

Workforce Hierarchy of Needs

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Abstract

The Workforce Hierarchy of Needs is a similar model to Maslow's Hierarchy of Needs in that self-actualized employees result in business growth. However, in order to enable self-actualization, the complexity of the labor force landscape must be addressed. This includes addressing employment barriers, holistic benefit packages, and leadership training. Organizing workforce needs is a way to prioritize solutions and develop a comprehensive approach toward employee led business growth.

Keywords

Workforce, Employment Barriers, Childcare, Transportation, Affordable Housing, Workforce Hierarchy of Needs

1. Introduction

Firelands Forward is a regional non-profit organization created by local leaders to address workforce challenges, such as low labor force participation and other issues seen on the at a glance page. Firelands Forward utilizes data to drive program creation and implementation in the Firelands region, defined as Ottawa, Huron, and Erie Counties, Ohio. Labor force participation is the number of people who are sixteen years and older and are either currently employed or actively seeking work. This has decreased drastically over the last two years and is a major concern for employers, economists, and governmental leaders.

Job openings are abundant, so why has labor force participation remained low? The complexity of the workforce landscape demands an integrated and tiered approach to begin to address the many underlying causes of low labor force participation. As shown in **Figure 1**, Firelands Forward created the Workforce Hierarchy of Needs to articulate the dynamics of this intricate environment. Maslow created his Hierarchy of Needs to define the classification of human needs and behavioral motivation. His widely adopted theory defined the hierarchical rela-

tionships between these needs and how they drove behavior. Much like in Maslow's Hierarchy, employees' needs must be met at all of the preceding tiers before they can move towards self-actualization. If we aim to develop a strategy around addressing the labor shortage, it is important to understand that wages are not the only factor driving this phenomenon. Nor is this a simple fix that will right itself overnight.

At the base of the hierarchy lie workers' physiological needs. This tier encompasses the bare minimum needed in place in order to enable employees to go to work, including transportation, affordable housing, and childcare. It is not until these basic needs are met, that a job seeker can even apply for a job. As an employer and community create an environment in which the employee can move upward in the hierarchy, the ability to attract a workforce increases, the ability to retain a workforce increases, and, ultimately, the ability to increase production and create an opportunity for growth occurs.

This paper includes tangible data that supports both this theory and the idea that no single entity can address this complex challenge alone. For example, U.S. businesses lose \$3 billion annually due to employee absenteeism as the result of childcare breakdowns (U.S. Chamber of Commerce Foundation, 2022). Because of the cross-sector nature of the labor market, it is critical for business, community, and government leaders to understand the full spectrum needs of the workforce. This article proves, that by addressing the physiological needs of the workforce, creating a culture that promotes personal and professional development, and empowering employees to be innovative and involved, leaders will find the opportunity for business and community growth increases. We hope that this allows employers and community leaders to view the labor force woes from a different lens, giving tools to increase the health of our workforce and build a roadmap to business growth.

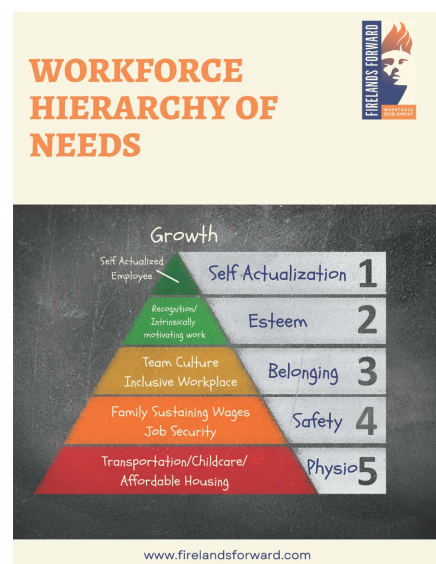


Figure 1. Workforce Hierarchy of Needs.

2. Data Source

Data referenced in this report is generated from both national sources (the U.S. Bureau of Labor Statistics, the U.S. Census Bureau, the Consumer Price Index, Redfin®, and LinkedIn®) and regional sources (Childcare Resource Network, Regional Economic Modeling Software International, and the Great Lakes Community Action Partnership). This document contains data driven insights that support three critical components (employment barriers, wages, deliberate leader training) to building a healthy, self-actualized workforce, an essential element in sustainable business growth.

3. Key Findings

3.1. Employment Barriers Cause Significant Disruption to the Workforce

The National unemployment rate in May of 2022 was 3.6% and the unemployment rate in the Firelands region was just slightly above at 3.8% ([Economic Modeling Software International, 2022](#)). The Federal Reserve considers the fully employed rate to be 4% or below ([Dubina, 2017](#)). However, this is little consolation to employers who are still struggling with attracting and retaining a workforce. Although unemployment is low, labor force participation is also low. The labor force participation rate in the region has averaged 60% in 2021 and has been as low as 58% in the last year ([Economic Modeling Software International, 2022](#)). There has been a false narrative that the majority of these nonparticipants just do not want to work. Data proves that there are considerable barriers to entry to the labor force that must be addressed in order to enable a healthy and sustainable labor force in the region. Transportation, childcare, and housing are the most significant of these barriers because of cost and they directly prevent potential employees from working. The complexity of issues demands creative and collaborative solutions across local government and businesses. These components fall at the physiological level of the pyramid of the Workforce Hierarchy of Needs because all laborers must be able to get to work, afford to live within an accessible range, and have a safe place to take their children (if applicable) when they are at work. These are all physiological musts in order to begin employment and are not solvable by one single entity. Employers do not control federal and state subsidy levels for childcare or housing, nor can they provide public transit to all of their residents. Local government cannot provide childcare for all residents, nor can they subsidize everyone within their tax base. As such, these challenges must be collaboratively solved.

3.1.1. Transportation

Access to affordable transportation poses a very real challenge to the Firelands Region. Erie, Huron, and Ottawa Counties contain population pockets where upwards of 10% of households have zero cars ([Great Lakes Community Action partnership, 2021](#)). Many other households are single car residencies. Access to

fixed or deviated public transportation routes only exist in portions of the region. Sandusky Transit System provides transportation access to a significant portion of Sandusky residents, but it does not service the east side of the county. Huron County does not yet have a centralized public transit system, and the Ottawa County Transit Authority provides deviated routes that have to be scheduled twenty-four hours in advance. While these services fulfill a needed gap in access, they do not provide access to all, nor do they service the majority of the major employers in the region. The Firelands has a unique challenge as there is an urban center with many of the same concerns as a larger city but also a significant rural area that houses many large employers. In order to increase access to employment, community leaders must work collaboratively to integrate these transit lines between counties and communities. This will align public transit routes with established commuter patterns. In addition, the business community can be part of the solution by providing transportation solutions that connect with established public transit and/or subsidize employee transportation through benefits like transit Flexible Spending Accounts (FSA).

3.1.2. Childcare

Another significant barrier in the region is childcare. Childcare facility inventory during the COVID 19 pandemic drastically decreased. The childcare capacity in the Firelands Region ranges from 10% - 18% of the potential need based on overall population of daycare aged children in the region ([Childcare Resource Center, 2022](#)). As seen in [Table 1](#), the average cost of childcare in the Firelands Region (Erie, Huron, and Ottawa Counties) is \$8372 for infants and \$7748 for toddlers per year. In May of 2022, the median wage for job postings in the Firelands Region was \$16.80 or \$33,600 a year ([Economic Modeling Software International, 2022](#)). This equates to 145% of the federal poverty rate ([U.S. Bureau of Labor Statistics, 2020](#)).

During the pandemic, the standard for subsidized childcare rose to 200%, which means a new employee making the median wage would qualify for a state subsidy. This is likely to change as this was a short-term solution meant specifically to defray the impacts of the pandemic. Ohio state law specifies that households making the eligibility standard for subsidized childcare are 142% of the Federal Poverty Line ([U.S. Bureau of Labor Statistics, 2020](#)). This means that once the COVID 19 childcare subsidy reform ends, a single income household with two children at the mean salary would not be eligible for state subsidies. The \$16,000 annual cost of childcare for this family is 47.6% of their annual income. The high cost of childcare presents an enormous challenge for many families. However, lowering cost is not feasible. The employee turnover in the childcare industry is high due to low wages. According to the Ohio Policy Center, the median wage for childcare workers in the State of Ohio is \$10.90 ([U.S. Bureau of Labor Statistics, 2020](#)). Even with this low median wage, the average profit margin of a childcare facility is 1% ([U.S. Chamber of Commerce Foundation, 2022](#)).

There is not room on the balance sheet to increase wages or lower costs for most childcare facilities. How can we increase childcare inventory and reduce cost in order to enable potential laborers to enter the workforce? Again, the complexity of this challenge requires a multi-domain solution that must include local government, private business, and community resources in order to architect a long lasting and impactful solution.

This comprehensive solution will look different throughout the region but should include capital investment from local government to build site inventory, private company participation with the addition of childcare subsidies to their benefit packages, and the construction of a provider pipeline that will increase the ability to appropriately staff the increase in childcare facilities. This will reduce overall cost to all entities by reducing overhead, childcare related barriers to entry, and economic impacts due to a reduced labor market.

Table 1. Annual price of childcare—Erie, Huron, and Ottawa Counties.

Annual Price of Childcare—Erie, Huron, and Ottawa Counties				
	Erie County			
	Infant	Toddler	Preschool	School-age
Child Care Center	\$8580.00	\$8372.00	\$7592.00	\$4368.00
Family Child Care Home	\$7644.00	\$7176.00	\$6604.00	\$5616.00
Preschool Only			\$7592.00	
School-age Only				\$3900.00
	Huron County			
	Infant	Toddler	Preschool	School-age
Child Care Center	\$8164.00	\$7488.00	\$7332.00	\$4316.00
Family Child Care Home	\$8112.00	\$7904.00	\$6552.00	\$5616.00
Preschool Only			\$7592.00	
School-age Only				***0.00
	Ottawa County			
	Infant	Toddler	Preschool	School-age
Child Care Center	\$8372.00	\$7384.00	\$5668.00	\$5980.00
Family Child Care Home	\$8112.00	\$8112.00	\$7332.00	\$6500.00
Preschool Only			\$4628.00	
School-age Only				\$2756.00

***No standalone school age programs located in Huron County.

3.1.3. Affordable Housing

The final employment barrier that is defined in the Hierarchy of Needs is access to affordable housing. The affordable housing inventory in the Firelands Region has become a critical problem for the health of the workforce. Median home prices have risen year over year in Huron and Ottawa Counties by approximately 35% and by over 60% in Erie County. The median price in Erie County in 2022, is \$293,500 according to Redfin's MLS and public record calculations (Redfin, 2022). This is simply unaffordable for median income wage earners (\$33,600) in the county. There are many reasons for the atypical price inflation in the region's housing market, including national housing inflation due to a shrinking inventory, outside investment in short term rentals within the Firelands Region, and historically low interest rates. Some of these factors are already changing, namely interest rates. However, the housing stock is not likely to quickly rebound.

Long term rental rates correlate with rising purchase price. In 2021, the Fair Market Rental rates increased by an average of 8.6% in the Firelands Region (rentdata.org, 2021). In addition, only 38.7% of Emergency Housing Vouchers have been utilized in Ohio (U.S. Department of Housing and Urban Development, 2022). This low utilization rate is almost entirely caused by a lack of inventory. This means that the 8.6% increase in rental rates is being passed on to the consumer for 61.3% of the eligible population for HUD Vouchers (our communities' lowest wage earners). In addition, because rental rates are increasing faster than wages, individuals who do utilize subsidies find it harder to overcome the need to rely on these benefits and become subsidy independent. This effects the labor force in several ways. There is a substantial benefits cliff in relation to housing subsidies. This means that a better paying job could result in a substantial net loss of income. Unfortunately, Ohio does not have a step-down system for most subsidies, meaning an individual could go from paying a \$100 monthly rent copay to paying \$1000 per month if they earn as low as a \$1.00 an hour raise. In most instances, Ohioans must earn less than 50% of the regional median income in order to qualify for subsidized housing. In the Firelands Region, this equates to \$15,645 per earner or \$29,204 per household (Economic Modeling Software International, 2022). Availability in housing across markets is also a factor in talent attraction, a critical component to growing our labor force. This is an incredibly complex challenge. Outside investors have driven up housing prices in the Firelands by buying up available real estate and converting inventory to short term rentals. Real estate investors have largely been hesitant to make large scale investments because of the soaring cost of goods. A comprehensive regional strategy will be necessary to attract investment in a way that will benefit the labor force while ensuring programming and legislation reflects the approach to increase the inventory of affordable housing. Because of the complexity of the housing landscape, a good start to solution development is an in-depth analysis of current regional conditions, involving stakeholders that will

be the implementers of any future solution.

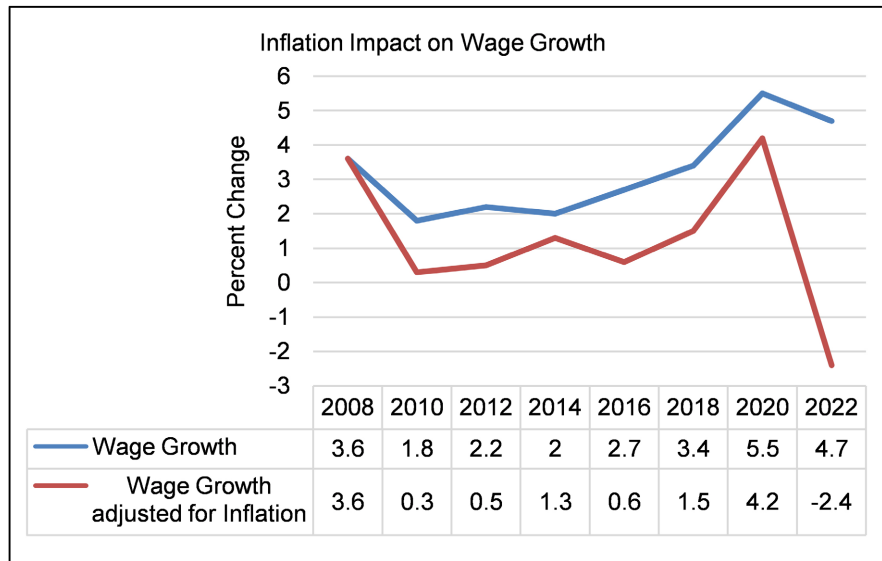
3.2. Family Sustaining Wages and the Safety Tier

A central strategy in combating the “Great Resignation” and increasing the effectiveness of recruiting has been to increase wages. Many employers are concerned with the wage war and fear that it is not sustainable. However, wage growth compared to purchasing power does not equate to a net gain in income for most employees. Based on Department of Labor Data, the Leisure and Hospitality Industry is the only Industry cluster that saw wage growth when adjusted for inflation. Laborers in most industries have seen a decline. As seen in **Figure 2**, although wage growth has increased faster in 2022 than in decades, the average laborer has still lost close to 3% of purchasing power (*U.S. Bureau of Labor Statistics, 2022a*). It is improbable that businesses can continue to raise wages that would enable all of their employees to solve all of the previously discussed employment barriers. Once, and only once these challenges are addressed, can employers begin to create a sense of safety with wages. In order to do this, it is important to understand where wages fit into the holistic health of the workforce.

The living wage, as defined by the Massachusetts Institute of Technology in the Firelands Region for a single income family with two children is \$65,640 annually (*Massachusetts Institute of Technology, 2022*). This is a far cry from the unique job posting median wage of \$33,600 a year. Individuals working for below this living wage (\$65,640) are considered Asset Limited Income Constrained but Employed (ALICE) workers. This means that employees are making financial decisions about one necessity that comes at the cost of another necessity. These necessities include food, housing, childcare, transportation, internet access, phone, and medical expenses. Although, on average, wages have increased 4.7% over the last year, the median wage is far below the living wage (*Economic Modeling Software International, 2022*). A self-actualized employee must have the ability to feel secure about basic workforce needs and have the ability to make financial decisions outside of the constraints of necessities like food, transportation, medical, etc.

Childcare, transportation, and housing costs have all skyrocketed. Supply chain woes, the conflict in Ukraine, and a decrease in childcare inventory related to the pandemic have all caused significant price increases. It is now more expensive to get to work than in decades, it is harder to find childcare, and housing prices have increased at an unprecedented rate. Loss of purchasing power for low-income earners has a substantial effect on their ability to afford to go to work. The weighted average inflation between these three core components that enable labor force participation is 9.6%, 2.6% over the already high inflation (*U.S. Bureau of Labor Statistics, 2022b*).

Offering higher wages is important to competitively recruit. However, this cannot be the only strategy for employers seeking to attract talent and retain their workforce. In order to overcome the impact of inflation, programmatic



(U.S. Bureau of Labor Statistics, 2022a).

Figure 2. Inflation impact on wage growth.

strategies that offset the cost of some of the previously discussed employment barriers are necessary. Employers that offer transportation or childcare benefits are decreasing expenses for their employees and decreasing their living wage needs. Wage growth alone does not compensate for the rising cost of living and certainly does not provide enough additional income to alleviate some of the most pressing challenges our labor force encounters.

3.3. Deliberate Leader training Drives Top Tiers of the Workforce Hierarchy

As we transition upward from safety needs towards self-actualization, the involvement of good leadership is critical in order to create an environment in which an employee can move up the workforce hierarchy. The more self-actualized employees, the more innovation, increased productivity, and ability to grow the business will have. However, few businesses have a deliberate leader development pipeline. Often, employers will promote technical experts into leadership roles with no formalized training in leadership. The expectation is that these technical experts will metamorphize into effective leaders with experience. Unfortunately, this is not always the case, and it has a real business cost. Based on aggregated data from 32 million LinkedIn profiles, companies with high ratings for open and effective management (defined as teams with high employee engagement, profitability, financial security, and intent for long-term operational success) retain 14% more of their employees after two years and an additional 12% after five years (LinkedIn Business, 2019). Turnover is expensive for a multitude of reasons. The Society of Human Resource Management (SHRM) associates COBRA expense, loss of productivity, recruiting cost, etc. with turnover cost. Based on these cost factors, turnover can cost a company anywhere from 6

- 9 months of annual salary for technical experts and approximately 3 months for hourly employees (U.S. Department of Treasury, 2021). This means that turnover could cost anywhere from \$5000 for an employee earning \$10 per hour to \$45,000 for a technical expert making \$60,000 a year. A survey conducted by Pew Research Center in February of 2022 stated that 35% of individuals who left their job in 2021 left because they felt disrespected and 33% left because they did not have any advancement opportunity (Horowitz & Horowitz, 2022). A good leadership team can address both.

Time management, effective communication, interpersonal skills, critical thinking, empathy, etc. are all components of good leadership. Fortunately, these skills and their application can be taught through deliberate training. The Return on Investment of having a development pipeline to groom upcoming leaders is evident in the reduction in turnover cost alone without factoring in an increase in production and innovation. If employers do not have the ability to conduct an internal program, many education institutes offer cohort-based leadership courses. Leaders drive the top tiers of the workforce hierarchy, but it will take investment in management teams to create upward mobility towards self-actualized employees.

4. Conclusion

Employers, community leaders, and voters should all pay attention to the complexity of the workforce dynamic. The solution is comprehensive and will not only take the work of our local businesses, but also the dedication of the community. The workforce's physiological needs like transportation, childcare, and affordable housing should be addressed through collaboration between public and private partners. There are also steps businesses can take to address some of these basic needs. Benefit packages must start to look different in the near future. Businesses can, and may need to, subsidize childcare and transportation for their employees. There are multiple ways to do this.

Maslow defines self-actualization as "becoming everything you are capable of becoming". In order to optimize business potential, it would make sense for employers to want their employees to become self-actualized. However, if basic needs aren't being met, it is hard for Asset Limited Income Constrained but Employed (ALICE) workers to move towards this top tier of the workforce hierarchy. Employers and community leaders need to get innovative to develop customized plans to attract laborers to their companies and communities. What has always worked will not be what works in the future.

Defining career pathways and promotional pathways for employees is also important. If an employee can visualize the path to success, he or she is much more likely to be fulfilled while working to get there. Good leadership and culture are also critical. This doesn't happen without a deliberate approach to build culture and a defined professional development model for leader development. Hiring the right employees in all roles, but specifically ones that lead teams is

also a critical component. It is helpful for all employees to see the why behind what they do but it is essential for leaders to live it and reinforce it.

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Conflicts of Interest

The author declares no conflicts of interest regarding the publication of this paper.

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