SMALL BUSINESS OPTIONS FOR CHILD CARE

FINAL REPORT

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CHILD CARE OPTIONS FOR SMALL BUSINESS

Executive Summary

Several thousand U.S. companies have assisted employees with their child care needs in recent years, but small businesses have not taken part in this trend as often as large employers. Parents working in small firms face the same pressures to find adequate child care as do employees of large companies, and small employers face many of the same problems in recruitment and retention as do large firms. However, certain characteristics of small business and of the child care field have thus far made it difficult to effectively address these problems.

Compared to larger firms, small businesses usually do not enjoy the economies of scale or the resources needed to start or support a child care center. They do not have as much in-house technical expertise to set up the more complex forms of financial assistance or benefit plans.

Despite these limitations, however, there are enough examples of small businesses' support for child care to permit an assessment of the advantages, impacts and feasibility of many different approaches. Through case studies of two dozen employers in three states (California, Massachusetts and Vermont) and interviews with more than 50 child care and small business experts, Berkeley Planning Associates has compiled a profile of the child care options utilized by small firms and an analysis of the circumstances that determine their effectiveness and replicability.

The firms with child care benefits shared certain characteristics that distinguished them from many other small businesses:

- Management placed a very high priority on retaining employees, especially those in whom a great deal of training had been invested.
The support for child care was part of a broader commitment to making the work place responsive to employee needs, as evidenced by other benefits and policies.

Many firms were in very tight labor markets and felt the need to offer child care and other benefits as a recruiting tool.

Most of the firms had a high proportion of women in their work force, and many had women in top management positions.

The firms were either experiencing rapid growth, which they expected to continue, or had stabilized at the number of employees which management preferred. None of the firms were in serious financial difficulty.

The firms ranged in size from six employees to more than 100 employees, and included a broad spectrum of manufacturing and services. They were located in central cities, suburbs and small rural towns -- communities that varied greatly in their labor markets and their supply of child care programs.

Four categories of employer-sponsored child care benefits were analyzed:

**Reimbursement plans.** Most of these cases included dependent care assistance plans, which allow pre-tax salary dollars to be converted to child care payments, thereby saving employees and employer taxes; and/or flexible benefit packages which permitted trade-offs between child care and other benefit options. These approaches involved little net cost to the employers, who were able to acquire the expertise necessary to start and administer the plans. The flexible benefit plans were not useful to most single parents. Participation in the first years of many of these programs was significantly lower than employers had expected.
A smaller number of firms made direct financial contributions toward employee child care expenses, in most cases approximately $100 per month. This approach cost the firms more than the tax reductions or flexible benefits, was simple to administer, and could benefit all parents who used any form of paid child care.

**Child care centers at or near the workplace.** Most of the firms that established centers were in small towns where child care opportunities, especially for infants, were extremely scarce, and property for a facility was available and affordable. These centers made a substantial impact on the ability of employees to remain at these companies and improved the quality of care their children received. The costs for starting and partially subsidizing the operations of these centers were greater than employers had projected, but their assessments of the centers were nonetheless very positive.

**Information and referral services.** This approach entailed contracting with an outside agency to assess the company’s child care needs and to provide employees information and assistance in locating and choosing care. The utilization of referral services was low, though highly valued by those who did make use of them.

**Flexible work policies.** Companies permitted various adjustments to hourly and weekly work schedules and place of work, and some allowed the option of bringing infants to work. Such arrangements allowed parents to care for their own children, or to transport them to and from child care. The viability of these arrangements varied according to the nature of each employee’s job, the physical layout of the workplace, the needs of the child, and the overall schedule demands of the firm. All the case study firms with these policies reported that they were implemented with few if any problems.

The study also examined successful child care centers and benefit plans that provided services to the employees of several small firms. None of these collaborations were started or controlled by the small employers; each relied on the capital, initiative and management of a
property developer, child care provider, community organization or consultant.

The research showed that there are serious limitations to the technical assistance and information currently available to small businesses. Improving and expanding these resources will be essential in order to expand the number of small businesses that address the child care needs of their employees.
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I. INTRODUCTION

Each year a growing number of companies attempt some form of support for child care, and both governments and business associations become more active in encouraging employers' involvement. Yet small businesses have shown relatively little activity in employer-supported child care to date, compared to the activities of larger firms and public sector employers. The distinctive barriers and opportunities that small businesses face must be better understood if workable child care policies are to be developed and put into practice in the vast majority of American companies.

CHANGES IN THE LABOR FORCE

For all employers confronting the prospect of a serious labor shortage in the coming years, working mothers -- in both single-parent and two-parent households -- are of strategic importance. At present, mothers of young children constitute the fastest growing segment of the paid work force. The labor force participation rate among married mothers of school-age children has grown from 42% in 1970 to over 60% today, and among mothers of preschool children it has risen from 32% to 52% (U.S. Census Bureau, 1984). According to a 1982 Census survey, an additional 13% of women with preschool children report that they would look for work if child care were available at a reasonable cost (Population Reference Bureau, 1986). These rates are expected to continue to grow.

At the same time, the proportion of women in firms of less than 100 employees has been steadily rising -- from 42.4% in 1979, for example, to 44.1% in 1983. This growth occurred in almost all sectors of the economy, from non-traditional sectors such as mining and forestry (up from 1% to 26% in four years) to sectors with long histories of female employment such as retail trade, up from 46% to 50% over the same period (U.S. Dept. of Commerce, 1986). Women have also become increasingly valuable to the companies they work for, with a steadily
rising percentage moving into positions as owners, managers, or highly skilled technical workers.

EMPLOYER RESPONSES TO WORK AND FAMILY ISSUES

The Options Are Many...

These changes in the labor force participation of women have created pressure on governments and employers not only for expanded child care, but for additional policies and programs that support the families of working mothers. According to a report by the Population Reference Bureau (1986), the number of American employers directly providing child care services for employees grew from less than 50 in 1970, to about 2,000 in 1986. This represents less than 5% of larger employers (with more than 100 workers), and an infinitesimal fraction of all employers, when small businesses are included in the total. On-site or near-site facilities are only one of many employer options. Alternatives include parental leave, flexible work schedules, job sharing arrangements, and permanent part-time employment with pro-rated benefits. Flexible time arrangements can be found in businesses of all sizes, and are available to about 12 percent of all women workers, according to recent findings from the Current Population Survey (Bureau of Labor Statistics, 1986). There are also "cafeteria-plan" benefits packages to increase parents' choices, and dependent care assistance plans (DCAPs) that exempt child care costs from the employer's federal payroll taxes as well as the worker’s income tax. Lastly, employers may provide indirect help by supporting day care information and referral agencies, or by contributing to a variety of community efforts to increase the local day care supply. (The full range of options is described in detail later in this chapter.)

Employers' actions in support of child care are often rooted in the desire to recruit and retain a skilled and stable work force. In a number of recent surveys, employers that offer child care assistance cite advantages to the firm of increased productivity, more successful recruitment, reduced turnover, absenteeism and lateness, better morale, and positive publicity. (See, for example, Burud, 1984; Friedman, 1983;
Magid, 1983; Galinsky, 1986) These employers' judgments have been reinforced by findings from surveys of employees participating in company-supported child care programs, confirming that such programs do indeed have a positive effect on work attitude, retention, and morale (Fernandez, 1986; Emlen, 1982; Rubin and Weinstock, 1984). As belief in the attractiveness of corporate-sponsored child care becomes more widespread, developers of office, industrial and commercial property have become increasingly interested in providing space for child care facilities as means of attracting corporate tenants.

...But Child Care is Still The Exception Rather Than the Rule

Some of the most reliable estimates of the extent of employer-supported child care come from Dana Friedman of the Conference Board, who was cited in Kahn and Kamerman's recent volume as follows:

...the national picture of 2500 employer-sponsored child care services looked something like this in 1986:

- Approximately 400 hospitals had on- or near-site child care services.

- Approximately 150 corporations (and 30 public agencies) had on- or near-site child care services. Except for those operated directly by the corporation or a subsidiary, almost all were contracted out to private independent providers and operated by them.

- About 300 employers had contracts with one of the large proprietary child care chains that offer a modest discount to employees' children; and about 50 of these employers actually contributed as well. (Dr. Friedman estimated that about half of these were with one large child care service chain.)

- About 500 companies were either operating child care information and referral services themselves or had contracts with another organization to do so.

- About 150 firms had cafeteria-style or flexible benefit plans, and half of these included child care as an optional benefit.

- About 800 firms had flexible benefit or salary-reduction plans, but only about 10 percent of these included child care.
• About 25 firms had voucher plans.
• About 20 firms had sick-child-care initiatives.
• About 75 companies were involved in some way in after-school child care.
• In addition, about 200 employers made some form of contribution to local child care centers and about the same number had held "parenting" seminars and workshops to which outside speakers are invited to discuss various aspects of parenting problems ranging from child care for infants to the substance abuse problems of adolescents.

This total of 2500 cases contrasts with a 1987 survey of 8900 establishments which asked about a variety of work and family policies (Bureau of Labor Statistics, 1988). The BLS data suggest that "about 11% of private employers offer specific child care help, including centers, financial aid, counseling and referrals" (BNA, 1988). That 11% would equate to 121,000 U.S. firms with 10 or more employees. Even the proportion which the BLS survey suggests are directly sponsoring centers would equal 21,000 firms.

A comparison of the methods used by the various studies of employer-supported child care would be beyond the scope of this report. While the absolute numbers of cases suggested by projection of the BLS survey results are much higher than other sources, the relative proportions of child care support among employers of different size and type of business are very consistent with the rest of the literature:

• Firms in sectors with higher proportions of women workers, such as services, were more likely to support child care than were those in predominantly male sectors such as goods producers.
• Governmental agencies were more likely than private firms to support child care centers.
Larger employers were more likely than smaller employers to provide child care benefits: "About 5% of firms or government agencies with 250 or more employees sponsored day care centers, and 9% helped with day care expenses. For those with 10 to 49 employees, 1.9% sponsored centers, and 2.4% offered specific financial help. More than 30% of the large employers offered specific child care benefits or services, compared to 9% of small firms" (BNA, 1988). This last set of proportions includes counseling, information and referral.

Small firms have been consistently under-represented or entirely absent in most surveys or summary reports of child care in the workplace (e.g., Burud, 1984; Magid, 1983; Anderson, 1983; Concord Child Care Alliance, 1986; Kamerman and Kahn, 1987). Child care providers, industry consultants, business association and community agency representatives and other experts interviewed for this study also agreed that, while there is a growing interest in child care on the part of small employers and their associations, actual examples are rare.

FACTORS INFLUENCING SMALL BUSINESS SUPPORT FOR CHILD CARE

Employer-supported child care has been limited to organizations with strong motivation (usually related to labor market needs); sufficient administrative capacity, access to information and assistance, and adequate financial resources to carry out a program.

There is no single explanation for the general lack of small business participation. We began our research with a review of the literature and extensive interviewing of child care and small business experts, to learn the reasons they offer for why some employers support child care and others do not. Their conclusions, which helped create the conceptual framework for our fieldwork, fall into four main sets of issues:
(1) economies of scale, which allow large firms the kinds of specialized staffing, stable financial base, and large labor pool that make it easier to "break new ground" with innovations like child care;

(2) characteristics of the small business labor force, job conditions (such as wages and turnover), and training; and

(3) characteristics of community-wide efforts -- both public and private -- to promote child care.

(4) organizational characteristics and management philosophy.

Size and Financial Stability Make A Difference

Larger employers generally have more in-house capacity to do long-range planning for their labor market needs, including the use of benefits to improve recruitment and retention. Specialized personnel or benefits staff are available within the company to set up and administer more complex benefit packages. In contrast, few small firms can afford a specialized benefits coordinator; particularly in very small firms, staff that handle benefits and personnel matters often have a variety of other duties, such as office management or accounting. Without strong backing from the company’s top management, any benefit that increases the day-to-day administrative burden is likely to be resisted. It is even harder to find staff time to do basic research on child care alternatives, and to design workable systems. To the extent that a company believes it has to start "from scratch," it is likely to avoid any commitment.

Secondly, a larger employee pool offers economies of scale in providing in-house day care facilities, services or financial benefits. Start-up investments in facilities, consultant costs and in-house staff time are easier to recoup (and justify) if the expected benefits from an enlightened child care policy will accrue from a large number of workers. And because the total pool of employees is larger, the aggregate need for such services as child care is more predictable and
I less subject to short term fluctuations. Small businesses are less likely to make investments in child care when only one or two employees show a need for it, and that need appears to be transitory.

With a larger capital base and (typically) more stable cash flows, larger firms also have more financial resources available for investigating child care options and other benefits. In this regard, it is worth noting that small businesses are far more likely to be new businesses, with uncertain markets, high indebtedness and close margins. For example, the Characteristics of Business Owners Survey reports that among businesses with less than 100 employees, more than one third had been in business less than three years, as opposed to 1.7% of firms with 100 employees or more (U.S. Department of Commerce, 1987). Such firms are likely to be fighting for survival, or actively reinvesting earnings for expansion, and not investing heavily in employee benefits. Even with regard to basic benefits such as health insurance, a recent study for SBA found that only 46% of the smallest firms (under 10 employees) offer such benefits, versus 98% of companies with over 100 employees (ICF, 1987). Lastly, major corporations are more sensitive to the public relations benefits of being a leader and innovator in the area of employee benefits. Large corporations such as Apple Computer, IBM, and Levi Strauss have received thousands of dollars in free local and national publicity as a result of their efforts.

Labor Force Characteristics: Keeping Valuable Employees Is A Strong Incentive

In an environment in which unemployment rates are very low, employers may find that their ability to attract and retain workers depends on the level of benefits offered. In a workforce dominated by young families -- sometimes including many single parents -- child care assistance may be an important tool for recruitment, and as a practical matter, may guarantee the worker’s ability to stay on the job.

For companies disadvantaged by location, noncompetitive salaries, hard-to-fill, specialized positions, or high labor training costs, the
labor market may be particularly tight and require an extra effort to respond to the needs of current and prospective employees.

Companies employing a large percentage of women, or with many parents of young children are likely to assign a relatively high priority to child care benefits. Even if lacking these characteristics internally, if a company intends to begin recruiting from these segments of the labor force it is more likely to consider the importance of child care benefits.

Another factor which is sometimes overlooked in comparing the large and small sectors is that the vast majority of small businesses are in fact self-employed individuals or family-run enterprises. For example, the Characteristics of Business Owners survey reports that over 81% of all firms have no paid employees, and another 12% have fewer than five employees (U.S. Department of Commerce, 1987: 78). One third to one half of these enterprises are run out of the owners' homes. Particularly in the case of women-owned businesses (of which over half are home-based), the need to combine work and child care may have been a motivation for becoming self-employed.

Wage rates and turnover may also contribute to some employers' reluctance to become involved in child care. Although the small business workforce includes large numbers of women with young children, small employers as a whole tend to pay lower wages and have higher rates of labor turnover (see for example Mellow, 1982; Schiller, 1983; Keeley, 1983). There is also evidence that small firms tend to provide less firm-specific training than do large companies (Keeley, 1983, Schiller, 1986) and thus may have less incentive to retain particular employees. Though these tendencies are by no means true for all industries and occupations within the small scale sector, where they do occur they may pose disincentives to investments in child care. The exception, of course, is where employers believe they can significantly reduce turnover by providing child care or other benefits.
Lastly, large employers are more likely than small businesses to have unionized work forces, for whom child care may be a viable organizing or bargaining issue.

Community Resources and Technical Support: Overcoming Barriers of Size and Inexperience

Two types of community resources have an influence on a firm’s decision to undertake some kind of child care program. First, the availability and affordability of child care in the local area is a significant factor in prompting employers to act or not. Where employees have a great deal of difficulty finding care they can afford and are happy with, firms have a much stronger motivation to institute programs than in situations where supply is less limited.

Second, the existence of a community-wide organizing effort which gives firms access to child care expertise and resources will stimulate programs that would not otherwise have been started. A growing number of local and state governments and private consultants are providing assistance of this sort. Like other kinds of employee benefits, child care options involve a certain amount of specialized information that is costly to acquire; the existence of a source of such information may allow firms to take actions of which they would otherwise not have been aware.

Many communities have developed public funding mechanisms, coordinators’ positions, information and referral services, advisory commissions or other mechanisms to help facilitate the expansion of child care. Most of these efforts have directed their outreach activities toward the community at large (that is, toward individual parents and workers), or have begun by working with the largest employers. Effective outreach to small business is difficult where resources are limited, and small employers have not traditionally been active contributors to such programs. Local Chambers of Commerce and other business and trade associations have become more interested in child care issues in recent years, but few are knowledgeable about the options open to small business, and fewer still have developed workshops
or publications for distribution. The same is true for Small Business Development Centers, local economic development corporations, SCORE-ACE chapters and other traditional purveyors of publicly subsidized assistance to small business.

Private for-profit service providers -- individual child care consultants, lawyers, insurance brokers offering "cafeteria-style" benefits plans, the larger child care provider chains and specialized child care management companies -- have proliferated in the past two to three years, and offer real potential for bringing cost-effective child care plans within reach of many small employers. So far, however, most of their marketing activities have been directed to larger companies.

In short, community child care initiatives, traditional public and non-profit business assistance organizations, and for-profit service providers have yet to make much of an impact on small business support for child care. As a result, few small business people have any idea of the child care options open to them, or of the potential costs and benefits of these alternatives. The fact that small businesses lack such information -- and the means to acquire it without a substantial investment of time and resources -- has tended to reinforce the effects of the disincentives discussed above. Ironically, this same inertia may itself make small firms a less promising market for private service providers, and may retard the development of packages and products specifically geared to these employers’ needs.

Organizational Characteristics: The Role of Corporate Culture

Company characteristics such as profitability, organizational culture, and management commitment may dictate not only the presence or absence of child care-related benefits, but also the form those benefits take.

Less profitable companies are less likely to offer costly benefits, but may have reason to offer creative, inexpensive options if other conditions prompt them to do so. A variation on this theme is the observation that child care benefits are most likely to be found in
companies that have perceived employees' work and family difficulties to be a bottom line issue -- directly affecting productivity and profitability.

Organizational culture is another important, if often intangible influence on employee benefit policy. Companies described as "progressive" or "human-resource-oriented" (or those wishing to be thought of this way) are among the first to restructure personnel policies to meet the changing family-related needs of their workers. In a slightly more old-fashioned vein, companies that promote a familial culture within the organization may also be moved to design policies responsive to the needs of their employees.

Finally, even within large companies, the commitment of a single well-placed individual can move company policy; this should be equally true in smaller firms. A CEO or Executive Vice President who has either experienced dependent care problems or is personally sympathetic to these issues is very likely to support this type of benefit, perhaps even to promote it.

Advantages of Smaller Companies

To this point we have dwelt on the relative disadvantages of small firms. Small businesses, as a group, do possess two important -- though often underrated -- advantages over large companies. The first is the degree of flexibility and informality that is often possible in a small scale operation. Flexible work hours, job sharing or the redefinition of jobs, permission to bring infants to work when necessary -- in general, the ability to make exceptions and to adjust to circumstances without extensive bureaucratic procedures -- may obviate the need for more formal child care arrangements in many individual cases. Secondly, this same informality and the relatively short "chains of command" found in most small firms will often make it easier for employees with child care problems to discuss their needs directly with those making the ultimate decisions in a company. And lastly, once the firm's decision makers have become convinced of the value of child care, there are fewer organizational barriers to taking quick, decisive action.
OVERVIEW OF CHILD CARE BENEFIT OPTIONS

The range of options theoretically open to small businesses is basically that available to all employers regardless of size, though some options will be more suitable to larger firms. The various child care options can be viewed as having primary impact on either the supply of or the demand for child care, and the effectiveness of an employer's approach may depend on how appropriate it is to the particular child care market faced by the workers.

These employer-related child care options are described in somewhat greater detail below. Within each of these general categories are a number of individual options; in addition, most of these policies are not mutually exclusive, and a firm can blend several actions for an overall child care support program.

REIMBURSEMENT PLANS: TAX SAVINGS, FLEXIBLE BENEFITS, AND DIRECT SUBSIDIES

Many discussions of employer-related child care define "financial assistance" as one of the major categories of child care programs. The term "reimbursement plans" is used here instead, because at least one of the more common alternatives within this category -- the salary reduction agreement -- does not involve any financial assistance on the part of the employer, though it does entail a reduction in employee child care expenses through income tax savings. In cases in which employers offer a choice among benefits (flexible or "cafeteria" benefit plans), an existing employer contribution is simply shifted (at the employee's discretion) from some other benefit to child care reimbursement. In a few cases, employers have offered financial assistance with child care as an additional benefit (described below under "direct contributions"); in these situations, the employee does receive financial assistance from the employer with no overt trade-off between benefits. In addition to the types of reimbursement plans mentioned here, it should be noted that many employers who sponsor on-
site child care centers also provide financial aid to employees by subsidizing the operation of their centers.

**Salary Reduction Agreements: Taking Advantage of Tax Savings**

Under Section 129 of the Internal Revenue Code, employees may elect to have a portion of their earnings put into an account to be used for the reimbursement of dependent care expenses. In order for this money to be non-taxable (for federal income and Social Security tax purposes), the plan must operate according to the specifications of the Code and relevant IRS regulations. These specifications include:

- existence of a formal plan document and formal notification to employees;
- annual reports to employees on the amounts paid or expenses incurred by the employer;
- limitations on the amount of salary that can be placed in the account;
- a requirement that salary set aside for dependent care reimbursement can be used only for that purpose;
- restrictions on how often salary reduction agreements can be altered;
- limitations on the kind of child care providers eligible to receive DCAP payments (e.g., no baby sitters who are also dependents of the wage earner); and
- a requirement that the plan be nondiscriminatory -- that it not disproportionately benefit employees who are officers, owners, or highly compensated.

Although all plans are subject to these regulations, the ways in which plan requirements are met may vary. For example, some firms issue monthly reimbursement checks in response to invoices or receipts turned in by their employees. Other firms ask only for a single statement to
be completed at the beginning of the year, and issue weekly reimbursement checks on the basis of this statement. Record-keeping and reporting may be done by an outside benefits administrator or payroll service or by an in-house accounting department.

Flexible Benefit Plans: The "Cafeteria Approach"

Many employers are moving toward the use of flexible benefit or "cafeteria" plans as a way of maximizing employee satisfaction for the benefit dollars expended by the company. In some cases, employees are given a choice between child care reimbursement and other benefit options, such as payment for dependent medical coverage or a more elaborate health plan. For those employees who have adequate health care coverage through working spouses, a plan that allows them to allocate benefit dollars to child care expenses will mean an increase in effective benefits (at no additional company cost).

Flexible benefit plans usually include a few "core" benefits, such as basic medical coverage, which are not subject to a trade-off. Above this level, employees may be provided a dollar amount to be allocated according to their choice. In some cafeteria plans employees may also contribute from pretax salary dollars towards the purchase of the benefit package they desire. IRS proposed regulations governing the use of DCAPs in cafeteria plans (Section 125) are similar to those affecting straight DCAPs (Section 129, described above).

Direct Contributions

Some employers support employee child care through direct financial assistance over and above existing benefits. If a formal DCAP is established such contributions will not be subject to federal tax as employee income. Companies may set their reimbursement limits at a specified amount per employee (or even per child) per month, and issue checks in response to receipts or invoices submitted by employees. In one of the communities visited for this report a local nonprofit child care alliance maintained a fund from which contributions toward employee child care could be made, matching contributions from private employers.
Because care for mildly ill children often presents the greatest problem for employers (many regular day care providers cannot accept sick children, causing employee-parents to be absent without notice), some companies now provide financial assistance specifically for sick child care. Special sick child care programs exist in many communities, but these are usually more costly per hour than regular child care; some employers believe that a contribution towards this cost will enable employees to come to work rather than staying home when their children are mildly ill.

**DIRECT PROVISION OF CHILD CARE: WORK PLACE CENTERS OR RESERVED SLOTS**

The most elaborate and direct form of employer participation in child care benefits is the provision of on-site or near-site centers. Such centers have traditionally received the most media attention of any form of employer-supported care. These programs may be designed exclusively for employee use, or may be open to the community at large.

There are several types of management arrangements that are found in employer-supported centers, ranging from direct operation by the employer to contracting with a child care agency or even a parents' cooperative. The level and structure of subsidization of costs also vary greatly. Some employers pay only for the construction and maintenance costs of the facility (which may thereby reduce ongoing costs by as much as 15-20%) while others subsidize operating costs more deeply. Parent fees may either be charged at a uniform rate per child, or according to a sliding scale based on employee salary or family income in order to provide the greatest assistance to the lowest paid employees.

**INFORMATION AND REFERRAL SERVICES**

Some employers have seen the provision of information and referral (I&R) services as a way to assist their employees in both locating child care and in balancing the competing demands of work and family life.
Depending on the level of service provided, this option can cost a company far less than a direct contribution or a child care center.

To start up I&R program, the employer must hire an individual or agency knowledgeable both about general child care concerns (to provide employee information programs) and about the availability of local child care providers (to make referrals). In some states there are publicly funded nonprofit agencies that provide I&R services to the general public; some of these agencies also contract with private companies to provide I&R services to employees over and above what would be available to them as citizens of the community. I&R agencies may be insufficiently funded to provide the level of service to the public that employers desire for their workers; a private contract can guarantee employees access in the form of a dedicated telephone line or an individual I&R worker assigned to their requests.

Although the actual services provided in an I&R program vary according to the individual company, such programs usually entail the following components:

- an employee child care needs assessment, in which employees are surveyed and the results analyzed in a report to management about dependent care needs;

- a series of workshop presentations on topics such as choosing child care, locating sick child care or after-school care, or balancing work and family needs;

- ongoing distribution of written materials such as newsletters and resource manuals offered as a supplement to workshops; and

---

1In California, the state with the most extensive child care resource and referral network, the state provides core funding for at least one resource and referral agency in every county. These agencies generally seek additional support from government foundations and private industry.
• individual referral services for employees who need to make child care arrangements.

In addition, many child care information and referral agencies also engage in provider recruitment and support, and sometimes do quality monitoring as well. These functions may or may not be an explicit part of contract services with employers.

Starting Small: Information-Only Services

Some firms may feel that although concerned about employee child care needs, they cannot afford to commit significant resources to the problem. In answer to this need, some employer associations such as the local Chamber of Commerce prepare information packets for distribution to member firms and their employees. Such packets usually contain brochures on the I&R services available to the public, information about local child care providers (including those who offer sick child care), and advice on selecting a provider or after-school program.

FLEXIBLE WORK POLICIES

Flexible work policies may include such things as flexible work arrangements (including part-time work with benefits, job sharing, flex-time and flexplace), generous parental or personal leave, and even the accommodation of children (usually infants or mildly ill children) in the workplace. Child care needs represent only one motivation for instituting certain kinds of flexible work arrangements. Many firms have moved in this direction for a variety of reasons, including a desire to reduce traffic congestion during rush hour periods, a need for greater scheduling flexibility on the part of the firm, or a belief that part-time schedules may increase productivity.

Flextime: Redefining the Workday and the Workplace

Increasingly, businesses are recognizing that not all jobs have to be performed by one person working 9 to 5 five days a week. Some positions can be shared by two people, each present at different times and taking different responsibilities. Other jobs may be performed by a
single individual, but within flexible hours and locations: child care needs may cause an employee to arrive and leave one hour later, or on occasion to work at home instead of at the office. Ongoing part-time work may be an answer for some companies and their employees, particularly where benefits and career opportunities are comparable to full-time positions.

All of these arrangements are included in the broadest discussion of child care benefits, but there may be disagreement as to how meaningful some are in directly dealing with the employees' child care needs. If there is a limited supply of private day care, or what exists is very expensive, the opportunity to work moderately flexible hours will not have an impact on these problems. Alternatively, for some employees it may be precisely what is needed to deal with an immediate child care difficulty such as a day care center's hours or a school schedule.

**Parental Leave**

In conducting case studies for this report, maternity or parental leave policies were generally not investigated as a form of "child care benefit" although they are frequently identified as such in the literature. Federal law simply requires that whatever disability leave policy an employer maintains be extended to pregnant employees (which means that employers without disability leave are under no federal obligation to provide maternity leave). State laws vary; in California, for example, employers are required to provide pregnant employees with up to four months of unpaid leave, guaranteeing reinstatement to the same or a similar job. Very small firms are exempted from this type of legislation, in recognition of the difficulties they may have in complying. Some employers have more generous leave policies than those required by law, permitting up to six months or more of unpaid leave, or including pay for several weeks and allowing either parent to use the leave time.

**Children in the Workplace**

Another way of handling the needs of new parents, for employers that can afford neither on-site infant care nor extended parental
leaves, is to permit employees to bring infants to work with them, at least for the first six months. Although at one time an unthinkable option, a small but growing number of companies appear to be offering employees this option -- at least in situations where the physical setting, work requirements, and temperament of the child permit. This kind of arrangement can be very informal, worked out on an ad hoc basis with individual employees, or it can be stated as a company policy, with each case required to comply with an established set of guidelines, and subject to periodic review by management.

Perhaps less common is the practice of permitting employees to bring mildly ill children to work when regular child care arrangements fail. Such a practice requires that firms have extra space that can be used to accommodate a child during the day, and coworkers who do not object; in addition, there may be special liability concerns with this type of arrangement.

COLLABORATIVE APPROACHES TO CREATING AND SUPPORTING CHILD CARE

Many of the most impressive examples of employer-supported child care are the result of collaborations among several employers. In some instances a group of firms will start a center and jointly provide the start-up capital or ongoing subsidy to a program used by employees from each organization. In other situations a property developer, child care consultant or child care provider will create a program into which multiple employers can buy, whereas individually they could not have afforded a comparable program.

Small firms, who lack the economies of scale, in-house planning capacity and financing possibilities of many larger employers, would seem to be prime candidates for collaborative approaches to child care. Such collective activity is still uncommon, but the examples that have been developed demonstrate that there is considerable potential for many more small businesses.
OBJECTIVES OF THE RESEARCH

Our prime objective in this study has been to examine some examples in detail, to determine the types of conditions which lead a small firm to provide child care benefits; the child care options and programs mostly likely to succeed in a given set of conditions; the specific company actions that make a program work or not work in practice; and the sorts of technical help and support that are most needed and most effective. In particular, we have asked:

- What are the characteristics of small firms that provide child care benefits, in terms of size, industry, positions, demographic makeup of the work force and management, company growth, local labor market conditions, and urban, suburban or rural location?

- What is the immediate cause or catalyst for the company's becoming involved in child care?

- What do the company -- and its employees -- hope to achieve through their support for child care?

- How do they go about it; determining the need for day care, choosing an appropriate option, finding the technical help they need, setting up a workable system, and administering it on a day to day basis?

- What are the problems they encounter along the way?

- What are the costs and benefits that have accrued from the company's child care efforts; from the management's perspective, is the "bottom line" result worthwhile or not?

- How does the supply of local day care available in government, nonprofit or for-profit facilities affect the
employer's options, and the chances of success? Do community programs for promoting child care or providing technical help make a difference?

Lastly, and perhaps most importantly,

- Are these isolated examples that owe their existence to some special quality of the firm, its environment or the company leadership; or can efforts like these be replicated by a majority of small businesses? If so, what needs to be done?

Appendix C describes the methods employed in our review of the literature, expert interviews, and case studies. The experts included many of the country's most prominent researchers and consultants in employer-supported child care. We asked them not only for leads to possible case study firms, but for their assessment of the particular challenges of designing feasible, cost-effective options for small businesses. Other interviews were conducted with persons providing technical assistance to small businesses, to determine the extent to which child care issues had penetrated their scope of work.

The case studies included firms that varied in size, location, type of business, demographic composition of work force, and management structure (see Table 1). Each firm had implemented one or more of the child care options outlined above. In addition, several organizations that had engineered collaborative approaches among small businesses were analyzed in detail.

**HOW THE REPORT IS ORGANIZED**

The next three chapters present the findings of our case studies and expert interviews. Chapter Two contains an analysis of the child care options undertaken by individual firms, including reimbursement plans, on-site centers, information and referral services, and flexible work policies. Chapter Three examines different types of collaborative efforts among firms, and Chapter Four assesses the state of technical
assistance and information available to small businesses. The final chapter summarizes the findings briefly and discusses the conditions under which more small firms could provide child care assistance to their employees.

Case studies of individual firms are profiled in Appendix A. The profiles allow the reader to assess the major points of each case: characteristics of the firm, the motivation for introducing child care support, the type of option and its basic operations.
Table 1

General Characteristics of Case Study Firms

These tables are based on 23 individual organizations, including the 18 complete case studies of individual firms and the five partial profiles of additional firms. Not included here are the consortia or other collaborative projects.

**Ownership Structure**

- For profit: 17
- Cooperative: 2
- Nonprofit: 4

**Sector**

**Services:**
- Health services: 3
- Retail: 2
- Food/hotel: 2
- Business/financial: 5
- Insurance: 1

**Communications:**
- 3

**Wholesale Trade:**
- 1

**Manufacturing**
- Electronics: 2
- Medical Products: 1
- Food Processing: 2
- Biotechnology: 1

**Number of Employees**

<table>
<thead>
<tr>
<th>Employee Range</th>
<th>Count</th>
</tr>
</thead>
<tbody>
<tr>
<td>1-20</td>
<td>2</td>
</tr>
<tr>
<td>21-40</td>
<td>7</td>
</tr>
<tr>
<td>41-60</td>
<td>2</td>
</tr>
<tr>
<td>61-80</td>
<td>3</td>
</tr>
<tr>
<td>81-100</td>
<td>5</td>
</tr>
<tr>
<td>101-150</td>
<td>2</td>
</tr>
<tr>
<td>151-200</td>
<td>2</td>
</tr>
</tbody>
</table>

**% Women in Workforce**

<table>
<thead>
<tr>
<th>Percentage</th>
<th>Count</th>
</tr>
</thead>
<tbody>
<tr>
<td>&gt;66%</td>
<td>12</td>
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<tr>
<td>&lt;66% and &gt;50%</td>
<td>6</td>
</tr>
<tr>
<td>&lt;50%</td>
<td>2</td>
</tr>
<tr>
<td>insuff. data</td>
<td>3</td>
</tr>
</tbody>
</table>
II. CHILD CARE OPTIONS ADOPTED BY INDIVIDUAL SMALL BUSINESSES: CASE STUDY FINDINGS

Businesses of all sizes introduce child care benefits primarily in order to maintain or improve the availability and quality of their workforces. But the decision of a particular business to introduce a specific child care benefit depends on a particular combination of pressures and resources. This study found no "threshold" size below which any child care benefit option must automatically be ruled out. Table 2 shows the wide range of sizes among the case study firms that employed each of the benefit types. Most small firms that have adopted child care benefits are characterized by a young, predominantly female workforce and also by an "innovative" management. Managers in such companies are particularly responsive to their employees and keep abreast of changes in the employee benefits field. External circumstances also greatly influence small firms' propensity to adopt child care benefits, especially the more expensive or complex benefit options. Many of the case study firms adopted child care benefits only because of particular needs, incentives, or sources of assistance present in their communities.

This chapter discusses the influences on decision-making processes by firms that adopted child care reimbursement plans, on-site centers, information and referral services, and flexible work arrangements. Also described are the design and implementation process for each benefit, including issues of start-up, administration, costs, and employee participation. Before proceeding with a detailed discussion of each benefit, we provide a summary of salient factors in firms' decisions and a comparative analysis of the benefit types and their appropriateness for firms with differing characteristics.
Table 2
18 Case Study Firms: Child Care Benefits by Size of Firm

<table>
<thead>
<tr>
<th>Number of Employees</th>
<th>Reimbursement Plans</th>
<th>Flexible Benefits*</th>
<th>No Tradeoffs</th>
<th>Employer Contributions/ DCAP</th>
<th>Information Centers and Referral Centers</th>
<th>Flexible Work Arrangements**</th>
<th>Combination **</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 - 10</td>
<td></td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<td>11 - 20</td>
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<td>21 - 30</td>
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<td>1</td>
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<td>2</td>
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<tr>
<td>31 - 40</td>
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<td>1</td>
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<td>1</td>
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<tr>
<td>41 - 50</td>
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<td>1</td>
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<td>1</td>
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<td>51 - 60</td>
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<tr>
<td>61 - 70</td>
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<td>1</td>
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<td>1</td>
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<tr>
<td>71 - 80</td>
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<td>1</td>
<td></td>
<td>1</td>
<td></td>
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<tr>
<td>81 - 90</td>
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<td>1</td>
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<td></td>
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<tr>
<td>91 - 100</td>
<td></td>
<td>1</td>
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<td></td>
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<tr>
<td>101 - 150</td>
<td></td>
<td>1</td>
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<td>2</td>
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<tr>
<td>151 - 200</td>
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</tbody>
</table>

*Some flexible benefit plans include dependent care assistance plans; most include employer contributions to child care as an option to be traded.

**One employer offered both a dependent care assistance plan and information and referral services. Several firms with flexible work arrangements also offered reimbursement plans. Firms with more than one option are counted more than once on this table.

***This employer established a center as a subsidiary operation, rather than as an employee benefit.
MAJOR FINDINGS

Business Decision-Making About Child Care Benefits: Converging Values

Despite wide variations in the costs and administrative features of their child care benefits, the case study firms exhibited striking similarities in their motivations for and evaluations of those benefits.

The following summary first addresses those elements of decision making about child care that were common to all the firms. It then addresses differences among the specific benefit options and the implications of these differences for firms' decisions to adopt one benefit type versus another.

Motivations

Across the four benefit options, three factors weighed most heavily in small businesses' decisions to implement child care benefits:

1. **Demographics of the workforce**: A high, and/or rapidly growing, proportion of young parents, especially women, characterized the workforces of these companies.

2. **Concerns about labor force recruitment, retention, and productivity**: While only firms with on-site centers had experienced serious recruitment and retention problems, all the firms placed a high priority on employee retention and/or workplace productivity. Firm managers saw a relationship between child care problems and the firm's ability to achieve retention and productivity goals, at present or in the near future.

3. **Reliance on a comprehensive benefit package as a management tool**: Almost all of the case study firms, at a minimum, offered health insurance for employees and their dependents. The firms introduced child care benefits as part of an ongoing effort to maintain competitive, up-to-date, equitable, and cost-effective benefit packages. The decision to adopt a child care benefit was triggered by recognition of a mismatch
between existing benefits and the changing demographics of the work force.

**Evaluations**

Across benefit options, managers' evaluations of child care benefits shared the following characteristics in common:

1. **Lack of quantitative evaluations.** Managers did not try to quantify the impacts of the child care benefits on labor force recruitment, retention, or productivity. Time and resources were not available for the conduct of systematic cost-benefit analysis.

2. **Qualitative evidence of impact on retention.** Managers were confident that child care benefits (among other benefits) contributed to employee attachment to the firm. This assessment was based on employees' positive responses to the benefits and on the return of employees to work after childbirth. Nonparents as well as parents responded positively to the benefits. Usefulness of child care benefits as tools for recruiting and for reducing absenteeism was mentioned in fewer cases.

3. **Low participation.** Low participation, especially in firms with non-center options, raised questions about the usefulness of the benefits in many cases. Participation of two or three employees, or 20% or less of parents, was common. However, the newness of the benefits (which were often less than one year old) prevented a conclusive assessment of participation.

4. **Low costs of most benefit options.** The low costs of options other than centers was a factor in firms' casual approach towards evaluation of the benefits. In particular, low fixed costs gave firms little incentive to measure impacts or to be immediately concerned about low participation rates.
The Selection of a Specific Child Care Option: Weighing Supply Factors, Internal Resources, and Equity

While few of the case study firms undertook a systematic comparison of child care alternatives, several factors consistently influenced firms' benefit choices. Among these factors were the following:

Factors External to the Firm
(1) Adequacy of the local child care supply: availability of satisfactory and convenient child care arrangements for firm employees

(2) Availability of expert assistance, special community child care projects, seed monies or subsidies for employer-supported child care

Factors Internal to the Firm
(1) Administrative capacity

(2) Financial and property resources

(3) Projected employee participation in various benefit options

(4) Equity considerations: equitable treatment of parents and nonparents, as well as equitable treatment of parents as a group: how will benefits be distributed across employees at different levels, can employees be charged for child care services, and at what rates?

(5) Structure of jobs and workplace interactions: how much flexibility is possible?

Table 3 shows the combinations of features that distinguish the child care benefit options. In choosing an option, firms needed to balance considerations about firm and community resources with the special advantages and liabilities of the options. Centers, which are the most expensive option, also required the most complex combination of
### Table 3
Comparison of Features by Benefit Type

<table>
<thead>
<tr>
<th>Relative Cost to Firm</th>
<th>Best Circumstances</th>
<th>Employee Eligibility/Participation</th>
<th>Features of Implementation</th>
<th>Equity Problems</th>
<th>Advantages</th>
<th>Company Size Considerations</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Reimbursement Plans:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><em>Tax-sheltered (DCAPs) or cafeteria plans</em></td>
<td>4</td>
<td>Good local child care supply Tax expertise available</td>
<td>Higher income employees (DCAPs) Those with other health coverage (cafeteria plans)</td>
<td>Record keeping Employee tax advisor Adequate participation from high and low income groups (nondiscrimination clause)</td>
<td>No</td>
<td>Flexibility Low cost to employer</td>
</tr>
<tr>
<td><em>Employer contributions</em></td>
<td>2</td>
<td>Good local child care supply Tax expertise available</td>
<td>All who use child care</td>
<td>Record keeping</td>
<td>Yes</td>
<td>Flexibility Easy to implement</td>
</tr>
<tr>
<td><strong>Centers</strong></td>
<td>1</td>
<td>Inadequate local child care supply Expertise available Licensable space available High projected utilization Uniformity of need among employees Start-up resources</td>
<td>Parents of children of appropriate age who use child care</td>
<td>Fee scale decisions Licensing issues: state and local regulations Ongoing management responsibility: staff, insurance, facility</td>
<td>Yes</td>
<td>Employees return to work soon after childbirth Increases employee commitment</td>
</tr>
<tr>
<td><strong>Information and Referral</strong></td>
<td>3</td>
<td>Good local child care supply I&amp;R agency available and Nonduplication of community services</td>
<td>Those making child care arrangements</td>
<td>Contract terms</td>
<td>Yes</td>
<td>Flexibility Easy to implement</td>
</tr>
<tr>
<td><strong>Flexible Work:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><em>Flex Hours</em></td>
<td>5</td>
<td>Appropriate job and workplace environment</td>
<td>Most parents</td>
<td>Balance between formality/informality: defining policy</td>
<td>No</td>
<td>Flexibility Low cost to employer</td>
</tr>
<tr>
<td><em>Infants-in-Workplace</em></td>
<td>5</td>
<td>Appropriate job and workplace environment Space</td>
<td>New parents with appropriate job/ space</td>
<td>Balance between formality/informality: defining policy</td>
<td>Yes</td>
<td>Employees return to work soon after childbirth</td>
</tr>
</tbody>
</table>

*1 represents the highest cost option; 5 the lowest.*
internal and external circumstances in order to be viable. Firms developed centers only when local child care shortages were particularly severe and when 20% or more of employees were likely to utilize the center. But centers also made a major contribution to addressing employees' child care needs, offering a high quality, extremely convenient, and affordable form of care. Reimbursement plans, on the other hand, could be adopted under a wider variety of circumstances but addressed only the affordability component of (some) parents' child care needs. Both reimbursement plans and information and referral services assume that parents can find arrangements in their communities that suit their children's needs. But shortages of care for at least some age groups exist in most communities, and costs can be so high that even reimbursement of $100 per month covers only one fifth of the full cost of care.

How Company Size Affects the Choice of Benefit Option

The case study findings suggest that all of the benefit options are feasible, under certain circumstances, for firms with 20 employees or more. But the smaller the firm, the higher the proportion of parents must be in order to justify the most expensive option, on-site centers. The two firms with under 30 employees that had established on-site centers employed a predominantly female workforce and about one fourth of their employees were young parents. In addition, in urban areas, lack of space availability is a major constraint on the feasibility of centers for small firms. In cities with tight real estate markets, firms even as large as 200 are extremely unlikely to develop centers unless they receive capital assistance or have special access to licensable space.

The other options, because of their low costs and their usefulness for parents with a very wide variety of child care needs, are feasible for firms of any size. With the exception of flexible work arrangements, however, the implementation of these options depended on the availability of expert assistance which was usually external to the firm. Only one of the four firms with dependent care assistance plans had under 50 employees, and it contracted with an outside agency not
only to set up, but also to manage the plan. The smallest firm offering an employer contribution (a firm with six employees) relied on a community agency's administrative services (plus matching contribution) in the implementation of its relatively straightforward plan.

Many managers noted that small size eased the process of communication between workers and management. The smaller the firm, the greater was employers' direct knowledge of individual employees' child care problems and the effects of those problems on work. In some small firms, managers were able to understand employee needs and to design appropriate benefit options, and were able to quickly inform employees of new benefits when they were available. Flexibility could be maintained with less danger of discrimination than would be present in larger firms.

HOW THE FOUR BENEFIT OPTIONS WORKED IN THE CASE STUDY FIRMS

REIMBURSEMENT PLANS

Nine of the case study firms offered some kind of reimbursement plan to assist employees with child care. Two of these firms provided direct contributions toward employee child care expenses, and in one of these cases the contribution was matched by a community agency. Maximum contributions were set by one firm at $100 per employee per month and by the other firm at $100 per child (to age 12) per month for full-time employees (pro-rated for part-time staff). In the remaining seven firms the reimbursement plan consisted either of a flexible benefits plan in which child care reimbursement could be selected as one option, a Dependent Care Assistance Program (DCAP) in which the employee contributed pre-tax salary dollars, or some combination of the two. In one of the firms offering a flexible benefit plan the employer "contribution" towards child care expenses was also matched by a community agency, creating an additional benefit for those who chose this option.
Characteristics of Firms with Reimbursement Plans

In deciding to offer some type of child care benefit, these companies may have been influenced by the composition of their workforces. With one exception, women constituted at least 50% of the workforce in these firms, and the average age of employees tended to be young (mid-thirties or younger, with few people over 50). Not all companies had large numbers of employees with young children, but several expected this number to increase in the future. In other respects, the characteristics of companies choosing this option were quite varied. Companies ranged from the smallest to the largest in our entire sample of case studies: from 6 employees in one case to 180 (125 at the site studied) in another. Businesses were from several different sectors, including high-tech manufacturing, financial services, media, and insurance sales, among others. Staff positions in almost all firms included several categories: a professional or technical level, sales, clerical and administrative support, and management.

Motivations for Choosing Reimbursement Plans

Most of these firms had not experienced significant problems with turnover or recruitment, perhaps because managers were committed to attracting and retaining good employees. The decision to modify benefits to address child care was generally made in a context of an overall responsiveness to employee needs. Most of those interviewed believed their company management style to be "progressive," "understanding," and "concerned about employees." Among reasons why an employee might choose to come to work there or continue to work there, several respondents -- managers and employees alike -- cited good benefits and a positive work atmosphere. (Three companies also had a unique appeal in terms of the work itself or the reputation of the firm in its field.)

The immediate circumstances under which employers took action varied from case to case. In one instance, a manager was concerned about the rising cost of medical coverage and looked to a cafeteria plan as a way both to control costs and to offer employees flexibility in their benefits. In another case involving collective bargaining, child
care reimbursement was proposed by the union local and accepted quickly by management. In two other firms, employee child care task forces investigated options on behalf of employees whose child care needs were growing. Finally, in two cases the availability of matching dollars from a local child care association was an important incentive.

Although individual circumstances did differ, it was the case for all firms that management (or at least one well-placed manager) was sympathetic to employee needs in general and to child care needs in particular, before the issue was raised; in no case was there significant resistance that had to be overcome by those proposing a new benefit plan. At least three firms’ managers had attended some kind of child care symposium prior to changing their benefits, an experience that may have increased both their understanding of options and their sense of the appropriateness of employer-sponsored programs. One manager of a small firm commented that although he had not attended any kind of symposium, he had become sensitized to the need for employer involvement in child care as a result of regular media attention to the problem.

Implementation of Reimbursement Plans

Start-up

Several companies originally learned of the flexible benefit or DCAP approach through a local consortium or child care resource group. Among those implementing formal DCAPs or cafeteria plans, almost all used some kind of outside advice, usually from a benefits consultant or an insurance company, either to establish the plan or to administer it on an ongoing basis. In addition, some firms had in-house expertise in the form of accountants or tax advisers. A few of the firms offering reimbursement or employer contribution arrangements did not identify them as Section 125 or 129 plans, and did not use any special expertise in establishing their programs.

One firm noted that many insurance companies offer "flexible benefit packages" but apparently do so as a way to gain access to individual employees for the purpose of selling annuities or additional
insurance. Most of these plans involve some kind of one-to-one session between the plan administrator and each employee, in which the employee's tax situation is analyzed -- a necessary part of making an informed choice about benefits. If an outside insurance company performs this function, they may use the opportunity to suggest that the employee put some portion of his anticipated tax savings into a life insurance policy. As one benefits administrator commented, "We were looking for a way to help out our employees, not sell life insurance. Eventually, we found an insurance company that was willing to set up the very limited package [dependent care or dependent medical costs] we were interested in trying on an experimental basis."

Administrative Issues and Employee Participation

The case study companies did not experience significant problems with this approach to child care, because it was relatively easy to implement (companies with complex formal plans had access to the expertise they needed) and it was not terribly costly. Two noteworthy problems did arise, however: one company decided that its benefit (a straight per-child reimbursement to all employees regardless of work status) was too expensive as currently designed and the company moved to reduce the benefit to part-time workers; another company had a DCAP which had to be discontinued when plan attrition left as the only participant the company President (this meant that the plan was technically in violation of the "nondiscrimination" clause in the IRS regulations). Dependent care assistance plans and flexible benefits were appealing to employers because they offered potential benefits to a wider group of employees (nonparents and those with older children) than would a simple direct financial contribution to child care.

In most companies, plan participation was lower (sometimes considerably so) than anticipated, based on management guesses and employee surveys or informal expressions of interest. One benefits manager expected that 14 or 15 parents might make use of the DCAP option, and only 6 did so. In another firm, 20 individuals expressed interest, but only two signed up in the early months of the plan.
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Although managers are not always aware of the reasons for nonparticipation, several possible factors can be identified. Because DCAPs are most appropriate for those in higher income brackets, plans were most heavily used (i.e., participation was a high percentage of those eligible) in those firms that had the highest salaries, or where a community agency matched the employee's deferral. DCAP plans that do not include an employer (or outside) contribution have a limited application: they are helpful to higher paid employees, and -- in flexible benefit plans -- to those who have working spouses (enabling them to trade off some family medical benefits against dependent care reimbursement). In addition, the "use it or lose it" feature of DCAPs (money put into a DCAP can only be used for dependent care expenses of the current period) may make parents with less predictable day care expenses reluctant to enroll in the plan. Clearly, these plans do not address the issue of child care affordability for lower income employees.

The requirement in almost all plans that providers submit invoices for services also may have lessened participation by parents. This meant that even when plans did not require the use of licensed care, many parents found their providers unwilling to participate (perhaps because they were not reporting their income to the IRS). The degree of care taken in plan design, the complexity of the paperwork and the speed or frequency with which reimbursement checks were issued may also have affected the level of participation. In this respect, access to an in-house manager with the appropriate expertise or to an outside agency may be very important to successful implementation. For very small or less profitable firms, assistance from community agencies may be essential: in the smallest case study firm, the management of the plan by a local child care agency (as well as their matching contribution) made the plan a workable one for this business.

Costs and Benefits of Reimbursement Plans

Some of the most significant benefits to the firm were in the area of personnel relations and job satisfaction. The increase in flexibility and choice plus the tax savings available to employees were important
for company morale, and gave the firms an opportunity to demonstrate their responsiveness to employee needs. The existence of a child care benefit was viewed by several managers as a useful recruiting tool, in keeping with the company's "progressive" image and reputation for caring about employees. Managers and employees alike believed that the impact of these plans on retention was indirect; "I work here not because of the child care benefit, but because this is the kind of company that would offer such a benefit," was a typical employee response.

Plan costs varied widely according to several factors. For the two companies making straight contributions towards employee child care, the direct benefit costs were $700/month (being reduced to $495/month through a policy change) total for a business with six participating employees and $100/month for a firm with one participating employee. In both cases, administrative costs were negligible (the firm with the highest costs estimated one to one-and-one-half hours per month of bookkeeping time). For those firms with salary reduction agreements or flexible benefits plans, the employer bore no additional direct costs for the benefit itself (child care reimbursement came either from the pretax salary dollars or from the redirection of an existing employer contribution to another benefit).

Employers did experience start-up and ongoing administrative costs for DCAP and flexible benefit plans, however. Those that made use of outside consulting services paid a range of fees, depending on the complexity of the plan being established. One firm which wanted a simple DCAP and expected very low participation contracted with the Voucher Corporation (described in Chapter IV) for administrative services, negotiating a $200 start-up fee (below the $700 usually charged). Another firm paid its benefits consultant roughly $1200 ($10 per initial employee interview); and still another paid $2000 for start-up. The company which made the most extensive use of outside consultants was one which had been experiencing significant increases in its medical benefit costs; this firm paid its benefit consultants $25,000 for a range of services, including a survey of its 100 employees, and considerable assistance with the design of a flexible
benefits plan that included a wide variety of options. This firm also incurred other direct start-up costs of between $2,000 and $3,000. In addition, most employers had staff costs (associated with both investigative and start-up processes) which were difficult to estimate.

Ongoing administrative costs also varied. The Voucher Corporation charges very small employers 7% of the amount run through the DCAP, and participating providers $0.50 per $100 (sometimes picked up by employees). Another benefits administrator charges $6 per participating employee per month ($3.00 per paycheck), in addition to its start-up fee; annual plan revisions will cost $2.50 per existing participant and $10 per new participant. Some firms have been able to handle ongoing administration on their own, and time estimates vary according to the complexity of the plan: a large and complex flexible benefits plan takes roughly 16 hours/month additional administrative time; a more limited choice plan with some (free) outside assistance requires only three hours/month of staff time.

In most cases, direct expenses are more than balanced by savings on employer taxes (FICA and FUTA). In the two firms with the smallest DCAP plans, ongoing administrative costs (either internal or external) are roughly equal to the savings on taxes. In larger firms, where more substantial salary reductions may take place, the savings may be greater than the cost of administration. The firm with the most originally costly and complex plan estimates that it will regain its start-up costs within two years, as a result of FICA savings ($7000/year) and reduced health care premiums associated with the new plan.

**DIRECT PROVISION OF CHILD CARE THROUGH AN ON-SITE OR NEAR-SITE CHILD CARE CENTER**

**Characteristics of Firms with On-Site Centers**

Although most child care consultants advised us that child care centers are not generally feasible for small employers, we were able to identify and interview six small companies that had created on-site or near-site child care centers for their employees. The companies include
a nursing home, a nonprofit medical clinic (the only nonprofit included here), a dental lab, a dairy cooperative, a hotel/restaurant, and a firm that produces videotapes for manufacturing firms’ resource planning. Although two of the companies have between 150 and 200 employees, two have fewer than 30 employees, and the remaining two companies have about 80 employees. The child care centers vary greatly in size, in admission policies for nonemployees, and in fee structures for both employees and nonemployees. All of the companies, however, have subsidized their child care centers heavily.

Community Factors: When Does a Company Take the Initiative?

Employers offering on-site care generally faced a combination of a tight local labor market and a severe shortage of local child care services. Of the six companies with child care centers designed for their employees, three were located in rural areas of Vermont, Massachusetts, and California; two were in suburbs of Burlington, Vermont; and one was in a suburb of Boston. In Massachusetts and Vermont, local unemployment rates ranged between 0 and 2%. Child care centers, especially for infants and toddlers, were in limited supply in these areas and available programs had long waiting lists.

The isolated locations of several companies contributed to labor recruitment problems and to the lack of convenient child care. Several companies invested considerable effort and funds to recruit skilled workers from distant areas. At the same time, they were aware that their employees were unlikely to "find a child care center on their way to work"; in several communities, there were no child care centers within a 20-mile radius. Interview subjects sometimes commented that their isolated locations contributed to the sense of employer responsibility and the desire to "look out for one another." In small towns, employers with between 100 and 200 employees were very large relative to the average local business. Greater relative size contributed to employers' sense of community responsibility as well as responsibility to their employees.
The location of these companies in rural areas or outlying suburbs gave them greater access to affordable space than would be available to companies in central cities. In addition, most of the companies had access to space for a child care center due to special circumstances or outside resources belonging to the owner. Several were growing companies that developed centers while in the process of constructing a new or expanded work facility. One company had an affiliate engaged in real estate acquisitions. Another was offered an opportunity to use a community center and to share space with a state preschool program. Still another held part ownership of the office building in which it was located and was able to get priority access to available rooms. And a nursing home found space within its existing facility.

The cost of operating a child care center is, in general, lower in Vermont than in Massachusetts or California. This cost difference may be responsible for the fact that the smallest case study firms with child care centers were in Vermont. Regulations for licensed day care centers, particularly for staff qualifications, are less stringent than in the other two states (see State of California, Health and Welfare Agency; State of Massachusetts, Office for Children; and State of Vermont, Agency of Human Services), and staff qualifications can have a significant impact on costs. Across localities, differences in child care prices reflect differences in the quality of available caregivers and in parents' expectations. Outside of major cities, parents seem less likely to seek caregivers with a college education, for example.

In none of the cases did a public or community program or policy directly influence the establishment of a center. One company applied to but was turned down by a state government low interest loan program designed to stimulate employer-supported child care. The expertise of individual child care consultants was key to the establishment of several centers and such consultants seemed to be available as needed, despite their distance from metropolitan areas known for their technical assistance resources.
Labor Force Factors

All except one of the companies with child care centers shared a reliance on a young, predominantly female workforce (and the one exception was one of the largest companies studied). In at least two of the companies, women constituted over 80% of the workforce. Most of the companies employed a large proportion of entry-level workers or workers earning under $15,000 a year, for whom child care costs represented a significant proportion of family income. Because of the high fixed costs of operating a child care center, the absolute number as well as the proportion of employees who might use a child care program would be expected to make a difference in companies' propensity to establish centers. Child care consultants generally advise that firms with under 100 employees will not be able to realize sufficient economies of scale to make a child care center worthwhile. But the six companies with child care centers ranged in size from 22 to 200 employees and opened their centers with as few as four children. Clearly, efficiency considerations associated with size were tempered by the other factors mentioned here such as the ability to keep overhead relatively low and the commitment to a generous benefit package.

Recruitment and retention were concerns in these companies for a variety of reasons, including protecting substantial investments in on-the-job training, reducing turnover associated with low wages and stressful work, and facilitating hiring as a result of rapid growth. Three companies were rapidly expanding at the time they established their centers. Three offered structured on-the-job training programs. Several additional companies commented on the substantial informal, firm-specific training that occurred on the job, resulting in high costs and turmoil when good workers left the firm. "Holding on to good people" was stated as an ongoing concern in these companies.

Management Style and Other Employee Benefits

Most firms with on-site centers offered better than average benefit packages and believed benefits played an important role in recruitment and retention of qualified workers. In addition to company paid health insurance, these firms offered such benefits as life insurance, tuition
reimbursement, and profit sharing. Several firms which had had recruitment and turnover problems were engaged in an effort to upgrade all of their benefits, with the child care center constituting one part of this effort. Managers emphasized their belief that treating workers well should be a high priority and ultimately "paid off" through the quality of their product. Several managers indicated that they were continually soliciting feedback from workers about the quality of working conditions. Several referred to a "corporate philosophy" about quality that was reflected both in their treatment of workers and in their product. Employees who were interviewed confirmed that benefits were better than in comparable firms and that the atmosphere in their current workplaces was "caring" or "family-like." Parents appreciated that management attempted to accommodate employees' family responsibilities through flexible hours and a concerned attitude.

Reasons for Setting Up On-Site Centers

**Employee Recruitment and Retention**

The establishment of a child care center generally was spurred by a particular trend such as a large number of births among employees, or the sudden availability of space, in combination with the firms' ongoing concerns about recruitment and retention. All six of the firms with child care centers for employees identified retention of valued workers as at least one motivation for establishing the centers. Because the firms could actually count the number of workers that might leave the firm in the absence of on-site child care, the potential value of the center as a retention tool was easier to establish than its value as a recruitment tool. The feared departure of several skilled workers at once was likely to be extremely costly and disruptive, especially in firms with under 30 workers.

In general, however, firms did not measure the costs of turnover. Only the nursing home had a rough idea of such costs, because high turn-over forced it to employ "pooled help"—temporary nursing staff charging about three times the rate of regular staff. Most firms viewed the child care centers as part of their overall attempts to "meet workers' needs,"
"show concern for workers," or "keep morale up" rather than as quantifiable cost-saving endeavors. In their ongoing discussions with workers about any concerns they might have, child care had moved up the list of priorities.

Three firms also identified staff recruitment as a motivation for the center, expressing the belief that the availability of child care might attract more stable, more qualified, and in some cases, more mature, workers than their existing applicant pool. All three firms were concerned about their appeal to low wage, entry level workers with certain crucial "personal" characteristics such as cordiality and reliability. A hotel/restaurant in a rural area believed that there might be a "latent labor force" of mothers who would apply for jobs only if more and better child care were available. The manager of a dairy cooperative believed that a child care center would be especially useful in the hiring of seasonal production workers. Several firms were engaged in expensive efforts to attract skilled workers (including managers, skilled tradespeople, and chief cooks), from outside their communities and believed that child care was a worthwhile part of this effort. Again, firms did not attempt to quantify the possible savings in recruitment costs but viewed the child care center as part of a long term process of improving their workforces. Several managers spoke of the child care centers as "an investment in the future" or as an attempt to be "farsighted" and address a problem which "could only grow worse" in years to come.

**Absenteeism Not a Major Factor (In These Companies)**

Absenteeism was generally not identified as a major motivation for establishing the centers. Those firms concerned about absenteeism offered little or no paid sick time; other firms' policies were to be as flexible as possible about the use of sick time and personal days for family responsibilities. Some firms had particularly long working hours or shift work, which meant that the on-site care had at least potential value as a way to prevent lateness or early departures. (None of the centers, however, were open later than 7 p.m. or on the weekends.) Some firms did wish to encourage employees to return from maternity leave as
soon as possible; hence their centers cared for children as young as 6 weeks and mothers were permitted to visit the centers to nurse as frequently as necessary. All of the centers accepted children as young as six months.

**Enhancing Community Image**

Three firms indicated that the center was motivated partly by the desire to have children be part of the workplace environment, either for internal reasons or for public relations and marketing reasons. In the case of the business software and videotape company, the original worksite was the owner’s home, where the owner’s children were being cared for. As the company grew and made plans to move to a new setting (and as the number of employees with small children was increasing), employees expressed the desire to continue to have children on the site. Both the owner and employees agreed that there was mutual benefit for children and parents in a worksite child care arrangement, and they decided to incorporate it into the new setting. A nursing home was motivated to establish an on-site center primarily for recruitment and retention reasons, but secondarily because of the hope that the presence of children would be beneficial for patients and ease their families’ anxieties about placing their relatives there. "More satisfied customers may mean we can charge higher prices." The manager of a rapidly growing dairy cooperative intended that their child care center be part of the company’s effort to establish a "visible corporate culture."

In four of the six companies, owners or top managers had personal child care concerns that spurred their interest in on-site centers. Three owner/managers enrolled their own children in the on-site centers. A fourth reported that the lack of child care in the community had concerned him since his wife had been forced to leave her professional job seven years earlier in order to care for their children.

**Community Service**

Only one company designed its child care center with the intent of serving the community as well as its own employees (although other companies permitted nonemployees’ children to enroll in their centers
when space was available). This was a unique situation in which the company felt a special obligation to the small town in which it was located; the company was cooperatively owned by farmers with roots in the town; and members of the board felt that offering child care to the community was a way to invest in its own future workforce and help keep local taxes down.

An On-Site Center as the Only Option for Some Companies

None of the employers interviewed had seriously considered other types of child care benefits as alternatives to on-site centers. Their focus on centers reflected their assessment that inadequate child care supply was the primary source of their employees' child care problems. The inadequate supply of infant care was particularly central to the decisions to establish centers. Most companies indicated that a primary goal of the centers was to "get mothers to come back after maternity leave" by making it as easy as possible for them to do so. For new mothers, not only cost but also the availability, quality and convenience of care were major issues. On-site care was therefore clearly the best alternative for attracting mothers of infants back to work.

Implementation of Child Care Centers

Start-up

Startup costs for child care centers varied widely, reflecting the varying sizes of the programs and the types of facilities used (see Table 4). While one company spent $330,000 on the purchase and renovation of a house, all other companies spent less than $50,000, with some spending as little as a few thousand dollars to construct a bathroom and purchase equipment for a small center. One company was a nonprofit that leased community center space already designed for child care. Two additional centers were developed within institutional buildings (i.e., a nursing home, a professional building) that had fire safety features already in place, limiting the amount of capital improvements needed to meet licensing standards. One company was able to further save costs by using its own maintenance staff to do much of the remodeling.
### Table 4

**Start-Up Costs of On-Site Child Care Centers**

(Operating Losses Not Included)

<table>
<thead>
<tr>
<th>Start-Up Costs</th>
<th>Includes</th>
<th>Type of Facility</th>
<th>Enrollment Capacity</th>
</tr>
</thead>
<tbody>
<tr>
<td>$330,000</td>
<td>Purchase, renovation, consulting time</td>
<td>House</td>
<td>34</td>
</tr>
<tr>
<td>$37,000</td>
<td>Renovation of property already owned by company (purchased for $20,000)</td>
<td>House</td>
<td>30</td>
</tr>
<tr>
<td>$20,000 &amp; in-kind</td>
<td>Retrofitting of existing space in company facility</td>
<td>Nursing Home</td>
<td>24</td>
</tr>
<tr>
<td>$34,000</td>
<td>Construction of addition to new company facility (under construction)</td>
<td>Company-Owned Office Building</td>
<td>15</td>
</tr>
<tr>
<td>&quot;Few thousand&quot;</td>
<td>Equipment</td>
<td>Community Center</td>
<td>17</td>
</tr>
<tr>
<td>$5-6000</td>
<td>Equipment &amp; remodeling</td>
<td>Dental Office Building</td>
<td>10</td>
</tr>
</tbody>
</table>
These special circumstances, in combination with the locational and growth factors mentioned earlier, made the process of acquiring and adapting a facility for child care less expensive (in most of these cases) than it would be for the typical child care center. By contrast, BPA conducted a case study of a nonprofit family planning clinic, located in a small city in California’s Central Valley, that developed a child care center as a subsidiary business activity.* The clinic, which leased and renovated space for about 70 children, spent on the order of $100,000 on capital improvements and equipment purchases. (For estimates of start-up costs in urban areas, see the description of Bright Horizons in Chapter IV and Rubin and Weinstock, 1984.) Most centers treat as part of start-up costs those operating losses which are experienced during the first year due to underenrollment. For-profit businesses may treat both capital costs and operating losses of child care centers as tax deductible business expenses. Operating losses in the six on-site centers studied here are, in part, planned for by the companies as a form of ongoing employee subsidy or benefit. They are discussed in the next section.

Most companies employed a child care professional to both assist with the start-up process and to stay on and manage the program. Managers hired child care professionals who were personal friends, clients, or their children’s caregivers. One company contracted with a nonprofit child care agency with extensive experience in the management of child care centers. Most company managers whom we interviewed reported that the assistance of the right professional with planning the child care program, budgeting, overseeing the design of the facility, and assuring compliance with state licensing was invaluable. Only one company, which had little professional start-up assistance, reported major problems in meeting licensing standards. At one point its center was found guilty of a code violation and was forced to close for a short period.

*Throughout this discussion, this firm is not generally included when statements are made about the case study firms (with on-site centers) as a group, but is treated separately.
period of time. Several other companies which were undertaking major remodeling efforts were forced to postpone their original opening dates, resulting in some losses in enrollment and higher than expected operating subsidies the first year.

The hotel/restaurant, the company with the highest start-up costs for its onsite center, was the one company that applied for public assistance with financing. The application is recounted in the next chapter. Private financing was eventually secured.

**Participation, Fees, and Subsidies: Working to Capacity is the Key**

In order to project demand for their child care programs, managers generally conducted either formal or informal surveys of employees while decision making and start-up were underway. Companies expected that employee child care needs would vary over time and they therefore allowed for some extra capacity in their centers. Three of the companies planned for use by community members as space permitted. At the time of the study, four centers each served between 20% and 30% of their total company employees, and two served roughly 8-10%. (See Table 5.) The companies with the lowest employee utilization rates included one whose center had been open only a few months, and one whose center had been designed with the goal of serving the community as well as employees. Centers that had been in existence for several years or more had undergone expansion and adaptation over time. None of the managers reported surprise or disappointment at the actual levels of utilization by employees. With the exception of the most recently opened center, all reported that almost all employees with age-eligible children used the center. Two centers had been forced to turn away employees for at least a short period of time due to lack of space.

Child care operating costs borne by the companies depended on total operating costs, of which staff salaries were the major component; on the fees charged to parents; and on enrollment levels, which tended to be below capacity at least during the first year of a center's operation. Three of the firms charged their employees about half the local market rate for center-based child care, one charged about three fourths
Table 5
On-Site Centers: Employers' Operating Subsidies

(Amortization of Start-Up Costs Not Included)

<table>
<thead>
<tr>
<th>Total Employees in Firm</th>
<th>Length of Time Center in Operation</th>
<th>Fees Charged to Employees</th>
<th>Total Monthly Operating Subsidy (Approx.)</th>
<th># Employees Using Center</th>
<th>#Non-Employees Using Center</th>
<th>Center Under-Enrolled</th>
<th>Average Monthly Operating Subsidy Per Participating Employee</th>
</tr>
</thead>
<tbody>
<tr>
<td>25</td>
<td>6 years</td>
<td>1/2 median market fee</td>
<td>2000 - 2500</td>
<td>9</td>
<td>0</td>
<td>No</td>
<td>220 - 280</td>
</tr>
<tr>
<td>180</td>
<td>1 year</td>
<td>1/2 median market fee</td>
<td>now break even (first year: 2000 month)</td>
<td>20</td>
<td>30</td>
<td>No</td>
<td>0 (first year: 100)</td>
</tr>
<tr>
<td>200</td>
<td>2 years</td>
<td>1/2 median market fee</td>
<td>3000 - 4000</td>
<td>40</td>
<td>0</td>
<td>No</td>
<td>75 - 100</td>
</tr>
<tr>
<td>75</td>
<td>5 years</td>
<td>sliding scale fee</td>
<td>2800</td>
<td>12</td>
<td>5</td>
<td>No</td>
<td>170</td>
</tr>
<tr>
<td>80</td>
<td>2 months</td>
<td>sliding scale fee</td>
<td>2000 - 3000</td>
<td>6</td>
<td>16</td>
<td>Yes</td>
<td>330 - 500 (half full)</td>
</tr>
<tr>
<td>22</td>
<td>2 years</td>
<td>3/4 median market fee</td>
<td>500</td>
<td>4</td>
<td>4</td>
<td>No</td>
<td>125</td>
</tr>
</tbody>
</table>
the market rate, and two charged their employees on a progressive sliding scale based on their earnings. Most companies felt that in order for employees to perceive the child care center as a useful benefit, its fees had to be lower and/or its quality higher (i.e., higher staff-child ratios, more qualified staff) than those of the average care available in the community. Most companies deducted employees' fees directly from pretax salaries, resulting in additional savings and convenience. When nonemployees used the centers, they were generally charged higher fees than employees. Companies with the highest per employee operating subsidies included one whose center had been opened only a few months and was only half full, and companies with small, high quality programs. (See Table 5.)

That child care is expensive to provide as an employee benefit is not surprising, since even at the full market price most child care centers find it difficult to break even. The family planning clinic in central California that developed a child care center as a subsidiary operation did so with the intent of enhancing the clinic's revenues. The demand for child care in the community was clearly great, and the provision of child care seemed consistent with the clinic's central line of work and with its social mission. The clinic hired a child care consultant to plan the program, and developed a business plan which the Bank of America thought was "the best thing they'd ever seen," according to the clinic director. The clinic received a $100,000 loan from the bank. However, both start-up and operating costs were far higher than projected. The clinic director cited facility modifications, including an expensive fire-alarm system, and ongoing maintenance as among the unexpectedly high costs. At present, although the center is filled almost to capacity, the clinic continues to provide operating subsidies of about $5000 per month.

In contrast to the above case, the six employers with on-site child care centers approached the centers as investments in their labor force rather than investments in child care itself. All of them expected and intended to provide subsidies. It appeared that most of them undertook the centers with relatively accurate estimates of both costs
and revenues. However, most of the companies did report that operating costs turned out to be at least slightly higher than expected. Unexpected costs resulted from a variety of factors including the long hours of the center and associated high staff costs, staff turnover, and inefficiencies associated with providing drop-in and part-time care. On the other hand, most of the companies reported they were able to obtain reasonably priced liability insurance (about $1000 per year), in some cases piggybacking on the company's existing insurance policy.

**Management Options: Do it Yourself or Contract Out?**

In their approach to management of the center, companies attempted to balance two goals: (1) keeping overhead for the child care programs low, and (2) employing the necessary expertise to manage a program unrelated to the firm's primary line of work. Two companies contracted with a child care consultant and one with a nonprofit child care agency to take full responsibility for management, and three companies managed the programs from within an existing company department. The larger companies were those that used the external management approach. They reported a high level of satisfaction with the day care management. They also spent more on management but argued that the extra costs "paid off" in quality and fewer headaches. The internal approach was often associated with reports of management problems, including high day care staff turnover, licensing violations, demands on company staff time, and company tensions resulting from conflicts between parents/employees and day care staff over child rearing philosophies. One company reported that responsibility for the day care program was "bounced around" for a while among different company managers until a satisfactory arrangement could be found.

The family planning clinic reported difficulties in finding day care directors with good business management skills. The clinic therefore retained close control over the day care center, an approach which had its own drawbacks, such as lack of child care expertise on the part of clinic management.
Effects of On-Site Centers on Employees and the Community

None of the companies attempted to measure the returns from their child care centers. Managers reported that they did not have time or dollars to systematically measure changes in the applicant pool, in productivity, or in employee attachment. One manager argued that employers "should not try to justify day care in dollars and cents." Where centers had been open only a year or less, managers felt that it was too soon to assess impacts. Several of the older centers had been open ever since significant numbers of employees had first started having children; it was therefore impossible to compare "before" and "after" situations. Nevertheless, employers reported the following impressions of the child care centers' effects.

Companies See Positive Impact on Morale and Employee Satisfaction

In general, companies reported an overwhelmingly positive experience with their centers, despite the high costs involved. They claimed that the centers improved "morale" and that nonparents as well as parents appreciated the centers as a "symbol" of the company's concern for its employees. Interviews with parents confirmed that they greatly appreciated the proximity, high quality, and reasonable costs of the on-site care. Parents of infants emphasized that they would have had great difficulty finding satisfactory child care arrangements in the absence of the company center. Parents and day care staff asserted that the proximity of the care to parents' workplaces was valuable for both children and parents, and in some ways, for day care staff. Staff at several centers said they were able to get to know parents as peers and therefore to understand the children better than in the typical day care center.

Two managers indicated that they were currently brainstorming about benefits that might be offered to nonparents. They emphasized, however, that nonparents had not complained. Overall, it seemed that the good feeling generated by the child care centers, combined with the fact that parents paid much if not most of the child care costs, minimized equity problems.
Employee Retention and Recruitment Also Improved

The labor-related benefit that employers were most confident about was improved retention. Several managers of smaller companies said that, since the establishment of the centers, almost all employees who had given birth (in one case, five employees, and in another, about 10 employees) had returned to work. In other companies with serious concerns about retention, managers and day care staff reported that numerous parents clearly had their children "settled" in the day care center, which then served as a powerful disincentive for parents to leave the company before their children reached school age. Interviews with parent employees provided evidence that at least a few parents had indeed been influenced by the presence of the center in their decision to return to their jobs after maternity leave. Whether parents then intended to stay in their jobs longer because of the center was less clear; other considerations about the job weighed at least as heavily as the day care program. Parents tended to see the day care center as one among a number of factors that made the company an attractive place to work.

The nursing home was able to reduce turnover sufficiently to eliminate all use of temporary employment agencies or "pool help" since the establishment of the center. Although it was not possible to obtain data on this home’s previous costs for temporary workers, some homes spend as much as $12,000 per month above their regular salary expenditures for these temporary workers.

Companies had little systematic evidence of the child care centers’ effects on recruitment, although many indicated that they had a general sense that the "quality" of their applicants, especially for entry-level jobs, had improved. Many managers recalled one or two instances in which the child care center had made a difference in recruiting a skilled employee. One company, which had not had any particular concerns about recruitment to begin with, had received a great deal of local publicity about its child care center and reported that it was now often "swamped" with overqualified applicants when it advertised an opening.
Effects on Absenteeism and Productivity Less Clear

Most managers were unclear about effects on workplace productivity but guessed that there was a slight positive effect. One company noted that absenteeism and lateness were noticeably reduced and parents' concentration at work improved since establishment of the center. Several companies emphasized, and parents confirmed, that they were less concerned about absenteeism than about retention and were therefore as flexible as possible about permitting parents to visit the center, and permitting day care staff to bring children to visit parents on the job. On the other hand, several companies had fee arrangements which they expected had a positive effect on employee attendance. In one company, for example, parents were required to sign a contract committing them to pay for care for the year unless they gave two weeks' notice; in another company, parents had to pay higher fees for use of the center on sick days and vacation days.

Public Image Benefits

At least four companies received positive local publicity as a result of their child care centers. Although only one company remarked that this publicity was of specific value to the business, most managers commented that the center "improved the company position in the community" or improved the company "image" and hence at least indirectly affected employee recruitment, morale, productivity, and marketing.

Disadvantages of On-Site Centers: Financing and Management are Challenges

By far the most common complaint about the child care centers was that their costs were high, even higher than expected. However, since all the companies had planned and expected a substantial outlay of funds for the centers, the additional unexpected costs were not usually significant enough to change managers' assessment of the centers as worthwhile. The one company that sought outside help with financing of its center criticized government and banking institutions for not making assistance for employer child care more widely available -- especially
given the "rhetoric" about child care as a public policy goal. The managers of this company argued that low interest loans could and should make the cost of on-site child care roughly similar to the cost of other benefits most employers provide. In the absence of such assistance, they argued, it is unreasonable to expect that employers other than the "philanthropic" ones will make the effort to provide child care.

Several employers also complained of child care management and staffing problems. Some employers were forced to balance concerns about costs with concerns about quality and good management. While some employers advised that companies should "absolutely not skimp on quality" of child care directors, others reported they were unable to find good directors and staff, or could not afford to pay enough to get "the best." In addition, employers differed about how much they wanted their child care centers to be an integral part of company business. Some seemed more than willing to take on the extra headaches of additional management responsibilities in exchange for the "family-like" feeling the centers generated.

The smaller companies were those that were most likely to especially value the "family-like" atmosphere promoted by the center and also to report certain internal tensions associated with this atmosphere. Parents in these companies were more likely to report that they both loved having the care nearby and also sometimes found it "distracting" or found themselves more likely to "interfere" in the center's operation than they would if it were more distant from their workplaces. One company manager commented that employees feel so free to discuss their suggestions and complaints about the center "it's like having your own PTA." One day care director commented that her staff sometimes felt "on display." She went on to recommend that on-site centers be "across the street" or "not right under the employees' windows" as a way of providing some distance for both parents and day care staff.
The advantages of on-site centers outweighed their disadvantages, from management's point of view, because of the high priority assigned by management to employee retention, and therefore to employee satisfaction. In all six cases, the centers clearly met a need for many employees that could not have been met in any other way.

**INFORMATION AND REFERRAL PROGRAMS**

**Characteristics of Firms with Information and Referral Programs**

Although many child care experts in our initial interviews had identified "information and referral" as a promising strategy for small businesses, this study found very few companies offering this benefit. Only three case study firms actually provided a formal program of child care information and referral to employees, though it is possible that other firms were engaged in less formal information-sharing activities.

Company size ranged from 60 employees to 180 (125 on-site); two of the firms were business consulting services and the third a bank. All three had high percentages of female employees, though average age and the number of parents varied. Recruitment and retention of good employees were not identified as problems (one company had relatively short average tenure in some positions but expected this to be the case -- it is "highly recruited from"). In all three cases, management style was described as "understanding" or "progressive," and the connection between offering good benefits and maintaining a high quality workforce was explicit.

**Motivations for Choosing Information and Referral Programs**

All three companies had looked at other kinds of child care options, and in some cases were offering more than one child-care-related benefit. In the case of the largest organization, an employee task force had identified a need for child care assistance for some employees. The task force had recommended a combination of DCAP with information and referral because such a program could be quickly and easily implemented and because it could be tailored to employees with very different needs, something that an on-site center could not do.
In the other two cases, the need for sick child care had posed a serious problem for some employees. Both of these companies considered and rejected employer programs aimed at the sick child care problem, but in the process of investigation had come into contact with a local child care agency that was developing a project in which employers could participate. This project included three major components: employee needs assessment, information and referral services to employees, and development of a provider network.

Implementation of Information and Referral Programs

Start-up
By its nature, this option requires the services of either an in-house resource person or an outside consultant (or agency) with whom the employer may contract for services to employees. In all three case study firms, a local child care resource and referral agency had been identified as a source of services, through networking or other investigative efforts. All three case study firms engaging in the information and referral option were located in metropolitan areas of California which has an extensive network of resource and referral-type agencies.

In two cases, the community agency performed an employee needs assessment, surveying employees as to their dependent care needs and providing management with an analysis and recommendations on the advisability of different types of employer-supported programs. All three programs included employee seminars, written materials, and referral services to those seeking child care.

Administrative Issues and Employee Participation
The primary problem encountered by case study firms using information and referral was lack of employee utilization, at least of the referral service if not other aspects of the program. In the largest firm, with a parent-employee population of 19, the referral service was used a total of 16 times during the preceding year. (This figure repre-
sents contacts and not individual employees.) One of the smaller firms experienced no usage of the referral service at all.

Since the only information on usage that was available to company managers was a summary report from the referral service as to numbers of contacts, it was difficult for these firms to know why utilization was low. They hypothesized, however, that those employees who failed to use the referral service were simply satisfied with their existing day care arrangements, or that informal information-sharing between employees was meeting the need for referral services. Since the original motivation of two of the firms had to do with the problem of sick child care, it may also have been true that the referral service offered was not directly relevant to the original need, and that other components of the service, such as the employee seminars, might have had a stronger if less measurable impact.

In the case of the two firms who had paid only a small initial contribution for the service, lack of usage was not a major concern. For the largest firm, however, a rather expensive ongoing contract meant that the per-contact cost was very high, and having experienced this low level of utilization, they were concerned about keeping costs down when they prepared to renegotiate their information and referral contract. All of the firms were pleased with the quality of services received.

Costs and Benefits of Information and Referral Programs

Because of their proximity to a new, federally-funded community program, two of these firms obtained information and referral services quite inexpensively. The community project asked for company contributions (waivable in hardship cases) of $250 for an employee needs assessment, $250 for a resource manual, and $250 for workshop presentations. One of these firms contributed $1000 in exchange both for services and for the opportunity to be named in the project’s promotional materials. The third (and largest) firm contracted with a child care resource and referral agency at the rate of $4000/year for unlimited referral services. Averaged over the total number of employees, this came to a monthly cost of $2.50-$3.00 per employee;
given the low rate of utilization, however, the cost could also be calculated as $250 per referral contact.

All three firms believed the service was an enhancement to company image, and contributed to a generally excellent relationship between the company and its employees. None had attempted to measure the benefits accruing to the company, but one commented, "when you're billing someone's time at $180 or $200 an hour, you don't want them on the phone trying to find child care." With respect to the low utilization figures, she added, "those who do use the service really need it, and there are some benefits that can't be judged just in terms of quantity." All firms had also received favorable publicity as a result of their child care programs, but none had attempted to estimate the monetary value of this exposure.

FLEXIBLE WORK POLICIES

In small businesses, the flexible work approach is often not formalized into "company policy" but rather represents a manager's efforts to deal flexibly with individual employee needs. Indeed, most of the case study firms contained at least one story of an exceptional work arrangement related to child care, and most permitted the use of employee sick leave for parents to care for ill children. However, the focus of this discussion will be those firms that regularly or frequently altered work arrangements in response to employees' family needs.

Types of flexible arrangements varied. A number of firms had agreed to shift an employee's schedule in order to accommodate child care arrangements; some firms converted full-time positions into part-time positions for workers who wished to spend more time at home caring for their children; other companies permitted employees to work out of their homes, allowing them to care for infants and continue to work. Two case study firms were willing to have new mothers bring infants (up to six or seven months of age) to work with them. In addition, informa-
tion was also gathered from a firm that permitted parents to bring infants and -- on occasion -- mildly ill children to work.

**Characteristics of Firms with Flexible Work Arrangements**

Firms using flexible work arrangements were neither the smallest nor the largest firms in our study sample; size in this subgroup ranged from 20 employees to roughly 70. In almost all a majority of the employees were female, and in several companies women were employed in management positions. A variety of business sectors were represented, though the majority of firms in this group were in services, including business consulting, health care, and insurance sales.

**Motivations for Establishment of Flexible Work Arrangements**

Generally, companies were prompted to relax (unwritten) rules when a valued or highly placed employee presented a need, as when a Vice President about to have a baby presented a plan for bringing the infant to work, or when a long-term office assistant indicated that she would have to quit her job if her work schedule could not be altered to fit her child’s day care arrangements. These are firms in which managers are human resource-oriented, placing a considerable value on human capital and reluctant to lose productive employees to a child care problem. Some firms were described by both management and employees as having a "family-oriented" environment; one manager of a firm with both an on-site center and an infants-at-work policy commented that "people don’t view the place of work as outside their lives."

**Implementation of Flexible Work Arrangements**

The only reference to the use of professional expertise by any of the case study firms in this category was mention by one employer that he occasionally consults his attorney on liability connected with "unequal" treatment of employees. These firms did not otherwise rely on outside expertise or advice in designing and implementing flexible work arrangements. Managers in these organizations seemed confident of their ability to craft work policies that would be responsive to employee needs and supportive of continued productivity and performance.
Administrative Issues and Employee Participation

One factor that influenced the practicality of this approach was the atmosphere or culture of a firm. Supportive attitudes on the part of both management and employees are crucial. More than one manager commented that "it works because people support each other in their work -- you never hear anyone say, 'That's not my job.'" A CEO who allows parents to bring infants to work said that the policy works "beautifully" because she expects it to; "if you perceive it as a problem, it will be." Another manager indicated his belief that "there are very few positions in small businesses that can't be restructured to deal with the needs of the employee."

A second factor is the nature of the work. One employer who has rearranged work schedules for two employees because of child care issues explained that "there's nothing we do that can't wait another hour to get done." Those jobs that can be done at home, or at odd hours are easiest to reschedule; jobs that are not easily done outside office hours may require a more creative response. One manager commented that it would be harder for a receptionist to work flexible hours than for a back-office person "because we need to have the phone answered between 8 am and 5 p.m., and there would be no way for her to do her job after hours." After reflecting for a moment, however, he said that it would be possible to arrange for another employee to take calls if the receptionist had to be absent; if necessary, she could make up her time doing some other kind of work.

Space is a factor as well, for those companies that have "infants-at-work" policies. Although one company said that an employee could keep a crib alongside her desk, and take the child into one of the firm's staff or conference rooms if it needed attention, two others indicated that having appropriate space (if not a private office then at least a space away from public traffic flow) was important. Such factors may emerge as de facto restrictions; one firm has a written policy that simply states that a) the employee must present a proposal as to how she plans to care for the infant and get work done, b) the
The immediate supervisor and the management team must approve the proposal, c) the situation once approved will be reviewed weekly by personnel, and d) the employer retains the right to terminate the agreement if there are problems -- there is no mention of space. But someone such as a receptionist might not be able to take advantage of the policy, because it would be both difficult for her to get the job done, and her location in the office would not afford sufficient privacy and protection for the infant or for other staff members if the infant began to make noise.

Finally, it may also be important for managers to have a clear sense of what the company's productivity level is or should be; for example, said one company Vice President, "if you know you're now making 400 sewer pipes a day, you can be a little flexible and watch to see that it doesn't drop to 350 -- but don't be surprised if it goes to 450." A manager with no idea of appropriate levels of productivity will have no way of monitoring the effects of a new policy. "You also need to look at jobs a little differently," commented the same manager, and be open to alternative ways of accomplishing the same task.

Costs and Benefits of Flexible Work Arrangements

Generally, the costs of flexible work arrangements are low, and can be minimized by thoughtful planning. For example, in a company that allows its data processing system operator to work slightly different hours, that individual may not be present when someone else needs her assistance; this is not an insurmountable difficulty, however, if people can wait an hour or if others can be trained to help out.

Another issue is the possibility that other employees will complain of "unfair" treatment if policies or work arrangements are flexible rather than identical for all employees. This appeared to be more of a theoretical problem than an actual one, at least as reported by managers. For example, one Director of Human Resources commented that her firm had never had to turn down an employee wanting to bring an infant to work because of the "self-selection" process: those who couldn't make it work knew that it was not appropriate and didn't ask. If employees were in fact resentful, it was not widely known or
acknowledged. Most of those interviewed believed that, in general, employees were supportive of each other when they understood that a company policy of flexibility would eventually benefit them in some specific way, even if a particular policy could not be available to them. When resistance to very unusual policies (such as infants-at-work) did appear, it was neither strong nor long-lived.

Liability is an issue of concern to many employers, and was mentioned by at least one employer in connection with the presence of infants at work. Her form of risk management was to limit her permissive policy to children under the age of 6 months; after this time, children become mobile and the company’s exposure is much greater.

One other potential monetary cost that was expressed as a concern by one company was the issue of health insurance benefits for part-time employees. Many companies do offer benefits to all employees who work over a specified number of hours per week (20 or 30), but these are often pro-rated so that costs are no higher than they are for full-time workers. One company also found that part-time workers were more productive; if this is often true, increased productivity might be a way of offsetting somewhat higher benefits costs.

Overall, the greatest benefit to firms using flexible work arrangements was the continued presence of productive employees on the job. Employees gave both practical and psychological reasons for staying with employers who had demonstrated flexibility and understanding. "Sympathetic supervisors are what’s kept me here, because I’ve worked with other agencies where they could care less if your child has a fever," said a seven-year employee. New mothers found that they were able to continue working, or to return to work sooner, as a result of a policy that permitted them to bring infants to the job. A CEO who allows employees to bring children to work in emergency situations (as when a mild illness keeps the child out of day care) explained, "If an employee has to stay home because of a child care problem, you’ve lost that employee for the day; if you respond to their needs, they’ll put out 125% for you."
III. COLLABORATIVE APPROACHES BY SMALL BUSINESSES

A major problem confronting small businesses interested in child care benefits is the inability of these firms to realize economies of scale. Collaborative efforts that pool employers' resources and effective demand, therefore, would seem to represent a promising solution to child care needs of small businesses. Collaborative efforts, however, require agreement and coordination among a diversity of actors and a strong commitment on the part of these actors to a common goal. In fact, our research uncovered no examples of small business child care consortia -- joint small business ownership or ongoing support of child care centers. We did, however, find a few examples of programs that were open to the participation of more than one firm, including:

- developer subsidies for child care centers in office parks leased primarily to small businesses, with enrollment priority given to tenants' employees, and with tenant businesses occasionally playing a small role in supporting the centers;

- an abortive effort by one small business in a small town to involve other local businesses in financing of a child care center. The originator was able to interest one nearby small business, but the agreement later fell apart and the initiating business sponsored the center on its own; and

- efforts by community nonprofit agencies to establish and run child care programs with support from local businesses.

With the exception of the second item, all of these arrangements involved initiation and major sponsorship by an actor other than a small business. Financial contributions or ongoing commitments from small
businesses were minimal. Analysis of the arrangements, which are profiled below, suggests the following barriers to and opportunities for more active small business participation in child care consortia:

(1) Small business child care consortia are likely to work best where large numbers of small businesses are near each other and space can be identified that is convenient to all.

(2) Even if the above circumstances exist, substantial seed money and organizational effort need to be provided by a single initiator, usually a developer, a public or nonprofit agency, or a large employer.

(3) Partnership arrangements raise the problem of goal conflicts and cumbersome decision-making structures. Consortia may be more successful when a sponsoring agency defines specific incentives and contributions for small business participants.

(4) Child care agencies and consortium sponsors need to develop marketing strategies specifically geared to small businesses (these are examined in Chapter IV).

OFFICE PARKS AND BUSINESS DISTRICT CONSORTIA

Initiatives by Developers

Office parks and central business district projects with large numbers of small business tenants would seem to be an ideal situation for a small business child care consortium. Several office parks in the Boston area are occupied primarily by very small businesses, especially high technology businesses, which employ large proportions of professional workers with dual career families. But it is the developers, rather than the businesses themselves, who have begun to support child care services for the employees in the parks. Because of overbuilding in the Boston area, many office park developers have been concerned about tenant attraction. On-site child care centers, along with fitness centers, special helicopter services, and office park
cafes, are among the amenities developers have used to increase the appeal of their parks. Although there has been no systematic study of whether or not a child care center has a significant impact on vacancy rates, the Prospect Hill office park with its large, high quality child care center does have an unusually low vacancy rate, and other developers report instances in which tenants showed a special interest in the child care program as a reason for moving to the park. However, because of their concerns about tenant attraction, developers make only the most "discreet" efforts to encourage businesses to make contributions to the centers or to their employees' child care expenses.

In three other Massachusetts developments, including the New England Executive Park in Burlington, developers spent $250,000 on the startup costs of centers in their office parks. The developers contract with child care consultants or agencies to operate the centers. Center fees cover all operating costs when the centers are fully enrolled, with the developer covering the child care agency for any operating losses. Several additional office park developers have financed child care centers in cooperation with a small child care development company called Bright Horizons (described in Chapter IV). In this arrangement, the developer bears the full cost of rent and capital improvements, while Bright Horizons covers other startup costs. Fees are then designed so that they will cover all operating costs, exclusive of rent, when the center is at full enrollment.

In the case of Prospect Hill, a large office park in a suburb of Boston, the park owner established a nonprofit child care consortium. All the park's tenants -- primarily high technology businesses with under 100 employees -- and some nearby businesses are participating in the consortium. The developer/owner financed the startup costs of a child care center and related services for parents and managers, including information and referral, seminars, and a resource library.

Membership in the consortium involves payment of a yearly fee of $100 per business, in exchange for which a firm's employees receive priority for enrollment at the child care center (which has a long
waiting list) and reduced fees for information and referral services. For tenants of the office park, the park management company pays membership fees. Businesses may pay additional yearly fees of between $200 and $1000 (depending on business size) to give their employees higher priority for admission to the center. The consortium staff told us that several businesses do pay these fees and also that a few businesses assist their employees with referral fees. Employees pay full fees for use of the center, which charges fees that are slightly above the area median (more than $600 per month for infants), and therefore too expensive for most entry level workers or single parents.

Many of the small, high technology businesses do appear to have recruitment and retention concerns, especially with respect to professional women workers. Two small businesses with such concerns actually first proposed the idea of on-site child care to the developer who later established the consortium.

Nevertheless, park owners are reluctant to aggressively market the idea of ongoing tenant support for the centers as a form of employee benefit. In some parks, high turnover among tenants aggravates the difficulties of such a marketing effort. Park owners and consortium staff who have made this effort report that they have met with little interest from small employers. Most employers in the parks view the child care centers as a "nice amenity" but not something they are able or willing to support with their own funds. Some employers have multiple sites and say they do not want to make a benefit available to employees at one site while not at the others. On the other hand, some businesses are so small (i.e. under 10 employees) that they offer little in the way of benefits other than major medical insurance. Lastly, some older CEOS are simply not sympathetic to the idea of child care benefits for their employees, perhaps because they have had no personal need for experience with it.

Staff of the consortium argued that a consortium of small companies cannot work without another key financing source such as a developer. However, even with a developer as financing source, it seems that few
small businesses are active participants in the consortium. But small businesses clearly can and have promoted the development of child care centers in office parks by communicating their interest in such centers to the developers. Moreover, in at least some parks, businesses do implicitly bear the costs of the centers through rent, according to one expert. Small businesses could play a more active role by communicating to developers their willingness to pay a marginally higher rent -- on the order of $.05 to $.25 more per square foot -- in order to support the centers. Since annual rents in the area range from $11 to $20 per square foot, such an increase would not be significant for a small business. But in large office parks with 100,000 square feet or more, small rent increases could go a long way towards supporting the capital costs of a child care center. Unless monthly fees can be reduced, however, additional subsidies from employers or public agencies would be needed to make the child care centers affordable for entry level workers and single parents.

Parallel examples in California include the Hacienda Business Park in Pleasanton, and the One Pacific Plaza project in Fremont. Hacienda is an 860 acre business park in the San Francisco area which has voluntarily incorporated a $2.5 million child care plan -- including a facility serving 200 infants and preschoolers -- for which the developers have donated land and construction costs. The child care center is a major marketing feature of the park, intended to attract quality tenants (primarily large firms). The center is full though the park is only 20 percent built, and the developer is considering adding another center. One Pacific Plaza is a large (325,000 square feet) office and commercial development in downtown Fremont. After extensive negotiations with the City, the developers agreed to construct a child care center on a nearby site which is being developed by the same company. The Fremont example is notable for the City's use of the land use planning process to require a child care facility as a developer's mitigation of the impact of employment growth.
The Junior League Downtown Child Care Consortium

Seven years ago, the Junior League of San Diego, California identified child care as a problem in need of community action. In keeping with its traditional strategy of helping to initiate projects which are then independently sustained, the League began to organize employer consortiums -- one in each of four targeted areas -- that could establish child care centers capable of serving local residents and employees. In each case, participating employers contributed time, money and expertise to the planning and development of a center and the League members served as a volunteer staff to the projects. Most employers were very large firms, but in the downtown consortium one participant was a printing firm of roughly 75 employees.

The Assistant to the President of the printing firm, having heard of the effort to involve downtown employers in a child care consortium, approached the President and received his approval to participate. The firm contributed to the consortium through advisory board membership and donated printing services (free printing originally, then service at cost after the center was on its feet). The company did informally survey its employees as to their interest in a downtown center (some indicated that they might use it) but this was not the primary motive for participating in the consortium. "We really thought of it as something we were giving to the City," explained the President's Assistant.

The downtown consortium received corporate donations of in-kind services and cash contributions, as much as $5000 from an individual employer. They located a site in a church willing to rent ground floor space, and found that the local YMCA was interested in operating the center. Start-up expenses, including physical site modifications and a reserve fund of three months' operating costs, came to $60,000; the YMCA continued to subsidize the center after the initial period.

1The Junior League has produced a videotape that summarizes the consortium child care process, and offers suggestions to those interested in duplicating the project elsewhere. The tape may be purchased for $15 from the Junior League at 210 Maple St., San Diego, CA 92103.
Because of the involvement of the YMCA, the center was not reserved exclusively for the employees of consortium firms. These firms were given an initial priority for the space, but the center has not been used predominantly by employees of the consortium firms. The original downtown survey indicated that 250 families were interested in using a downtown center, but when the center opened only six children were enrolled. After a year and a half in operation, only about ten of the center's 40 children are from the consortium firms. The center director suggests two reasons for the unanticipated enrollment pattern: first, that the center costs more than some other programs because of its relatively small size (dictated by the space), and second, that employees working downtown already had arrangements that they decided they didn't want to change.

An Attempted Small Business Consortium

A hotel/restaurant employing 80 people and located in a small town in western Massachusetts planned to establish a child care center for its employees, and hoped to interest other local businesses in joint ownership of the center. The following account of this effort is based on interviews with the hotel management.

The hotel took advantage of an opportunity to purchase a house across the street from the hotel, although the house, at 3000 square feet, offered more space than needed to serve the hotel employees alone. Hotel management then issued a press release soliciting participation in the child care center by other local businesses. A neighboring medical association with 70 employees expressed interest in the child care center, and the two companies agreed on a fifty-fifty partnership.

The companies disagreed, however, about whether to incorporate the child care center as a nonprofit or for-profit organization. The hotel owner and manager preferred nonprofit status because: (1) they did not view the center as an investment; (2) they wanted the ability to attract tax-deductible contributions; and (3) nonprofits can more easily obtain reasonably priced liability insurance (because of State of Massachusetts legislative limits on liability claims that can be brought
against a nonprofit). The medical association argued for for-profit status on the grounds that, were the center to close down, for-profit status would leave the companies free to reinvest the property.

In order to maintain the partnership, the hotel manager agreed to the for-profit approach. The two companies jointly applied for a low-interest loan from the Massachusetts Industrial Financing Agency. When the application was rejected, the medical association began to lose interest.

In addition to financing difficulties, two other factors contributed to the medical association's decision to back out of the partnership. The administrator who had originally agreed to the partnership had resigned. Neither his replacement nor anyone else within the medical association had a commitment to the child care center, according to the hotel manager. In addition, the medical association was under pressure from its employees over the issue of child care fees. While the hotel planned to subsidize its employees on a sliding scale, the medical association planned to charge its employees full fees. A local newspaper ran a headline describing the child care center as "not so affordable" and quoted medical association employees grumbling about the costs of the center.

The partnership disintegrated, and the hotel on its own established the child care center as a nonprofit. The center opened with six children of hotel employees, and the remaining slots were opened to the community. The hotel management continued to seek participation by other local businesses, suggesting a $6000 tax-deductible contribution in exchange for a guaranteed number of slots. At the time of our interview, no businesses had expressed an interest.

It seems that the failure of the consortium was due less to the inability of the firms to cooperate than to the lack of commitment by the second company to the child care center as an employee benefit. The medical association's approach to the center as an investment apparently backfired by arousing employee criticism. Employee dissatisfaction was
exacerbated by the fact that the other participating company was offering its employees fee reductions.

OTHER EFFORTS BY COMMUNITY CHILD CARE GROUPS

Many local child care resource agencies have become facilitators of employer-supported programs, in some cases including small businesses. The following two sections describe the overall missions of two local agencies that have specific activities geared to small firms.

CARE Boosters in San Diego County

The CARE Boosters program is a three-year demonstration project, funded (at $100,000 per year) by the Administration for Children, Youth and Families, U.S. Department of Health and Human Services. Its purpose is to "develop employer sponsored dependent daycare networks which will provide small group care for children, elderly and the developmentally disabled in home settings." The program is operated by the nonprofit Boys' and Girls' Club of Escondido, in northern San Diego County, California.

The three main activities of the program are contracting with employers to evaluate their employees' dependent care needs, following up with information and referral services; contracting with a network of care providers to evaluate, support and refer for services; and collecting data on employee dependent care. The program charges employers for each of its services: $250 for a needs assessment, $250 for the project's resource manual, and $250 for seminars conducted in the workplace, but fees are waived in hardship cases. Several of the ten employers that have been served to date are small (fewer than 100 employees), including two that were described in the previous chapter.

CARE Boosters' provider-recruitment effort has produced a network of 22 family day care providers, 20 day care centers, and nine elder care resource programs. The project maintains an independent relationship with providers, performing such quality review and program support activities as license checks, in-home introductory visits,
walk-through examinations, and monthly visits to deliver curricular materials.

When federal funding ends in September 1988, the project could continue with the backing of a business consortium. Speaking in hypothetical terms, one of the project specialists estimated that an existing consortium resource and referral program could be maintained for $50,000 per year; but she added that child care programs themselves need to be subsidized to be of high quality.

**Concord Child Care Alliance**

The Child Care Alliance of Concord, California is a nonprofit agency established in 1985 with funding from the City of Concord. While the Alliance receives some ongoing funding from the City, one of its mandates is to generate additional support from local employers and to "market the concept of employer supported child care." Since most businesses in Concord have under 100 employees, much of the Alliance's work involves outreach to very small employers with the assistance of the local Chamber of Commerce. The Alliance conducts ongoing fundraising in the business community, publishes a newsletter and sponsors an annual conference on child care for local employers, and has conducted a survey of Concord employers' policies on child care needs of their employees (see Child Care Alliance, 1986). The Alliance also sponsors the Partnership Project, a reimbursement plan in which two of the case study firms described in the previous chapter participated. Several representatives of small businesses in Concord serve on the Board of the Alliance.
IV. INFORMATION AND TECHNICAL ASSISTANCE

GETTING OUT THE MESSAGE IS CRUCIAL AT THIS STAGE

Ready access to information and technical support are absolutely essential if child care is to reach a broader base of small employers. At present, child care is widely thought of as a luxury benefit suitable only for large, well-financed corporations. Relatively few small business owners and managers are even aware that employers' child care options are not limited to on-site centers, and that some alternatives involve very low ongoing costs. For those with a serious interest in child care, designing and implementing a child care program can be a complex undertaking. There are no "off the shelf" service packages specifically designed for small firms, and few employers are in a position to invest the staff resources needed to develop a program from the ground up.

CHILD CARE CONSULTING: A GROWING FIELD

This chapter examines "the state of the art" in the growing private child care industry, as well as the activities of Chambers of Commerce and other business associations, publicly funded business assistance programs such as the Small Business Development Centers (SBDCs), and state-level initiatives. In the private sector we found a very young, but growing and innovative industry that has sprung up -- largely in the past five years -- to provide technical support for employer-related child care. These resource people operate out of a wide variety of work settings, from private consulting practices, law firms and insurance brokerages, to the larger day care provider chains and smaller independent providers. Some of these experts offer needs assessments, cost feasibility analyses, program design and other technical help as services in their own right, while others provide them as auxiliary services in the context of marketing their own centers or employee benefits packages. But they have two traits in common: first, they are becoming increasingly sophisticated about the business aspects of
employer supported child care. Secondly -- and unfortunately -- they have made few inroads into the small business market.

On the public and nonprofit side, we found a universal interest in child care issues on the part of business associations and assistance providers, and a need for more information to better carry out their information and referral functions. Yet active involvement beyond information and referral services was uncommon (especially activities targeted to small businesses), though we did uncover some examples of effective initiatives by local Chambers of Commerce, and some efforts to provide business start-up training for aspiring day care operators.

PRIVATE FOR-PROFIT CONSULTANTS AND CHILD CARE MANAGEMENT COMPANIES

With employers showing a new interest in family issues, child care professionals have begun to market their services and expertise directly to employers. At the same time, business service firms already providing employers with assistance on traditional benefits plans have begun to add child care benefits to their areas of expertise. In Massachusetts and California, the result has been a proliferation of child care benefits planners and management consultants who specialize in work-family integration, and experts on workplace child care. Though we did not find experts who specialize in serving small employers, we did find several who do work occasionally with smaller firms and were able to offer insights into why more assistance is not targeted to the small employer. Most of these service firms are themselves examples of small, growing businesses.

The Voucher Corporation

The Voucher Corporation is a two year old U.S. subsidiary of Accord, a multinational hotel and food service corporation based in France. Accord modeled its child care voucher plan after the meal voucher plan it markets as a corporate employee benefit in Europe. The Voucher Corporation, which currently deals only with child care vouchers, is based in Scarsdale, New York, and has branches in Minneapolis, Milwaukee, and Boston. The Corporation has a workforce of
about 15, and has accounts with 40 employers. Though two of these companies are small businesses, most of their corporate customers have over 1,000 employees.

The Voucher Corporation sets up dependent care assistance plans for employers, ensuring compliance with all IRS codes. In addition, the Corporation manages the set-aside accounts from which employees' child care expenses are paid, and provides vouchers as the means of payment. The vouchers are mailed monthly to the workplace, where they are distributed to employees; employees provide the vouchers in lieu of payment to their child care providers, who then have them redeemed by the Voucher Corporation. The voucher system eliminates the need for out-of-pocket child care expenditures by employees, and for receipts to be submitted and processed by employers. The child care provider must sign a statement at the beginning of the year agreeing to accept vouchers as payment, and must pay a fee equivalent to 0.5% of the voucher amount (though the fee is sometimes paid by parents). The advantage from the providers' point of view is the guarantee of regular payments for the year.

The Voucher Corporation's assumption of administrative and accounting responsibilities and its moderate fees would seem to be attractive to small businesses. The Corporation charges a set-up fee based on total number of employees in the firm, from $200 for firms of fewer than 300 workers, to $950 for firms of 1,000 or more. The monthly service fee ranges from 3% to 7%, and is inversely related to the company's total monthly salary deductions for child care. Thus, companies with larger numbers of employees participating in the plan pay lower service fees per voucher dollar. Rates of employee participation in dependent care assistance plans tend to be low, especially during the first year or two of the plan's implementation. The Voucher Corporation reports that participation rates of two to six employees per hundred are typical. As a result, small companies are likely to pay the maximum service fee of 7%. Even so, this amount is slightly less than the savings in payroll taxes that employers realize through the dependent care assistance plan.
The Voucher Corporation has no marketing strategy targeted specifically to small businesses, although it does advertise its services through Chambers of Commerce and other business organizations that include small employers as members. Even with the higher service fees charged to low-volume customers, accounts with very large employers offer better returns to the Corporation, due to their greater stability and economies of scale in administering the account.

Benefits Consultants and Insurance Brokers

Clearly, not all small businesses need assistance with the administration of dependent care plans. Businesses with sophisticated legal or accounting expertise of their own, such as law firms and some of the technologically-oriented firms we examined, were capable of establishing and administering dependent care assistance plans without outside advice. However, most small businesses do seek consultants' assistance, if only for the initial design and startup of the plan. Flexible benefit plans are particularly complex, and it is unlikely that small business could establish one without the assistance of a consultant.

A number of benefits consultants and insurance brokers have begun marketing both flexible benefits plans and dependent care assistance plans to businesses of all sizes. Some businesses in our study were wary of insurance agents, who they feared were interested primarily in gaining access to individual employees in order to sell them life insurance plans. Nonetheless, this marketing activity plays a role in acquainting employers with the concept of dependent care plans and flexible benefits, which are still new ideas to most. The proliferation of consulting services should make it easier for small businesses to negotiate lower fees and eventually bring these benefits plans within reach of more employers.

Other Child Care Consultants: New Approaches Needed to Reach Small Firms

Most child care consultants who work with employers focus on on-site child care centers and on information and referral options.
Consultant services include needs assessments, consulting on appropriate child care strategies, financial feasibility analyses, and information on relevant building and tax codes. To date however, almost none of the demand for these services has come from small businesses. Several consultants indicated to us that they hope small businesses will represent a future area of growth for workplace child care consulting, but they have not as yet worked out suitable products and marketing strategies for small businesses.

The limited small business market for these services is due in part to the consultants' focus on information and referral options and on-site centers. Most consultants believed that on-site centers were not feasible for businesses with fewer than 100 employees. Several consultants even reported that businesses of between 80 and 100 employees had approached them with an interest in an on-site center, but that needs assessments and cost analyses soon revealed that a center would not be cost-effective. Even businesses with a very high proportion of young mothers, such as nursing homes, cannot operate a center cost-effectively if they have under 100 employees, according to one consultant. A home with 80 employees, for example, may have only two or three children in need of center care on certain shifts, while the center's high fixed costs would require an unacceptably large subsidy per employee.

Information and referral providers have also tended to target very large employers as clients. Their fees include both a per-employee consultation charge and charges for overhead. Overhead includes maintenance of a database on local child care providers, covering fees, ages served, special qualifications, and other program information of interest to parents. Several information and referral experts confided to us that they had not yet worked out a fee structure designed for the smaller employer. Their concern is that the necessary overhead charges would be considered prohibitive by small businesses. However, other information and referral consultants indicated that some small businesses have expressed an interest in referral contracts, so the consultants are beginning to work out appropriate fee structures.
In addition, private child care consultants and community advocates often work together to promote employer-supported child care, and small businesses have become a special target for some of these collective efforts. In both California and Massachusetts, organizations of advocates and consultants, such as the Employer-Supported Child Care Network and the Coalition for Employer-Supported Child Care, have recently sponsored conferences, sometimes with federal, state, or local government support, that give special attention to the small business perspective on child care and other family benefits.

The experience of a 1987 conference on work and family issues in San Francisco, sponsored by the U.S. Department of Labor, illustrates both the recent attention to smaller firms and the difficulty in reaching them. Organizers in the Bay Area spent several months identifying small firms, who were a special target of publicity and outreach efforts. The conference put on a well-structured program about child care and elder care featuring the managers of local small businesses. Yet when the keynote speaker polled the audience members about their place of work, the great majority were from very large corporations, public agencies, and child care organizations.

Child Care Provider Chains: Marketing to Employers

Though day care providers of all sizes tend to focus their marketing efforts on the individual parent or employee, several of the larger day care chains (e.g., KinderCare, Gerber's, and La Petite Academie) have also begun to develop service packages geared to employers. These packages range from discounts for services to a company's workers, to the construction and operation of on-site centers in cooperation with developers or individual companies. One example is the Gerber Children's Center chain, based in Michigan and currently operating some 115 centers in 11 states. Gerber has set up centers for a number of hospitals, under a variety of agreements that involve different levels of risk and investment for the provider and the corporate client. For example,
• Gerber may lease building space from the hospital, install a day care center, and operate it under contract to the hospital (which may or may not provide a subsidy);

• Gerber may lease land from the hospital at nominal cost, and build a center which serves hospital employees and (space permitting) the general community;

• alternatively, Gerber may provide building plans, have the hospital construct (and therefore own) the center, and then Gerber will staff and manage the completed center under contract; or

• Gerber may design and set up a center, then turn it over to the employer for ongoing operation.

La Petite Academie is a child care chain that consults with employers and developers and negotiates on-site centers in much the same way that the Gerber chain does. In addition, when new centers are being planned, the corporate office of La Petite Academie contacts employers in proximity to the proposed centers and offers them 10% discounts in exchange for a guarantee from the employers that a certain number of slots will be filled. In almost all cases, this marketing effort targets very large employers. Unless a center faces serious underenrollment, it is not cost-effective for the center to offer discounts to an employer who can fill only a few slots.

In such arrangements, the child care company takes on the role of entrepreneur as well as service provider; it uses both child care and business expertise to perform the necessary feasibility studies, design, and management tasks, and shares to a greater or lesser degree in the ongoing profit or loss of the operation. While the employer gives up a measure of control over the center, the employer is also spared development or management responsibilities, and may (depending on the contract) be insulated from the financial risks as well.
From a management standpoint, this kind of "turn-key" approach would undoubtedly be attractive to small employers. Yet its applicability to individual small firms is limited, again because of the minimum size needed to make a center financially viable. Similar arrangements are being developed for office and industrial parks (an example of which is described in the next section), and these hold more promise for small employers.

Even so, the entrepreneurial activities of the day care provider chains only benefit small businesses insofar as they increase the availability of child care near the workplace. At present the chains do not actively market their services to small firms, though some have said that they might consider doing so if a particular center were underutilized.

"Turn-Key" Packages for Developers: The Case of Bright Horizons

Bright Horizons is a for-profit corporation in the Boston area, founded in 1986 by four individuals with experience in management consulting. The marketing philosophy underlying Bright Horizons is that parents want higher quality child care than they can normally find at present, and that many prefer a child care location near the workplace. At present, Bright Horizons has 22 employees and operates child care centers in the Prudential Center in Boston and Kendall Square in Cambridge. Most of the tenants in these parks are small businesses. Two additional centers are underway.

Like some of the larger day care chains, the Bright Horizons strategy is to work with "partners," who may be developers, corporations, hospitals, or universities. Unlike the large chains, however, Bright Horizons does not market directly to employees. To date the focus has been on developers: Bright Horizons has approached scores of developers, seeking to demonstrate that on-site care can be useful for tenant attraction and for community relations. The partnership framework they propose works as follows:
• The developer or other partner must provide about 6,000 square feet of space, allowing for a center of about 70 children.

• The developer or property owner provides space rent-free and pays for all capital improvements, including any immovable structures and any remodeling, plumbing, or rewiring needed to make the space licensable as a child care center. This may cost between $10 and $40 per square foot, depending on the condition of the property.

• Bright Horizons covers all other startup costs, including "movable" equipment and materials and initial operating losses. The cost to Bright Horizons is roughly $100,000 per center.

• Bright Horizons takes full responsibility for management and operation of the center. All center staff are employee of Bright Horizons, and have training in early child development. All centers include infant/toddler programs, and the company reports a special interest in offering high quality care for this age group.

• At full enrollment, parent fees and the developer’s in-kind subsidy cover all costs. The subsidy enables Bright Horizons to charge slightly lower than average market fees, while paying slightly higher than average teachers’ salaries. Children receive high quality care at lower cost than available elsewhere.

Bright Horizons received financing from two established venture capital funds in Boston. Company staff report that investors were attracted by their business experience, their presentation of demographic evidence of a continued market for their services, and by the commitment from their first developer/partner. Both child care centers currently operated by the company have filled up more quickly.
than expected, and are almost at capacity. The company expects to continue to grow rapidly, with each center adding 15 new staff members to the organization.

The Bright Horizons case appears to offer an example of a successful mixture of child care expertise and expertise in business management. In a major city such as Boston, the scarcity and high cost of space licensable for child care are major constraints on the supply of affordable care. Assistance from developers and property owners can go a long way toward alleviating these constraints. However, most developers and corporations do not have expertise in operating child care programs themselves, and may be wary of relying on child care professionals who have little business experience. Bright Horizons is able to offer them a track record both in business and in early childhood education.

PUBLIC AND NONPROFIT BUSINESS ASSISTANCE GROUPS

Under this heading we include nonprofit business and trade associations and Chambers of Commerce, local economic development corporations, state and federally sponsored programs such as the Small Business Development Centers (SBDCs), SCORE-ACE chapters and the like. Unlike the Information and Referral Centers and the variety of community efforts that have been formed specifically around child care issues, these tend to be older, established organizations with a more general mandate to serve business needs. As such, they generally have little specialized expertise in the child care field, and rightfully view child care as just one of many issues of concern to their clients and members. But by the same token, this broader base of services and the established networks of such groups gives them a potential for reaching a far wider audience in the local business community. Such public and nonprofit assistance groups can play four distinct roles in promoting small business involvement with child care:

- information, referral, and education -- sponsoring workshops and conferences, producing or distributing
publications on child care options, referring interested businesses to local agencies or private consultants for further help;

- hands-on technical help in designing or setting up child care benefits for specific firms;

- indirectly promoting child care by helping to increase the local supply, through programs targeted to child care start-up ventures; and

- providing input to local, state, or federal government policy-making initiatives on child care issues.

Chambers of Commerce: Untapped Potential at the Local Level

To the extent that Chambers become involved with child care issues, their activities are generally limited to information and referral, and to using the Chamber's influence to promote local government action or joint public-private partnership efforts. They may also monitor state and federal legislation, and take formal or informal stands on benefits policy issues such as mandatory parental leave or health insurance. Chambers of Commerce do not normally offer one-on-one technical assistance of any kind, though they are often hosts to local SCORE-ACE chapters which may deal with benefits issues in individual cases. Two examples of Chambers which are particularly active on the child care front are those in San Jose, California and St. Paul, Minnesota.

The San Jose organization began its active involvement with child care in mid-1986, in response to members' inquiries and expressed concerns. The city, the largest in California's "Silicon Valley," has a generally strong economy, and there is active competition for good workers. The downtown area is undergoing extensive redevelopment, and there is particular concern about future day care availability for downtown employees. The city government had also begun to look at day care options, and the Chamber wanted to provide its own perspective on the issues. Apart from handling day to day inquiries, the Chamber has:
• established a Dependent Care Task Force;
• surveyed its membership on their child care needs and preferences for public action strategies; and
• produced and distributed two child care information packets, targeted to employers and employees.

The employee packets are sold for $5, and include information on how to choose child care providers and on what to do about sick child care, lists of providers and referral agencies and other materials. The employer packet, sold for $10, outlines basic employer options (including flexible time arrangements), and lists further sources of help and information. They are currently compiling a list of local employer child care programs.

The survey of Chamber members uncovered: a strong consensus that child care is a problem and can affect productivity, a widespread need for more information on alternatives, and a clear preference for alternatives (such as flexible time arrangements and better referral resources for employees) with the lowest direct costs to the employer. Chamber staff see flexible time as a great small business resource which can be used more creatively by many firms. They have not come out in favor of public subsidy programs for low-income employees, because they believe that such efforts have the effect of subsidizing businesses that pay low wages, giving them an unfair advantage over competitors offering good wages and benefits.

An especially promising area for Chamber involvement is in the city's zoning and permitting process and the effects of this process on the supply of day care. Particularly in the residential areas, city requirements for off-street parking places may force an aspiring provider to reduce its planned number of day care slots to a point where the venture is no longer viable. In another example, the city doomed the planned expansion of a proprietary child care center by requiring over $100,000 in road and sidewalk improvements. The Chamber of Commerce is in a good position to encourage a more flexible approach to certain city requirements, recognizing the social benefits of increased supply.
(especially in the Downtown), and the low operating margins of the child care industry.

Finally, the Chamber has begun talks with downtown developers to explore the possibilities for putting a day care center into one of the large office and commercial developments planned for the Downtown. Here too, close cooperation from the city will be an incentive for developers to participate. It should be noted that the Chamber has opposed the concept of a local ordinance that would require developers to provide space for a child care center or an in-lieu fee, as has been enacted in several nearby communities.

The St. Paul Chamber of Commerce has been tracking developments in the child care field for several years. In response to member concerns and a presentation by the Greater Minneapolis Day Care Association calling for closer Chamber involvement, the body solicited $57,000 in contributions from member businesses and other agencies. It then formed a two-year Task Force on Child Care, made up of representatives from both the Chamber and the child care community. Task Force activities include:

- a report on sick child care (sold for $10) that includes a survey of local businesses and summaries of employer surveys from other places, along with descriptions of options available to employers and parents;

- a report on school-age child care;

- workshops on sick child care and school-age child care;

- an emphasis on increasing the supply of family day care providers, by offering business training, startup loans, publications, and referrals to business resources. The Chamber views child care as a business, and -- at least in part -- as a business service industry. As most
Chamber members are far too small to run on-site centers, an adequate supply is crucial to such employer strategies as financial assistance or information and referral. To date, Task Force efforts are said to have resulted in a net increase of 200 child care slots.

Along these same lines, the Chamber has also come out in support of increased state child care assistance to low-income people (a stance quite different from that of the San Jose Chamber). The Task Force adopted this position after examining waiting lists of people eligible for government sponsored child care assistance; a substantial number were in fact employees of Chamber member firms.

Roles for Other Business Associations

The Davis Small Business Network is an association of about 100 firms in Davis, California, a city of nearly 50,000 people. Though it cooperates with the local Chamber in matters of mutual concern, DSBN is an independent association geared to the unique needs of the smallest businesses, including home-based enterprises and non-profits. Several of its members are child centers and family day care homes.

Like many Chambers of Commerce, DSBN functions as an information resource and a lobbying and advocacy group. Among its advocacy concerns are low-cost health insurance packages and child care arrangements for very small businesses. In the dependent care area, they have established a "Peoplecare Fund;" five percent of all membership fees and fifty percent of the ticket revenue from its annual Small Business Fair are contributed to the City of Davis' child care and elder care programs. These funds go toward assisting new day care start-ups and enriching the programs of existing providers in the city.

Regional and national business associations (such as the U.S. and state Chambers of Commerce, the National Association of Manufacturers, National Federation of Independent Businesses, regional Small Business Associations and the like) are generally not in a position to make specific referrals and organize local resources, as city or county
Chambers of Commerce can. However, many do track developments in the child care field, and closely monitor legislation dealing with employee benefits. Mandatory benefits initiatives (such as the Family and Medical Leave proposal) have engendered the opposition of many of these business groups, but have thereby also heightened interest in voluntary and cost-effective actions that small employers might take to reduce conflicts between work and family life. While they may not take a lead in sponsoring "White Paper" reports or developing specific alternatives, these associations have lent valuable support to state and national Task Forces. They can also increase awareness of child care needs and workable approaches in their newsletters and annual conferences, and can help to popularize effective techniques as they become available.

Small Business Development Centers, Local Economic Development Corporations, and Others

Programs of this sort -- which also include SBA branch offices, community development corporations, Minority Business Development Centers, Small Business Investment corporations, some Private Industry Councils and many local redevelopment efforts -- are of special interest from a policy perspective, because these are the "front line" organizations most responsible for conveying federal and state small business assistance to the individual business person. As part of the "expert interviews" conducted for the study, we talked to representatives of Massachusetts and California SBDCs, an SBA branch office, a PIC-funded business development center, an MBDC, two development corporations administering EDA or SBA loans, and the state Departments of Commerce in two of the case study states. Except for these last respondents, all were directly or indirectly receiving federal funds.

Child Care as a "Luxury Problem"

Results of these interviews confirmed that federally assisted providers are generally quite interested in small business child care issues, but are tangentially involved (if at all) in providing services related to employee benefits of any kind. The main reason for the lack of involvement is quite straightforward: the clientele for these
programs tends to be either start-ups or businesses in trouble. For example, the Massachusetts SBDC reports that nearly half its clients are start-ups, and a survey of some 400 assistance organizations in California (reported in Teitz et al., 1985) found that 44% of the respondents offered services geared to start-ups. Other large client groups are firms looking for expansion capital, and firms seeking technical advice for sales or management problems. Not surprisingly, the services most commonly provided are in the areas of startup assistance, financial management, and marketing. Even among established businesses, the average client is fairly small, with about 15 employees. In short, child care for these entrepreneurs is often seen as a "problem for the future," or a "luxury problem." A common view among providers is that businesses that are financially strong enough to afford child care benefits will be able to obtain technical advice from for-profit consultants. " -- And that's the way it ought to be," added one respondent.

**Assistance Providers Need Information on Child Care Options**

As a result, none of the groups interviewed offered one-to-one technical assistance in setting up child care or other benefits plans. On the other hand, there was strong interest in learning more about child care options to help new or expanding businesses plan for the future, and to carry out their information and referral roles more effectively. Over half the organizations contacted did receive inquiries about providing child care, or conducted pre-business workshops for aspiring day care providers (see below). These groups were able to refer clients to local child care information and referral centers or similar organizations, but were not at all knowledgeable about employer supported child care themselves. For example, only one respondent had any idea what a DCAP is.

However, they saw ample need for making clients aware of new developments in the employee benefits area -- particularly for established and expanding businesses -- and expressed a need for concise, readable published materials on employers' child care alternatives. Ideally, such materials should show demonstrable results
in terms of turnover, training costs or higher productivity, should emphasize zero cost or low-cost options, and should suggest where to go (in terms of the types of organizations, if not actual names) for further help. Apart from getting the word out to businesses, published materials would go a long way toward educating the assistance providers themselves. Said one of the more knowledgeable respondents, "Your typical loan packager/TA provider probably still thinks of employer supported day care in terms of on-site centers, which are obviously not feasible for most of our clients. They, like their clients, tend to assume nothing can be done."

There is also a need for better connections to the growing number of private benefits consultants and brokers. "If there are people out there who have developed DCAPs, voucher arrangements, cafeteria plans or other products that will actually work for [relatively small] clients like ours, we should know about it." Most publicly funded programs refrain from making recommendations to specific private consultants, but they can encourage local child care organizations to maintain lists of such providers, and refer clients as needed.

**Assistance for Day Care Start-Ups**

Child care providers are of course small businesses in their own right, and three of the organizations interviewed (the two SBDCs and the PIC-supported center) provide workshops, materials or counseling on the business aspects of day care. The workshops are generally offered in connection with classes in day care at community colleges or university extension schools, and cover the basics of marketing, recordkeeping, and licensing requirements. Participants are invited to contact the center for more intensive help with tax or accounting problems. The PIC-supported center has also developed a basic marketing handbook for new day care entrepreneurs, describing how to do a simple market analysis, appropriate forms of advertising, locational strategies (e.g., proximity to the workplace versus proximity to the home), and other topics.

At present, however, these courses all concentrate on marketing to the individual parent, not the employer. There are two basic reasons for
this. First, marketing services directly to employers is difficult, and generally requires an established track record and the ability to offer financial incentives -- a degree of business sophistication that few fledgling entrepreneurs have. More importantly, in the areas where these programs operate (metropolitan Boston and San Francisco), there is an overall shortage of child care; the main problem is not to find children enough to fill up a home-based day care center, but to make a living from the proceeds: "They're not hurting for customers; they're hurting to break even." Hence, there is no incentive to pursue employer-based markets unless higher fees can be charged to offset additional marketing costs, or unless the provider can secure a large "captive market" from the employer. The small firm is an unlikely customer by either criterion. Indeed, only the largest or most sophisticated child care operations are marketing directly to business, and even they do not usually target small firms. Needless to say, established child care chains do not go to SBDCs for marketing advice.

In fact, the poor financial prospects of child care have tended to discourage business assistance providers from making day care a priority area. Home-based care generates too little employment, and is seen to have a high failure rate due to "burnout" and low earnings. Non-home based start-ups and expansions do occasionally come to federally supported programs for assistance, but such cases are the exception. In addition, day care centers are often set up as non-profit enterprises; as such, they are not eligible for services from the SBDCs and most other small business assistance programs.

State Government Efforts to Finance or Encourage Employer-Supported Child Care

In all three of the states studied, we did find some degree of state government involvement in promoting employers' child care efforts. For the most part, these actions were initiated and carried out within the executive branch -- for example, the Corporate Child Care Program in Massachusetts and the Child Development Programs Advisory Council and Economic Development Commission in California -- and focus on conferences and other efforts at information dissemination. All three
of the study states have, with the assistance of child care consultants, published basic materials for employers on child care issues and have attempted to develop statewide lists of consultants, information and referral agencies, networking organizations, or employers currently offering child care benefits. These efforts are targeted to all companies, regardless of size.

Of the states studied, Massachusetts had the most extensive program, including a Corporate Child Care Program within the State Office of Economic Affairs and a low-interest loan program designed to provide startup financing for on-site child care centers. The activities of the Corporate Child Care Program include:

- working with business people to develop seminars on employer alternatives for personnel managers and similar company officials;
- gathering and distributing information on child care options, employer incentives and child care availability in the state;
- acting as a liaison for the business community for state regulatory agencies; and
- providing limited technical assistance in selecting and implementing child care programs in individual firms.

The subsidized loan program for corporate child care facilities is a pilot program run by the Massachusetts Industrial Financing Agency (MIFA). MIFA has established a $750,000 loan fund to support the construction of child centers at a limited number of company sites across the state. The fund is targeted to individual for-profit and non-profit companies, and to consortia of companies located in the same industrial park or community. Financing is for purchase, renovation or new construction of a child care facility, and for installed equipment. To be eligible, a business must demonstrate, among other things:
- sufficient demand for child care from employees of the sponsoring organization(s) and the management and financial feasibility of the project;

- adherence to all code and licensing requirements;

- a 10% equity contribution from the project's sponsors, or an equivalent commitment to support ongoing operating costs; and

- collateral in the form of a mortgage or lien on real property and equipment, liens on accounts receivable, or other security.

The maximum loan amount is $250,000, for a maximum period of five years. Funds are lent at below-market interest rates, subsidized by MIFA. The process involves an application fee, origination fees, and servicing fees.

Though materials distributed about the project state that funds are targeted to "smaller companies," this actually means medium-sized (non-Fortune 500) industrial concerns eligible for Industrial Development Bond funding. (In fact, due to a misunderstanding of these requirements, one of our case study respondents -- a rural consortium led by a small hotel -- applied for the loan and was rejected.) Its extensive requirements and the fact that it is geared to establishing new facilities makes this particular program an unlikely option for companies with less than 100 employees. At the same time, the MIFA fund does represent an important state initiative for encouraging child care among middle-sized firms. It is also worth noting that the program was specifically designed to include nonprofit organizations and consortia, and that employees of businesses other than the sponsoring company may fill up to half the places in any facility created with MIFA loans. Thus it is possible for small businesses to benefit from the program even if they do not take a leading part. More important, the MIFA experiment points to a wider range of possibilities for using low-cost
financing as an incentive for employer and developer investments in child care, including programs targeted directly or indirectly (e.g., through developers) to smaller companies.
V. CONCLUSIONS AND IMPLICATIONS OF THE RESEARCH

Small businesses have not participated in employer-supported child care as extensively as have larger firms or public employers. They have fewer resources to work with, and have had little practical assistance available to them. Our case studies illustrate, however, that a wide variety of firms can implement programs which meet their needs.

More small businesses could undertake and benefit from support for child care, if the right approach can be matched to each situation. The various options are each suited to different circumstances in the firm, the labor market and the community. In addition, these approaches have different costs and present varying degrees of difficulty in implementation.

This research provides the kind of evidence that can guide a small business manager's choice of an appropriate child care benefit option. The experiences of the case study firms indicate what might be viable options for similarly situated organizations, as well as possible problems that might arise. (Table 3 in Chapter II should be especially useful in this respect.)

REIMBURSEMENT PLANS

Financial reimbursement plans offer opportunities for firms of all sizes to help make child care more affordable. Since the plans help employees pay for care, they are most valuable when the supply is plentiful enough to permit parents access to the provider of their choice. Parents cannot take advantage of lowered costs if they cannot find child care slots in the first place. The amounts of money provided by tax reduction plans or direct employer financial contributions are significant, but they cover only a small portion of most parents' child care expenses.
Dependent care assistance plans or cafeteria plans are more useful to higher income employees and those whose spouses have benefits, while direct contributions for parents' child care fees can be utilized by any employee. Many of the firms in this study found that employee participation in the new benefit plans was lower than expected.

Reimbursement plans are becoming more common, and small businesses are gradually gaining access to the technical assistance to implement them at little or no net cost.

COMPANY-SPONSORED CHILD CARE CENTERS

Child care centers are the form of employer support that cost the most and have the greatest impact on parents and children. Because starting and supporting a center is complex and costly, only a few small businesses have taken it on. Those that did were strongly motivated to directly increase the local supply of quality care, and were fairly certain that it would serve the specific needs of their employees. Such situations arose mostly in small towns with low unemployment, an inadequate array of child care, and a close bond between company and community.

Child care centers seldom serve all ages of children, nor do they offer a program that is suitable for every child of the ages they do serve. Thus a company-sponsored center, particularly a small one, may not meet the needs of all employees, especially in their school age years. Infant and toddler care were the primary concerns of most of the firms in our sample that instituted centers, based on the needs of the mothers in their employ at the time.

INFORMATION AND REFERRAL

For employees faced with making child care choices, good information and referrals to appropriate providers are undoubtedly valuable. For many parts of the country, employees will only receive such assistance if their employer contracts for it. In communities where
basic information and referral are provided as a free public service, employees whose firms pay for service can get more timely, detailed, and personalized service. However, if demand for programs far exceeds supply, information and referrals without forms of assistance that expand the supply or increase affordability can leave the employees only marginally better off.

As an employer option, information and referral has relatively low cost and, in most instances, relatively little impact compared to financial assistance or company-sponsored centers. The small businesses in our sample that sponsored I & R services for their workers found the briefings and materials well received but the ongoing referral service not widely utilized.

FLEXIBLE WORK POLICIES

Small company size by itself produces few inherent disadvantages when it comes to implementing flexible hours, job-sharing, part-time work, work-at-home, or even infants in the workplace. The appropriateness of these measures depends on the social and physical structure of the workplace. If employees cannot move their work or shift their hours because of the requirements of their job, then they cannot utilize the policy to help cover their child care needs. Since these policies usually allow the employee to care for their own children, they indirectly lower the cost of care for many participants.

A growing number of small firms are introducing flexible scheduling to accommodate parents, some informally and some with explicit written policies. There are few employer costs to most of the policies, other than some job-sharing arrangements that increase the cost of benefit packages for part-time workers.

THE TYPES OF SMALL BUSINESS LIKELY TO PURSUE CHILD CARE OPTIONS

The firms that we have examined have distinctive characteristics, but they are not unique. Similar circumstances can be found in many
additional enterprises that have yet to support child care, and such enterprises are the most likely of any small firms to explore one or more of the options described above. A review of the salient characteristics of the active firms suggests where to look for new candidates for child care support.

The firms described in this report were all highly motivated to do something about child care. While they were responding to major, long-term changes in the labor force, they were also responding to the particular needs of specific employees. In most cases, it was these parent (or soon-to-be parent) employees whose situation provided the principal impetus for action. The small size of the organizations permitted a degree of personal contact that quickly transmitted to management the evidence of the stresses between family and work. Once managers deduced a direct connection between productivity and child care and were given a viable approach, they were generally quick to act.

The firms that have taken action on child care have also taken other steps to provide employee benefits and adjust to the changing relationships between work and family. Many of them have developed procedures for incorporating employee input to management decisions. The firms tend to have women in positions of management as well as in large numbers in their work force.

The other basic characteristic of the firms supporting child care is sufficient financial stability to plan for the future. Virtually every case study firm was either rapidly expanding or had reached a size that was reasonably secure and desirable. We were able to find no cases where a firm that was in financial trouble had implemented child care.

MECHANISMS FOR MAKING CHILD CARE OPTIONS MORE VIABLE FOR SMALL BUSINESS

Child care support among small businesses can be improved and expanded through the activities of governmental, nonprofit, and for-profit entities. Small firms need information and technical assistance specifically geared to their resource constraints and operations. An
important corollary is that many of the most promising child care options require collaborative efforts, but small firms are very unlikely to carry out these joint projects without outside help.

The following issues will need to be addressed by those responsible for developing policies that promote child care assistance by small businesses:

(1) **Targeting the Most Feasible Companies.** Since not every small business has the need, the resources or the motivation to support child care, efforts should focus on firms that rank high on interest and potential. Agencies that provide technical assistance on child care should develop profiles of the small business community that enable them to identify firms with the most potential for starting child care support.

(2) **Creating Economies of Scale.** Potential partners or joint participants in child care assistance efforts need to be brought together in order for many options to be viable for small firms. Some property developers or firms providing child care have an incentive to assemble consortia in order to attract tenants or clients. In other instances nonprofit agencies or local government child care coordinators could serve as facilitators or managers of partnerships to operate centers or financial assistance plans.

(3) **Creating Materials and Presentations Geared to Small Businesses.** Very little published material on employer-supported child care is explicitly designed for small businesses. The material for owners and managers should not only describe what works in general but should help them decide what approach might work for their company. There is a need for booklets, resource guides, conferences and supporting material, and perhaps even video presentations and computer software for benefits management.
(4) Diffusing Information About Child Care Options to the Small Business Assistance Community. Agencies that deal with other aspects of small business need to become more conversant with child care issues and options, not necessarily to be direct consultants but to be able to refer owners and managers to the right resources.

(5) Documenting and Evaluating Successful and Unsuccessful Cases. Although most employers we spoke with were satisfied that their approaches to child care were improving employee retention and recruitment or increasing productivity, very few systematic evaluations have been done of the experiences of small firms over time. Nor have there been many detailed descriptions of the process by which small firms have started centers, reimbursement plans, or other programs. As the number and variety of small business child care options expand, it would be useful to document and carefully measure their costs and impacts.

Child care is a complex amalgam of social services, private markets and informal arrangements and is likely to remain so regardless of any particular policy initiative. Employer-supported programs are only one part of the larger set of child care issues which have attracted much public attention in recent months. Legislation at the local, state, and federal levels is being proposed that could facilitate employer-sponsored child care through land use regulation, loan funds, tax credits and other means. Few of these measures have any components specifically designed for small business.

Employees of small businesses that are not sufficiently motivated or that lack the resources to implement their own child care policies, will have to rely on the private market or on action by the public and nonprofit sectors. The evidence in this report demonstrates, however, that there are practical options for many small firms, and that these options are most successful when the firms work effectively with other private businesses, service providers, and government.
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APPENDIX A

Profiles of Small Firms and Organizations

This research involved site visits and interviews to a number of small businesses in Massachusetts, Vermont and California that were addressing the child care needs of their employees. Their experiences form the core of evidence analyzed in the previous chapters. However, the need to synthesize data from numerous cases and to categorize general trends prevents those chapters from also providing more complete portraits of the individual firms. Also, the preceding analysis is organized according to the different types of child care option (e.g., reimbursement plan, information and referral.) Since a number of the firms have utilized or at least seriously considered more than one option, the profiles provide evidence of their process of choice and the connections between their different activities.

The 18 profiles in this Appendix illustrate how each child care option evolved out of the particular circumstances of the organization. These circumstances include the labor market, the type and size of business, the supply of child care in the community and the availability of outside technical or financial assistance.

This collection of profiles is limited to cases of action by individual organizations. Other field research included interviews and visits to companies and nonprofit organizations that provided technical assistance to small firms or engineered collaborative efforts among firms. Those collaboratives and consultative arrangements are described extensively in Chapters Three and Four, and to provide profiles of them here would be redundant.

The following profiles are listed in order of the current size of the organization, as measured by the number of employees on the site. Names and specific locations of the individual organizations have been withheld to protect the confidentiality of interviewees and data specific to their firm.
Company I: A Check-Cashing Service with a Reimbursement Plan

Company #1 is a check-cashing service that also sells lottery tickets and prepares money orders and ID cards. The firm employs a total of six people at its two locations in the San Francisco Bay Area; two of these people are in salaried, managerial positions and the rest are full-time, paid-by-the-hour employees, whose jobs are similar to those of bank tellers. Recruitment is done through teller schools, and informal networks, and is not thought to be a problem. Once hired, people tend stay; only three have left in the firm's 2-1/2 years in business, and one of these departures was due to illness. Most employees are women, but only one at this time has children.

It is important for the firm to retain good employees, because considerable on-the-job training is required. The President calculates that a new employee needs 30 days to master the basic job requirements, and then a full year before he or she knows how to do the job "the way it should be done."

The firm's pay schedule is slightly above scale, and a few unusual benefits are offered, including a paid lunch hour and reimbursement for lunch. The President has not yet established an employee medical plan, but intends to do so soon: "the business is established now and it's time to take care of that."

The child care benefit provided by this firm is a direct employer contribution that is matched by a nonprofit community child care agency. The President learned of the benefit when one of his employees heard of it through her child care provider and then brought it to his attention. It took him very little time to decide to make the $100 per month contribution because he had been thinking and reading about employer involvement in child care. "The child care situation is something an employer has to accept...it just made sense to me -- that's the way things are going." If the community program hadn't been available, though, it's unlikely he would have offered a child care benefit. This program accomplished three things that were important from the
employer's perspective: first, it made the reimbursement scheme very simple (the child care agency bills him quarterly for his share, and handles all the remaining paperwork and reimbursements); second, the matching funds made the plan that much more valuable to the employee, and third, the plan prompted action -- without it the employer though motivated, would not have known how to go about offering a child care benefit.
Company 2: A Chamber of Commerce with Flexible Work Hours

Company 2 is a Chamber of Commerce whose main purpose is to promote a healthy local environment for business; activities include technical assistance, acting as a business resource, lobbying and government relations. The Chamber employs about 20 people in administrative, project management, sales, support, and top management positions. Roughly two-thirds of the employees are female (although most of the managers are men), and the median age is approximately 40. Retention of employees is not a problem; aside from a single sales position which has turned over quite a bit, all employees are long-term (the one with shortest tenure has been with the Chamber for four years).

As an employer, the Chamber demands commitment and a high quality of work from its employees. In exchange, its top management tries to be flexible and responsive to individual needs. When an employee announced that she could not continue to work her present schedule because of a changed child care/school situation, her supervisor arranged for a new work schedule that would accommodate her. Another employee recently adopted an infant and has negotiated a revised work schedule that permits her to leave at noon on Mondays and Fridays. She continues full-time employment by working at home and putting in evening or weekend time as needed. If she decides that this arrangement is not what she wants, her supervisor is willing to arrange a half-time position for her. In emergencies, this employee is also permitted to bring the infant to work with her.

These kinds of arrangements are made as an acknowledgement of the contributions made by individual employees to an organization’s success. They also demand something more of employees, because everyone has to be both flexible and productive for this kind of work environment to function.
Company 3: A Medical Laboratory with an On-Site Center

Company #3 is an 18 year old medical laboratory in the Burlington, Vermont, area. The lab employs about 22 workers, three fourths of whom are women. Almost all staff are lab technicians, and the lab finds it a continuing challenge to recruit, train, and keep good technicians. It is not possible to hire skilled technicians in this area, so the lab provides a structured, ongoing training program.

About three years ago, several skilled technicians in the lab were preparing to have families, and in addition, the owner/manager was facing concerns about child care for her own child. At this time, a room became available in the dental office building in which the lab is located. The lab owner contacted the state child care licensing agency and found them "very helpful" in advising her on establishing a center. The building was already equipped with fire safety features required by child care licensing codes. Startup expenses included about $5000 for construction of a bathroom and about $1000 for toys, equipment, and furniture. The space was easily licensed for 10 children, ages six weeks to six years. The lab owner hired her own babysitter as director, and opened the center with four children, including two children of lab employees and two children of employees from the dental offices upstairs.

At present, six children are enrolled in the center full-time and two or three are enrolled part-time. In addition, two lab employees are pregnant and may be using the center shortly. Center fees are $1.50 per hour, or about three fourths of the typical local child care center fee. Fees cover all operating costs except rent, which is about $6000 per year.

The lab owner believes the center has played an important role in reducing staff turnover. Six babies have been born to lab staff members since the opening of the center and only one mother has left. Employees particularly value the availability of convenient, affordable infant care. However, the child care center has presented its own personnel
problems. Staff turnover has been high, and recruitment of new staff is difficult. The lab owner regrets that financial constraints have forced her to keep wages for day care staff relatively low, and believes that low wages have contributed to staff turnover and management problems.
Company 6: A Nonprofit Clinic Operating a Day Care Center

Company #6 is a nonprofit health clinic operating two sites in Central California. The firm provides medical, educational and social services to family planning and perinatal clients, relying on a combination of government funding and private patient fees (charged on a sliding scale). Most of the firm’s roughly 35 employees are female, but few of them now have young children.

In 1983-84, the Board of Directors decided that the organization’s primary funding sources were no longer reliable, and that one or more subsidiary business activities should be undertaken to provide additional revenue for the organization. In addition to seeking a source of support, however, the Board wanted to engage in an activity consistent with the mission of the agency. After a systematic review of a variety of alternatives, child care was identified as the most appealing option. The Board’s feasibility analysis (including a market survey) indicated a strong community need for child care services -- in particular, for services in a commercial location.

Two business-oriented members of the Board prepared a business plan that was used to obtain a $100,000 commercial loan from the Bank of America. The agency located a large downtown facility that had previously been used as a day care facility, but which nevertheless required considerable remodeling. A child care consultant advised the clinic on the program and facility design, and an architect was retained for remodeling work. The center, a 5,000 square foot facility with 7,000 square feet of outdoor play area, has a licensed capacity to serve 72 children, including 12 infants, and with an upper age limit of five years.

Far from providing a source of support to the parent organization, the day care center has been an expensive activity. The retrofitting of the facility to meet local codes necessary for licensure turned out to be much more costly than originally expected, and ongoing operating subsidies have been necessary, as well. Two years after the opening of

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the center, the parent agency's Executive Director believes the organization has spent some $280,000 to establish and maintain the center, and that a subsidy of roughly $5,000/month is still provided.

The center's fees are comparable to what other nonprofit or family day care providers charge, but are lower than what the one local commercial center charges. Salaries at the center are higher than for most day care positions and benefits are comparable to what other clinic employees receive (in contrast to most private day care workers, who receive no benefits).

The organization does offer day care as a benefit to its employees in two forms: they may use the center at a 10% discount, and they may choose to have their monthly employee benefit allotment applied to the day care center's fees rather than to a health plan or tax-sheltered annuity. Only one or two employees have made use of this option, presumably because not many employees have need for day care for preschool age children.
Company 4: A Videotape Company with an On-Site Center

Company #4, located in Vermont, develops and markets videotapes and software on resource planning for manufacturing firms. The 13 year old corporation began as a consulting business based in the owner's home, grew to a company with ten workers by 1980, doubled in size by 1983, and now at 25 employees is growing more slowly. Staff positions include sales, administration, management, accounting, shipping, and data processing. About two thirds of staff are women, who tend to be most heavily concentrated in administration. Substantial training and cross-training are provided on the job, and employees often "follow their interests" to new positions within the firm.

The company has always offered extremely generous benefits, high wages, and a family-like atmosphere. Employees describe the firm as "close knit," and there is little turnover. Seven years ago, with only about ten employees, company decision-making was participatory. At that time the company was undergoing enormous growth and was planning to move out of the owner's home (where his children were cared for) and into its own facility for the first time. The owner agreed that children benefited from exposure to their parents' workplace. Several other employees now were having children, and a collective decision was made to incorporate on-site day care into the new building. One room and a bathroom were set aside for day care, and three children were enrolled.

A few years later four or five additional children were born to employees, and the day care space became overcrowded. Expansion of the company building was planned for 1986, and space for day care was not incorporated into these plans. A space of about 600 square feet, licensable for 15 children, was added at an approximate cost of $34,000.

Currently, nine children are enrolled in the day care program, which accepts children between the ages of six months and six years. Parents pay $38.50 per week, which is about half the area's average day care center fee, plus an "activity fee" of $10 per month. The day care center staff are very much a part of the firm, receive wages and
benefits comparable to other company staff, and sometimes help out with other company business. Parents and caregivers tend to be friends and peers, which enhances caregivers' understanding of and attachment to the children. Parents have a good deal of flexibility to drop in on the center during the work day, and children are sometimes brought upstairs to visit parents, as well. Nursing mothers may visit their children as frequently as necessary.

Although no formal assessments of the "impact" of day care on staff retention have been conducted, company managers point out that all workers who have gone on maternity leave over the past seven years have returned to their jobs. The availability of high quality, affordable care at the workplace clearly makes a difference in this somewhat remote area, where few child care centers -- particularly for infants -- are within commuting distance. On the other hand, the integral relationship between day care and the rest of the company has had its disadvantages. Conflicts between parents and caregivers over childrearing philosophy have occasionally set off company-wide tensions. Overall, however, the day care program is viewed by both parents and nonparents as a valuable part of the workplace environment, consistent with the company's general commitment to meeting employees' needs.
Company 5: A Public Radio Station with a Reimbursement Plan

Company #5 is a nonprofit radio station located in northern California. The station operates with some 200 volunteers, 30 "unpaid staff," and 27 employees (22 FTEs); employees belong to a small national union. While it is true that many people choose to work at a place like this because it offers unique opportunities, at least one staff member commented that economic issues like child care do weigh more heavily in people's work decisions today than they once did.

Child care benefits consist of employer reimbursement for up to $100 per month per child (under the age of 12) for full-time employees. Part-time employees used to be paid the same benefit, but this has recently been reduced to $0.50 per hour worked per child (the actual terms of the employment contract). In 1979-80, when child care benefits were originally added to the contract (with no objection from management), there were almost no parents of young children on staff. Since that time, the average age of the staff has risen to around 35, and many of the early staff or volunteers that have stayed now have families. The original plan covered only children of preschool age, but the growing number of employees with school-age children led to the modification that permits reimbursement for their care as well.

Six people currently receive benefits under this plan, at a cost of roughly $500 per month to the station. Plan administration is very simple: employees submit invoices monthly and receive reimbursement checks. No more than one-and-one-half hours of bookkeeping time per month are required to maintain the benefit. There are no restrictions on the type of care eligible for reimbursement.
Company 7: An Insurance Company with a DCAP.

Company #7 is a rapidly growing company that has tripled in size since 1981 and expects to grow 15-20% per year for the next few years. Specializing in property and casualty insurance, it currently has 45 employees, three-fourths of whom are women. Due both to its rapid growth and to its location in an area of New England where the unemployment rate approaches zero, personnel recruitment is a major concern. The owner of the company, who also holds part ownership in three other, smaller companies, sees child care as an issue that will greatly affect his "next generation of managers," whom he expects will be primarily women.

The owner, who is extensively involved in real estate acquisitions, purchased a house across the street from the insurance company with the intent of using it as a child care center. Two women managers formed a child care committee, which included representatives from the insurance company and from two affiliated firms, an engineering company and a newspaper. A survey of employees in all the firms was conducted, and it revealed that only five children would be immediately enrolled in a new child care center. The committee therefore undertook a systematic planning process in which it considered seven or eight child care benefit options. Members of the committee attended a course on corporate day care at a nearby community college.

The child care committee, in conjunction with the insurance company’s accounting department, recommended the adoption of a dependent care assistance plan to be implemented by the Voucher Corporation (see report text, Chapter Four). All had agreed that the low projected enrollment figures would not justify the high costs and risks of a child care center. The DCAP approach was approved as an equitable and low cost alternative, but the insurance company’s accounting department determined that it did not have the capacity to administer the DCAP. Members of the committee met with representatives of the Voucher Corporation, and made their final recommendation to the CEOs of all three firms. Both the insurance company and the engineering company
decided to contract with the Voucher Corporation to implement the dependent care assistance plan.

The insurance company established the dependent care assistance plan as of January, 1987. It negotiated a $200 startup fee with the Voucher Corporation and pays a monthly administration fee of 7% of all flow-through funds -- an amount which is roughly equivalent to the company's savings on social security and unemployment taxes. Only two employees are on the plan this year. Both are married women, one an account executive and one a technical assistant. The expectation is that participation will increase in the future. Both employees and management are happy with the plan so far, their only complaint that the Voucher Corporation is sometimes slow with the paperwork; vouchers arrive a little late and providers are therefore paid late. Management is pleased to be able to improve its benefit package, saving employees between $500 and $1000 per year, at virtually no cost to the company. Managers feel it may greatly enhance the company's ability to retain and recruit employees as more women move up to management levels.
Company 8: A Bank with Information and Referral

Company #8 is a bank that was established in 1982 with 15 employees, most of whom had previously worked at another (and much larger) bank in the same California suburb prior to its purchase by a multinational firm. Although the new bank has grown considerably since its founding (from $4 million in assets to $86 million), the President of the new bank wants it to remain a community bank and not to grow to the size of its predecessor. He feels that once there are several branches, bureaucracy sets in and standardized rules replace individual attention to employees. Also, business prospects may be superior for small rather than medium-sized banks.

Company child care policies have been motivated by both a general concern for employee welfare and an attention to productivity issues. The company tends to promote from within and to cross-train people for as many jobs as possible. Turnover and recruitment are not problems, but employees' absenteeism or tardiness create significant difficulties. As thirty to forty percent of the bank's 60 employees are parents of young children, company attention to child care issues -- in particular, sick child care -- was thought to be a way to improve efficiency.

The company has not found an effective way to address the problem of sick child care. The local Visiting Nurses' Association had at one time proposed a sick child care program in which employers could participate, but the Association went out of business and plans for such a program were dropped. Management also wonders if many parents would not prefer to stay home with sick children anyway, so that a subsidized care program would not achieve its aim.

As an alternative, the bank has provided information and referral through a local child care advocacy and technical assistance project. This program included an employee survey, a feasibility analysis of on-site care (ruled out for reasons of expense, liability, and lack-of-need), a number of work/family seminars, and enhanced referrals. Although all services have been high quality, employee utilization has
been quite low. Management can only guess at the reason for the lack of employee response, because no systematic information about current employee child care arrangements is available. They also note that the program does not specifically address the two greatest employee child care needs: sick child care and programs for school-age children.

The bank also at one time offered a DCAP, but only two employees made use of it. When one left, the only participant remaining was the bank's President; this meant the plan was technically "discriminatory" and had to be discontinued. Management is now considering cafeteria plans, which would offer a wider variety of choices for salary deferral.
Company 9: A Management Training Firm with Flexible Work Arrangements

Company #9 provides management training and other support (including books, cassettes and other materials) for improved relations in the workplace. The company employs about 65 people, of whom perhaps two-thirds are women. Growth has been rapid in recent years, and promotion has taken place from within the workforce.

Company policies about the work/family nexus are related to the firm's human resource philosophy: the rule is to allow as much flexibility as can be tolerated without disruption. Specifically, the company has permitted infants at work, flextime, job-sharing and work-at-home. The formal policy relating to infants at work requires that

- a plan for combining work and infant care be developed prior to childbirth;

- the plan be approved by both the immediate supervisor and the Management team;

- if the infant is brought to work, the situation will be reviewed weekly by Personnel; and

- the company retains the right to terminate the arrangement if it is not working to the Company's best interest.

The upper age for infants at work is about seven months. The company has had good success with its policy, which has been used by both management and support staff. The company has not had to deny an application to bring an infant to work, but acknowledges that employee understanding of the space needs and job conditions under which the plan would work best have probably limited the number of applicants to those who could expect that their requests would be approved.
Other flexible arrangements are arrived at less formally. Staff schedules deviate from the typical 9 to 5 by as much as three hours; one or two previously full-time employees are currently working part-time in order to care for children; and those who have computers or word processors are permitted to do much of their work at home. The firm has also used the local child care support program, to conduct an employee child care survey and to offer information and referral services, but has not found these to be widely used by employees.

The company child care policies are not used explicitly when recruiting people, but they are recognized as important in the company's efforts to retain good employees.
Company 10: A Nonprofit Clinic with an On-Site Center

Company #10 is a nonprofit medical clinic located on Indian land in rural northern California. It provides a range of outpatient services, employing clinicians, assistants, and support staff for medical, dental, and therapy services. The largest portion of income comes from Indian Health Service and Public Health Service grants, but the clinic also relies on other grants and contracts and some private patient fees.

Of the agency's 70-80 employees, most are female, and most are young: the average age is mid-thirties for the staff as a whole, twenties for the clerical staff. Turnover is not a problem, but recruitment has been an issue in the past for certain positions (e.g., nurses were difficult to find five years ago when the last one was hired). Clinic salaries are mid-range by comparison with other nonprofits, very low by comparison to private medical practice -- at least for some positions.

The Executive Director makes an effort to listen to staff concerns on a regular basis; as a result of this practice, he became aware that child care was a major problem for many staff members. Living and working in a rural area, employees often had to drive long distances to deliver children to day care centers, and then get to work; serious problems could arise for both the clinic and its employees if child care arrangements failed, or if a clinician had to stay at work to see an emergency case. In addition, cost was a major problem for employees on the low end of the pay scale.

The clinic had an opportunity to offer on-site day care as a result of two events: the Indian governing body (on whose land the clinic is located) decided to build a community center and agreed to include space for a child care center; at about the same time, a local state-subsidized preschool happened to be looking for a new location. The clinic hired a child care professional (who was also a client) to design a program in which the preschool could locate in the new community center, and some of its spaces could be used by clinic employees'...
children. This plan was accomplished within a matter of weeks; the clinic began renting space from the reservation, subletting to the preschool, and providing extra staff for their own day care spaces. The preschool handled licensing issues, and start-up costs were minimal -- "a few thousand dollars."

The center has now been in operation roughly five years, and the preschool has moved, leaving the clinic with the responsibility for management of the entire program. The center serves a total of some 17 children, from infancy to early school-age, and about 75% of these are the children of clinic employees. As the children have grown older, the center has tried to offer some after-school or summertime activities, but care for older children who attend school outside the local district is difficult to provide.

Parents are charged for care on a sliding fee scale, with the lowest fees being approximately 50% of what is charged in the private day care market. The clinic subsidy to the center totals $34,000 per year. The Executive Director would like to see this subsidy reduced, but also believes that the center offers an important benefit. "For nonprofits, it's a natural. Our payroll is about $1 million a year; compared to that $34,000 is nothing. It wouldn't buy you anything if you gave it out in raises."

The clinic also allows employees to bring infants to work, though it does not have a formal policy about this. If an employee has adequate space and does not have to be moving throughout the clinic frequently, the presence of an infant will probably not pose a problem. The Executive Director comments that with this policy, mothers often choose to return to work fairly soon after birth.
Company #11, a circuit board manufacturer, employs roughly 70 people, including programmers, engineers, assemblers, sales and marketing people, accountants, and administrative support staff. Recruitment of technical people is sometimes difficult due to the company's location in a California suburb away from the main concentration of electronics firms; other positions are generally not hard to fill. Turnover, once a problem in front office positions, seems not be to a major concern today. Employees interviewed described the company as a pleasant place to work, with good opportunities for promotion (in particular, a "progressive environment for women"), a strong benefits package, a commitment to attracting and keeping good people, and a "family atmosphere" emphasizing teamwork. Most of the employees are young (only a few are in their 50s), many are parents of young children and about half are women.

In describing the company's decision to implement a child care reimbursement plan, the General Manager indicated that child care had been an issue for a number of employees, and when this happens "it becomes a business interest to me." The company's interest was also sparked by its attendance at a child care symposium sponsored by the local child care resource and referral agency (R&R). Following the symposium, the R&R established its "Partnership Project," in which employer contributions to employee child care (to a cap of $100 per month per employee) would be matched by the R&R, using a citywide child care fund. The company decided to participate in the project in the following way: employees could choose between company-paid dependent medical coverage and a company contribution to child care of $100 per month. Those employees choosing child care would then be required to make up the difference for the cost of family medical coverage, out of pretax salary dollars. (The question of an employee not needing or wanting dependent medical coverage has not arisen.) The child care option was an appealing one because the "employer contribution" would be matched by the local child care support agency.
The firm has nine people using the child care benefit -- all of those who are technically eligible (requirements that the provider be licensed limits eligibility of some employees' present care). The General Manager believes the program is a "terrific" benefit for recruiting purposes. "It shows that our company is progressive, that we're in tune with the population we employ."

She would like to see the company continue to pursue other options, as well, recognizing that the present plan costs the company no more than it was originally spending in benefits, aside from three hours a month for administration. The possibility of on-site care (in conjunction with other businesses in the park) was eliminated when an informal poll of employees found that most wanted child care nearer home, but sick child care is still an issue that could possibly be resolved with some kind of company financial assistance.

Finally, although flexible hours were not described as an employer response to child care needs, one employee did note that flexible arrangements had been made in a small number of cases. In particular, one programmer was permitted to work out of her home, following the birth of her child.
Company 12: A Commercial Television Station with a DCAP

Company #12 is a commercial, community-oriented television station located in a medium-sized California city. It employs about 80 people (75% full-time) in a wide variety of positions, including technical, professional, management, sales, administration, and support. Most employees are young, many in their 20s and 30s, and about half are women (found in all job categories except camera crews). Neither recruitment nor turnover are identified as problems, in part because television jobs are appealing and in short supply, and also because the company tries to treat employees well. Management recognizes that the business is a highly stressful one, and makes an effort to alleviate this by providing personal leaves and access to counseling, among other benefits.

Child care reimbursement is available through a DCAP/cafeteria plan that includes a variety of benefit options, including several health care plan configurations, dental and life insurance. The company makes a monthly contribution to these plans (the amount varies from one employee to another) and employees make up the difference with pre-tax salary dollars. In addition, pre-tax salary dollars can be used for dependent care reimbursement or medical expenses not covered by the group plans. Those using the DCAP turn in invoices for care once a month and receive a check; the caregiver signs the statement that is submitted but there are no restrictions on the choice of provider. Three employees are currently making use of the DCAP.

The plan was designed with the assistance of the station's insurance company, which then provided staff orientation, written materials and on-call consultation. A staff person handles on-going enrollments and changes, calling the insurance company with questions. She finds the process "a little time consuming, but not too bad." Payroll deductions are somewhat complicated, but the station uses an outside payroll service so the problem isn't faced by staff.
Company #13 is a hotel and gourmet restaurant that opened two years ago in a small town in a booming tourist area of western Massachusetts. The company has grown 20% in the past year, with hotel occupancy rates far exceeding original expectations. The hotel now employs about 80 year-round employees plus about 30 seasonal employees. Women constitute roughly 85% of the total workforce.

The manager's interest in day care grew out of his general commitment to using employee benefits to enhance staff recruitment and retention. About three fourths of the staff are entry level workers who earn between minimum wage and $5.50 per hour. Many of these workers stay on the job less than six months. The company's goal is to improve its ability to attract mature, responsible workers who will then be trained and maintain a commitment to the job. The company has introduced a variety of benefits -- including college tuition reimbursement for children of employees, profit sharing, and housing assistance -- that appeal to workers of different ages and family compositions. A day care center has been the company's most ambitious effort so far. The general manager, who himself has a small child, was aware of the scarcity of high quality, affordable day care convenient to employees. He saw day care as a problem that was likely to become more serious in coming years, as more women move into a variety of jobs. He and the company's controller agreed that a day care center might represent "a worthwhile longterm investment in the future workforce" of the company. They spoke to the owner, a wealthy, philanthropic individual who owns numerous other companies and has his own foundation. He was extremely supportive of the day care center idea and was able to make assets available.

The general manager spoke to the staff of a nonprofit child care management agency that operates a network of family day care homes and centers (including one in which the manager's son was enrolled) throughout the county. The advice the agency gave the hotel manager was (1) don't try to operate the center yourself and (2) don't expect to make money on it. They reached an agreement that the hotel would provide a
facility and the nonprofit agency would manage and operate the program. Under pressure due to changing tax laws, the company quickly negotiated the purchase of a house across the street from the hotel. They purchased the house for $180,000 and spent $150,000 on additional startup costs including capital improvements, landscaping, equipment, and some consulting time put in by the child care agency.

Because the facility offered licensable space for 34 children -- far exceeding the current demand among company employees, the hotel manager had hoped to involve other local employers in a child care consortium. One nearby employer expressed an interest, and the two jointly applied for a low-interest loan from the State of Massachusetts to help defray startup costs. Their application was rejected and the consortium disintegrated. The hotel, on its own, established a nonprofit organization as the official owner of the child care center. The child care agency mentioned earlier is under contract to manage the child care center for this second nonprofit. The hotel (through the nonprofit) is responsible for covering any operating losses. The center opened in July, 1987, with six children of employees. Because of the failure of the consortium approach, the center was opened to the community, and 16 children of nonemployees were enrolled. Fees are roughly equal to those in other centers operated by the child care management agency, but the hotel assists its own employees by charging them on a sliding fee scale based on their earnings.

It is too early to assess the impacts of the center on recruitment and retention, although staff response has been very positive. The high costs incurred by the company for the center are of course a concern, and the company regrets that neither government nor the banking community came through with favorable financing.
Company #14 is a six year old biotechnology corporation located in downtown Boston. The company uses recombinant DNA technologies to produce human pharmaceuticals. About two thirds of its 90 employees are scientists and the remaining third are distributed across various business categories: sales, accounting, shipping and receiving, management, and support. Women represent 50% of employees in all categories, including management and Ph.D. scientists. The company is rapidly growing and expects to have 150-200 employees in the U.S. by the end of 1988. (It currently has 120 employees in England under separate management.) It is typical for the company to have about 15 job openings at any one time.

The proposal for a dependent care assistance plan came from the firm's benefits consultant/insurance agent. She is an independent consultant specializing in benefits for biotechnology companies. She keeps abreast of innovative developments in the benefits field, and saw DCAPS as a "painless" way for the company to show "goodwill" to its employees. The company's President approved the idea without hesitation; recruitment is an ongoing concern and the plan's costs were minimal. The consultant's fee of $2,000 covered writing the plan (which she copied from another, larger biotechnology company) and holding initial informational meetings with employees. The firm's personnel director also has spent a small amount of time meeting with employees about the plan. The accounting department, which has a staff of about eight, easily administers the plan. Employees are required to furnish receipts each month before being reimbursed through the salary set-aside account. Administrative costs roughly equal the company's savings in payroll taxes.

The DCAP was established as of September 1, 1987, and as yet has only two participants, both male managers. An earlier survey indicated that about 20 employees were interested. The personnel director explains that some employees found that their providers were unwilling to furnish receipts because they do not pay taxes. Other employees
(including some single parents) found that their family incomes are low enough that the dependent care tax credit is more advantageous for them than the DCAP. The personnel director does expect that participation in the plan will increase as employees become more familiar with it and as more of them have children; the majority are now single or recently married and childless. The "goodwill" message may in the future have some valuable effects on recruitment, said the personnel director. Although it is not yet clear that the availability of the plan has actually attracted employees, most employees -- including nonparents -- do see the plan as an indication of the firm's progressive attitudes.
Company 15: A Sporting Goods Company with a Flexible Benefits Plan

Company #15, located in a Vermont suburb, is a U.S. subsidiary of a European sporting goods company. It handles distribution only, after a failed attempt to move into manufacturing in the 1970s. The company has been at its present size of about 100 employees for the past three years. It has no serious problems with either recruitment or turnover; the typical employee has stayed with the company for seven or eight years. Sales personnel comprise about one quarter of the workforce; clerical, data processing and managerial categories, where most women are concentrated, make up another 50%; and the remaining workers are ski repair technicians and warehousing/shipping staff. The company has always prided itself on offering an excellent benefits package, deriving in part from European tradition. Wages are lower than those offered by larger local employers and the company compensates by offering good benefits, flexibility, and a supportive atmosphere.

Three years ago the controller, an accountant by training, became concerned about the firm's rising health insurance premiums. The firm's workforce had always been young, and a majority were now in their thirties, with many becoming parents. The company had never before had a medical claim costing over $50,000, but now complications from childbirth resulted in several very large claims including one at about $800,000. At the same time, many employees now had spouses working for other local companies that offered extensive medical insurance. The controller became interested in the idea of a flexible benefits plan as a way of eliminating duplication of coverage and also saving the company money. The idea solidified after he attended a conference sponsored by the Vermont governor on child care benefits, and visited several companies to study their flexible benefit plans.

The controller negotiated a fee of $25,000 with its Boston-based benefits consultant, estimating that this cost would be fully recovered within two years through savings in health insurance premiums and in social security taxes. The benefits consultant designed and administered a survey of employees, assisted with design of the final
plan and with pricing of the options. Several additional thousand dollars more in startup costs were incurred in travel to Boston and the printing of catalogues clearly describing the plan for employees. A good deal of time was spent by both the controller and the benefits administrator, setting up the election form on personal computers and meeting individually with each employee to discuss the options.

The flexible benefits plan, implemented in January 1987, incorporates all company benefits previously available, but adds numerous additional options. Any combination of health, dental, life, and disability insurance, as well as a dependent care assistance plan, are now available to employees out of pretax salary dollars. In addition, employees may "trade down" with the company contribution to health insurance, choosing a lower level of coverage in exchange for a company contribution towards a different benefit, such as dependent care. For example, several married employees whose spouses receive excellent health insurance have chosen the more basic health insurance and thus freed up "credits" of about $300 per year which the company now pays towards child care costs. In addition, these employees realize the tax savings always available through a DCAP. Six employees, including three men and three women in a variety of job categories, now use the DCAP. The DCAP is "probably the simplest part of the plan," handled primarily by the accounting department. Employees and their child care providers simply sign an agreement at the beginning of the year; receipts are not required.

For the company, cost savings on insurance premiums and payroll taxes are only one advantage of the plan. There are also savings on the "insurance claims we will never see" as a result of instituting the options for lesser health insurance coverage. Employee response to the flexible benefits plan has been positive; they appreciate that "the company is going to this much trouble" for them. Administration of the plan does make additional demands on the benefit administrator's time. Overall, the controller recommends flexible benefits plans to other small companies, and believes that small size is not necessarily a handicap. Small size even offers its advantages in designing a plan
like this, including simplifying the process of projecting employee choices.
Company 16: A Dairy Cooperative with an On-Site Center

Company #16 is a dairy cooperative established in 1919 by a small group of farmers as a way to cooperatively market and ship their dairy products. The coop, located in a town of about 1200 in Vermont, now has 500 members. The creamery has experienced enormous growth since 1984, when a new individual was promoted to general manager and shortly thereafter to chief executive officer. The payroll has doubled from $3.8 million to $9 million, and the workforce has grown from 120 to 180. The new general manager emphasizes what he calls the "value added" approach: refinement and specialized marketing of raw dairy products. He has increased efficiency in plants and equipment and put greater effort into staff recruitment and training. The creamery now also has a new tourist center.

The general manager's concerns about both current and future workplace productivity, combined with his own personal experiences, led to his interest in child care. Six years ago his wife, a nurse, was forced to drop out of the labor force due to the lack of adequate child care in the community. When he was promoted to general manager he began to "talk to employees about sources of stress on the job." He found that many were driving long distances to find good care, or were "paying relatives $20 a week which amounted to having the kids watch t.v. most of the day." He was concerned that the lack of high quality early childhood education meant that many of the local children were "behind" when they entered the first grade.

A recently acquired property adjacent to the creamery was well suited for day care. A neighbor of the general manager was a child care professional who was available for startup, management, and budgeting of the child care program. The general manager went to the coop board with a proposal for a day care center to be made available both to employees and to the community. He encountered some initial resistance but persuaded the board that child care was an important part of "a total package of corporate values and philosophy" needed to enhance recruitment and productivity.
The center opened in fall, 1986, after some delays resulting from the difficulties of remodeling the property to bring it up to code. Startup costs were about $37,000, closely approximating the day care director's original estimate. The center, licensed for 30 children (full-time) ages 2 months to 12 years, opened with 13 children and enrolled 20 by the end of the first year. The late starting date was in part responsible for the lower than expected enrollment, and operating subsidies were high during the first year. By fall of the second year, however, the center enrolled 51 children (many for part-time care), about half of whom are not related to employees. Employees pay fees of $1.00 per hour, or about half the typical child care center fees in the nearest cities. Nonemployees are charged about 50% more. Because there are no other child care centers in town, and because most families have in the past relied on relatives and home-based child care, even the relatively low fees charged here seem high to local families. The creamery manager believes one goal of the center is to educate local families about the value of early childhood education, and eventually to convince them that paying slightly more for a quality child care program is worthwhile.

The center is now close to breaking even. The creamery is not yet able to evaluate the center's specific impacts on staff recruitment and retention. However, the response to the center by both employees and the community has been very positive. The center enhances the company's image and therefore its marketing efforts, has clearly made it easier for some women workers to stay on the job, and also represents "an investment in the company's future workforce," the children residing in the town.
Company #17 handles marketing, communication, and strategic planning for firms in California's "Silicon Valley" and elsewhere. The firm has grown from roughly 25 employees approximately five years ago to 180 employees (worldwide) today. The laborforce is young (average age 33), primarily female (78%) and highly educated; salaries also tend to be high (many are in the $40,000 and up category). In general, the firm has no trouble recruiting workers -- it has an excellent reputation in its field -- but turnover is considered high in some positions (an average stay of three years). The work is very demanding, career paths are somewhat limited for some job categories, and because of its reputation, the firm is "highly recruited from."

The local workforce of 125 employees includes a relatively small, but growing number of parents. A little over one year ago, a volunteer task force of interested employees began to investigate their coworkers' child care needs and the company's options. The task force worked with a child care consultant, visited local programs, and thoroughly researched a variety of options including on-site centers, information and referral, and reimbursement plans. In a presentation to company management and then to the entire workforce, the committee recommended phased implementation of a plan that included:

- child care information and referral service based on contract services with a local child care "R&R",
- a Dependent Care Reimbursement Program (DCAP), and
- the possibility of a scholarship fund for those earning less than $25,000/year, based on further investigation.

These options were identified as preferable to on-site child care because employee child care needs were so diverse. In particular, the information and referral service, and the DCAP (built into a Section 125
flexible benefits plan) appealed to management because they could be implemented immediately. The task force had interviewed a number of child care referral agencies and recommended one for the contract services; the cafeteria plan was established and administered with the assistance of a local benefits consulting firm. No further discussion of financial assistance has taken place.

Information and referral services have included an employee assessment, seminars, a newsletter, and a referral service with reports to management on total usage. Only 16 total referral contacts were made in the first year of the contract, some of which may have represented more than one request by the same employee. The yearly contract cost of $4,000 seems high if divided by the number of referral contacts, but if other services are taken into account, and costs are spread over all employees, the plan costs average only $2.50-3.00 per month per worker.

The DCAP is used by some eight or nine employees for an average monthly deferral of $300 each. The total salary deferral for all pretax benefit options in the firm comes to between $24,000 and $26,000 per month. Charges by an outside firm to establish and administer the cafeteria plan were roughly $1200 for start-up ($10 per employee per year for initial interview) plus $3.00 per participating employee per paycheck (twice monthly). Plan revision charges (annually) are $2.50 per existing participating employee, with $10 charged for each new participant.
Company 18: A Nursing Home with an On-Site Center

Company #18 is a corporation that owns three nursing homes with about 200 employees each, all located in suburbs of Boston. Recruitment and retention of qualified staff are serious problems for most nursing homes, and these are no exception. Turnover is a particularly serious problem among nurse's aides, entry level workers who receive one year of on-the-job training and earn between $10,000 and $15,000 per year. High turnover in the past has forced the homes to rely on employment agencies for temporary nursing staff, at hourly rates three times those paid for regular staff.

Because about 90% of nursing home staff are women and many are young mothers, the owners of the homes began several years ago to consider the possibility of on-site child care as a way to address recruitment and turnover problems. By chance, they happened to meet a child care consultant who was especially interested in intergenerational programs. She was hired to plan, oversee startup and licensing procedures, prepare a budget for, and ultimately manage child care centers in two of the homes. Because the third home does not have room for a center, she manages a child care reimbursement program and referral service there.

Existing licensable space within the two homes was found for the centers, and the homes' maintenance staff did much of the remodeling work. Startup costs therefore were a moderate $20,000 per center. The center that we visited is licensed for 24 and cares for children aged three months to six years. About 40 children are currently enrolled (many of them part-time). Fees are about half the typical local child care center fees, and hours are flexible.

Since fees cover only about one third of the centers' total operating costs, the ongoing costs to the company are substantial. But the centers have helped the homes recruit and retain qualified applicants, resulting in a greatly reduced reliance on expensive
temporary help. One of the homes no longer uses any temporary help, resulting in savings of at least several thousand dollars per month.
APPENDIX B

Child Care Experts, Consultants, and Planners

Interviewed for This Project

California
Marge Armstrong, Armstrong Learning Center, Orange
Douglas Brown, Research and Policy Aide to the California Senate Select Committee on Small Business Enterprises, Sacramento
William Brumley, President, Brumley Development, Concord
Sandra Burud, Summa Associates, Pasadena
Rona Cohen, private child care consultant, Beverly Hills
Kate Ertz-Berger, Child Care Alliance, Concord
Debbie Goldstein, East Bay Small Business Development Center, Oakland
Carol Hackett and Ann Spicer, Junior League of San Diego
Jack Hailey, Senate Office of Research, Sacramento
Rita Hayes, Contra Costa Small Business Resource Center, Concord
Dawn Kamp, E.S.C.C.S., Ignacio
Gloria Komori, Project Specialist, Escondido Boys & Girls Club
Bridget Lehman, Newport Center Association, Newport Beach
Cecilia Lipsie, Bishop Ranch Child Care Referral Service
Dan Lombard, Professional and Technical Consultants Association, San Jose
Dorothy McNaughton, Hewitt Associates, San Francisco
Bonnie Mello, Downtown Child Care Center, San Diego
Barney Olmstead and Linda Marks, New Ways to Work, San Francisco
Paul Proett, Consultant, San Francisco
Louise Rush, Consultant, San Francisco
Sheri Senter, National Pediatric Support Service, Long Beach
Jackie Swaback, Child Care Coordinator, City of Sacramento
Dave Swift and Giovanna Stark, Staff, Child Development Programs
Advisory Committee
Massachusetts
Carolyn Shaw Bell, Wellesley College
John Ciccarelli, State Coordinator, Small Business Development Center, Worcester
Claire Crones, Small Business Division, Massachusetts Department of Commerce, Boston
Patricia Cronin, Executive Office of Economic Affairs, State of Massachusetts, Boston
Chris Dillon, Child Care Search, Waltham
Frank Doyle, Small Business Service Bureau, Worcester
Phyllis Forest, Metro-West Chamber of Commerce, Framingham
Ellen Gannett, School-age Child Care Project, Wellesley College
Sue Halloran, South Shore Day Care Services, Braintree
Ann Hamilton, Greenfield Chamber of Commerce
Joanne Hartley, New England Executive Office Park, Burlington
Jane Holbrook, Child Care Connection, Worcester
Martha Izzi and Anji Rizzolo, Women's Bureau, U.S. Department of Labor, N.E. Office, Boston
Martha Kessler, Bureau of National Affairs, N.E. Correspondent
Stan Kuziel, Voucher Corporation, Boston
Roland Lovelas, Regional Administrator, U.S. Small Business Administration, Boston
Nina McCain, Boston Globe
Ethel McConaghy and Beth Fredericks, Work/Family Directions, Watertown
Linda Mills, Cambridge Child Care Resource Center, Cambridge
Chris Mis, Preschool Enrichment Team, Holyoke
Eleanor Nelson and Carla Burkley, Prospect Hill Parents' and Children's Center, Waltham
Linda Noonan, National Federation of Business, Boston
Nikki Payne, Personnel Department, Flexible Hours, State of Mass.
Martha Poehler, Federal Office for Children, Boston
Erin Roach and Roger Brown, Bright Horizons, Boston
Louis Shattuck, Small Business Association of New England
Martha Sperandio, Child Care Circuit, Lawrence
Susan Velleman, Mercer-Meidinger-Hansen, Boston
Massachusetts (continued)
Ann Vincola, Summa Associates, Corporate Child Care Consultants, Boston
Martha Bernard Walsh, Associated Industries of Massachusetts, Boston
Nora Young-Phykitt, Child Care Focus, Springfield and Pittsfield

Michigan
Jim Reynolds, Marketing Manager, Gerber Children’s Center

Minnesota
Tom Copeland, Director of Consumer Services, Greater Minneapolis Day Care Association

New York
Phyllis Silverman, Catalyst

Vermont
Joanne Corbett and Joyce Short, Child Care Resource and Referral Center, Burlington
APPENDIX C

RESEARCH METHODS

Our analytical approach has been shaped by the paucity of cases, the diversity of small businesses, and the wide range of approaches to child care assistance. As one of the first studies to focus on child care in this sector of the economy, this report is inherently exploratory. The research has been designed to uncover some of the "best practices" in the field; to learn what motivates certain employers to act and under what circumstances an innovation succeeds. The case study approach allows us to compare and contrast several different instances of each major program option, such as reimbursement or financial assistance plans, information and referral, or on-site child care centers. Finally, for each company it has been important to gain the perspective of several informants who have different roles, and to explore with them in some detail the process by which their child care option has evolved.

The research was conducted in three basic stages: a review of the relevant literatures, extensive interviewing of specialists in child care program development and technical assistance to small business, and more than twenty case studies of organizations that have undertaken one or more child care options.

Review of the Literature

Three distinct but inter-connected literatures were reviewed to isolate issues particular to small businesses. One was employer-supported child care. The second was that of employee benefits in small businesses; and the third was the changing demographic composition of the labor force.

Each yielded guidance for the design of the expert interviews and case studies. For the most part references to child care in small business were oblique. Most employer-supported child care has been sponsored by large corporations, hospitals, universities or government agencies, and the literature reflects these experiences. (One exception, a promising study of child care benefits by firm size, unfortunately used a cutoff of 1,000 employees as its criterion of "small," rendering it less directly useful for our purposes (Bureau of National Affairs, 1987). The literature on small firms' employee benefits is detailed on health insurance and pensions and has very little to say on...
the extent, impact or costs of child care as an employee benefit. Several studies have commented on the lack of data on family benefits in small business and the need for case study research. And information on the changing labor force, while very relevant to small business' need to recruit and retain as workers the parents of young children, did not yield much information that was specific to the problems faced by smaller firms.

**Expert Interviews**

Specialists in child care and small business assistance were identified as sources for case study sites and as commentators on the state of the art. We developed several overlapping sets of interview questions for different types of experts: consultants who specialize in child care planning with employers, community child care information and referral directors, staff of various kinds of small business assistance organizations, researchers who have surveyed employer-supported child care, and others with related experience. Over 50 interviews were conducted, mainly over the telephone, in the first two months of the project. Although most of the interviewees were in Massachusetts and California, the two states originally chosen for field work, experts in other locations, many with a national perspective, were also contacted. Many of the case study firms were identified directly or indirectly through contacts suggested in these interviews.

Information gathered from these interviews is utilized in each chapter of the report. Those experts who had actively worked with small firms on child care explained what they did, how their services came to be enlisted, and the circumstances under which different types of child care programs were effective. They were also asked for their ideas of ways to expand the number and variety of firms that explored child care options.

Many of the most useful insights came from experts who might have been expected to be working on child care for small businesses but were not. Child care consultants whose practice was limited to larger organizations offered reasons why small firms did not use their services, and suggestions for how the consultants could overcome that gap. People who offered technical assistance to small businesses on other matters explained why child care rarely came up, and under what circumstances that might change.

C-2
Case Studies

From our contacts in the field, publications, and the expert interviews, BPA assembled a roster of organizations from which to conduct site visits and develop case study information. The rarity of viable small business child care programs was confirmed by the process of finding suitable cases. Many child care consultants, each with scores of corporate clients and extensive contacts, were hard-pressed to come up with more than a very few small firms. California and Massachusetts were selected as sites for the fieldwork because of their diversified economies; broad range of urban, suburban, and rural settings; and their leadership in state and local child care policies and in the overall frequency of employer-supported child care. In the course of making contacts in Massachusetts, several promising and distinctive small business child care options in Vermont were also identified and added to the sample.

The case studies included organizations with a broad range of internal characteristics and external environments, and encompassed the spectrum of child care options:

- Major categories of child care assistance were represented. These broad categories include support for employees' child care costs, on-site programs, flexible work arrangements, and information and referral assistance.

- Within these major categories, several different types of assistance were represented. For example, the category of reimbursement includes several different salary reduction or benefit transfer plans, some with no cost to a firm other than administration, as well as outright employer contributions that are made in addition to salaries or other benefits.

- Collaborative activities among businesses were included. These collaborations included not only assistance to specific firms' employees but instances of firms' contributions to community-wide child care assistance projects. Cases where child care provision is itself a small business marketing to other small businesses or their employees, were also examined.
A wide range of businesses were included, with variation in terms of size, sector of the economy, type of organizational structure, recent growth rate and future prospects for expansion.

Differing labor market situations were found in the different states and communities. The cases focused on the various forms of the link between child care options and the firm's need to recruit, retain or improve the productivity of its personnel. There were some situations where immediate recruitment was a problem due to a labor shortage, others where retention of key personnel was a more critical issue. The case study firms varied in the proportion of employees who are women, the average age of employees, the types of jobs held by women and by parents of young children, and other characteristics that could affect the receptivity of the organization to child care options.

Initial telephone interviews were conducted with managers of approximately 40 companies to screen for the characteristics described above and to ascertain their availability for detailed research. Almost all firms were willing to answer the screening questions, which ran to 15 minutes on average.

Several reasons for nonparticipation in the full case study treatment were offered:

- The child care option no longer existed or was not in practice as it had been described to us.

- The child care option was completely informal and unwritten, and not something that the firm wanted analyzed or publicized, even with promise of anonymity. In some cases the benefit was being offered selectively rather than to all employees.

- Lack of time or interest in cooperating with the study.

- The firm turned out to be significantly larger than originally believed by BPA or our contacts.
A set of 22 organizations made themselves available for the full case studies. Eighteen of these were individual organizations with their own child care options and four were firms that organized collaborative efforts or provided child care services to other small businesses. Site visits were conducted in the three states during August and September, 1987.

An average of three interviews were conducted at each site, usually including the person most responsible for the decision to undertake the child care option, the person most involved in its day-to-day operations, and a user of the benefit. Questions varied according to the situation and the interviewee, but covered the following general topics:

- Characteristics of the firm, the employees, and the labor market.
- Other employee benefits and personnel policies.
- Origins of the child care option or options. Why and how it was selected, the nature of any outside information or assistance.
- Operating procedures for the child care option.
- Costs to the employer and employee of the child care option.
- Benefits to the employer and employees of the child care option.

On all site visits, company managers were asked for data on utilization, and on costs and benefits of the child care option, as well as for any analyses they had conducted of the impact of the program. Very few had conducted any such impact analysis. For most cases BPA was able to complete a basic profile of the number of users, the costs to users and to the firms, and the costs of administering the benefit, but statistical data for detailed cost-effectiveness studies were largely uncollected and unavailable. Employers do have strong perceptions of the impact of the programs, based on their day-to-day experience, but record-keeping and program evaluation have not been a priority.
Table 1 describes the firms analyzed for this report in terms of the characteristics described above.

In addition to the full case studies, BPA has compiled data on an additional five partial case studies, in which only one interview was conducted, or the profile of the child care option was otherwise abbreviated due to lack of additional information. These partial profiles are of options that were planned but never implemented, were discontinued some time ago, or only involved one or two people. Despite their brevity, these additional studies add breadth and diversity to the sample and provide some valuable insights about why programs succeed or fail.