Flexible work, good for business?

Modelling the bottom line impact of flexible work for the Office of Prevention and Women’s Equality (OPWE)

13 March 2018
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1 Executive summary

The Office of Prevention and Women’s Equality (OPWE) engaged Nous Group (Nous) to develop a model to calculate the financial return on investing in providing flexible work, and then to apply the model to three case study organisations. The objective was to provide evidence of the value of adopting flexible work practices, not just in terms of social responsibility, but also in terms of the organisational level benefits to the ‘bottom line’.

The work took place in the context of broader efforts by the Victorian Government to address a range of issues related to gender equality and access to services and supports in the wake of the 2016 Royal Commission into Family Violence. It is hoped that the outputs from this project will support the wider provision of flexible work arrangements by employers across the Victorian economy by presenting a strong business case for their adoption.

This report and the underpinning model reflects work done in late 2017 to first review the literature on the impact of flexible work, and second develop a framework for analysing the relationship between different types of flexible arrangements and productivity. We then developed and tested the model with the three case study organisations: the Victorian Department of Environment, Land, Water and Planning (DELWP), Mercy Health and Wannon Water. Nous would like to express its great appreciation to the staff in those organisations for their cooperation and assistance throughout.

The high-level results of the analysis are shown in Figure 1, which shows that flexible work delivers a significant net saving each year for all three organisations.

Figure 1: Return on investing in flexible work for DELWP, Mercy Health and Wannon Water

This report outlines the documented benefits and costs of flexible work to individuals, organisations and society as a whole which informed our model and confirmed the absence to date of a comprehensive mechanism for quantifying these benefits. It then (in Section 3) details the cost of providing flexible work arrangements for each of the three case study organisations, as well as the savings flexible work delivers to them. We calculate the annual impact of flexible work in dollar terms as a net saving before drawing out...
insights about which types of arrangements deliver the greatest return and the critical implementation success factors.

Section 4 explains our model in more detail, including the underlying hypotheses, methodology and assumptions. This is designed in such a way as to enable other organisations to easily undertake similar analysis. The appendices include an example from the model as well as sample data requests and survey questions. The model itself will be made available as an MS Excel file as an accompaniment to this report.

Nous is pleased to have had the opportunity to develop a more definitive and comprehensive approach to quantifying the benefits of flexible work arrangements and trusts that it will be of practical benefit to organisations contemplating a move in that direction. That said it is important to note that any model is based on assumptions that might vary with context. In building our assumptions we have extrapolated from evidence that is patchy. Our hope, therefore, is that with more analysis, and wider implementation of flexible work, we will see the evidence base for the ‘bottom line’ benefits of flexible work grow to become even more compelling.
2  OPWE engaged Nous to model the return on investing in flexible work

The Office of Prevention and Women’s Equality (OPWE) aims to promote women’s equality in all facets of life in Victoria. Noting that access to flexible work is an important enabler of women’s equality in the workplace and, realising that many Victorian organisations do not offer such arrangements, OPWE saw a need to promote the benefits of flexible work more widely. It therefore commissioned Nous Group (Nous) to develop a model for calculating the financial return on investing in flexible work, and to do so in partnership with three case study organisations that are leaders in flexible work practices in Victoria.

OPWE’s intention was to test the proposition that flexible work is ‘good for business’ and, if this could be demonstrated in financial terms, to then use this evidence to promote wider and deeper implementation of flexible work practices, particularly sectors that to date have not shown much interest.

In this section we outline some of the commonly identified benefits and costs of flexible work at the individual and organisation level, and how these were translated into our model. We also provide a brief overview of the three case study organisations: the Department of Environment, Land, Water and Planning (DELWP), Mercy Health and Wannon Water.

What we mean by flexible work

For this project, consistent with accepted Australian and international definitions of flexible work we consider three categories of flexible work arrangements namely those which provide flexibility in terms of hours of work, patterns of work and location of work.

Within these categories we identify ten types of flexible work arrangements:

1. Part-time work
2. Purchased leave
3. Unplanned leave
4. Parental leave beyond statutory requirements
5. Flexitime
6. Compressed working weeks/hours
7. Time in lieu
8. Job-sharing
9. Flexible career management
10. Working from home/telecommuting.

2.1 The business case for flexible work is not well understood

The conventional wisdom is that flexible work is not only good for individuals but is also good for business. More and more organisations are offering increasingly sophisticated flexible work arrangements in the hope of reaping benefits in the form of more engaged, loyal and productive employees, and to enhance their ability to attract and retain top talent. Many of these benefits have been empirically demonstrated across a range of work contexts throughout the world.

However, rarely have they been quantified in a way that enables easy calculation of the return on investing in flexible work. This partly reflects the fact that the costs or challenges of implementing flexible work have been less thoroughly analysed.

Modelling the return on investing in flexible work requires a clear framework to use that shows the relationship between a certain variable (or combination of variables) and individual productivity and other organisational costs and how that translates to overall financial performance. In other words, while identifying and demonstrating a single benefit arising from flexible work is relatively simple, understanding the cumulative impact of all the benefits and costs of flexible work, and how they affect organisational performance is far more challenging.
This means that organisations offering flexible work are in many cases ‘flying blind’, without an understanding on the impact of their flexible work policies and practices on their performance.

Based on a literature review, we see the key benefits and costs of flexible work for individuals and organisations being those set out in Table 1.

Table 1: Benefits and costs of flexible work

<table>
<thead>
<tr>
<th>Benefits to individuals working flexibly</th>
<th>Costs and challenges to organisations offering flexible work</th>
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<tbody>
<tr>
<td>• The ability to participate in the workforce for people who may otherwise not be able to participate for example due to caring responsibilities, health issues or their location.</td>
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<tr>
<td>• Improved work-life balance by making it easier to balance work with responsibilities and interests outside of work.</td>
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<td>• Increased job satisfaction and a greater sense of autonomy for one’s own work.</td>
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<td>• Greater opportunities for success at work for people who require flexibility where flexible work is normalised and commonplace and working flexibly is respected.</td>
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<td>• Improved staff productivity (employees getting more done in a working day) arising from greater employee motivation and engagement; from work environments more conducive to focussed work; and from employees working at the time and place in which they are most effective.</td>
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<tr>
<td>• Enhanced ability to attract quality employees including both employees who require flexibility and employees who are attracted to the organisation because it enjoys a reputation as an employer of choice.</td>
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<tr>
<td>• Enhanced ability to retain experienced staff due to the greater job satisfaction and commitment to their employers as well as the ability to manage major life changes such as the birth of a child.</td>
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<td>• Improved employee health, safety and wellbeing due to lower stress levels and healthier lifestyle practices.</td>
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<tr>
<td>• Reduced absenteeism due to improved health, safety and wellbeing and due to the ability of employees to readjust their work schedule to meet other commitments or to work from home if they choose without the risk of infecting colleagues.</td>
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<tr>
<td>• Greater workforce diversity and, in particular, diversity in terms of gender, age and ability/disability due to better options for people who find it difficult to work a conventional Monday to Friday, nine to five working week in the office.</td>
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<tr>
<td>• Enhanced customer service arising from a sense of reciprocity among employees, which leads to a greater effort to meet the needs of customers.</td>
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<tr>
<td>• Greater innovation capacity which may result from being able to work during quiet times and through greater autonomy which engenders a stronger sense of empowerment and provides the circumstances and motivation to innovate.</td>
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• Infrastructure costs may be positively or negatively impacted by flexible work. Office space requirements may be reduced with more employees telecommuting or working part-time but additional investments in IT infrastructure and equipment for flexible working may be required.

• Employee fixed costs including costs of induction, management, and support services (such as payroll) are higher for organisations which have larger numbers of employees working part-time (i.e. a significantly higher headcount as compared to FTE).

• Improving managerial capability to equip managers to manage flexible teams.

• Managing performance of flexible employees particularly for employees who are telecommuting where time spent working is not easily observed.

• Administrative support for flexible work: including supporting the negotiation of flexible work arrangements and ensuring organisational systems support flexible work arrangements.
2.2 Nous was engaged to model the return on investing in flexible work

While part-time work is commonplace in many industries, flexible work is still far from being the norm in Victoria. The Workplace Gender Equality Agency’s gender equality indicators reveal that, while 45 per cent of Australian employers have policies on flexible work and family and caring responsibilities, only around 13 per cent have a strategy for implementing such policies. Clearly in some cases the issue is translating the intent into practice, while in others, the argument in favour of flexible work has not been compelling enough.

Victoria’s Gender Equality Strategy ‘Safe and Strong’ sees variable access to flexible work arrangements as a contributor to the gender gap in workforce participation and argues that improved access for both men and women to flexible work arrangements will improve workplace gender equality. It makes the link to safety, noting that “(i)f we are serious about ending violence against women, then we must begin by addressing gender inequality.”

OPWE engaged Nous to quantify the benefits of flexible work in terms that would resonate with businesses. The key hypothesis to test is that, if organisations are not persuaded by the social benefits, perhaps they would be more responsive to evidence of a financial return on investing in flexible work.

Flexible work and gender equality

Flexible work supports gender equality in two important ways:

- **Enabling women’s participation in the workforce**: Women in Australia still carry most of the responsibility for raising children, with ABS data showing that in 2015-16, 95 per cent of primary parental leave used by non-public sector employees was taken by women. Women are also more likely than men to have other caring responsibilities. In 2015 the proportion of women who provided primary care to a person with a disability was twice the proportion of men. For women with caring responsibilities flexible work arrangements enable them to participate in the workforce.

- **Supporting women’s success in the workplace**: In organisations where flexible work is normalised, common and taken up by both men and women, both men and women have equal opportunities for success in the workplace.

As noted above, Nous developed a model for quantifying and analysing the benefits and costs of flexible work at the organisational level which we then applied to the three case study organisations; DELWP, Mercy Health and Wannon Water. The organisations share a strong commitment to flexible work but are otherwise quite different in terms of size, sector and operational context.

Figure 2 provides an overview of the three organisations.

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Figure 2: Organisations reviewed

A Victorian Government Department charged with Victoria’s planning, local government, environment, energy, suburban development, forests, emergency management, climate change and water functions.

A not-for-profit Catholic provider of acute and subacute hospital care, aged care, mental health programs, specialist women’s healthcare, early parenting services, palliative care, home and community care.

A statutory corporation supplying water and sewerage services to residential, commercial, industrial and rural customers.

More information on each of these organisations is provided in section 3.
3 Flexible work delivers net savings to all three organisations

This section sets out the return on investing in flexible work for each of the three case study organisations. Figure 3 shows that for all three organisations, flexible work delivers a net cost saving. We find that the key drivers of cost savings (the key benefits of flexible work) are improved direct labour productivity, an enhanced ability to recruit quality candidates and improved retention of experienced employees. This is analysed in more detail below. We also set out here the expected return on investment over five years, as well as the annual return on investment as a proportion of revenue to give a sense of the scale of the saving. Finally, we provide additional context on the organisations and insights on approaches to implementing flexible work.

Figure 3: Return on investing in flexible work for DELWP, Mercy Health and Wannon Water

We have presented the findings as a cost saved

There are many ways to communicate a return on investment (ROI) or cost-benefit analysis model. We have chosen to present the results as the net amount that the organisation would have to spend in the absence of flexible work to achieve the same productive output. This net amount is comprised of the cost savings from flexible work minus the additional costs incurred in the provision of flexible work. We believe this is the truest explanation of the model and judge it also to be a form that is easily usable and understandable by an organisation.

It is important to note that Nous is not suggesting that our figure is a direct revenue gain to the organisation. Nor are we suggesting a ratio of benefits gained to investment costs (as is shown in a true ROI model), as we are looking at annual ongoing costs rather than the costs of an initial investment in flexible work.
3.1 DELWP saves $31m each year due to flexible work
Pages 9 and 10 detail our findings for DELWP

3.2 Mercy Health saves $23m each year due to flexible work
Pages 11 and 12 detail our findings for Mercy Health

3.3 Wannon Water saves $150,000 each year due to flexible work
Pages 13 and 14 detail our findings for Wannon Water.
Department of Environment, Land, Water and Planning

ORGANISATIONAL PROFILE
The Department of Environment, Land, Water and Planning (DELWP) is a Victorian government department with responsibility for Victoria’s planning, local government, environment, energy, suburban development, forests, emergency management, climate change and water functions.

Staff roles include:
• policy staff
• project managers
• corporate staff
• scientists
• firefighters
• field staff

DELWP (and the agencies that existed separately before DELWP’s formation) has always had elements of flexible work but recent changes that really promoted update of flexible work include:

2015
introduction of “all roles flex” where all roles can be flexible in some way

2016
Development of the Diversity and Inclusion Strategy 2016-2020 including a target that “everyone who wants and needs to work flexibly at DELWP is able to work to a flexible arrangement.”

Leadership is critical
Adam Fennessy, former Secretary of the Department, is a Male Champion of Change and strong advocate for flexible work. While most policies for workplace flexibility were already in place before his tenure, Fennessy changed the perceptions of flexible work. Current Secretary John Bradley has continued in this strong support, DELWP used a story-telling campaign - #how we flex

- to change the culture around flexibility, Employees told stories of why they work flexibly and what it delivers,

TYPES OF FLEXIBLE WORK USED

- Flextime: 54%
- Work from home: 29%
- Part-time work: 20%
- Purchased leave: 8%
- Compressed hours: 4%
- Job share: 1%
DELPW saves $31m each year due to flexible work

Each year, DELWP achieves a cost saving of $41m and incurs a cost burden of $10m as a result of flexible work. In other words, in the absence of flexible work, DELWP would have to spend an additional $31m to achieve the same output due to reduced organisational productivity.

![Diagram showing cost savings and cost burdens](image)

- **$41m Annual savings**
  - Direct labour productivity: $29m
  - Retention: $8.6m
  - Absenteeism: $2.4m
  - Recruitment: $630k

- **$10m Annual cost**
  - Backfill for extended leave: $75k
  - Flex implementation: $400k
  - Marginal IT expenses: $570k
  - Marginal onboarding burden: $790k
  - Management burden: $8m

**Flexibility supports employee wellbeing in fire season**

Demands on employees during fire season can be intense. Fatigue and trauma are real concerns. We have fatigue policies in place, but we’re also flexible about when people return from a deployment. Workplace flexibility is crucial to the wellbeing of our employees.

**Annual net impact**

- $31m

**Annual net impact as a proportion of output appropriations**

- 2.24%

**5-year impact: return on investment**

- $135m
Mercy Health

ORGANISATIONAL PROFILE
Mercy Health (Mercy) is a Catholic not-for-profit organisation which provides a range of health, aged and community care services to communities across Australia.

Staff roles include:
- corporate
- nursing staff
- aged care workers
- hospital administrators

HISTORY OF FLEXIBLE WORK:
Mercy Health has had a long history of flexible work, but placed increased emphasis on flexibility with the introduction of the:

- 2012 ‘STEPPI NG STONES’ program (facilitates conversations about flexibility between managers and their staff)
- 2015 another concerted increase in the focus on workplace flexibility

Mercy Health is one of only five healthcare organisations across the country to be awarded the EMPLOYER of CHOICE for GENDER EQUALITY citation from the Workplace Gender Equality Agency. Flexible work is a key component of this citation.

A shortage of nurses raises the importance of flexible work for Mercy
There is a shortage of nurses in Australia.

By 2030, there will be a shortfall of over 100,000 nurses.

In this competitive hiring environment it is a strategic imperative for Mercy Health to be an employer of choice, particularly for women, who make up the majority of a nursing workforce. Mercy sees flexible work as critical to being able to recruit and retain enough quality nurses.

TYPES OF FLEXIBLE WORK USED

- Part time work: 51%
- Flexitime: 26%
- Time in lieu: 21%
- Unplanned leave (e.g. carer’s): 19%
- Working from home: 18%
- Purchased leave: 6%
- Career break / study leave: 5%
- Job sharing: 5%
- Compressed hours: 3%
- Extended parental leave: 2%
Mercy Health SAVES $23m each year due to flexible work

Each year, Mercy Health achieves a cost saving of $47m and incurs a cost burden of $24m as a result of flexible work. In other words, in the absence of flexible work Mercy would have to spend an additional $23m to achieve the same output due to reduced organisational productivity.

$47m Annual savings
  - Direct labour productivity: $26m
  - Retention: $17.4m
  - Recruitment: $3.7m
  - Absenteeism: $420k

$24m Annual cost
  - Backfill for extended leave: $3k
  - Office rental expenses: $400k
  - Flex implementation: $490k
  - Management burden: $960k
  - Marginal IT expenses: $4.4m
  - Marginal onboarding burden: $17.6m

A solutions-focused attitude towards flexibility

Business needs must come first. For us, that means the patient is always at the centre. So not every type of flexibility is possible in every role. For example, every day some nurses will have to work nightshifts. But there should always be a way to make some form of flexibility work for everyone. That’s the approach we take here.
Wannon Water

ORGANISATIONAL PROFILE
Wannon Water is a statutory corporation that supplies water and sewerage services to over 60,000 people across south-west Victoria. It is a major employer in the region, with over 200 employees.

Staff roles include:
- operational
- engineering
- financial
- environmental
- administrative

220 employees
32% Female
23% of employees work flexibly

HISTORY OF FLEXIBLE WORK:
Wannon is at the beginning of its flexible work journey. While part-time work has always been an option, in the last couple years Wannon has developed policies for a broader range of flexible work arrangements (e.g. purchased leave, flexitime) and promoted wider uptake. It is currently piloting a work-from-home policy.

Managers are the catalysts of change
For flexible work to be successful, it needs capable and willing managers.

A flexible work policy alone is not enough: managers need to be supportive of flexible work, aware of its benefits, and savvy about how to manage flexible teams to reap the benefits and protect against the risks. Wannon is investing in upskilling their managers to embrace flexibility.

WORKPLACE FLEXIBILITY HAS DIFFERENT IMPLICATIONS FOR REGIONAL EMPLOYERS
As one of the major employers in the region, Wannon experiences workplace flexibility differently to metropolitan employers.

The financial drivers associated with recruitment and retention are less strong because flexibility tends to be less of a decision factor in choosing where to work (or continue to work) when there are less employers to choose from.

In a small community, everyone needs to do their bit. Workplace flexibility enables employees to volunteer in the community, e.g. using flexible hours to volunteer as lifeguards.
Wannan Water SAVES $150,000 each year due to flexible work

Each year, Wannan Water achieves a cost saving of $288,000 and incurs a cost burden of $138,000 as a result of flexible work. In other words, in the absence of flexible work Wannan would have to spend an additional $150,000 to achieve the same output due to reduced organisational productivity.

$288K Annual savings
- Direct labour productivity: $250,000
- Recruitment: $33k
- Retention: $6k
- Absenteeism: $0

$138K Annual cost
- Backfill for extended leave: $1k
- Marginal onboarding burden: $3k
- Flex implementation: $41k
- Management burden: $45k
- Marginal IT expenses: $50k

The Importance of trust

"Flexible work is about trust. The organisation needs to trust us, the staff, to do the right thing by the organisation when we work flexibly. But it's a two-way street: giving us this trust and flexibility means we are happier to give more back to the organisation. It's better for everyone."
3.4 There are common lessons across the organisations

There were a number of themes that emerged across all three organisations about what works and does not work in implementing flexible work arrangements. These have a bearing on the extent to which the full benefits of flexible work can be realised and therefore offer insights to other organisations going through a similar process.

Implementing flexible work is an incremental process

The three case study organisations took different paths to implementing flexible work and introduced different arrangements over different timeframes.

Flexible work tends not to be implemented as a single package but instead reflects a series of incremental changes, often starting with part-time work and job-sharing before progressing to flexible start and finish times, and later to remote working; punctuated with more significant interventions. (We note that this as a reason why the evidence on benefits is somewhat ‘loose’ that is, because initiatives can roll into each other.) For example, DELWP advised that while they had always provided flexibility on an ad hoc basis, their approach fundamentally changed with the decision to advertise all roles as flexible. Although the policy remained the same, this decision significantly shifted the culture of flexibility.

Taking a staged approach to implementing flexible work enables organisations to test what works and allow the organisation’s culture and work practices to catch up with its strategic direction and policies on flexible work.

Organisations can offer flexible work without compromising customer service

The degree of flexibility varies according to what’s practical. All three case study organisations noted that their respective flexible work arrangements were designed to meet the needs of their customers. Whether the customers were ministers and citizens in the case of DELWP, patients in the case of Mercy Health or water consumers in the case of Wannon Water, each organisation emphasised the importance of meeting customer expectations and noted that this required people to be available to work in certain places, in certain ways and at certain times.

Despite these parameters, all three organisations had found ways to offer at least some degree of flexibility for their staff. For example, Mercy Health noted that their organisation required nurses to work shifts to ensure they had enough nurses available at any given time. In order to provide more flexibility within this limitation, Mercy Health is trialling an arrangement in which nurses work together to agree their own shifts with their colleagues, giving nurses greater autonomy over their work.

On the other hand, flexible work can support organisations to better meet their customers’ needs. For Wannon Water, using flexible start and finish times where these are varied across members of a team enables the organisation to provide even better customer service as support is available over a longer work day.

Context is important in understanding the benefits of flexible work in any organisation

The three organisations operate in vastly different contexts which directly impacts the costs and benefits associated with flexible work. We made minor adjustments to our model to account for these differences – for example by modifying assumptions about recruitment and retention to reflect the competitiveness of the hiring environments for Wannon Water and Mercy Health.

To explain; Wannon Water is one of few major employers of highly skilled workers in Warrnambool. Consequently, there is limited competition for skilled staff and turnover is low. This means that the recruitment and retention benefits of flexible work are less pronounced for Wannon Water than for other organisations. By contrast, Mercy Health faces the challenge of severe nursing shortages. Moreover, as its nursing workforce overwhelmingly female, flexible work is relatively much more critical for recruitment and retention.
Supportive leadership is critical to the ‘normalisation’ of flexible work arrangements

The case study organisations emphasised the importance of supportive leadership for turning a flexible work policy into an organisational reality. Leaders who work flexibly themselves and who openly support flexible work can set the tone for a whole organisation.

Each organisation said that policy changes were rarely sufficient on their own to create the ‘lived experience’ of flexible work for employees. The organisational culture needed to change as well.

DELWP noted the important role that their organisation’s former Secretary, Adam Fennessy, had played in normalising flexible work when it was first introduced. He was an outspoken advocate for flexible work and a Male Champion of Change who worked flexibly himself (including working a day a week in the DELWP office in Bendigo where he lived). This created a much stronger authorising environment for those who wished to access flexible working arrangements or support their staff in doing so.

Managers should be supported to manage flexible teams

Leading a flexible team presents new challenges for managers. They must first be able to properly weigh up requests for flexible arrangements, noting that granting flexibility to some staff may have consequences for others or for broader team solidarity. Each of the three organisations mentioned the importance of a policy that assumes a default ‘yes’ response to any reasonable request, but noted it was not always possible to grant all requests while continuing to meet customer expectations. This can necessitate tricky judgement calls and difficult conversations with staff. Our model includes the additional management burden of flexible work.

Managers also face challenges in managing teams who may not always be present in the office. This means managers need to measure their team members’ performance by their output, not their visible activity. More fundamentally, it signals a letting-go of control and allowing staff to operate more autonomously, which can be a difficult adjustment for some. To help managers re-orient, they need to develop deeper capability in setting expectations and holding staff to account.

On a practical level, managing a flexible team can present challenges in organising meetings that require face-to-face contact. Apart from the logistical problems, this can potentially interfere with team cohesion.

The three organisations were each focussed on helping managers to operate effectively with flexible teams (noting that managers themselves would often encounter similar issues with their own supervisors, but from an employee perspective). DELWP and Wannon Water provide formal training for managers in their flexible work policies and Mercy Health provides informal awareness sessions such as morning teas to address any issues arising related to flexible work.
4 Our model could be used by other organisations

The Nous model was designed to be used by any organisation. Its logic and structure are clear, and the process involved in re-creating the results using different datasets is relatively simple. In this section, we provide an overview of how the model works, including the assumptions that are built in (but can be varied). It concludes with some ‘tips and traps’ advice for those who might wish to replicate the analysis in their organisation. The Appendices and accompanying MS Excel workbook provide further detail on each specific component of the model as well as resources such as an outline of required data and questions for a staff survey. Further background information can be found also in our literature review.

4.1 Our model calculates annual savings and additional costs of flexible work

We constructed our model in an MS Excel workbook that enables calculation of the financial impact of each of the benefits and costs of flexible work. It uses data from three organisations and an employee survey we conducted for each of the case studies. We drew on our literature review, interviews and workshops to develop the underpinning assumptions and assign financial proxies.

A diagrammatic representation of the model is provided in Figure 4. The model includes four types of savings and six types of additional costs that arise from flexible work. The savings and additional costs reflect the impacts of flexible work identified in our literature review with a small number of modifications including:

- Some benefits are not included where they would result in double counting of benefits. For example, greater diversity was considered (see Figure 15) but is not included in the calculation. This is because we expect the benefits of diversity to be captured as an increase in direct labour productivity.

- Some benefits have not been included where we judge that their impact on flexible work is very indirect or the evidence is limited. For example, we have not included enhanced innovation capacity in our model because we do not consider this link to be compelling.

For ‘benefits’, we calculate cost savings rather than revenue gain because this is a truer reflection of the value of flexible work and simpler to attribute. It also enables like-for-like comparison between our private and public sector case studies, given revenue is not particularly informative as an output measure for a government department. So, for example, to measure the financial impact of direct labour productivity, we calculate the salary saving that comes with having more efficient employees i.e. we assume that, in the absence of flexible work (and so in the absence of this enhanced direct labour productivity) the organisation would have to hire more employees, and therefore pay more in salaries to deliver the same amount of work.

Many of the cost additions in our model are the result of a difference between the total number of employees (headcount) and the full-time equivalent (FTE) employees. This is because flexible work often involves staff working less than a full-time equivalent load. In other words, many of the costs identified relate to the additional corporate overhead costs arising from employing more people than would be required if every employee worked full-time. The corporate overhead costs include costs of recruitment, IT, HR support and additional accommodation (assuming no hot-desking).

These additional corporate overhead costs have been accounted for in the calculations for ‘management burden’, ‘marginal onboarding burden’, ‘marginal IT expenses’ and ‘office rental costs’.

An overview of our hypothesis, method and assumptions for each of the four types of cost saving and six types of cost are included in section 4.2.

For a detailed breakdown including calculations, please see the accompanying MS Excel model itself. Note that we have provided a de-identified model with dummy data for illustrative purposes only, to protect the confidentiality of information from each case study organisation.
We have calculated a five-year projection for each organisation to give a sense of what the impact may be over a longer period. There a couple of points to note about this:

- For Mercy Health and DELWP, we assume that all factors remain constant over the five years (e.g. uptake of flexible work, headcount, salary expenditure).

- For Wannon Water, for the purposes of illustration, we have assumed that over five years flexible work uptake increases to be in line with the other case study organisations (75% uptake) and efficiency of managing flexibility requests also improves to be in line with the other case study organisations, but all other factors remain equal (e.g. salary expenditure, headcount). This recognises that Wannon Water is earlier in its flexibility journey, and that the organisational impacts of flexible work change as it becomes more established.
Figure 4: Diagrammatic representation of the model

**Savings from flexible work**

- **Direct labour productivity**: Working more efficiently and effectively as a result of greater engagement and working in ways that suit individuals’ work styles.
- **Recruitment**: Being able to fill vacant positions with the best quality candidates quicker and more consistently.
- **Retention**: Retaining experienced talent.
- **Absenteesim**: Reducing the frequency of absenteeism as employees have the option to telework from another location.

**Additional costs of flexible work**

- **Management burden**: Managing a larger workforce due to more part-time staff.
- **Marginal onboarding burden**: Onboarding a larger workforce due to more part-time staff.
- **Flex implementation**: Ongoing implementation costs for flexible work.
- **Marginal IT expenses**: Providing IT for a larger workforce due to more part-time staff.
- **Flex employee backfill**: Backfilling gaps left by employees on extended leave.
- **Office rental costs**: Using a larger office space due to a larger workforce (more part-time staff).

**NET IMPACT = COST SAVINGS FROM FLEXIBLE WORK - ADDITIONAL COSTS OF FLEXIBLE WORK**

**Positive financial impact**

**Negative financial impact**
4.2 Methodology and assumptions

This section provides an overview of the methodology and assumptions used to quantify each cost and benefit. As indicated in Figure 4, there are four types of benefits and six types of costs considered. The following pages set out, for each cost or benefit: the guiding hypotheses, the method for calculating the cost saving or cost addition, and the assumptions that underpin the calculations.

Wherever possible, we have grounded the assumptions in evidence gathered through our literature review and validated through our interviews and workshops. However, there is inevitably a requirement in any model to make judgements and to generalise from either limited samples or from analyses done in different contexts. This is the case for our model, while some of the assumptions are grounded in strong evidence, others are less robust. Where evidence is more limited we have generally used more conservative assumptions.

We have conducted sensitivity analysis on the key assumptions underpinning the two biggest drivers for both costs and benefits for each organisation. This enables us to see how robust the findings of the model are to changes in the underlying assumptions. The sensitivity analysis shows that even with significant changes to the core assumptions in the model, the resultant return to flexible work is still positive (with the exception of the most conservative scenario for Wannon Water, which shows a slight negative return). This implies that on the whole our key finding of a positive return to flexible work is robust, even if the core assumptions in the model were to change. Greater detail on the sensitivity analysis is presented in Appendix A.

For further detail on the model, refer to the full MS Excel workbook which includes the model calculations and each assumption in detail and how it drives the model.
Flexible work has a positive and substantial direct labour productivity impact for employees, which has a corresponding financial impact in reduced salary expenditure required to produce the same output.

**METHOD**

We measure the self-reported employee productivity change due to flexible work, then calculate the organisation-wide productivity impact of the productivity increase. Productivity impact is measured as cost savings, calculated as salaries saved by having a more efficient workforce.

**ASSUMPTIONS**

Employees who report flexible work “makes me a lot more productive” have a corresponding productivity increase of 15% due to flexible work. This is based on EY research and a Stanford publication which both cite a 20% productivity increase as a large impact. We’ve scaled it down to 15% as a conservative estimate, given flexible work is unlikely to be the only driver of improved employee productivity. This equates to approximately 1 hour/day of increased output (working smarter, not longer). Employees who say flexible work makes them “a little more productive” have a 7% productivity increase (approximately half the “big” increase). Those who report a negative (or strongly negative) relationship between flexible work and productivity have a 7% or 15% decrease in productivity respectively.

If the workforce is more productive, they will need to pay a corresponding amount less in salaries to deliver the same amount of work.

The impact of flexible work on employees’ productivity (working smarter and better) as measured through the Nous flexible work survey is accurate and representative of those who work flexibly across the whole organisation. We split the analysis by gender, given the different uptake (and potentially different experience) of flexible work between men and women.
Flexible work allows organisations to fill vacant positions with the best quality candidates quicker and more consistently, as flexible work makes them “employers of choice”. This means they attract a deeper pool of talented candidates who may otherwise not have applied.

**HYPOTHESIS**

**METHOD**

We calculate the cost savings of having flexible work arrangements in terms of recruitment. This is calculated as the number of roles that would not have been filled by their current candidate if there were no flexible work arrangements, and then a cost estimate of the three different scenarios under which this role would need to be filled by a different candidate: a) filled by another suitable candidate; b) vacant for longer; c) filled by the “wrong person” (a bad hire).

**ASSUMPTIONS**

Of the roles that would not have been filled in the absence of flexible work arrangements:

- 50% would have been filled by another suitable candidate. This has zero cost impact
- 20% would have been vacant for longer. This has the cost equivalent to hiring a contractor for two months with a 10% premium on a typical salary
- 30% would have been filled by the ‘wrong person’ (i.e. a bad hire). This has a cost equivalent to 30% average salary, based on research on the cost of a bad hire from the US Department of Labor.

The impact of flexible work on employees’ decision to work at the organisation as measured through the Nous flexible work survey is accurate and representative of those who work flexibly across the whole organisation.

We split the analysis by gender, given the different uptake (and potentially different experience) of flexible work between men and women.
Positive financial impact

Retention

HYPOTHESIS

Flexible work helps organisations retain experienced talent, thereby reducing the corresponding direct and indirect employee turnover costs.

METHOD

We approximated the number of people who would leave the organisation if it wasn’t for flexible work arrangements using self-reported survey data. We then calculated the costs of hiring a new candidate to fill this position based on: a) direct recruitment costs, and b) indirect costs of employee turnover (i.e. lost productivity, training costs).

ASSUMPTIONS

Of the staff who report that flexible working was their main reason for staying, we assume that 80% would leave for a competitor in the absence of flexible workplace arrangements. Of those for whom it was one of the main reasons to stay, we assume that figure to be 20%.

The costs of hiring a new candidate to fill a position are: a) direct recruitment costs, b) indirect costs of employee turnover (lost productivity, training costs).

We conservatively assume both direct and indirect costs of employee turnover as 15% of a position’s annual salary respectively. This is based on Australian Public Service (APS), estimates of direct recruitment costs of 15% to 25% of a position’s annual salary. Further literature has suggested that new APS recruits typically perform at only 60% of their productive potential when they are first appointed, reaching 100% only after they have been in a position for a year. (Note: Wannon data has good estimates of recruitment and onboarding costs, so we used this data in lieu of the assumption.)

The impact of flexible work on employees’ decision to continue to work at the organisation as measured through the Nous flexible work survey is accurate and representative of those who work flexibly across the whole organisation.

We split the analysis by gender, given the different uptake (and potentially different experience) of flexible work between men and women.
Flexible work reduces the cost of unplanned absenteeism, as some employees have the option to telework from another location when they would otherwise have taken the day off.

**METHOD**

We calculate cost savings from reduced unplanned absenteeism as a result of flexible work arrangements. This is calculated using the portion of employees on leave (including sick leave, carers’ leave, compassionate leave, parental leave, jury duty, etc.) with the option to telework from home or another location. We estimate the extent to which this will reduce absenteeism and the corresponding salary saving associated with reduced payments of salaries to absent workers delivering no productive output.

**ASSUMPTIONS**

Flexible work has been linked to happier and healthier staff, leading to greater productivity and lower absence rates. We assume this effect has been captured in our productivity measure and instead here focus on cost savings due to reduced absenteeism exclusively as a result of the option to telework (i.e. work from home or another location).

The benefits of reduced absenteeism only apply for roles that can be conducted using telework. Therefore, these benefits only apply to office staff, not field staff or nursing staff.

For employees with the option to telework, we assume flexible work arrangements reduce unscheduled absences by 63%. This is based on a research done by the American Management Association, which found that businesses with a telework program realised a 63% reduction in unscheduled absences (for employees who have the option to telework).

The financial impact of reduced absenteeism is expressed through salary saving. That is, if an employee is absent, employers will still need to pay salaries even when workers deliver no productive output. This “wasted” salary expenditure is reduced if the number of absence days is reduced.
Figure 9: Management burden

HYPOTHESIS

Flexible work results in a larger workforce (due to the uptake in part-time or casual work); which increases the corresponding direct and indirect employee management costs.

METHOD

We calculate the costs due to increased management burden as a result of flexible work arrangements. These costs are comprised of: a) managerial cost (direct), and b) overhead cost (indirect).

For example, if two employees were job-sharing, a) their manager would spend time to train and manage both employees, and b) the back office support team (including HR, Finance and IT, etc.) would also need to support both employees. The former reduces productive manager time due to increased supervision burden. The latter increases overhead costs due to increased back office workload.

ASSUMPTIONS

a) Direct managerial cost

Managers spend 25% of their time supervising their team. This is based on a McKinsey report (2009), which has found that “(Managers) spend only 10 to 40 percent actually managing frontline employees by, for example, coaching them directly”. For DELWP we adjusted across VPS bands to reflect time spent on management at each level.

Managers require more time to manage flex teams (e.g. teams with more part-time employees, remote employees, or teams working different hours). For example, managers require additional time when supervising two part-time employees instead of one full-time employee. Therefore, we assume that managers require an additional 5% (i.e. a 20% increase) supervision time when managing flex employees. In the absence of flexible work arrangements, managers would have been able to focus that time on productive activities.

b) Overhead cost

We assume that a larger workforce would incur greater overhead costs, given each employee has certain fixed costs (e.g. performance management, training, IT support etc.). If the organisation only hired full time employees (as opposed to flexible, part-time or job-sharing employees), it could reduce its workforce. The 'additional' workforce due to flexible working has an associated additional overhead cost which we calculate based on an approximation of the fixed overhead costs per employee using data provided by the organisation.
**HYPOTHESIS**

Flexible work results in a larger workforce (due to the uptake in part-time or casual work), thereby increasing recruitment and training costs.

**METHOD**

We calculate the cost addition for having flexible work arrangements in terms of onboarding cost (i.e. recruitment and training costs). Due to flexible work arrangements, the organisation has a larger workforce than if it had only accepted full-time employees (i.e. comparing the actual number of employees against FTEs). Hence there have been two cost additions associated with onboarding additional flex employees: a) recruitment cost, and b) training cost.

**ASSUMPTIONS**

Due to the uptake of part-time work, the organisation’s headcount is larger than its required FTE. This has a corresponding cost for recruiting and training the additional staff who would have not needed to be hired if everyone worked full-time.

We use the same assumptions as in our “Recruitment” calculation.
Flexible work incurs ongoing implementation costs to manage the relevant work arrangements.

**METHOD**

We calculate the cost addition for having flexible work arrangements in terms of implementation costs. We identify and calculate the two costs of effective flexibility implementation: a) awareness training cost, and b) program management cost.

*Note, for this analysis, we are only concerned with ongoing annual implementation costs of flexible work arrangements. We are not including the initial roll-out costs.

**ASSUMPTIONS**

Each employee spends on average 0.3 days per year attending awareness training for flexible work or other associated promotional activities for flexible work. This has a corresponding salary cost as salary is being spent on employees who are not engaged in delivering productive output.

To ensure an effective and competitive flex policy is in place, the HR division is responsible for managing its flexible work arrangements (e.g. making updates to the policy, scheduling training sessions and resolving flexibility related disputes, processing flexibility requests etc.). This time differs per case study organisation:

DELWP: Based on discussion, DELWP’s HR team spends approximately 1% of their time managing its flexible work arrangements.

Wannon: Based on discussion with Wannon, we estimate their HR team spends approximately 0.4 FTE managing flexible work requests. We also assume each manager spends 2 hours processing/approving/negotiating each flexibility request. For the five-year projections we assume that the time HR spends managing work flexibility decreases to a minimal 0.05 FTE, as the organisation develops stronger processes and procedures in place.

Mercy Health: Based on discussion with Mercy, we estimate their HR team spends approximately 8 hours processing complex flexibility requests and 1 hour processing simple flexibility requests.

We calculate the approximate salary cost associated with this time which would otherwise be spent on productive outputs.
Flexible work results in a larger workforce (due to the uptake in part-time work), thereby increasing the corresponding total employee IT expense.

**METHOD**

We calculate the cost addition for having flexible work arrangements in terms of IT costs. This is calculated as the increased IT expense of a larger workforce (i.e. comparing the actual number of employees against FTE) due to flexible work arrangements.

**ASSUMPTIONS**

Due to the uptake of part-time work, the organisation’s headcount is larger than its required FTE. This has a corresponding increase in IT spend, since IT teams need to set up each and every employee with the relevant IT equipment.

The organisation have provided an approximate IT expense per employee. We have multiplied this by the number of ‘surplus’ positions (as the difference between FTE and Headcount).
Flexible work increases costs to backfill gaps left by employees on extended leave.

**METHOD**

We calculate the cost addition for having flexible work arrangements in terms of backfill cost (for employees who take extended leave). This is calculated as the contractor surcharge required to fill employees on extended leave.

**ASSUMPTIONS**

As part of flexible work arrangements, employees are encouraged to take extended (unpaid) leave if required. While the organisation does not pay these employees, management needs to fill in these backfill gaps with other employees (i.e. casuals / part-timers) or contractors.

We assume that majority of these gaps (80%) have been filled up by other employees, and the remaining (20%) have been filled up by contractors (due to a lack of suitable substitutes). For the former, we assume there is no additional cost. For the latter, we assume the organisation would pay a 10% premium on a typical salary.
Figure 14: Office rental expense

HYPOTHESIS

Flexible work results in a larger workforce (due to the uptake in part-time or casual work), thereby increasing the corresponding office rental expense in the absence of hot-desking.

METHOD

This analysis only applies to Mercy Health. (DELWP data was not readily available and in conversation with their HR team we identified it was not a significant cost driver of flexibility. Wannon own their own sites and office space or rental costs are not an important strategic consideration.)

We calculate the cost addition to Mercy Health for having flexible work arrangements in terms of office rental expense. This is calculated as the increased office rental for a larger workforce (i.e. comparing the difference between FTE and head-count) due to flexibility workplace arrangements.

ASSUMPTIONS

Due to the uptake of part-time work, Mercy Health’s headcount is much larger than its required FTE. This means that Mercy Health requires greater office space (and hence greater rental costs) to accommodate additional corporate staff who require fixed desks (i.e. as opposed to hot-desks).

This cost only applies to corporate staff, as other staff (including nurses, and technicians) work from Mercy Health facilities without fixed desk space. As facilities’ rental costs are determined by patient capacity instead of workforce size, we have excluded non-corporate staff from our calculations. In effect, this means that we have only considered the Richmond site.

We calculate the cost addition of having ‘surplus’ desks by looking at the difference between FTE and head-count and applying the difference to the office rental expense.
Flexible work increases senior management’s gender diversity, which increases company productivity. This is captured already through direct labour productivity.

**METHOD**

We have only performed this calculation for Mercy Health as an indicative side analysis.

We calculate Mercy Health’s revenue gain for having flexible workplace arrangements in terms of increased productivity from a more gender-diverse senior executive team. Flexible work arrangements help attract a diverse team, and research shows that greater gender diversity within the senior executive team corresponds to performance uplift. This is calculated as a revenue gain using two approaches: 1) comparing Mercy Health’s senior executive team’s gender diversity against that of industry average, and 2) comparing Mercy Health’s senior executive team’s gender diversity against that of a competitor without flexible workplace arrangements.

**ASSUMPTIONS**

The literature has shown a link between flexible work arrangements and greater gender diversity as a result of enabling employees to better balance caring and other external responsibilities. In turn, greater diversity has been linked to improved financial performance.

We assume that with every 1% increase in executive team’s gender diversity as measured using the Herfindahl–Hirschman Index (HHI)*, an organisation is expected to see an increase of 0.0016 in Earnings Before Interest and Tax (EBIT). This is based on a McKinsey & Company publication, which analysed 366 organisations across UK, US, Canada and Latin America.

To evaluate the effect of flexible workplace arrangements on senior management’s gender-diversity, we took two approaches: 1) Approach one (conservative): we identified the average industry composition using WGEA data, compared Mercy Health’s HHI, and thus determined the corresponding EBIT gain. 2) Approach two (optimistic): we identified Aegis Aged Care Management (Aegis) as a competitor organisation that does not have a formalised flexible workplace arrangement (at the time of this analysis). We compared Mercy Health’s HHI, and thus determined the corresponding EBIT gain.

*The Herfindahl–Hirschman Index (HHI) is used to evaluate team diversity. It is a tool that has historically been used by economists to determine the level of competitiveness within markets and industries. Adapted, it can serve as a useful measure of diversity that is more discerning than a simple proportion of headcount. A HHI of 1 indicates a team of no diversity. The lower the HHI, the more diverse the team.
4.3 We learned a number of lessons about the modelling process

There are a number of lessons we learned through developing the model that can serve as ‘tips and traps’ advice for those seeking to replicate this analysis in their own organisation. These are set out below.

Direct labour productivity is the most important driver of the model output

As indicated in Figure 16, direct labour productivity is a key driver of the overall cost savings (55 per cent of the total benefit for Mercy Health, 81 per cent for DELWP and 87 per cent for Wannon Water). This means that any variations in the assumptions or data underlying the direct labour productivity measure will produce a substantial change to the overall result. This is confirmed in the sensitivity analysis provided in Appendix A.

The underlying data for direct labour productivity comes from a survey in which employees self-report the extent to which flexible work influences their productivity (i.e. their ability to “work smarter and better”). While this is inherently subjective, we feel it is accurate enough to be useful. A scan of workplace productivity literature indicates that self-reported productivity measures are commonplace and broadly accepted as being reliable. We also tested this by asking individuals in one case study organisation to rate the impact of flexible work on their own productivity, and then on their colleagues’ productivity. The two figures closely align, which suggests that employees are not significantly overstating their own productivity relative to their colleagues’ perceptions of it.

The calculation of direct labour productivity also relies on an assumption, based on the literature, about quantifying what “a lot more productive” means when this is self-reported by staff. Two studies have supported the finding that a “big” productivity increase is roughly a 20 per cent increase in employee efficiency⁴. We have scaled this to a more conservative 15 per cent in our model to account for the potential for overstatement in the employee survey and for the fact that flexible work is not the only driver of direct labour productivity. Fifteen per cent constitutes just over an extra hour’s worth of additional output per day in an eight-hour day through working smarter and better (not longer).

For organisations looking to replicate the analysis, the accuracy of the model could be enhanced by improving the direct labour productivity measure given it is such an important component. It may be possible for some organisations to replace the survey and assumptions with actual observed productivity (output per unit of labour). To do this they would need to compare a sample of employees working flexibly with a sample working standard working arrangements and measure their output per hour. This is likely to be most achievable in organisations producing a relatively homogenous and measurable product (e.g. a call centre or factory) where a broadly similar control group (the group working standard arrangements) and test group (the group working flexibly) exist.

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Figure 16: Relative contributions of each factor to the model

**Contribution of each factor to overall model**

**Mercy Health**

- **Direct labour Productivity**: 55%
- **Retention**: 37%
- **Recruitment**: 8%
- **Absenteeism**: 19%

**Benefits**: 4%

**Costs**: 74%

**DELWP**

- **Benefits**: 81%
- **Costs**: 13%

**Wannon**

- **Benefits**: 87%
- **Costs**: 25%

Legend:
- Marginal onboarding burden
- Marginal IT expenses
- Management burden
- Flex implementation
- Flex backfill
A representative survey is crucial to building the model
As we touched on above, a representative survey of employees is crucial to building the model. Self-reported measures of the impact of flexibility on direct labour productivity, recruitment and retention underpin each of these calculations. This means that a survey that is representative of the whole organisation and with sufficient sample size is required for accurate data in the model. Appendix D provides the survey questions we used for the case study organisations.

The easiest data to find is the most important
The majority of the data in the model is routinely captured by organisations in their annual reporting. For example, the main data inputs are headcount and FTE data, total salary expenditure and average salary data, indicators of purchased leave, sick leave and turnover. These easily obtainable data points underpin the most significant drivers of the model.

More challenging data to access (such as the OHS impacts of flexible work, office rental costs and breakdowns of fixed desk vs. hot desk allocation, time spent by HR teams processing flexibility requests etc.) is used in parts of the model which have a smaller impact on the overall results. Therefore, an organisation wanting to get a rough indication of flexible work impacts should focus on the easily obtainable data points and be less concerned with the harder-to-access data on the less significant drivers of benefits and costs.

How you define flexible work is important
We found that the way organisations measure flexible work and the way employees perceive flexible work is sometimes different. Measurement of flexible work uptake by HR teams often only considers formal flexibility arrangements, when in reality many employees use informal flexibility (e.g. negotiation with a supervisor to work an hour later to account for a private appointment during the day). In developing the model, it is important to compare like-with-like. As such, we opted to use data which considers all types of flexibility employees use regardless of whether it is formally documented and recorded.

Interestingly we found during our staff workshops that some employees do not consider some flexible work (such as part-time work) to be flexible work arrangements. It may be the case that some types of flexible work are so well-established as to be taken for granted by some employees. It is therefore important to clarify what is meant by flexible work.

Measuring a single point in time is more feasible than measuring change over time
An alternative method of analysis that we considered was measuring the change in organisational performance after the introduction of flexible work relative to organisational performance before the introduction of flexible work (i.e. a pre-post analysis). We abandoned this approach once we established that the introduction and uptake of flexible work across an organisation is gradual. As outlined in section 3.4 implementation of flexible work is an incremental process. There is unlikely to be a definitive ‘start’ to flexible work, and therefore a pre-post analysis is unhelpful.

An alternative version of this analysis would be to look at whether there is correlation between the proportion of workers using flexibility and organisational performance (i.e. without a defined ‘start’, but rather accounting for the gradual increase in flexible work uptake over time). This raises questions of attribution: if an organisation increased from 45% to 55% uptake of flexibility over two years, can the corresponding increase in revenue be causally linked to this increase in flexibility, or is it the result of other factors?

Given these challenges, we instead opted for a fixed point in time calculation, drawing upon survey data and academic literature to assist in assigning attribution to flexible work.
4.4 Areas of interest or further exploration

We performed a number of side analyses in addition to the development of the model that could be worth further exploration in another research project.

Diversity

**Further research question:** To what extent does increased diversity (as a result of flexible work) increase an organisation’s financial performance?

It is well understood in the literature that increased diversity, especially gender diversity, in an organisation’s leadership team can improve its overall productivity and financial performance (see accompanying literature review for full discussion). We have not included this effect in our model as it would double-count the productivity gains we have measured as direct labour productivity. Instead, we conducted a side analysis for one case study organisation, Mercy Health by comparing the gender diversity of Mercy Health’s senior executive team to:

1. the industry average
2. a competitor without flexible work arrangements.

We assumed that with every 1 per cent increase in executive team’s gender diversity as measured using the Herfindahl–Hirschman Index (HHI)\(^5\), an organisation could expect to see an increase of 0.0016 in Earnings Before Interest and Tax (EBIT). This is based on a McKinsey & Company publication, which analysed 366 organisations across UK, US, Canada and Latin America.\(^6\)

The calculated revenue gain for Mercy Health due to a gender-diverse senior management team was:

- $39,000 using the industry average as a comparator.
- $105,600 using a competitor without flexible work arrangements as a comparator.

A further research avenue would be developing a systematic way of measuring the financial impacts of increased diversity, especially in a public-sector context in which revenue is not a particularly meaningful indicator of performance.

**Top-down measurement of the impact of flexible work on financial performance**

**Further research question:** Is there a simple way of measuring the impact of the uptake of flexible work on financial performance from the top-down (in a way that is attributable, reliable and comparable)?

There are two broad approaches to calculating the financial impacts of flexible work on organisational performance:

1. “bottom-up” calculation of each component part that contributes to the overall impact
2. “top-down” calculation of the overall impact based on headline financial performance.

In this project, we have favoured a “bottom-up” approach because it enables us to understand the contribution of each component of the financial impact of flexible work, and is therefore most useful to inform an organisation’s strategic decision-making. A ‘top-down’ approach that provides one simple number can be useful to make an at-a-glance comparison between organisations.

The challenges that this research must overcome are:

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\(^5\) The Herfindahl–Hirschman Index (HHI) is used to evaluate team diversity. It is a tool that has historically been used by economists to determine the level of competitiveness within markets and industries. Adapted, it can serve as a useful measure of diversity that is more discerning than a simple proportion of headcount. A HHI of 1 indicates a team of no diversity. The lower the HHI, the more diverse the team.

• attributing changes in headline financial performance to flexible work is challenging, given flexibility is just one of many contributors to an organisation’s financial performance.

• it can be difficult to find consistent data on the uptake of flexible work across organisations.

We did indicative analysis, again using Mercy Health, as an example of what might be possible. Publicly available data from the Workplace Gender Equality Agency (WGEA) on the uptake of part-time work over time (2012-2017) provides a crude proxy for uptake of flexible work. We then used a calculation of Revenue/FTE as an indicator of organisational productivity.

For every percentage point increase in the uptake of part-time work, we found that the organisation produced an extra $2,670 of revenue per FTE employee (see the figure below). A positive relationship between productivity and uptake of part-time work also held for Mercy Health’s competitors in the healthcare industry that we tested.

A further research question would be how to perform this form of top-down analysis in a more robust and reliable way.

Figure 17: Indicative analysis of top-down contribution of flexible work to organisational performance

![Impact of part-time work on organisational productivity](image)
Appendix A  Sensitivity Analysis

We have conducted sensitivity analysis on the key assumptions underpinning the biggest drivers for both costs and benefits for each organisation. This enables us to see how robust the findings of the model are to changes in the underlying assumptions.

A.1  Sensitivity analysis for Mercy Health

Our sensitivity analysis for Mercy Health is presented Table 2 below.

As we saw in the section above, the largest driver of the overall model findings for Mercy Health is direct labour productivity, which accounts for 55 per cent of the total cost savings calculated. This is an important factor to interrogate, given:

- it is founded on self-reported productivity change measured through survey data,
- it relies on an assumption backed up by two pieces of literature that a 'big' productivity increase is a 15% (or ~ 1 hour/day) increase.

The sensitivity analysis shows that even with significant changes to the core assumptions in the model for direct labour productivity (and all of the biggest benefit drivers and cost drivers), the resultant return to flexible work is still positive. For example, even with a substantial reduction in the measure of overall productivity gain resulting from flexible work and a substantial discount on the effect of flexible work on retention, there is still a $7.8m annual return to flexible work. In turn, substantial increases in the two biggest cost drivers (marginal onboarding costs and marginal IT expenses) still yield a positive return to flexible work ($20.7m).

The same overarching finding applies to the other two case studies, with the relevant sensitivity analysis presented in subsequent tables. (The only exception is that in the conservative scenario for Wannon Water there is a small negative return to flexible work.)

This implies that our key finding of a positive return to flexible work across all three case studies is robust, even if the core assumptions in the model were to change.

Table 2: Mercy Health Sensitivity Analysis

<table>
<thead>
<tr>
<th>Key assumption and model changes</th>
<th>Base Model</th>
<th>Conservative Adjustment</th>
<th>Optimistic Adjustment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Benefit change: Direct Labour Productivity</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Corresponding productivity change (‘a lot more productive’ and ‘a little more productive’ respectively)</td>
<td>15%</td>
<td>5%</td>
<td>20%</td>
</tr>
<tr>
<td></td>
<td>7%</td>
<td>2.5%</td>
<td>10%</td>
</tr>
<tr>
<td>Resultant Direct Labour Productivity Impact</td>
<td>$25,900,000</td>
<td>$9,140,000 (35% original)</td>
<td>$33,960,000 (131% original)</td>
</tr>
<tr>
<td>Benefit change: Retention</td>
<td>50%</td>
<td>80%</td>
<td>30%</td>
</tr>
<tr>
<td>for annualised cost</td>
<td>$17,400,000</td>
<td>$10,500,000</td>
<td>$27,900,000</td>
</tr>
<tr>
<td>---------------------</td>
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<td>-------------</td>
</tr>
<tr>
<td>Resultant Retention Impact</td>
<td>(60% original)</td>
<td>(160% original)</td>
<td></td>
</tr>
<tr>
<td>Overall sensitivity of the model to benefit changes</td>
<td>$23,600,000</td>
<td>$7,800,000</td>
<td>$68,100,000</td>
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<tr>
<td>Overall model impact</td>
<td>(33% original)</td>
<td>(288% original)</td>
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<tr>
<td>Cost change: Marginal onboarding Cost</td>
<td>$17,600,000</td>
<td>$25,400,000</td>
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<td>Number of “surplus” new hires</td>
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<td>400</td>
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<td>Resultant Marginal onboarding Cost</td>
<td>(145% original)</td>
<td>(59% original)</td>
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<td>Cost changes: Marginal IT Expenses</td>
<td>$4,440,000</td>
<td>$6,210,000</td>
<td>$2,330,000</td>
</tr>
<tr>
<td>Number of “surplus” employees as a result of flexible work</td>
<td>2,861</td>
<td>4,000</td>
<td>1,500</td>
</tr>
<tr>
<td>Resultant Marginal IT Expenses</td>
<td>(140% original)</td>
<td>(52% original)</td>
<td></td>
</tr>
<tr>
<td>Overall sensitivity of the model to cost changes</td>
<td>$23,600,000</td>
<td>$20,700,000</td>
<td>$39,900,000</td>
</tr>
<tr>
<td>Overall model impact</td>
<td>(88% original)</td>
<td>(169% original)</td>
<td></td>
</tr>
</tbody>
</table>

A.2 Sensitivity analysis for DELWP

Table 3: DELWP Sensitivity Analysis

<table>
<thead>
<tr>
<th>Key assumption and model changes</th>
<th>Base Model</th>
<th>Conservative Adjustment</th>
<th>Optimistic Adjustment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Benefit change: Direct Labour Productivity</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Corresponding productivity change (‘a lot more productive’ and ‘a little more productive’ respectively)</td>
<td>15%</td>
<td>5%</td>
<td>20%</td>
</tr>
<tr>
<td></td>
<td>7%</td>
<td>2.5%</td>
<td>10%</td>
</tr>
</tbody>
</table>
### Table 4: Wannon Water Sensitivity Analysis

<table>
<thead>
<tr>
<th>Key assumption and model changes</th>
<th>Base Model</th>
<th>Conservative Adjustment</th>
<th>Optimistic Adjustment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Benefit change: Direct Labour Productivity Impact</td>
<td>$29,100,000</td>
<td>$10,300,000 (36% original)</td>
<td>$38,400,000 (132% original)</td>
</tr>
<tr>
<td>Benefit change: Retention</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Scaling factor to account for annualised cost</td>
<td>50%</td>
<td>80%</td>
<td>30%</td>
</tr>
<tr>
<td>Resultant Retention Impact</td>
<td>$8,700,000 (40% original)</td>
<td>$3,500,000 (132% original)</td>
<td>$12,200,000 (140% original)</td>
</tr>
<tr>
<td>Overall sensitivity of the model to benefit changes</td>
<td>Overall model impact</td>
<td>$31,000,000 (22% original)</td>
<td>$43,500,000 (141% original)</td>
</tr>
<tr>
<td>Cost changes: Management Burden</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Assumed loss of productive time due to managing a flex team for managers</td>
<td>5%</td>
<td>10%</td>
<td>1%</td>
</tr>
<tr>
<td>Resultant Management Burden</td>
<td>$8,000,000</td>
<td>$15,900,000 (197% original)</td>
<td>$1,800,000 (22% original)</td>
</tr>
<tr>
<td>Cost changes: Marginal On boarding Burden</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Number of “surplus” new hires</td>
<td>28</td>
<td>40</td>
<td>15</td>
</tr>
<tr>
<td>Resultant Marginal On boarding Cost</td>
<td>$790,000</td>
<td>$1,100,000 (141% original)</td>
<td>$420,000 (53% original)</td>
</tr>
<tr>
<td>Overall sensitivity of the model to cost changes</td>
<td>Overall model impact</td>
<td>$31,000,000 (73% original)</td>
<td>$37,400,000 (122% original)</td>
</tr>
</tbody>
</table>

A.3 Sensitivity analysis for Wannon Water
| Corresponding productivity change (‘a lot more productive’ and ‘a little more productive’ respectively) | 15% | 5% | 20% |
| | 7% | 2.5% | 10% |
| Resultant Direct Labour Productivity Impact | $250,000 | $85,000 | $340,000 |
| | (34% original) | (34% original) | (136% original) |

**Benefit change: Recruitment**

| New hires who would not have joined in the absence of flexible work arrangements | 8% | 15% | 5% |
| Resultant Recruitment Impact | $32,600 | $11,100 | $76,700 |
| | (34% original) | (34% original) | (236% original) |

**Overall sensitivity of the model to benefit changes**

| Overall model impact | $150,000 | -$36,000 | $280,000 |
| | (-24% original) | (36% original) | (189% original) |

**Cost changes: Marginal IT Expenses**

| Assumed employee IT expense as % revenue | 1% | 5% | 0.25% |
| Resultant Marginal IT Expense | $50,120 | $250,000 | $12,530 |
| | (500% original) | (500% original) | (25% original) |

**Cost changes: Management Burden**

| Assumed loss of productive time due to managing a flex team for managers | 5% | 10% | 1% |
| Resultant Management Burden | $44,600 | $73,600 | $21,400 |
| | (165% original) | (165% original) | (48% original) |

**Overall sensitivity of the model to cost changes**

| Overall model impact | $150,000 | -$80,000 | $211,000 |
| | (-53% original) | (-53% original) | (141% original) |
Appendix B  Annotated example workbook page

### Document Identification

- **Client:** Office for Prevention and Women's Equality
- **Case:** De-identified data for public release
- **Impact type:** Direct labour productivity
- **Date updated:** 05/02/18
- **Reviewed by:** J.L. (J.L. 03/02/18)
- **Finding hypothesis:** Flexible work has a positive and substantial direct labour productivity impact for employees which has a corresponding financial impact in reduced salary expenditure required to produce the same output.

### Overview of method and findings

We measure the self-reported employee productivity change due to flexible work, then calculate the organisation-wide productivity impact of the productivity increase. Productivity impact is measured as cost savings calculated as salaries saved by having a more efficient workforce.

### Steps and assumptions mapped to data and analysis

1. **Steps & Assumptions**
   - We administered a survey on flexible work to employees across the Organisation. Of the 250 respondents, 150 work flexibly. Of this 150, 58% reported that flexible working makes them more productive, 36% reported that it makes them a little more productive, and 6% reported that it had no productivity impact or a negative productivity impact. We assume this is representative of the portion of the workforce who work flexibly (50% women, 60% of men). We split the analysis by men and women, given the different impact (potentially different experience) of flexible work between the two genders.

2. **Steps & Assumptions**
   - We assume that a big productivity increase (or decrease) is a -1% to 1% change and a small productivity increase/decrease is a +/-7% change. We opt for 10% rather than 20% as a conservative interpretation of the literature, given flexible work is unlikely to be the sole driver of improved employee productivity. This equates to approximately 1 hour/day of increased output (working longer, not harder or longer). We use this to assign a numerical value to the flexible working survey results.

3. **Steps & Assumptions**
   - We calculate the average impact of flexible work arrangements on the Organisation’s workforce productivity by multiplying the survey responses for the proportion of employees experiencing varying degrees of productivity change with the estimated productivity change value. It gives us to a 5% increase in overall workforce productivity due to flexible work arrangements. Interestingly, this output is the same with and without a gender split to the analysis, potentially because both gender are well represented in the survey responses.

### References mapped to corresponding data

- Organisation workforce data
- Organisation flexibility data 2017

### Finding in box and linked to overall model dashboard on the first worksheet

- **Conclusion:**
  - Overall Organisational productivity change due to flexible work: 7.7% (Calculated without gender analysis)
  - Organisation salary expenditure: $400,000 (FY17)
  - Cost saving from flexible work arrangements: $25,000 (FY17)
Appendix C  Example data request

This is an indicative data request that can be tailored to the relevant organisation to gather the data for the analysis. It should be supplemented with Annual Report data and publicly available data on the Workplace Gender Equality Agency (WGEA) website where possible.

1. Overall workforce data

2016-2017 data (and where possible, the first row of data over the past 5 years). Alternatively, if there is a different document you use that lists the workforce characteristics that would include this information, it should be sufficient for our purposes without needing to fill out the table.

<table>
<thead>
<tr>
<th>Workforce category</th>
<th>Number of employees (total headcount)</th>
<th>Number of employees (total FTE)</th>
<th>Number of employees who work flexibly (headcount)</th>
<th>Number of employees who work Part-time (headcount)</th>
<th>Total salary expenditure (and/or average salary)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total workforce (2016-17)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total workforce (2015-16)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total workforce (2014-15)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total workforce (2013-14)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total workforce (2012-13)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Gender</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Men</td>
<td></td>
<td></td>
<td>N/A</td>
<td>N/A</td>
<td></td>
</tr>
<tr>
<td>Women</td>
<td></td>
<td></td>
<td>N/A</td>
<td>N/A</td>
<td></td>
</tr>
<tr>
<td>Management</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Senior Managers</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Managers</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Non-Managers</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Operational/Corporate staff</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Office workers</td>
<td></td>
<td></td>
<td></td>
<td>N/A</td>
<td></td>
</tr>
<tr>
<td>Field staff / non-office workers</td>
<td></td>
<td></td>
<td></td>
<td>N/A</td>
<td></td>
</tr>
<tr>
<td>Other</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(other pertinent organisational split – e.g. by division/role, location – if there are likely differences in usage of flexible work)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
## 2. Other data by category

<table>
<thead>
<tr>
<th>Category</th>
<th>Data</th>
</tr>
</thead>
</table>
| 1 Flexible Working Arrangements (FWAs) | - A list of the FWAs offered, and the number and types of employees accessing FWAs  
- Any relevant policies or documentation concerning flexible work |
| 2 Employee characteristics | - Workforce demographics: gender, age, tenure in the organisation  
- Number of employees in each division/business unit, location etc.  
- Total salary expenditure  
- Average salary data (by level/division)  
- Proportion of women in leadership/senior executive team |
| 3 Recruitment, retention | - Number of new hires and turnovers in FY17  
- On-boarding/training cost (per employee) – *an indication of the type of induction involved will be sufficient for us to estimate costs* |
| 4 Safety and wellbeing | - Unplanned absences and sick leave data (Total number of sick leave hours for FY17)  
- Purchased extended leave data |
| 5 Management | - Breakdown of back office support team salary expense |

<table>
<thead>
<tr>
<th>Category</th>
<th>Number of employees (FTE)</th>
<th>Total salary expenditure (for FY17)</th>
</tr>
</thead>
<tbody>
<tr>
<td>HR</td>
<td></td>
<td></td>
</tr>
<tr>
<td>IT help desk*</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Payroll</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

*If help desk is outsourced to a third party provider, please provide the cost of the service level agreement, and the estimated percentage of costs assigned to help desk activities.*  
- Percentage of time HR spends on ongoing management of flexible work arrangements (e.g. "10% of one HR staff member’s time" or "8 hours per flexibility request")

| 6 IT | Per employee annual IT spend (including hardware, software, mobile phone bills, etc. Not including time spent on IT training or company-wide IT infrastructure cost) – *if possible* |
Appendix D  Example flexible work survey

This is an indicative example of the survey we provided to the participating case study organisations which may be used for organisations seeking to replicate this analysis in their own organisation. Note that recruiting a large and representative sample is necessary for the validity of the model.

1) How old are you?
  ( ) < 25
  ( ) 25 - 30
  ( ) 31 - 40
  ( ) 41 - 50
  ( ) 51 - 60
  ( ) > 60
  ( ) Prefer not to say

2) What is your gender?
  ( ) Male
  ( ) Female
  ( ) Other / prefer not to say

3) Do you manage people in your role?
  ( ) Yes
  ( ) No

4) In what business division do you work?
  ( ) Operational
  ( ) Corporate

5) Which types of flexible work do you use? (select all that apply)
  [ ] None; I do not work flexibly
  [ ] Part-time work
  [ ] Purchased leave (e.g. leave without pay)
  [ ] Unplanned leave (e.g. carer’s leave, family violence leave)
  [ ] Extended parental leave
  [ ] Flexitime (e.g. flexible start and finish times)
  [ ] Compressed working weeks / compressed hours (e.g. working full-time hours over fewer days)
  [ ] Time in lieu
  [ ] Job sharing
  [ ] Flexible career management (e.g. career break, study leave)
  [ ] Working from home / telecommunicating
  [ ] Other
6) **Productivity.**
Flexible work makes me...

*By productivity, we mean working smarter and better.*

( ) A lot more productive
( ) A little more productive
( ) Has no productivity impact
( ) A little less productive
( ) A lot less productive

7) **Productivity.**
Flexible work makes my colleagues...

*By productivity, we mean working smarter and better.*

( ) A lot more productive
( ) A little more productive
( ) Has no productivity impact
( ) A little less productive
( ) A lot less productive

8) **Recruitment.**
Flexible work is...

( ) The main reason I joined the organisation
( ) One of the main reasons I joined the organisation
( ) Didn’t really factor into my decision to join the organisation
( ) Was a small incentive to join the organisation
( ) Was a big disincentive to join the organisation

9) **Retention.**
Flexible working is...

( ) The main reason I continue to work here (I couldn’t work here without it!)
( ) One of the main reasons I continue to work here
( ) Has no impact on my decision to work here
( ) Discourages me a bit from continuing to work here

10) **Satisfaction.**
Flexible working...

( ) Makes me a lot more satisfied/happy at work
( ) Makes me a bit more satisfied/happy at work
( ) Has no effect on my satisfaction at work
( ) Makes me a bit less satisfied/happy at work

11) **Overall impact on the organisation.**
Flexible working has...

( ) A bit positive impact on my organisation’s success
( ) A small positive impact on my organisation’s success
( ) No impact on my organisation’s success
( ) A small negative impact on my organisation’s success

12) Is there anything else you’d like to say about the benefits or challenges of flexible work?
____________________________________________
____________________________________________
____________________________________________
____________________________________________
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