direct benefit is the reduction in training costs that result from lower turnover. A real but indirect benefit might be the value of publicity about the program that enhances the image of the employer in the community.

### Cost Benefit Analysis

In this method, all costs and benefits should have number values assigned to them. After the value is estimated for each benefit and cost, the values of all the benefits are added together and the total of all the costs is subtracted. The result is either the net cost of the program (if costs outweigh benefits) or the net benefit (if benefits outweigh costs).

Benefits and costs that extend beyond one year should be subjected to a discounting procedure, because in an inflationary economy, costs and benefits received tomorrow are worth less than those received today. Determining the appropriate discount rate can be difficult, and your organization's fiscal person may be of assistance in providing formulas to measure costs and/or benefits.

The impact of work/life benefits on issues such as employee morale, recruitment, and public perceptions of your organization is more difficult to measure than the effect of staff turnover, absenteeism, and productivity on the bottom line. This fact sheet concentrates on methods for assessing reduction in turnover, absenteeism, and productivity since these are the factors most easily quantifiable.

### Calculating Turnover Costs

#### 1 Calculate the current rate of turnover

You can calculate the rate of turnover of staff by taking the number of employees who leave the organization each year, and divide that number by the average number of employees on the payroll at a given time. Multiply that number by 100, and you have your percentage of turnover. Or, use the following equation:

$$\frac{(\# \text{ of employees leaving per year})}{(\text{average } \# \text{ of employees})} \times 100 = \% \text{ of turnover}$$

#### 2 Calculate the cost of turnover to the company each year

There are several standard costs incurred in turnover:

- *Recruitment Advertising* – include all job advertisements and related costs.
- *Employment Search Fees* – include all fees to employment agencies, search firms and recruitment consultants.
- *Internal Referrals* – include all costs for bonuses, fees, gifts, etc., awarded to employees participating in a company-sponsored applicant referral program.



## Cost Effectiveness Analysis

In order to predict how an investment in a work/life program might compare with savings from implementing the program, all costs and benefits should have values assigned to them. Many companies will be unable to conduct an ideal cost benefit analysis because of difficulties in quantifying some of the expected benefits. If very few of the benefits can be quantified, you may want to consider using an alternative technique, such as cost effectiveness analysis.

Cost effectiveness analysis is a method of comparing programs that attempt to achieve the same results. Cost effectiveness analysis shows:

- how a given level of effectiveness can be achieved at a minimum cost; and/or
- how maximum effectiveness can be achieved at some given cost level.

This type of analysis differs from cost benefit analysis in that it tries to separate the costs of a program from the cost of its benefits (effectiveness). While costs are measured in numbers and units, benefits are frequently not.

For example, a company may want to determine which work/life option would have the greatest impact on turnover for an annual expenditure of \$5000. Cost effectiveness analysis would not require determining whether the reduction in turnover would recover the total \$5,000 expenditure, but instead would determine which of the proposed programs would have the greatest impact on turnover.

A number of additional factors should be taken into consideration when the value of savings in an individual area, such as turnover, are being determined:

- The effect that one area (such as turnover) has on another should be considered. This is called the "interdependence of benefits." For example, if turnover is reduced, the company also may save money on unemployment insurance.
- The time preference of benefits also should be considered. That is, the time that the benefit is introduced may determine the extent of its effect.
- The certainty of the projected costs and benefits should be considered, as well as whether there is a small or large amount of variability in the possible cost and benefits.

## Program Evaluation

The best way to determine how effective a work/life policy has been is to keep track of indicators (i.e. turnover, absenteeism, productivity, etc.) before, during, and after implementation of the program, and then to compare numbers. Getting an objective reading on how employees feel about the program is also important, and can be accomplished through an anonymous survey of employees. All of this feedback will be important in evaluating the success of your program to better suit your workplace.

## Other Benefits Worth Considering

Occasionally in the press, a story will come out about the relative costs of a prevention program versus the cost of a remediation program. One startling example is that the cost of one year of a very high quality early childhood program (between \$7,000 and \$10,000) pales in comparison to keeping someone in prison for one year (\$20,000).

Each year American taxpayers pay for, directly and indirectly, the costs of policies based on remediation instead of prevention.

Though slower to realize and virtually impossible to calculate in monetary terms, the benefits of a safer, stronger community is the long-term payoff for providing families with the supports they need to give their children a healthy start in life. Research clearly shows that the unique windows of opportunity occurring during infancy and early childhood, if missed, are impossible to make up. Research also shows a close relationship *between* quality child care, parenting education, and other family support services *and* the reduction of teen pregnancy, substance abuse, high school drop out rates, and the incidence of crime.

As an employer, the work/life benefits you implement today will help to ensure the availability of a productive workforce today, and the availability of a high quality workforce *tomorrow*.

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