

AN EXPLORATORY EXAMINATION OF
THE IMPACT OF VACATION POLICY
STRUCTURE ON SATISFACTION,
PRODUCTIVITY, AND PROFITABILITY

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Abstract

Time-off for vacations is a benefit many companies offer as a reward for good work, a chance to relax, and a desirable perquisite to attract new employees. This benefit can come in different forms, but the two most prominent models are paid vacations and a paid time-off (PTO) bank. Paid vacation time means the worker has a certain amount of time allowed for the sole purpose of

taking a vacation away from the workplace. The employer usually supplements this with other forms of time-off such as sick days and/or personal days. The PTO bank is a more flexible model that allows the employee to accrue free time that they can use for any reason; vacation, sick or personal. This paper offers a review of the general benefits of time off, and an overview of the two primary policies. It then statistically compares the vacation time-off and PTO bank models in terms of employee satisfaction of the policy, and performance at the individual and organizational levels. The paper then explores whether there is a relationship between employee satisfaction of their vacation policy and organizational performance. Results suggest that employees are equally satisfied with the two models, but performance levels vary at both the individual and organizational levels. Independent of policy type, there is a positive correlation between employee satisfaction about their employers' vacation policy and organizational performance.

Keywords: Vacation, PTO bank, **Employee** benefit

Data Availability: Data used in **this** study are available from public sources

DOI: <https://dx.doi.org/10.15239/j.brcacadjb.2020.10.01.ja02>

INTRODUCTION

A significant benefit for many workers is the opportunity to take time-off from their jobs, or, in other words, take a vacation, “a cessation of work, a time when a person is not actively participating in his or her job. It is a time when a person is free to pursue other interests, and therefore a time when the work situation might lose importance compared to other domains of experience such as family and personal leisure” (Lounsbury and Hoopes, 1986 p. 393).

Organizational researchers have extensively documented the effects of taking time off from work from both the employee and employer perspectives, and have overwhelmingly found vacations are beneficial for

employees and their organizations. In short, employees do better when they have the opportunity to “replenish resources” and these benefits carry over to their organizations as well (Westman & Etzion, 2001, p. 95).

A majority of companies in the United States recognizes this need and offer some sort of paid time-off policy to their employees who work full time. These paid time-off policies are typically structured in one of two ways: a traditional policy which separates reasons employees take off categorically (such as vacation or sick time), or a paid time-off (PTO) bank policy in which all paid time-off is pooled into one ‘bank’ of days. Regardless of its structure, having a vacation or time-off policy that employees find satisfactory is important because paid vacation is one of the most desired benefits among U.S. workers (Etzion, 2003; National Association of Colleges and Employers, 2017).

A trend in the corporate world is that companies are starting to switch from the traditional vacation policy structure to a PTO bank vacation policy structure (SHRM, 2017). PTO bank policy structures are seen as more desirable to employees due to their flexibility. Many companies prefer this approach as it tends to be easier for companies to administer and track (WorldAtWork, 2016).

To explore this switch from a traditional to a PTO bank policy structure, this paper will analyze traditional and PTO bank vacation policies of the top 100 companies listed by *Fortune* magazine in 2017 and compare policy structure satisfaction to individual productivity and organizational financial performance.

This paper compares corporations using traditional vacation policies to those using PTO bank policies to research whether there are advantages of one over the other. More specifically the analyses will make the following comparisons: employee satisfaction of vacation policy; individual employee productivity; and organizational financial performance. The paper will also explore whether there are correlations among the previous three variables (satisfaction with vacation policy, individual productivity, and organizational profitability).

In presenting the research, this paper contains five sections. The first presents a literature review including synopses of vacation/time-off policies, vacation practices in the United States and elsewhere, and an overview of organizational research pertaining to vacations. Second, is the presentation of the exploratory research questions regarding the comparisons of firms using traditional vacation plans to those using PTO bank plans. Research data and methodologies, followed by results make up sections three and four. A discussion containing limitations and future considerations concludes the paper.

LITERATURE REVIEW

Vacation Policies

Industrialized countries around the world recognize the importance of vacation time for their employees. Companies in the European Union must give their employees at least 20 days of paid vacation, and some countries in the Union go above and beyond this requirement. Denmark, Austria, and Belgium pay their employees an additional rate on top of the employee's normal salary to encourage their employees to travel and stimulate the world economy (Achor, 2014). On the surface, these generous practices seem financially counterproductive. Yet, there is little support vacations hurt a company's bottom line. At the international level there is a positive correlation between vacation generosity and a country's economic prosperity. Within the member countries of the Organization for Economic Co-operation and Development (OECD), the top three performing economies in 2013 were Luxemburg, which mandates at least 35 days of paid time-off, Norway, which mandates at least 29 days off, and Switzerland, which mandates at least 28 days off (Dickey, 2015). All three of these economies outperformed the United States, the only industrialized country not requiring employers to provide any paid time-off to their employees (Fottrell, 2016; Maye, 2019). Under the Fair Labor Standards Act of 1938, American companies are under

no obligation to offer paid time-off or vacation time to their employees (U.S. Department of Labor).

Interestingly, over a century ago there was some support from at least one prominent politician for mandatory paid vacation. In 1910, *The New York Times* reported that President Taft believed that all workers should be entitled to three months paid vacation since “ten days or two weeks is insufficient.” (“How Long,” 1910). Obviously, his suggestion never came to fruition.

Despite no mandate for paid time-off at either the federal or state level, most companies in the United States recognize that employees need time off. A large majority (91%) of employees in the United States who work full time receive at least some paid time-off, with companies offering an average between 10 and 22 vacation days, and 7 to 11 sick days (Fottrell, 2016; WorldAtWork, 2016). These policies can vary in many different areas such as whether days are accrued or static, how many/which days are paid, whether employees can earn additional paid time-off by volunteering, ‘use it or lose it’ structures, vacation day donations, and whether employees can cash in their unused vacation days (WorldAtWork, 2016).

Companies in the United States tend to structure their vacation policies in one of two ways: a traditional leave system or a PTO bank. A limited number of companies have also experimented with other policy structures to attract new employees and act as a retention tool for current employees.

Traditional Leave Policies

A traditional leave system is a policy structure that allocates employee time-off into separate categories. Possible categories a company may identify in their policy guidelines include vacation time, sick days, personal days, and holidays (WorldAtWork, 2016). The number of companies offering traditional leave systems has been decreasing in recent years as companies are choosing to switch to a PTO bank system. However, companies in the manufacturing industry as well as larger companies

with many employees are more likely to continue offering traditional vacation policies (WorldAtWork, 2016).

Despite the growing favorability of PTO banks, there are both benefits and drawbacks of the traditional policy. Companies that use a traditional policy tend to report a lower turnover rate, with 65% of companies with a traditional leave system reporting a turnover rate between 0–5%, compared to only 35% of PTO bank companies with such low turnover rates (WorldAtWork, 2016). This type of system also allows companies more control in the stipulations they set for employees taking paid leave, which may be favorable for managers, but less so for employees. For example, a study conducted by the International Foundation of Employee Benefit Plans on the state of paid leave showcased the limitations some companies in the United States put on paid sick leave: plans may choose not to cover things like medical appointments or care of a sick child forcing employees to choose to either use their vacation days or take unpaid time-off (IFEBCP, 2017). Or, plans may choose not to pay for a certain category of time off. According to a survey conducted by CBG Benefits in 2015, 22% of employers with a traditional policy structure do not offer their employees paid sick time. A traditional leave policy is therefore not as attractive to potential employees, putting companies with this structure at a disadvantage in terms of recruitment. It can also be more costly due to higher administrative costs needed to track days used in different categories. Some companies consider switching to a PTO bank vacation policy structure to mitigate the downfalls of traditionally structured vacation policies, but find switching is too complicated and expensive (WorldAtWork, 2016).

PTO Bank Policies

A paid time-off bank (PTO bank) policy is a system that creates a ‘bank’ of days that employees can use to take off for any reason including, but not limited to, vacation, sick days, appointments, childcare, and personal days (Warford, 2014). This policy structure is more commonly used in the healthcare & social assistance industries. In one survey, nearly 80%

of companies using the PTO bank policy were from those industries (WorldAtWork, 2016).

Proponents of this policy structure argue that this type of policy is better for a company due to the many benefits a PTO bank vacation policy has for the employee. Yet, on average, companies that use a PTO bank policy structure offer fewer days off than the combination of days that exists for companies using traditional policies, typically between 8 and 22 days compared to the combined amount of between 13 and 26 days on average for traditional policies (WorldAtWork, 2016, p. 7). However, PTO bank policies are typically more attractive to employees due to the larger 'lump sum' seen due to there being only one category for allotted days off. This allows companies that cannot afford to put as much money toward employee benefits to remain competitive with companies offering traditional plans due to the perceived generosity and flexibility. Because of this, companies with PTO bank vacation policy structures are able to market their policy as a key employee benefit when trying to attract new hires (WorldAtWork, 2016). There is also monetary savings for companies in terms of administrative costs: PTO bank vacation policies cost less and are easier to administer due to the simplicity of a single pool of time-off (WorldAtWork, 2016, p. 7). Of the companies that have switched, over 40 percent believe that a PTO bank vacation policy structure reduced absenteeism when first implemented (WorldAtWork).

However, this type of system also has its drawbacks. If these days off are not accrued over time instead of credited all at once, problems may occur. Employees may choose to use all their time-off in the beginning of the year. When this happens, they have no safety net if they need to take time off later in the year due to an emergency or illness because all of their paid time-off is in one category. The problem of this is magnified because many employees see PTO as vacation time versus time-off that must be used for illness. Because of this, employees may choose to come into work when they are sick because they do not want to lose any of

what they perceive as time allotted for vacation. This may lead to sick individuals coming to work and spreading their illness to other workers. In addition, when an individual leaves an organization, that company typically pays that individual for their unused vacation days. In some states, payout for unused vacation days is required by law, while payout for unused sick days is not. Because PTO banks combine all allotted time-off into one category, an employer would have to pay for all unused days off, creating a larger financial burden for that company when employees leave (Warford, 2014, p. 29).

PTO bank policies can cause resentment among employees in the workplace. When comparing new employees to employees who have been with the company for an extended period of time, new employees typically accrue PTO at a faster rate. In addition, resentment may occur because some individuals have more obligations outside of work, and need to use their time-off for those obligations. For example, an employee who needs to frequently take time-off to care for an elderly parent may grow to resent the employees who are able to use a majority of their time-off for recreational activities (Warford, 2014, p. 48).

An interesting option that is easier in a PTO bank vacation policy is the ability to transfer unused time off from one worker to another. A worker who chooses not to use all their accrued time-off can donate or share it with other workers who have used up their reservoirs of time. This is especially helpful for workers who face unanticipated contingences and would be unable to take paid time-off (Martin & Adkins, 2013).

Other Policy Types

Because of the drawbacks of both traditional and PTO bank vacation policy structures,

companies have recently begun experimenting with alternative vacation policy structures. A unique policy structure helps a company stand out from other companies and can be a great recruitment tool if the policy is attractive enough. One such structure generating buzz is 'unlimited

vacation.’ This type of policy removes the maximum number of days that employees can take off. In other words, employees can take as much time-off as they want; as long as they are able to adequately perform the requirements of their jobs. This policy is rare; less than one percent of companies offer unlimited vacations, and those that do are frequently in the tech industries (Dickey, 2015). Organizations may choose to have a policy structure like this for a variety of reasons.

One of the most cited reasons is that it aligns with the company culture (WorldAtWork, 2016). According to the Wharton School of the University of Pennsylvania (2017), under the “right conditions,” an unlimited vacation policy has been found to lead to a direct increase in employee work-life balance, further leading to an increase in job satisfaction. However, without the right company culture, active employee engagement, and supervisor training, unlimited vacation may have its problems. Another reason for unlimited vacation is the ability to recruit workers, especially experienced workers who have already earned significant vacation time at prior employers (Ain, 2017). Companies such as Netflix , Evernote, and Kronos have been successful in implementing policies like this.

However, other companies have run into problems. Without a minimum number of days worked into a company’s individual vacation policy, employees have no benchmark. This leads to employees taking fewer days off than they would have previously. The company Kickstarter ended its unlimited vacation policy in 2015 for this very reason (Christensen, 2015). In a more extreme case, employees at Tribune Publishing threatened to sue the company over the monetary value of their accumulated PTO because they felt their vacation days were being taken away from them (Chew, 2016).

Other companies have added unique features to their plans. Instead of removing the maximum number of days, some companies will instead set a minimum. This creates a benchmark for employees and ensures that they are taking at least some time-off (Chew, 2016). To encourage employees taking time-off, other companies have created incentives

encouraging employees to use their vacation time. In 2014, the U.S. Travel Association gave its employees an extra \$500 if they used all of their allotted vacation days. This led to 91% of their employees using all of their time-off. Other companies encourage employees to take time-off and completely disconnect using various financial incentives. The investment services company, The Motley Fool, selects workers at random each month and offers those workers two weeks of paid time-off and a \$1,000 stipend. Employees only get the time-off and stipend if they take their vacation that month and completely disconnect from work during that period. The company FullContact also encourages employees to take time-off with a financial incentive. Employees can request time-off and, if approved, they can receive a \$7,500 bonus before they leave. Employees can only receive that bonus if they agree to completely disconnect from their work (Dickey, 2015).

Benefits of Taking Vacations and Time-off

The benefits an employee receives for taking time-off have been well documented. Employees who take little-to-no time-off work are more likely to have a variety of health-related issues. Health issues such as high blood pressure and high cholesterol have been tied to job stressors, as well as mental health issues such as anxiety and depression. In addition, when dealing with job-related stress, employees are also more likely to develop physical ailments such as a cold or flu (Westman & Etzion, 2001). However, when employees are able to take an ample amount of time-off, they have a much better work-life balance leading to improved personal relationships, increased job satisfaction, and increased energy and creativity. (Etzion, 2001; de Bloom et al., 2011; de Bloom et al., 2014).

It is arguably even more beneficial to the company to allow its employees to take time-off work. Many of the benefits that an employee receives when they take time-off carry over to the employer. An employee with fewer health-related issues costs the company significantly less due to lower employer healthcare costs and worker compensation claims (Etzion, 2003). Other issues such as an employee's lack of sleep and

health issues that lead to unplanned absenteeism result in a loss of a company's overall productivity. Individual productivity specifically has been found to be lower in the United States compared to countries that are known for their generous vacation policies (Zengar & Folkman, 2015). An employee's increased job satisfaction that results from a better work-life balance also extends to benefits for the workplace. These employees are able to generate more creative ideas, and their positive attitudes improve workplace morale (Etzion, 2003; de Bloomo e al., 2014).

One of the greatest benefits of employees taking time-off work is decreased job burnout. Burnout is defined as a psychological strain that occurs when an individual is faced with continuous stressors. It becomes more and more difficult for an individual to cope with these stressors as time goes on, which leads to a point of "physical, emotional, and mental exhaustion" (Etzion, 2003, p. 215). Burnout does not just affect individuals; it also affects the entire workplace with deteriorating performance and negative attitudes towards others as well as themselves (Westman & Etzion, 2001, p. 95). There are documented correlations between increased employee burnout and other workplace factors, including increased absenteeism, accidents, increased turnover, increased intentions to quit, and decreased job performance (Brewer & Shapard, 2004). In addition, environmental factors such as work overload, the work environment itself, supervisory support, role conflict, role ambiguity, have been found to be linked with burnout, with work overload being the most significant predictor (Brewer & Shapard, 2004). Westman and Eden (1997) found vacations have a positive effect on an employee's stress and burnout levels, although the results tend to be short term. Other studies reinforce this. Kühnel and Sonnentag (2011) reported that teachers' levels of work engagement increased, and feelings of burnout decreased after vacation. However, within a month burnout and engagement had returned to normal levels. Thus, the frequency of vacations is a factor worth considering when battling worker burnout.

An indirect workplace advantage to vacations, in addition to the physical and emotional benefits to the individual, is that vacations are good for families. Spending extra time together in different settings improves family experiences and dynamics (Rugh, 2008), thus favorability affecting the work-life balance of the vacationer.

Another benefit of vacations for the employer is decreased costs. Employees not taking all of their allotted time-off, creates many hidden costs for a company. According to Project Time-off's "Hidden Costs of Unused Leave" report, vacation liability, which includes all employee-related expenses to do with vacation, is estimated to cost businesses an average of \$1,898 per employee. This is only an average; depending on the company, these costs can reach as high as a staggering \$12,000 per employee (Gillett, 2015). Costs related to employees experiencing burnout are significant. According to estimates by Gallup, employees experiencing burnout cost the United States economy somewhere between \$450 to \$550 billion dollars a year from decreased productivity (Sorenson & Garman, 2013).

Emotionally and physiologically, the only reported shortcoming to taking a vacation is a tendency to gain weight. Ironically, this happens despite a trend toward more physically active vacations. Fortunately any weight gains tend to be temporary, and perceived stress and blood-pressure tend to decline after vacations of one to three weeks (Cooper & Tokar, 2016).

Other than short-term weight gain, the research strongly supports the benefits of taking vacations. That's not to say, vacations are beneficial for all people all the time. Bad vacation experiences and added stress are two of the reasons Jessica de Bloom and her colleagues (2011) cite for individuals experiencing declines in health and wellness measures. Nevertheless, those who suffered were a fairly small subset (17%) of their total sample, and one can safely generalize that the benefits of vacation outweigh the costs for both the employer and the employee

when employees are allowed to take time-off. However, these benefits cannot be recognized if an employee is not taking that time-off.

Factors Affecting Employees Taking Time-off

Employees in the United States do not always take off all of the time they are allotted. In fact, enough workers choose not to take any time-off that the United States has become known as the “No-Vacation Nation,” among business journalists (Robinson, 2018). According to a 2014 study conducted by Glassdoor, the average employee who receives paid time-off reports only using about half of their allotted time-off in a 12-month period. Fifteen percent of these employees took no time-off during this period (Glassdoor, 2014). A study conducted by the U.S. Travel Association’s entitled ‘Project Time-off’ found similar results in their 2015 survey. They found that the average worker took 16.2 days off per year, a relatively large decrease from before the turn of the millennium, when workers averaged 20.3 days per year (Fottrell, 2016; Dickey, 2015). This effect has likely been increasing due to two outside forces: pressure from management and technological advancements.

Management

Employees cite a variety of reasons for not taking time-off from work, including not wanting to fall behind, being afraid they may lose their jobs, feeling that no one will be able to cover their work, and believing that not taking all of their allotted time-off will help them land a promotion in the near future (Glassdoor, 2014; Fottrell, 2016). In reasons involving managers, their fears may be justified. A 2015 survey found that nearly one-fifth of managers believed that their subordinates who used all of their allotted vacation days were less dedicated to their jobs (Dickey, 2015). Another survey conducted by the U.S. Travel Association found that 28% of managers found it difficult to approve subordinates’ paid time-off requests (Thomas, 2015). These results indicate that senior leaders at organizations may be affecting subordinates’ perceptions about the effects taking time-off from work has on themselves and the organization.

Close to 80% of employees would feel inclined to take more time-off if they felt it was fully supported or encouraged by their manager (Fottrell, 2016). The connection between the amount of vacation and time-off employees are taking versus the amount they want to take indicates a cultural issue in the United States workforce. This problem should be kept in mind when analyzing the results.

Technology

Another potential variable that affects employees taking time-off is technology. Advancements in technology such as internet-enabled phones allow individuals to be more connected to their jobs than ever. While technology has increased our ability to connect, it has also made it more difficult to fully disconnect when needed, especially from the workplace. According to a survey by Glassdoor, more than 60% of employees have worked during at least some of their vacation/paid time-off, with 20% being contacted by their boss and 24% being contacted by another employee (Glassdoor, 2014). Another survey conducted by Google Consumer Surveys found that only 38% of employees believe that their boss would not want them to work while they were on vacation. Specifically, 27% believe their boss would want them to remain connected and 11% would want them to actually work (Fottrell, 2015). This is due in part to management creating a company culture that discourages employees from taking time-off. If employees are not able to disconnect completely from their work while taking time-off, both they as an individual and the company will not receive the full benefits that they should when an individual takes time-off from work.

Mobile technology is a double-edged sword when it comes to vacations. On one hand, smart phones make it harder to disconnect from work, but the technology is increasingly convenient for vacation planning (Mackay & Vogt, 2012; Kirillova & Wang, 2016). People will continue to bring their smart phones on vacations; the challenge will be to manage their usage effectively.

Vacations are obviously a complex concept affected by many variables. Nevertheless, based on the existing literature we now introduce our research questions for this paper.

EXPLORATORY RESEARCH QUESTIONS

As previously described, traditional vacation plans and PTO bank plans are inherently different. What we do not know is whether the employees react differently to these plans, or whether firm performance differs with one plan or the other. Because PTO bank plans are newer and growing in popularity, there is an inference that they are an improvement over the older traditional plans. Yet, nowhere in the literature is there any evidence of this. One would think the flexibility afforded by the PTO bank option would be more desirable to employees, so that they would react more favorably to them over traditional plans. Again, there is no empiric evidence in the literature that supports this. In fact, there is no evidence that employee attitudes about vacation has any correlation with organizational performance. To address these concerns, we have created the following three research questions to guide the analysis.

After presenting the pros and cons of the two different vacation policies, as well as the trend of companies adopting PTO bank programs, we expect the PTO bank policy to be an improvement over the traditional vacation policy, which leads us to our first question.

Q1: Do employee satisfaction ratings of PTO bank plans exceed those of traditional vacation plans?

When employees are more satisfied with their work and with attributes associated with work such as vacation policy, their productivity should increase. Moreover, the benefits of vacation presented in the previous section correlate with greater individual productivity (less burnout, better attendance, etc.). Again, assuming that the newer and increasingly

popular PTO bank policy is an improvement over the traditional vacation policy, we present our second research question.

Q2: Does employee productivity of PTO bank plans exceed those of traditional vacation plans?

Assuming the data supports questions 1 & 2, we expect a collective effect presented in research question 3. This is also consistent with other research on the subject (e.g. Sorenson & Garman, 2013)

Q3: Are companies with PTO bank plans more profitable than companies with traditional vacation plans?

Regardless of which kind of plan, traditional or PTO bank, employee attitudes about their vacation plans should matter. Employees who are more satisfied with their vacation plans should be more productive at work. This will have a collective effect such that organizations whose employees are more satisfied with their vacation plans should be more profitable. This rationale is the basis for the fourth set of research questions.

Q4a: Is there a positive correlation between employee attitudes regarding vacation plans and individual performance?

Q4b: Is there a positive correlation between employee attitudes regarding vacation plans and organizational performance?

DATA AND METHODOLOGY

Companies examined in this study were among the top 100 companies listed in *Fortune* magazine's *Fortune 500* for 2017. The *Fortune 500*, a list that has been released every year since 1955 identifies the top 500 publicly owned U.S. companies based on revenue. In 2017, the revenue generated by these 500 companies represented over two-thirds of U.S. Gross Domestic Product (GDP), generating about \$12 trillion in revenue, \$890 billion in profit, \$19 trillion in market value (*Fortune* magazine,

2017). The top 100 companies on this list are an elite subsample of the largest companies in the country, and represent a broad range of industries. Being the largest corporations in America, these companies are well established and have the resources to provide vacation benefits to their employees. These companies and their respective rankings are listed in Appendix A.

From *Fortune's* database, measures of each company's revenue, profit, and number of employees were compiled into a data set. *Fortune* reports the revenue for each company on their list using their fiscal year ending on or before January 31, 2017. The number represented includes consolidated subsidiaries and excludes excise taxes. Profits are represented after "taxes, extraordinary credits or charges, cumulative effects of accounting changes, and noncontrolling interests (including subsidiary preferred dividends) for each company, but before preferred dividends of the company" (*Fortune*, 2017). The 'number of employees' measure of each company is determined using the number of employees reported by each company in their annual report for their 2017 fiscal year. If a company provides a breakdown of part-time versus full-time workers, part-time workers are counted as half of an employee (*Fortune*, 2017).

Employees' favorability of their vacation policy as well as the general policy structure the company uses (traditional versus PTO bank) was determined using Glassdoor. Glassdoor is an online resource where individuals can anonymously provide reviews of their employers on variables such as salaries, benefits, and leadership. Companies can also use Glassdoor as an online recruiting portal (Glassdoor.com). One variable on Glassdoor is 'Vacation & Paid Time-off.' Each company's average rating (out of five) of the 'Vacation & Paid Time-off' category was gathered and recorded on October 16, 2017. The general policy structure used by each company was determined by analyzing comments left by employees under this section that describe the policy, and each was assigned to either 'traditional' or 'PTO bank' depending on policy structure described.

From this data, measures of policy satisfaction, employee productivity, and financial success were determined. Policy satisfaction was determined using the Glassdoor 'Vacation & Time-off' category rating for each company. Employee productivity was determined by dividing company profits by the number of employees in 2017. Financial success was determined using profit generated by each company divided by annual revenue for fiscal year 2017. Six companies were excluded from calculations due to lack of information on policy ratings and/or structure. Statistical analyses were conducted from the remaining 94 companies to determine differences in policy satisfaction, employee productivity, and organizational profitability of companies that had traditional vacation policy structures versus companies that had PTO bank vacation policy structures. In addition, regression/correlation analyses were performed to see if employee productivity and organizational profitability were dependent on policy satisfaction.

RESULTS

While researching the paper, we wondered whether there might be difference between firms using traditional plans and PTO banks; most notably, whether newer corporations were more apt to adopt the newer PTO bank vacation policy, and older, more established firms were more inclined to offer traditional vacation policies. Based on founding dates published by *Forbes*, firms with using PTO banks were slightly, albeit insignificantly, older than firms using traditional policies with average ages of 79.7 years old (PTO bank) versus 77.5 years old for firms offering traditional vacation policies ($t = 0.199$, $\text{Sig.} = 0.843$).

To ask research questions 1-3, the sample sizes of firms were: $N = 94$, firms using traditional vacation policy = 59, firms using PTO bank policy = 35, and the results are explained below. A summary of these statistical results are provided in Table 1.

Policy Satisfaction

Because PTA bank policies are newer than traditional plans, Research Question 1 asked whether the newer plan is an improvement such that employees with PTA bank policies will be more satisfied with these plans than employees are with traditional plans. Using an independent samples T-Test, we compared the employee ratings of the 35 companies with PTO bank plans with those of the 59 companies with traditional plans. Contrary to our assumption, we found the employee ratings for traditional plans were statistically no different from the ratings for PTO bank plans. In fact, the satisfaction scores for traditional plans were slightly (albeit insignificantly) higher. Mean vacation policy satisfaction scores were 3.8644 (out of 5) for traditional plans (SD 0.43102) while the mean for PTO bank plans was 3.8543 (SD 0.49666). The difference of the two means was insignificant ($t = 0.104$, Sig. = 0.917). Therefore, we found no difference in the employee satisfaction ratings of PTO bank policies to that of traditional vacation policies.

Employee Productivity

Using the same rationale for Research Question 1, we asked whether the newer PTO bank policies would align with higher individual productivity. For this, we used Profit per Employee, or the annual profits divided by the number of employees. Profits for each employee at companies applying traditional vacations averaged \$147,260 (SD: 338,568), while the average for PTO bank companies was only \$49,704 (SD: 45,973) ($t = 2.180$, Sig. = 0.033). The data failed to positively answer Research Question 2. In fact, there was a significant difference in the opposite direction, that employees were more productive in companies with traditional vacation policies.

Organizational Profitability

Again, making the assumption that newer is better, we asked whether corporations adopting the newer PTO bank policy would outperform those that use the traditional vacation plans. The *Fortune* list is determined by revenue, which ranged from \$485 billion (Walmart at #1) to \$27.5

billion (Capital One Financial at #100). The mean revenue for these 100 firms is \$76 billion with a standard deviation of \$62 billion. Profitability is similarly varied ranging from \$45 billion (Apple) to Dell Technologies, which lost \$1.67 billion in 2017. The average profits for the 100 companies was \$5.8 billion, with a standard deviation of \$6.9 billion. Considering the range and variance of the profits, we could not reasonably use it as a single, unstandardized variable. Instead, we standardized profitability as a proportion of revenue, a common practice in organizational research.

For the 59 firms using traditional vacation policies, profits as a proportion of revenue was 0.104 whereas the ratio for the 35 firms using PTO banks was 0.0594. In other words, firms offering traditional vacation policies were significantly more profitable than firms using PTO bank ($t = 2.875$, Sig. = 0.005), thus directly contradicting the rationale of Research Question 3. Table 1 offers a statistical summary for research questions 1-3 with descriptive statistics and results of T-Tests.

Research Questions 4a and 4b ask whether there are positive correlations between employee attitudes about their employers' vacation policies and performance at the individual level (4a) and organizational level (4b). These were broad questions, not distinguishing between traditional and PTO bank vacation plans, so the N was 95 for companies in the sample (one firm that had been omitted in previous analyses was included in this one). Using linear regression we analyzed the relationships to find significant and positive correlations between how employees feel about their companies' vacation policies and productivity at the individual and organizational levels. At the individual level, using Profit per Employee as the dependent variable we found a positive correlation ($F = 3.988$, $p = 0.049$, $R^2 = 0.041$). At the organizational level we found a positive significant relationship as well ($F = 7.022$, $p = 0.009$, $R^2 = 0.070$) when using profits as a proportion of revenue as the measure of organizational performance. In other words, how employees feel about their companies' vacation policies (whether traditional or PTO bank) matters. The better they feel about their plans, the more productive they were individually,

and the more profitable their companies were. Admittedly, the R^2 s of the analysis are all low (0.041 to 0.070) so the explanatory value of this analysis is limited. Nevertheless, the relationships are significant. A Pearson correlation matrix of the different relationships is presented in Table 2.

DISCUSSION

The results from this study fail to support the first, second, and third research questions, which asked: (1) Do employee satisfaction ratings of PTO bank plans exceed those of traditional vacation plans?; (2) Does employee productivity of PTO bank plans exceed those of traditional vacation plans?; and (3) Are companies with PTO bank plans more profitable than companies with traditional vacation plans? This research found no significant difference in employee satisfaction levels of the two vacation policies; employee productivity was greater in firms with traditional policies; and firms with traditional vacation policies were, in fact, significantly more profitable. The fourth research questions, which asked whether there is a significant positive relationship among policy satisfaction, employee productivity, and organizational profitability were answered affirmatively.

The findings related to policy satisfaction appear to contradict commonly held beliefs about policy preference. Based on survey results from WorldAtWork, one would assume that employees would prefer a PTO bank vacation policy structure due to the increased level of flexibility this type of policy structure provides (WorldAtWork, 2016). The lack of difference can be due to a number of factors. The measure of an individual's policy satisfaction may be affected for reasons other than whether it was a traditional or PTO bank policy. Employees who rated the category 'Vacation & Paid Time-off' on Glassdoor unfavorably may have done so due to management's enforcement of the company's vacation policies versus the policies themselves. For example, individuals may fear repercussions by management if they take all of their time-

off, which has been found to occur by multiple studies (Dickey, 2015; Thomas, 2015). Therefore, the measure of policy satisfaction may not necessarily reflect the policy itself.

Additionally, one should consider potential biases regarding Glassdoor, which provides reviews of companies from current and former employees. According to Software Advice, the top reason individuals visit Glassdoor is because they are looking for a new job, something better than their current one (Westfall, 2017). Individuals rating their employers and their policies (vacation or otherwise) on Glassdoor are likely more critical than a random employee. Just as Glassdoor participants are not random, neither is the sample of companies in this study. The top 100 firms listed in *Fortunate* magazine's list, are the largest and most established corporations in the nation. They have greater resources to offer attractive time-off policies than those of smaller firms.

Results relating to individual performance and organizational profitability failed to support research questions 2 and 3. While some existing research (Sorenson & Garman, 2013) predicts PTO bank companies should be more profitable than traditional vacation companies, our findings failed to support this. Nevertheless, our findings were internally consistent in that we found individual productivity is greater in traditional policy companies, and profitability was greater for those firms as well.

Findings related to the relationship between policy satisfaction, employee productivity, and financial success provide some support for benefits of a thoughtful and satisfying vacation policy. It is likely that companies with higher vacation policy ratings on Glassdoor have a mixture of management's support for taking time-off work and a reasonable number of days offered. Support from management in taking those days off would lead to a greater number of those days off taken, leading to employees choosing to use a larger percentage of vacation and paid time-off days offered to them, resulting in fewer incidences of burnout. Because burnout decreases an individual's productivity, having fewer employees reaching the point of burnout would mean the company

would experience greater productivity and profitability (Sorenson & Garman, 2013).

IMPLICATIONS FOR FUTURE RESEARCH

The findings of this exploratory project warrant future research in the area of vacation policy. Subsequent studies could consider the demographics of the workforce. Our data did not distinguish attributes such as gender, age, tenure, organizational status, etc. It is plausible that women might prefer the more flexible PTO bank policy since women still have greater familial obligations than men (Parker, 2015). Also, there is evidence that millennials' vacation habits are not the same as previous generations' (Alton, 2017; Loman, 2017) so studying age could prove fruitful. Along with age and gender, previous research (Weeden et al., 2016) has identified particular vacation habits based on sexual preference. Distinguishing demographic variables such as these will shed more light on the effectiveness of vacation policy on different types of workers.

Still other variables would enrich future research on vacation policy satisfaction and productivity. Since many workers do not use all their vacation time, it would be interesting to factor in the proportion of time used as a variable as it relates to managerial attitudes toward time-off (Glassdoor 2014, Dickey 2015, and Fottrell 2016). Additionally, organizational level data such as turnover, non-vacation absenteeism, and workplace accidents could be a proxy for burnout (Brewer & Shapard, 2004) and researchers can better gauge the relationship between burnout and vacations.

Perhaps the most important variable missing from this research was the *amount* of vacation time employees received. Unfortunately, this information was not available from our sources. We have a fairly good measure of employee satisfaction with their vacation policy (traditional or PTO bank), but we do not know how many paid vacation days they get or the length of their vacations (Grigolon et al., 2014). Common sense tells

us that someone earning three weeks of vacation time would be more satisfied than someone only earning one week, regardless of policy type.

Subsequent research would benefit from a larger sample of companies representing organizations of different sizes, and industries. This research sample consists of with 100 corporations from different corporations, but they are not random. These are the largest, most successful companies in the country with the most resources for benefits such as vacation. With a greater sample of companies, researchers can perform analyses across industries or even sectors. For example, it seems reasonable to predict the health care sector would have vacation policies specific to the 24/7 nature of the industry. A larger sample of firms would also allow for greater analysis of organizational variables beyond revenue and profitability.

CHOOSING A VACATION POLICY TYPE

The research in this paper focused on individual satisfaction and productivity, with profitability being the only organizational level variable. This is consistent with the literature on vacations, which overwhelmingly relies on individual level variables such as satisfaction, burnout, etc. A logical direction for future research would be at the organizational level to determine which kinds of organizations, or what organizational conditions would determine whether to adopt a traditional vacation policy or a PTO bank.

Conceptually, “time-off” differs greatly between the two plans. In traditional plans, any time-off is specifically categorized as either vacation, sick, etc., whereas in PTO banks any reason for being away from work is clustered in a single category, “time-off” (WorldAtWork, 2016). In a traditional-plan organization, each type of time-off is treated differently. Sickness can happen any time, so those absences are spontaneous often times with little or no warning to the organization. By comparison, vacations are normally planned in advance, often dependent upon managerial approval. The organization might not have control when an

employee takes their sick time, but they have discretion how and when they take vacation time. In PTO bank organizations where all absences are treated the same, there would be less structure or organizational discretion when a worker takes time-off. Sick time is treated the same as vacation time, therefore the company has less control when its employees take vacations than it would in a traditional plan organization.

Firms that need higher levels of control when employees take vacations should be more inclined to prefer a traditional plan. Companies with high seasonal demand would fall in this category. An accounting firm, for example, would not want its accountants to take vacations during the tax season, or a retailer would expect its sales force to be present during the holiday shopping rush. On the other hand, a company with steadier seasonal demands would be able to absorb workers taking time-off throughout the year and might prefer the ease of the PTO bank policy.

Other than seasonality, employee skillsets might influence which organizations adopt traditional plans over PTO banks. Organizations in which the individuals' skills are so highly specialized that only a small number of employees can do specific tasks would want greater control over employee time-off than in organizations in which the skill levels are more general. For instance: a small hospital with only a few cardiologists would want to control when their cardiologists take vacations to make certain the hospital has adequate coverage in that area. Workers with less specific skillsets are more flexible and can more easily cover for each other during times of absence.

Employee characteristics may also determine which plan a company adopts. As mentioned previously, a worker with heavy family obligations may prefer the flexibility of a PTO bank policy. Therefore, a parent (most typically a mother) with young children would prefer a PTO policy over a traditional policy (Parker, 2015). Young adults (Millennials) who are not tied-down with familial obligations might appreciate the flexibility of PTO bank policies as they tend to take shorter, and more frequent vacations than other generations (Loman, 2017). They would appreciate

the freedom to take a few days off without requiring organizational permission.

Here we can only speculate, but below are some conditions predicting which type is preferable. Future research could determine whether these organizational factors predict which policy a company adopts.

Conditions favoring traditional vacation policies:

- Companies in highly seasonal industries
- Companies in which coverage of highly skilled workers is necessary

Conditions favoring PTO bank policies

- Companies with stable seasonal demand
- Companies in which workers can readily cover for coworkers
- Companies hiring employees with high familial obligations
- Companies hiring a high concentration of millennial workers

Conceivably, a single organization could offer multiple vacation policies to its employees. In the previous hospital scenario, while it would make sense the hospital would want a traditional vacation policy for highly trained specialists such as cardiologists, it might allow more generally skilled nurses to use PTO banks. Or, the administrative support functions of a company may be less affected by seasonal demands than the sales and operations functions, so they might allow administrative workers have PTO bank policies, while the sales or operations functions have traditional vacation policies. Future research would assist human resource practitioners in determining which kinds of companies and which kinds of employees would most benefit from the different types of vacation policies.

CONCLUSION

This exploratory research project started with the simple question, “Which is the better vacation policy, traditional or the newer PTO bank?”

Contrary to the trend in which companies are moving to PTO bank policies, we found among our sample of the 100 largest companies in the country that the majority are still using traditional vacation policies. Employee satisfaction between the two policies was not significantly different. However, in terms of performance, traditional vacation policies get the edge, both at the individual and organizational level.

Perhaps the greatest take-away is that vacations matter to employees, and should matter greatly to employers. Employee satisfaction with their employers' vacation policy (either traditional or PTO bank) was positively related to individual performance and organizational profitability. Therefore, it behooves companies to be very thoughtful and strategic when determining their vacation policies. A company that offers a vacation policy that its workforce appreciates – and uses - will be more likely to have more productive employees and greater financial profitability.

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CITATION INFORMATION

Hurrell, Ashley, and John Keiser. "An Exploratory Examination of the Impact of Vacation Policy Structure on Satisfaction, Productivity, and Profitability." *The BRC Academy Journal of Business* 10, no. 1 (2020): 33-63. <https://dx.doi.org/10.15239/j.brcacadjb.2020.10.01.ja02>

WEB APPENDIX

A web appendix for this paper is available at: <https://dx.doi.org/10.15239/j.brcacadjb.2020.10.01.wa02>