

# Absence Management: Making the Critical Shift From Transactional to Strategic

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## ABSENCE MANAGEMENT: MAKING THE CRITICAL SHIFT FROM TRANSACTIONAL TO STRATEGIC

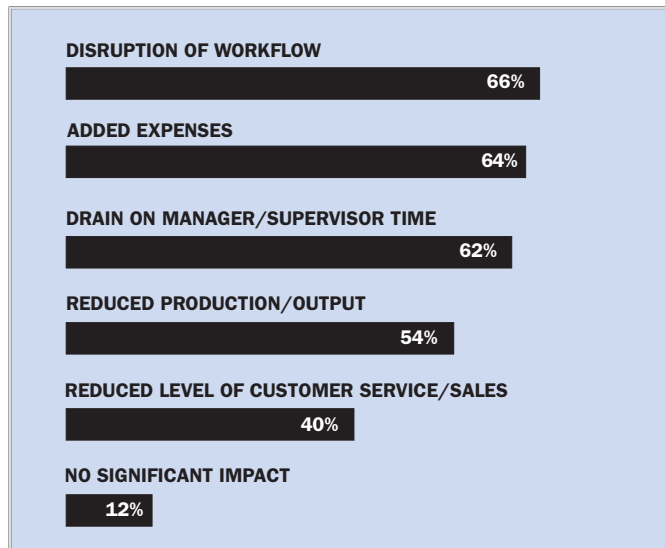
On any given day, somewhere between three and 10 percent of U.S. employees are not at work.<sup>1</sup> The reasons are legion: illness, caring for children or aged parents, vacations, military duty, or disability leave to name just a few. The cost of this absenteeism is enormous, with estimates ranging from 14.2 percent of total payroll<sup>2</sup> to an annual \$3,600 per hourly employee and \$2,650 per salaried employee.<sup>3</sup>

In many cases, unscheduled absences are not for an employee's own illnesses, but rather to take care of family responsibilities. The proportion of mothers with children aged six to 17 in the workforce increased from 38 percent to 78 percent between 1955 and 2004 and nearly two-thirds of mothers with a child one year of age or younger are working. At the same time, more families are also caring for elderly relatives. In one study, 35 percent of Americans said they had significant eldercare responsibilities and a third of that group had to reduce their work hours or take time off to provide care.<sup>4</sup>

Absenteeism takes more from an employer than just a deduction on the ledger sheet for hiring replacement workers or paying overtime. Productivity suffers when there aren't enough workers to provide the goods or services of the business. Beyond that, absenteeism may result in customer dissatisfaction when absences lead to poor customer service and shoddy product quality. If

employees regularly have to work overtime to cover for someone who is often absent, workplace morale will suffer. In turn, low morale may result in increased worker turnover and the loss of valuable employees. Managers who are busy finding replacement workers and disciplining or terminating employees with excessive absences aren't using

### IMPACT OF UNSCHEDULED ABSENCES ON BUSINESS OPERATIONS



Source: Mercer Human Resources, Survey of Employers' A BNA Graphic/wfsspec1 Time-Off and Disability Programs (2004)

<sup>1</sup> Bureau of Labor Statistics, *Current Population Survey*; Circadian Information, *Shiftwork Practices 2005*.

<sup>2</sup> Mercer Human Resources, *Survey of Employers' Time-Off and Disability Programs 2004*.

<sup>3</sup> Circadian Information, *Shiftwork Practices 2005*.

<sup>4</sup> Center for Policy Alternatives, *Family Leave Benefits*, 2006.

their time to improve the fundamental business. If employees are overworked or less skilled workers fill in for those who fail to report, workplace safety may be compromised.

Despite all this, many employers don't adequately track employee absences or quantify the hard dollar costs of replacing them.<sup>5</sup> And while the disruption from scheduled absences such as vacations or military leave can be minimized, unscheduled leave often leads to work being postponed, handled by less skilled replacements, or covered by paying skilled employees overtime.

### **Using Technology to Control Absence And Maximize Workforce Potential**

While many aspects of absenteeism cannot be controlled, accurate tracking can help manage the costs, including the cost of maintaining excess workers to cover absences, hiring expensive replacements, or paying existing workers overtime.

The first step to reducing absenteeism is to measure it and monitor it on a companywide basis. Centralizing and automating an absence management program relieves line managers of the timekeeping paperwork burden and allows the employer to view absenteeism from a wider perspective. Many employers are recognizing the utility of measuring absences in a systematic way. According to one estimate, two-thirds (67 percent) of employers are using a centralized reporting system for unscheduled leave, such as sick days, for their hourly workers and 58 percent are using such a system for salaried employees.<sup>6</sup>

#### **CENTRALIZED ABSENCE REPORTING**

<b>PROGRAM ELEMENT</b>	<b>CENTRALIZED REPORTING SYSTEM</b>	<b>DECENTRALIZED REPORTING SYSTEM</b>	<b>NO FORMAL SYSTEM</b>
Incidental absence/ sick days—hourly	67%	27%	6%
Incidental absence/ sick days—salaried	58	25	17
Short Term Disability	79	16	6
Some/all Family Medical Leave	78	17	5
Workers' Compensation	83	12	5
Vacation/PTO	71	23	6

Source: Mercer Human Resources, Survey of Employers' Time-Off and Disability Programs (2004)

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<sup>5</sup> Mercer Human Resources, *Survey of Employers' Time-Off and Disability Programs 2004*.

<sup>6</sup> Mercer Human Resources, *Survey of Employers' Time-Off and Disability Programs 2004*.

By using parameter-driven rules engines loaded with shift start and end times, meals and other breaks, employers can efficiently track overtime and accrued benefits—such as sick leave, annual leave and personal days. Furthermore, automation can expedite the workflow for handling leave requests and give managers the ability to detect unusual absenteeism patterns, which can then be investigated and acted upon.

Centralizing the process for legally protected leave—such as disability, workers' compensation, military, or Family and Medical Leave Act leave—puts these requests in the hands of professionals well-versed in the intricacies of federal and state laws rather than untrained line managers, reducing the possibility of costly lawsuits.

Using automation to flag such requests, the system alerts HR, analyzes the employee's qualifications for the requested leave and organizes the required paperwork. This workflow automation not only provides speed and accuracy for absence management, it frees managers to turn their attention to higher-level tasks and planning.

For example, a nurse in a neonatal intensive care unit (NICU) may request leave on a Wednesday to take her mother for kidney dialysis on the following Thursday. The absence management system not only checks whether the nurse is qualified for the leave, it alerts the manager that she must be offered FMLA leave for that purpose. Then the system can flag the absence and, if desired, link to an advanced scheduling program to identify available nurses with NICU credentials to cover the shift.

In addition to basic functions such as tracking time off and identifying what type the absence was, the employer may use the rules engine to combine and cascade the company's unique policies and procedures, such as whether the employee must exhaust paid leave before going on FMLA leave or whether paid leave can be taken concurrently with FMLA leave. It can also add state law requirements, which in some cases go beyond the federal FMLA.

Absence management should enhance management's role in setting and enforcing corporate leave policies, through carrots such as bonuses, gift certificates, or recognition awards to encourage exemplary attendance. At the same time, accurate absence tracking can justify consequences for poor attendance, such as pay docking or progressive discipline, up to and including termination.

In addition, the availability of an impartial data source relieves managers of some of the discomforts of discussing absenteeism issues with employees and provides hard evidence to refute possible charges of favoritism or discrimination.

Proactive absence management can therefore lower a company's labor costs by reducing:

- Overpayments
- Abuse of leave
- Overtime
- Overstaffing
- Litigation
- Employee stress
- Workflow disruptions
- Replacement/temporary workers

## Moving From a Transactional to a Strategic Level

Accurate tracking of hours worked and time taken off—important as that is—is only the first step in managing both scheduled and unscheduled leave.

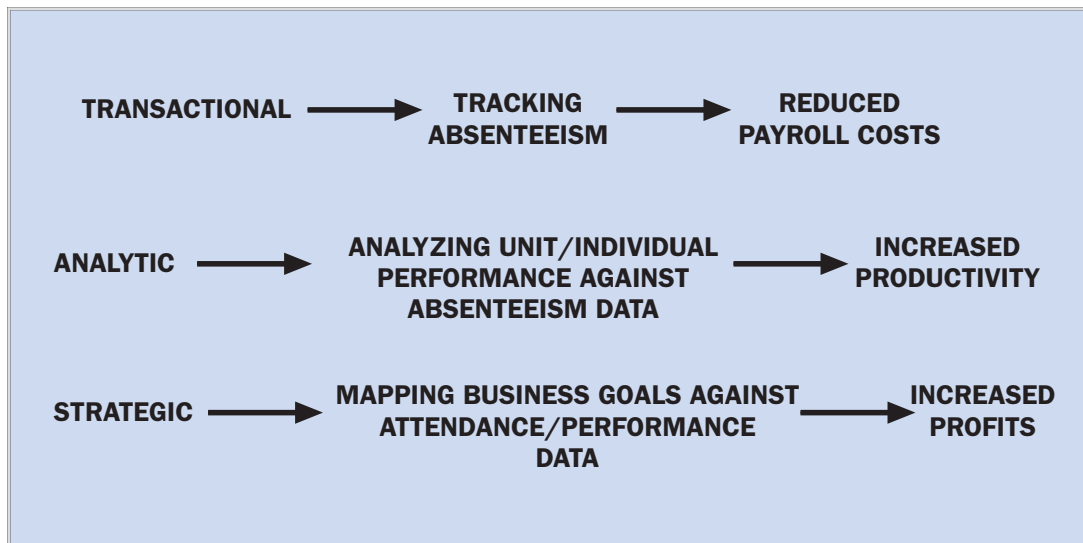
Many companies in the early stages of automating leave management focus narrowly on tracking absences. Tracking can control the direct costs of absenteeism by eliminating overpayments and reducing abuse, such as “buddy punching,” by employees not accustomed to having their attendance closely monitored, according to Jason Averbook, chief executive officer of IT consulting firm Knowledge Infusion.

But many managers “are so worried about tracking they are not worrying about whether people are performing well,” he said.

Taken beyond simple attendance tracking, centralizing and automating absence management can interlock payroll, human resources, and compensation and benefits systems to provide greater efficiencies and opportunities for better corporate governance. These improvements allow managers to use attendance data to reinforce and guide decision-making.

Averbook identifies three different levels of absence management system functionality: transactional, analytical, and strategic.

### TAKING IT TO THE STRATEGIC LEVEL



Source: Jason Averbook, Knowledge Infusion

A BNA Graphic/wfsspec3

Transactional reporting is “flat” reporting of time and attendance used for payroll, audit, and compliance purposes. At the analytical stage, managers begin to mine the data to identify trends not only in absenteeism but also in individual and unit performance.

This analytic function can detect flagging morale and productivity declines and match them against patterns of absence. Amalgamating performance measures with absence tracking allows managers to “create a blueprint for where they want to go in the long-term,” Averbook said.

For example, a restaurant chain could use its absence tracking system with the goal of reducing absenteeism and avoiding overpaying workers. The chain's management could then analyze absenteeism records for patterns. For example, the system could identify which individuals are frequently absent on Fridays or which stores, or even which managers, experience particularly high absenteeism rates. Finally, management can overlay sales and customer satisfaction statistics on the data for a strategic analysis of how each restaurant is aligning with corporate sales and profit goals.

The value of absence management is maximized by taking the analysis to this strategic level, where fundamental business goals—such as sales, quality, profits, or customer retention—are superimposed over absence patterns and trends.

Thus, the insight employers gain into company processes by maximizing absence analysis not only reduces direct costs, it also facilitates closer alignment of human capital management with corporate strategic goals. The combination of strong analytical tools and managers freed to focus on higher-level functions enables employers to take a more holistic approach not just to manage absence but also to minimize it.

The first step toward this holistic approach is the simple ability to measure absence. The company that is not tracking absence is at a serious disadvantage in today's business world that demands real-time information, 24/7, and is moving toward right sourcing, globalization, and blended project teams drawn from a multigenerational workforce.

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