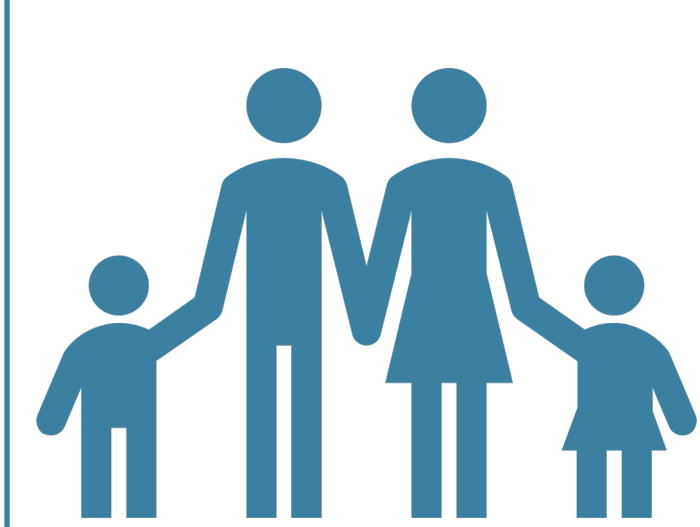


Assessing the Quantitative Business Impacts of Paid Family Leave

Senior Honors Thesis by Stuti Shah (BSBA '23) under the direction of Professor Jeanne Bonds

Introduction

Paid Family Leave (PFL) emerged as a major policy issue over the past several decades, as the **incompatibility between professional careers and family life**, particularly for women, became a persistent challenge for American households and employers.



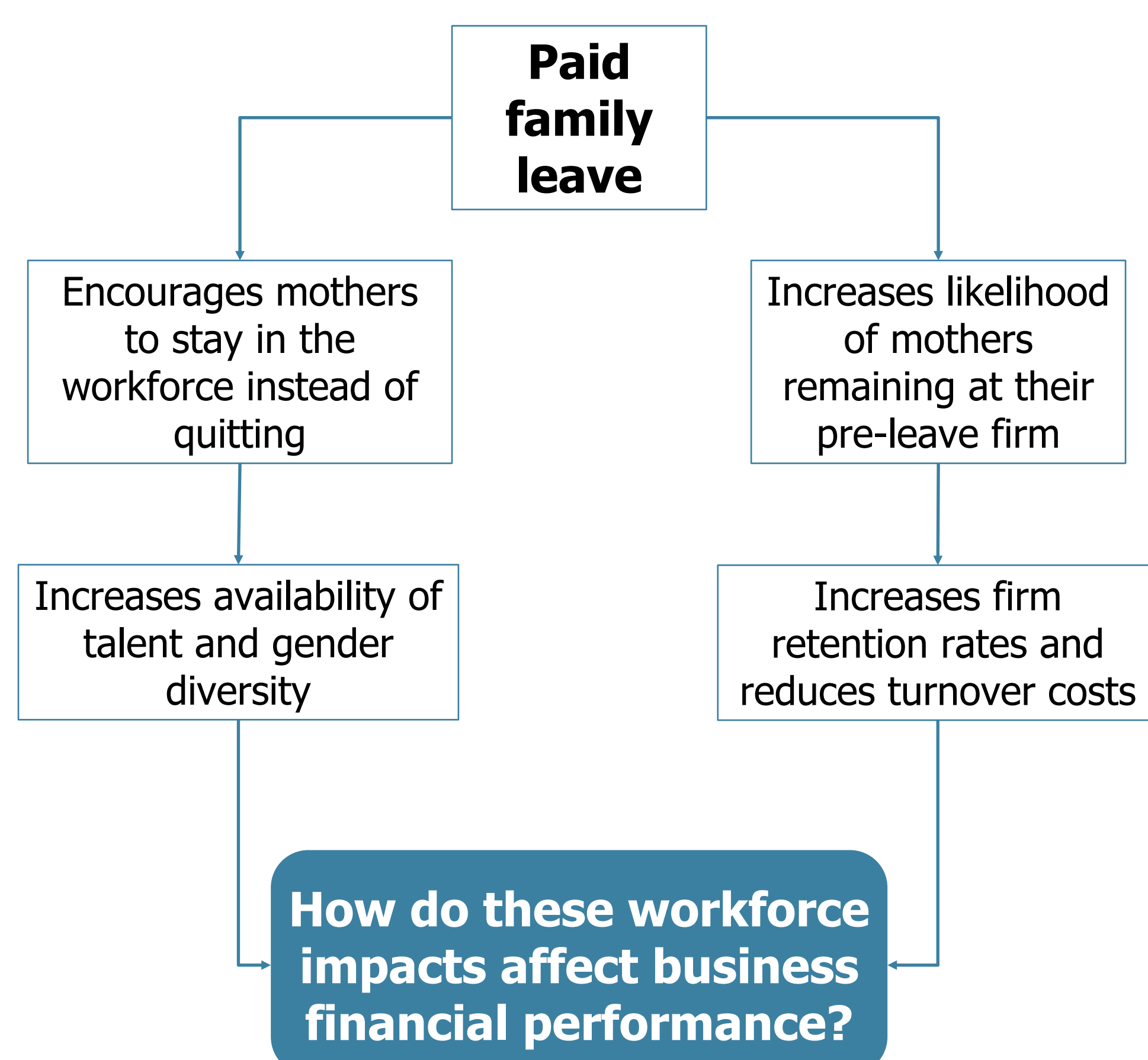
Changing family dynamics and workforce trends (i.e. the Great Resignation) increase demand for family-friendly policies.

The policy aims to help employees balance the competing demands of work and family by allowing them to take temporary time off work with partial wage replacement.

Purpose of this Research

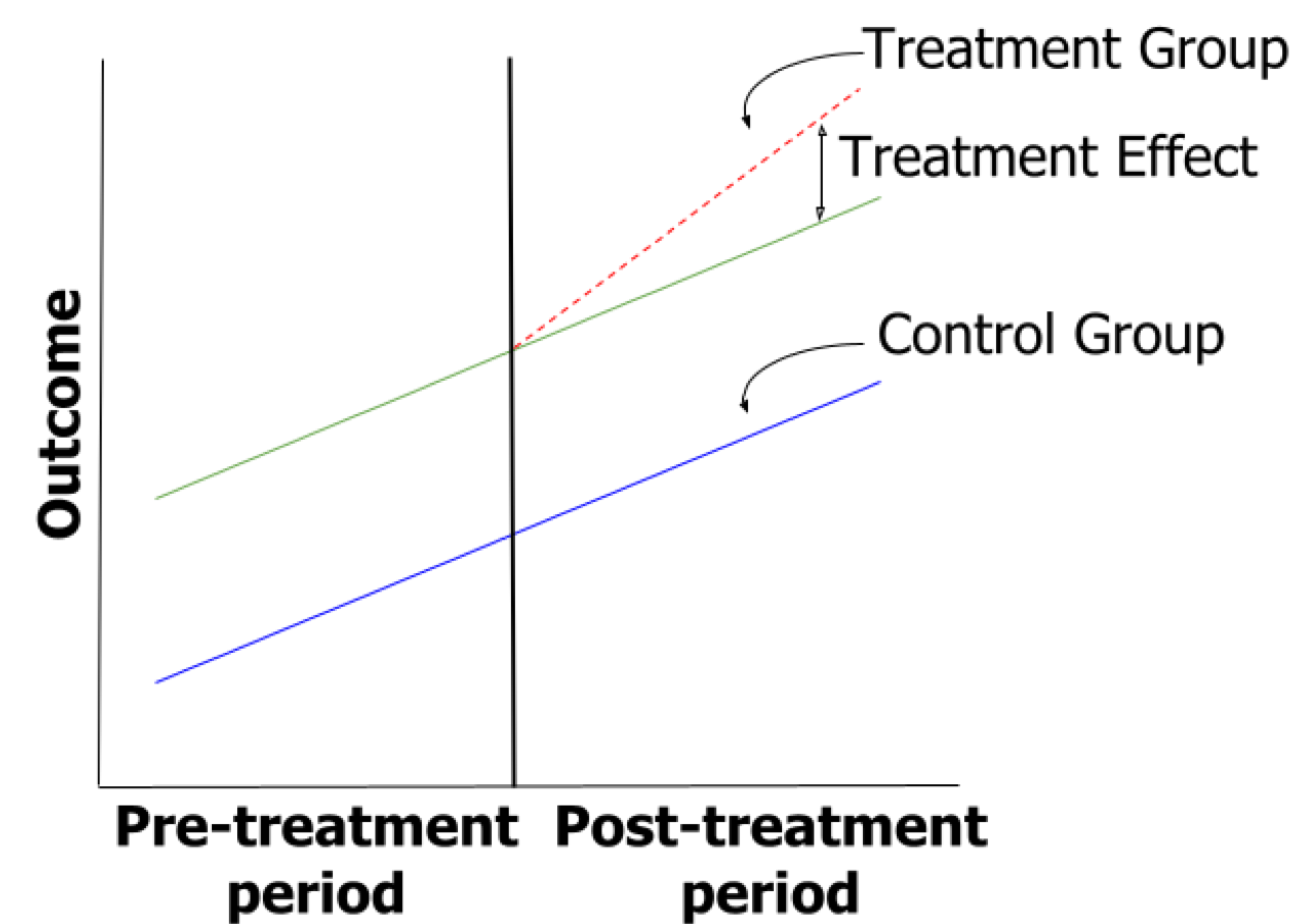
The United States' lack of a federal paid family leave policy (PFL) is a result of concern about the cost of the policy and the potential negative impact on business performance. Understanding the financial impacts of paid family leave can shed light on the potential effects on employers.

Using a difference-in-differences analysis, this research **analyzed the effect of PFL on business performance metrics.**



Methodology

I harnessed **difference-in-differences analysis** to observe changes in business performance.



I observed changes in **business profitability** and **employee productivity.**

Business Profitability: measured by Return on Assets (ROA)

$$\frac{\text{Net Income}}{\text{Assets}}$$

Employee Productivity: measured by Revenue per Employee (RPE)

$$\frac{\text{Total Revenue}}{\text{Number of Employees}}$$

I used **California** and **New Jersey** as case studies, and compared these states to Texas and Pennsylvania, respectively.

I selected and **matched firms** across the states based on three control variables: firm size, revenue, and industry.

I conducted two **regression analyses:** a difference-in-means test and dynamic difference-in-differences.

Difference-in-Means

Compared the *average* of each firm's outcomes in the pre- and post- treatment period

Dynamic Difference-in-Differences

Measured difference *over time* by selecting a "reference group," which is the year prior to policy implementation

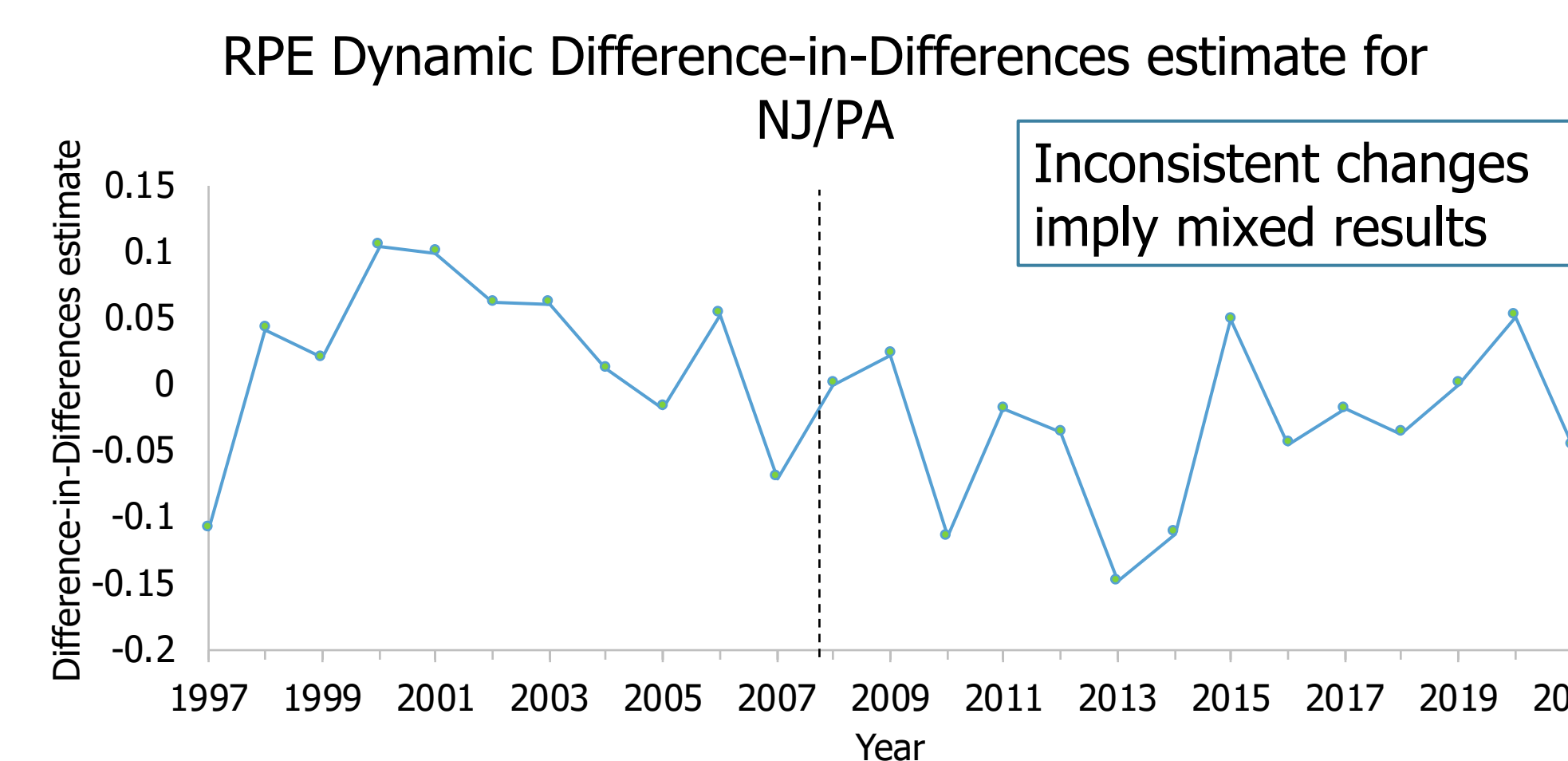
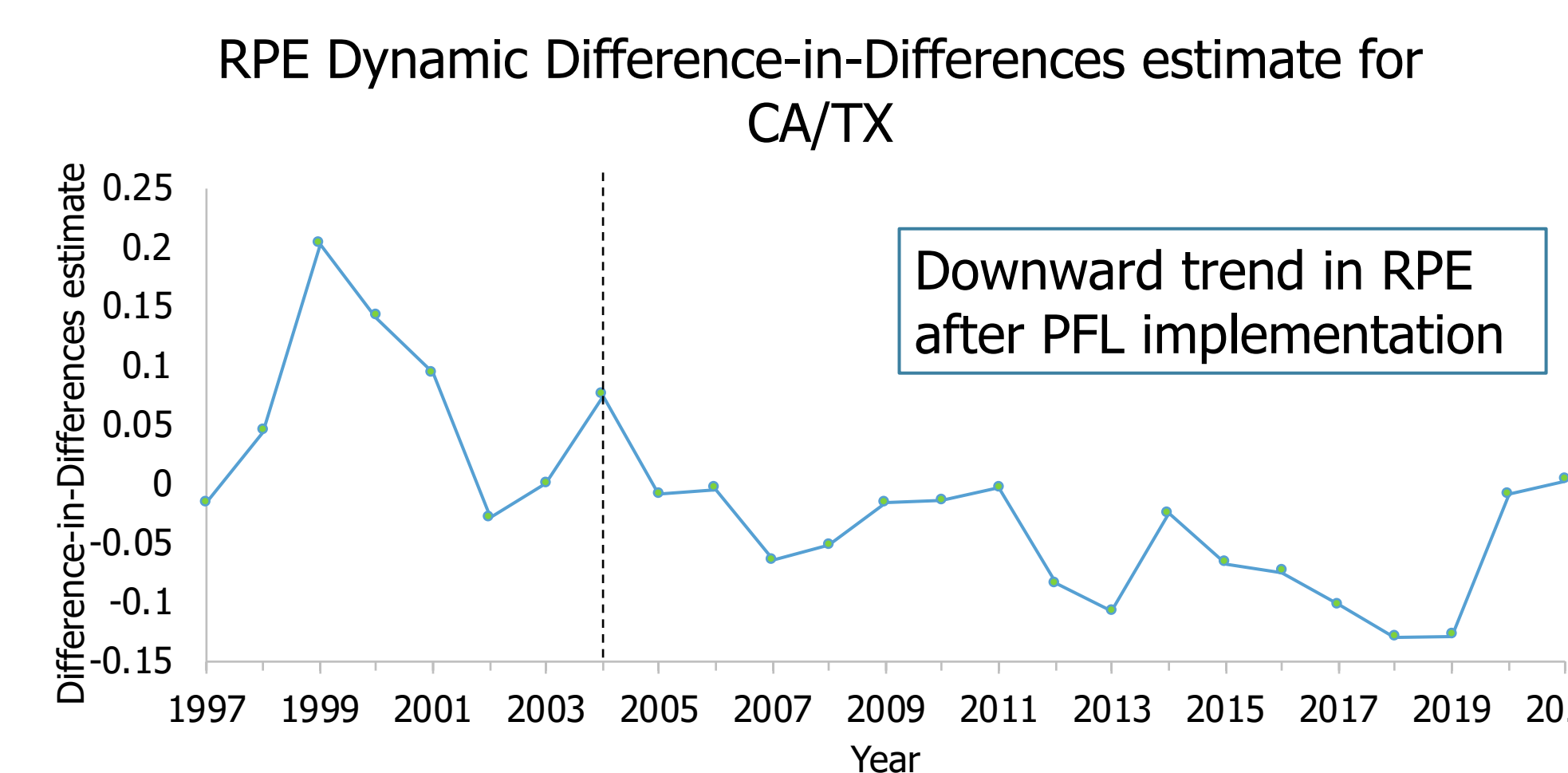
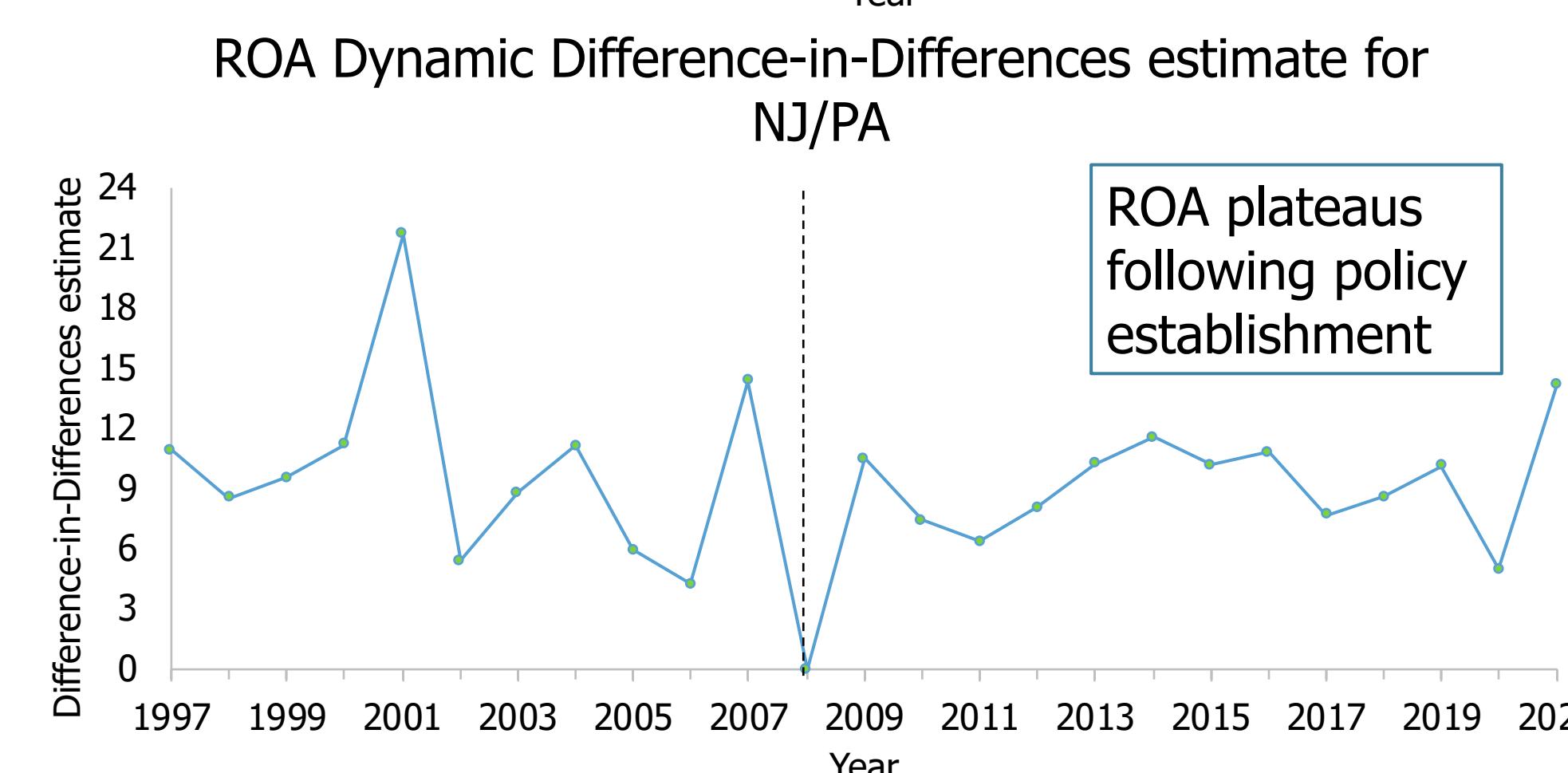
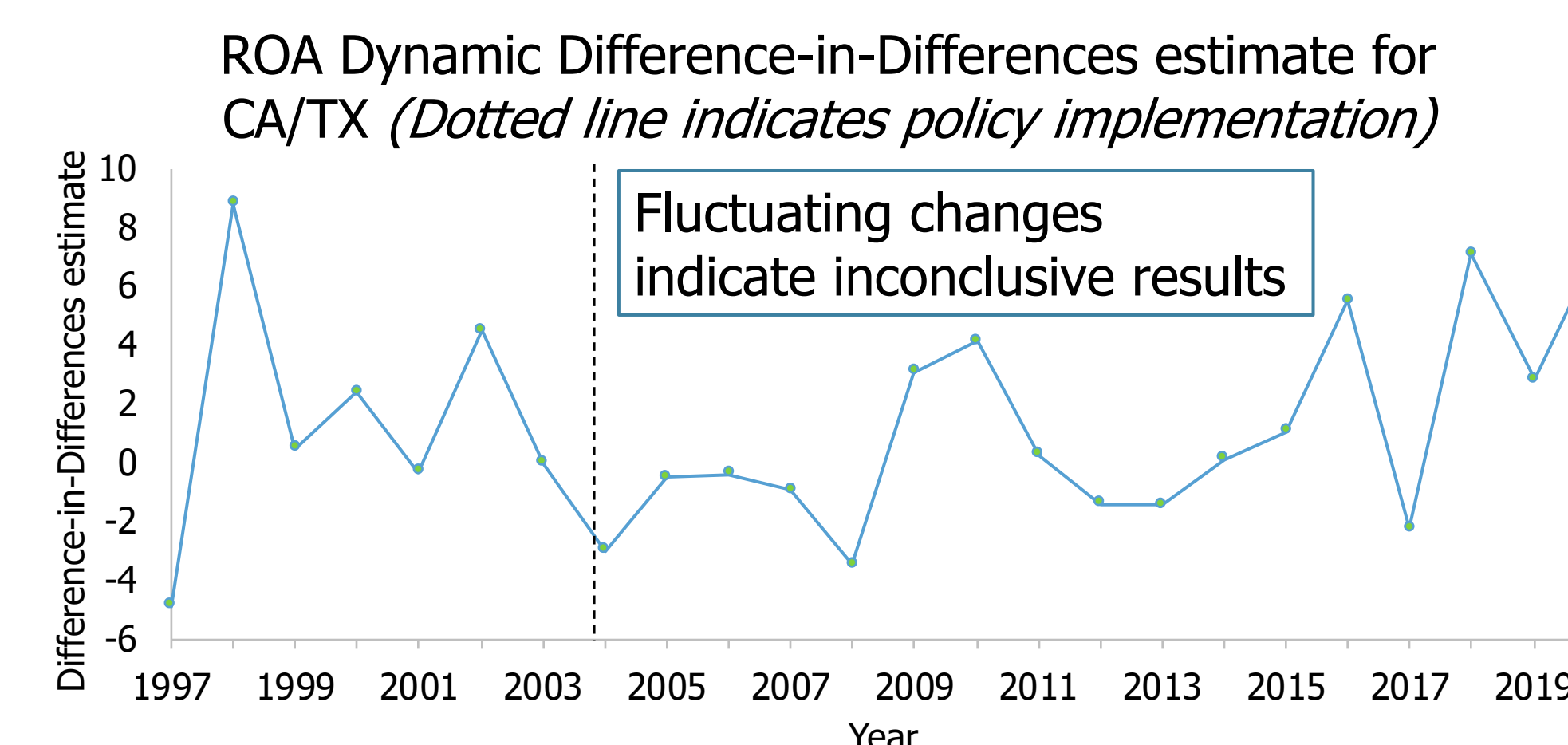
Results

Through both **difference-in-differences analyses**, my research found that paid family leave generated a **statistically insignificant effect** on business performance metrics.

The difference-in-means test yielded **mixed results**. In each state of interest, the directions of change in each outcome differed.

Profitability ↓ California ↑ New Jersey | **Productivity** ↑ California ↓ New Jersey

Since the results were insignificant, I cannot attribute the changes to PFL establishment.



Implications

PFL policies do not significantly impact business metrics.

- The "true effect" on business performance could be too small.
- Possibly only a small number of employees take time off because of the policy's low wage replacement rate, which makes leave unaffordable, or employees may not be aware of how to access PFL.
- Firms may already provide leave through their benefits package.

This study does not provide enough evidence to support the hypothesis.

- The study may be underpowered because of a small sample size.
- Therefore, the firms in the sample could be unrepresentative of the overall population of firms.
- Firms within the manufacturing industry, for example, made up the largest proportion of businesses in my matched-pairs sample.

Further Research

1. More representative
Quantify impacts on business performance through a larger sample that includes more states which recently established PFL policies.
2. More in-depth
Explore the unintended consequences of PFL through qualitative surveys and interviews with human resources professionals.
3. More state-focused
Assess the impact of paid family leave on site or location selection for businesses across the United States.

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