

Out Sick: How Employee Absence Hurts Your Bottom Line

Reduce Costs and Increase Productivity with an Automated Absence Management Solution

Imagine a world where all your employees show up for work every day. There would be no last-minute sick calls, no personal days, not even vacation. You'd be able to forecast and plan labour costs accurately, service customers, deliver products, and achieve unprecedented levels of productivity. While it might sound intriguing, it's not a very realistic scenario.

In the real world, employees aren't always going to be able to come to work. And without reasonable accommodations for vacations and time off, employee productivity and morale would likely plummet. "There is no question that employees need and deserve sufficient time for planned absences and that they will inevitably need to take unplanned incidental and extended absences," says Michael Klachefsky, principal and absence management practice leader at Mercer Consulting. "But to the extent absenteeism gets out of control, your ability to accomplish your objectives is thwarted and your costs of doing business increase."

The average cost of employee absence is equivalent to 35 percent of base payroll.¹

Do you know how much employee absence is costing your organization? Research conducted by Mercer and sponsored by Kronos reveals that employee absence costs, on average, the equivalent of 35 percent of base payroll. This includes the direct and indirect costs of planned absences like vacations and holidays, unplanned absences from sick days, and extended absences such as short-term disability and leave. Each type of absence carries costs that can significantly affect your bottom line, yet most organizations lack a clear understanding of them.

Why Worry About Absences?

"The cost of absence is often misunderstood, seen as immeasurable, or dismissed as a negligible amount," says Klachefsky. "While most other expenses for an organization, including most benefit programs, have clearly defined costs, employee absence is an area that is often not carefully tracked, or even when it is, does not easily reveal its full costs. In a simplistic view, absences are sometimes seen as having no extra costs since they are largely included in payroll expenses. But most managers know that absences do affect an organization's customer service, staffing, and attainment of production and other business objectives. Otherwise, there would be no need to try to manage them."

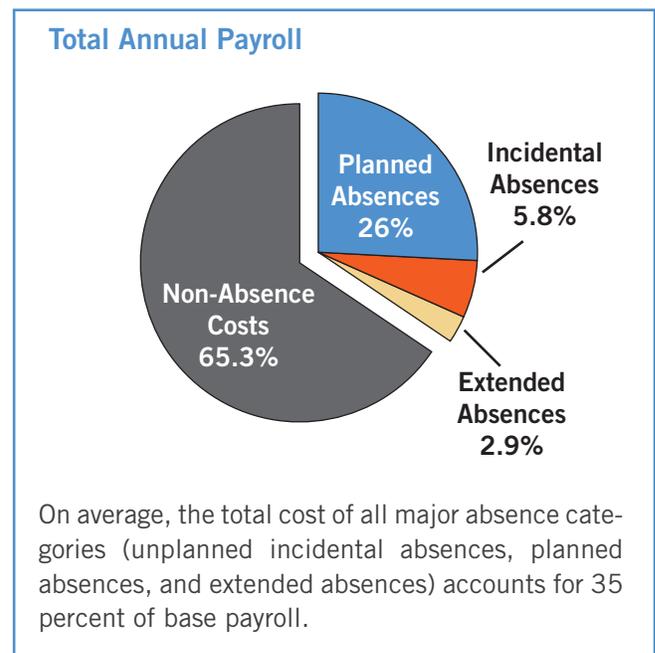
Simply tracking time and attendance data is not enough. To truly manage employee absence, you need to manage paid time not spent at work (unproductive time) as closely as you manage paid time spent at work (productive time).

How Absence Hurts

It's costly. Most organizations assume that paying vacation and sick time is simply one of the costs of doing business. But even routine employee absences carry hidden costs. Replacement workers and overtime charges raise costs, and heavier workloads for workers who are present can disrupt daily routines and increase employee stress.

"Large opportunities exist for cost reductions and increased productivity if employers pay more attention to tracking and managing absences," says Klachefsky. As we've already seen, the total cost of all major absence categories, including direct and indirect costs, averages 35 percent of base payroll. Twenty-six percent can be attributed to planned absences, while the combined total costs for unplanned and extended absences — the absences that employers typically try to minimize — add up to 8.7 percent of payroll. Absence has both direct costs — paying absent workers — and indirect costs — lost productivity and hiring replacement workers. Indirect costs, in particular, represent an opportunity for saving money.

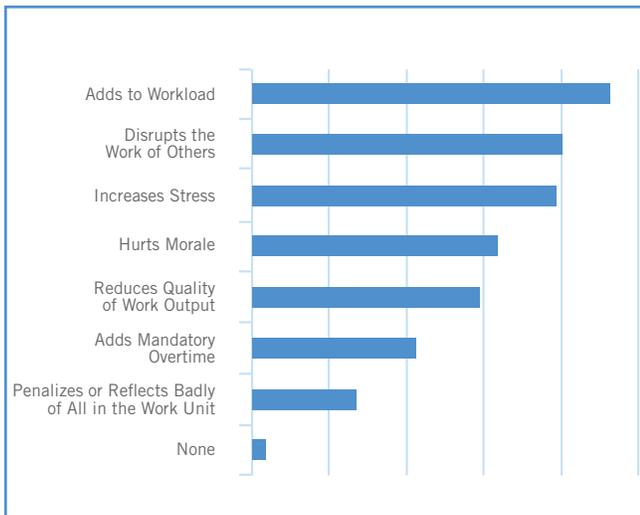
EMPLOYEE ABSENCE ADDS UP



¹ All figures quoted in this white paper derived from survey on the Total Financial Impact of Employee Absences, Mercer, June 2010

It lowers productivity. We all like to think we're irreplaceable. In the case of your employees, it may be true. Across the board, replacement workers are less productive in all cases of employee absence. The Mercer study found that replacement workers are only 71 percent as efficient when covering for unplanned absences and 79 percent as efficient during planned and extended absences. According to Klachefsky, absent workers may slow down work output and other processes, cause meetings to be postponed, and create delays in key project steps.

ABSENCE HURTS ACROSS THE BOARD



The Mercer study found that while not all the impacts of absence are easy to measure, they can have significant consequences for your organization.

It can increase compliance risks. Managing different forms of absence and allowances — especially in organizations with union workers — is complex. Adding to the challenge are leave laws and, for public companies, the accrual liability accounting documentation mandated by Sarbanes-Oxley. Under penalty of noncompliance, organizations must sort out the overlapping provisions of these regulations and internal policies. Failure to accurately track and enforce employee absence policies can result in costly regulatory violations and employee grievances.

HOW MUCH IS ABSENCE COSTING YOU?

Number of employees:	1,000
Annual average salary:	\$43,000
Total payroll:	\$43,000,000
Absence costs	
Planned absences:	\$11,180,000
Unplanned absences:	\$2,494,000
Extended absences:	\$1,247,000
Estimated cost of absence:	\$14,921,000

The true cost of employee absence is staggering.

Consistency Matters

Too often, organizations lack consistent policy enforcement around attendance and leave management, resulting in employees taking time off they aren't entitled to and driving up leave liability. This unauthorized absenteeism leaves managers and supervisors scrambling to fill coverage gaps, fulfill schedule requirements, and maintain productivity and quality levels. In extreme cases, unauthorized absenteeism can cause production lines and service delivery to slow or stop, reducing revenue and creating longer customer service wait times.

To curb unscheduled absences, many organizations implement programs such as PTO (paid time off) banks, incentive programs, and disciplinary policies. For these programs to work, you need consistency and accuracy in interpreting, calculating, and recording attendance. With manual systems, subjectivity can creep in. If employees suspect that policies are not being monitored or enforced consistently, it can lead to abuse, grievances, and low employee morale.

Can't See the Problem

Employee absence is not one-size-fits-all. With a complex workforce that may include salaried workers, hourly workers, part-time workers, and unionized workers governed by labour contracts, managing leave and accrual policies effectively is very difficult. In most organizations, the

responsibility to manage employee absences is shared by many stakeholders. Add the fact that most organizations maintain their time and attendance, absence, and leave information manually in multiple databases and paper files and it can be almost impossible to get a real-time look at employee absence. Without visibility you can't know the size of the problem, its cost, or how to solve it.

"To the extent that decentralized and manual tracking processes still occur, the effort is both time-consuming and expensive," says Klachefsky. "Additionally, employers face risks when trying to administer attendance policies via manual, honour-based processes in which the supervisor is often unaware of attendance violations, or has no formal way to record and manage them equitably and consistently."

"Clearly it is time for employers to turn their attention to addressing absenteeism as a way to help control overall operating expenses in the future. Employers who take strong action to reduce unplanned and extended absences will find their operations more productive, more profitable, and better able to compete in the marketplace."

**Michael Klachefsky, Principal and Absence Management Practice Leader
Mercer**

An Effective Solution

The good news is that organizations can take effective steps to address employee absences and minimize their impact. By automating and streamlining attendance and leave policies, you can enforce rules consistently and control the costs, risks, and productivity effects associated with employee absence.

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and extended absences will find their operations more productive, more profitable, and better able to compete in the marketplace."

The Kronos workforce management solution helps you control the costs of employee absence with integrated time and attendance, absence management, manager and employee self-service, and scheduling solutions, which allow you to:

- Track all types of absences consistently
- Standardize absence policies and pay rules
- Help ensure compliance with government mandates
- Identify causes and trends in employee absence and take corrective action
- Easily reschedule workers when employees are absent, freeing managers to focus on strategic objectives

Absence Management Best Practice: Control Labour Costs

Track all absences as they happen. Ironically, it's easier to track an absence in the future ("Mary will be out the week between Christmas and New Year's") than in the past ("Was it last Tuesday or Wednesday that Jack had to leave early?"). Tracking an absence is best done at the moment it is known, using automated data collection tools for gathering time and attendance data, whether via employee self-service or data collection terminals.

"It's made it very easy for managers to administer attendance and enforce policies consistently, eliminating claims of favoritism, catching errors that could turn into overpayments, and providing an audit trail that improves compliance."

**Bryan Beazley, Project Manager
Con-way Inc.**

Once an absence is acknowledged, the Kronos workforce management system can apply appropriate policies based on the type of absence in order to accurately compensate the employee. In addition, alerts can be generated to supervisors when incidental absences of more than three days occur reach a specific number.

Scheduled time-off requests can be captured and recorded in the same system, providing visibility to supervisors and schedulers. When employees don't work their schedules, the system flags these events and notifies the supervisor, who can make timely, informed decisions about coverage without increasing labour costs. Because the data is saved in the system — and is easily retrievable — managers can leverage this data when developing employee performance reviews.

Better planning and scheduling. Absences can't always be avoided, yet the work must still get done in order to meet demand for products and services. When an employee is absent, a manager can shift work to another employee, incur overtime, pay a temporary worker, or choose not to fill the shift. Any of these options can have a negative effect on labour costs and productivity.

**Hawkesbury & District General Hospital Inc.
reduced absence costs by over \$100,000/year**

“Productivity has increased as a result of new sign-out procedures implemented, and fewer payroll errors occur due to the work rules built into the system. Overall, management is more informed, absenteeism is better controlled and employees feel empowered.”

**Diane Durocher, Coordinator of
Patient Care Information Services**

Hawkesbury & District General Hospital Inc.

In order to minimize disruptions and reduce the indirect costs associated with absences, managers must balance constraints with work volume and stay within budget. Dealing with the constraints can be challenging, since

it requires current knowledge of employee skills, preferences, certifications, seniority, cost, and other conditions.

Automated scheduling tools can help managers make better deployment decisions, keep costs down, and minimize operational disruptions while balancing these constraints. Bringing all these conditions together in one system enables schedulers and frontline managers to know who is available and qualified to work — without unnecessarily dipping into overtime or agency usage.

For example, when an employee takes a leave of absence, the system updates the employee's schedule immediately, creating an open shift. The scheduler is automatically alerted and can use the scheduling tools to quickly and easily identify the best possible replacement at the lowest cost. Work demands are met, labour costs are reduced, and productivity is maintained.

Absence Management Best Practice: Minimize Compliance Risk

Enforce absence policies throughout the organization. Effective absence management starts with accurately recording employee time and attendance. Records of time worked should be maintained for all segments of the workforce, including exempt employees. Web-based systems provide unobtrusive mechanisms that make it easy for exempt employees to record exceptions such as sick time or to submit requests for time off.

Taking disciplinary action to enforce compliance with attendance policies requires close management and careful tracking of employee attendance. Supervisors should record all attendance infractions as they occur, along with consistent interpretation of attendance policy rules to avoid claims of favouritism or discrimination. More important, they need to take timely disciplinary actions when warranted and when such actions can be most effective in eliminating the behavior.

An automated solution like the Kronos absence management solution enables rules to be applied consistently and generates alerts to notify supervisors when predefined infraction levels are reached. This enables supervisors to take swift, decisive action and demonstrate to employees that attendance policies are being enforced.

Automate and enforce leave policy. Given the complexity of leave benefits, numerous leave policies will overlap. You can manage leave most efficiently and accurately with an automated solution that calculates and enforces the granting and taking of paid and unpaid leaves. Once leave balances are calculated and granted, future requests for leave can be forecast, enabling your managers to better plan for coverage.

Automation reduces the errors, costs, and inefficiencies of manual processes while helping to ensure consistency. It also helps to ensure that leave time is administered consistently and accurately across all classes of employees, eliminating the chance of employees taking time off they don't have.

Many leave policies stipulate eligibility requirements for various paid and unpaid leave types. The Kronos absence management solution assists HR managers in determining eligibility for government leave requirements such as recording minimum hours worked and time active, and managing cascading and overlapping leaves. This contributes to cost savings because managers will have the information they need to determine eligibility and leave entitlements at their fingertips.

Absence Management Best Practice: Improve Workforce Productivity

Measure absenteeism. An automated solution like Kronos can help your managers monitor absenteeism rates, correlate absences with business performance metrics, and evaluate absence-related costs. There is great strategic value in knowing, for example, what percentage of employees are on leaves of absence, what the average duration of absences is, whether or not employees are providing ample notice before taking leave, and the current accrual liability and how it is trending. These answers enable managers to make better-informed decisions and provide greater visibility into the impact that absence is having on workforce productivity and your bottom line.

Employee self-service for schedules and time-off requests. Self-service tools give employees the freedom to select shifts they are qualified for and available to work, and allow them to swap shifts with colleagues or engage in shift and vacation bidding. The result is better schedule coverage using the best and lowest-cost replacements, preventing disruptions and keeping costs down when unscheduled absences do occur. Self-service also allows employees to request time off and check their accrual balances, saving time, reducing costs, and empowering employees to initiate and follow up on their requests themselves.

EASE LEAVE COMPLIANCE WITH AN AUTOMATED SOLUTION

- Automate the rules for granting, tracking, and use of time, and coordinating leave with other paid and unpaid leave policies, including state and government policies
- Initiate, route, and track templated certification forms and other documentation to meet certification requirements
- Generate automatic alerts to remind managers when certification forms are sent and when they are due from employees, minimizing lost or forgotten forms
- Track usage of intermittent leave time, helping to ensure that incidents are applied to balances as appropriate
- Facilitate accurate pay when employees are on leave and using paid time off concurrently with unpaid or other time
- Provide complete audit trails and accurate record keeping of all leave transactions for troubleshooting and provincial and/or federal labour department audits

Conclusion

Absence has profound, measurable negative impacts on an organization's ability to deliver high-quality products and services in a timely, cost-effective manner. Employee absence places an unfair burden on employees who are present, decreasing morale and retention while adding costs, delays, and business risks.

The Kronos workforce management solution with absence management tracks absence-related data in a single database that is integrated with other enterprise systems, giving managers a single, real-time view of absence throughout the organization. A total absence management solution also gives you the tools you need to take corrective action and make the best possible decisions about responding to understaffing. By implementing these technologies, it's possible to enact the best practices that can improve productivity, help ensure continuity and compliance, and reduce costs. As a result, absence will be controlled and employee morale will improve.

The workforce is an organization's most valuable asset — organizations can get the maximum value from their employees only if they are present, satisfied, and working the full amount of time for which they are scheduled. An absence management solution can help achieve that goal by empowering both managers and employees with the tools and information they need to be productive.

About Kronos

Kronos helps organizations across a variety of industries manage their most valuable, and expensive, strategic asset — their workforce. How? By giving them the tools they need to help them control labour costs. Minimize compliance risk. And improve workforce productivity. The easy-to-own workforce management solutions from Kronos make complete automation and high-quality information a reality.

Our time and attendance, scheduling, absence management, HR and payroll, hiring, and labour analytics solutions give Kronos customers the edge they need to compete in the global marketplace. With thousands of installations in organizations of all sizes — including over half the Fortune 1000® — we're proving workforce management doesn't have to be so hard.



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