

# **Beyond Timekeeping:**

**Positioning Time and Labor Management to Help  
Improve Compliance, Productivity and Profitability**

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**Time and labor management technology should be saving you significant amounts of money related to your labor expenses. The most significant – and sustainable -- benefits are derived when organizations use technology to manage “with intent” how dollars are spent. This white paper shows how employers of all sizes can reap significant benefits by positioning time and labor management systems as a proactive process to create savings, reduce risk, and increase productivity and revenue.**

Material in the white paper has been adapted with consent of the author from *“No Boundaries: How to Use Time and Labor Management Technology to Win the Race for Profits and Productivity,”* copyright 2009, John Wiley and Sons, by Lisa Disselkamp.

## Managing with Intent is Key to Reducing Labor Expenses

When timekeeping processes exist simply to process activity and report spending *after* the fact, the cost-reducing potential of the tools languishes on the shelf while employers continue to suffer from payroll leakage (overspending on labor costs), lower productivity, and lost revenue that could otherwise be prevented.

Labor costs are comprised of payments for time worked, benefits, bonuses and even time not worked (e.g. vacation, sick, PTO, on call). Much of the payroll expense is somewhat fixed and closely budgeted. But some of the cost is for time worked at a premium (higher cost) – such as overtime – when the employee is eligible for extra pay. Premium pay is a labor cost that is variable and largely under-managed, but can be controlled using a time and labor management system.

A time and labor management system can help reduce overtime hours through improved scheduling capabilities, proactive alerts and easier labor analysis. Advanced time and labor management systems enable you to gauge when an employee is likely to work beyond the point when overtime will begin to accrue and create a warning signal to alert an appropriate supervisor or manager to take action to prevent overtime from occurring.

Overtime can also result from employees who game rounding rules repeatedly during the week to their advantage. A 15-minute rounding rule can give an employee an extra seven minutes each time they clock in and out which can compound over the course of a week and push their total hours into overtime. Nucleus Research estimates that companies without an automated time and attendance systems tend to overpay employees by an average of 1.2 percent.<sup>1</sup> Timekeeping systems can detect and avert this abuse with a range of options from flagging the early and late punch times to restricting punch activity.

These are two of the most clear-cut ways time and labor management can provide a positive return on investment and some of the easiest to implement. In fact, overtime reduction produces one of the fastest “time-to-value” results. Using a time and labor management system to manage overtime and rounding abuse, as opposed to simply reporting and approving timecards, will reduce the dollars spent, not just the cost to process them.

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Another opportunity to reduce expenses is to prevent the compounding of premium pay, which occurs in organizations of all sizes. Employees learn very quickly how to “work the clock” in their favor. They know what shifts to work for overtime and shift premium and holiday pay so they’ll earn double or even triple time for a single shift. The disparity between base and actual pay occurs for several reasons, but is easy to rectify with time and labor management. Time and labor management also makes it easier to guard against the unintended continuation, or misuse of a premium within another premium zone.

<sup>1</sup> Automating Time and Attendance: Low-Hanging ROI, Nucleus Research, January 2008

Call back pay is a good example. Time and labor management can be used to avoid paying both call back and overtime when they both occur. This happens frequently in manual systems because the process of figuring call back and overtime are two different computations. This is another example of how time and labor management can put defensive strategies and tools in place to reduce costs by eliminating the “pyramiding” or stacking of one premium on top of another which results in multiples of the base rate.

### **Enhancing Cost Control through Improved Compliance**

Failure to enforce pay policies, government regulations, labor agreements and fair labor standards can be a very costly mistake. Collective actions pursued in federal court under the Fair Labor Standards Act (FLSA) outnumbered all other types of private class actions in employment-related cases in 2008.<sup>2</sup> According to the Department of Labor, the overwhelming majority of cases handled by the Department of Labor - Wage and Hour division in 2008 involved the Fair Labor Standards Act (FLSA); nearly \$12.8M was collected for violations of white collar exemption regulations.<sup>3</sup>

Time and labor management systems can help ensure that wage and hour guidelines and overtime are administered fairly and consistently. Wage and hour attorneys also recommend that exempt employees should keep time records to provide insurance against inflated penalties if classification is ever found to be in error. Companies who have automated their time and labor management process are less likely to incur fines in the event of an audit because they have taken the step to automate the process and are able to quickly provide auditors with accurate timekeeping records and audit trails.

Compliance regulations mandate the need to expand time and labor management beyond the hourly non-exempt workforce. Earned benefit time (vacation, sick, etc.) is a good example of why timekeeping should be extended to salaried exempt employees. When reductions in the workforce occur, an employer must pay out the accrued leave that salaried managers have on the books. Accrued leave time quickly becomes a serious cost concern if the organization has not captured the usage of that paid time off benefit over the past year. The problem is compounded when unused benefit time rolls over from year to year. Managing this benefit time with an automated time and labor management system for all workers can help prevent employees from taking paid time off they haven’t earned. The system can also enforce that minimums be taken. Employers who use time and labor management technology will readily have access to accrual liability for improved decision making and will be better equipped to avoid overpayment of benefit time through enhanced tracking and enforcement of hourly and salaried worker attendance and leave.

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A time and labor management system can also keep track of who is on site at any given time, which is particularly important in industries where services are critical to a patient’s well being or may literally be matters of life and death. Managers must know when they have a shortage in the human-resource supply chain so they can address it immediately.

<sup>2</sup> Seyfarth Shaw LLP Fifth Annual Workplace Class Action Litigation Report, January 2009

<sup>3</sup> US Department of Labor - Wage and Hour Division, 2008

The reduction of risk – exposure to liabilities for noncompliance, employee grievances, external audits, fines and so forth – is often understated and undervalued. The financial benefit of reducing expenses related to these issues should not be overlooked. Positioning time and labor management as a tool to assist employers in enforcing compliance can help employers mitigate risks and reduce costs.

### **Reducing Costs and Increasing Productivity with Self Service**

As companies look to do more with less, employers are automating routine tasks and empowering employees in the process. According to the *CedarCrestone 2009–2010 HR Systems Survey: HR Technologies, Deployment Approaches, Value, and Metrics*, organizations can typically count on a 20% to 25% reduction in HR administration staff when they move to self service.<sup>4</sup>

Time and labor management self-service capabilities benefit companies with direct and indirect cost savings. Direct cost savings come in the form of improved payroll accuracy and significant reductions in the cost of managing these processes manually. Indirect savings come in the form of greater employee satisfaction and reduced employee turnover. These savings are achieved through a number of system capabilities, including:

- Automated time off requests
- Access to employee time off balances
- Automated attendance and leave management processes
- Access to employee attendance history/records
- Electronic alerts and notifications
- Self-scheduling

Not only do automated time and labor management systems make life easier and allow employees to focus more on productive efforts, they enforce consistency and adherence to policy. For example, an automated time and labor management system can calculate and track vacation time and prevent employees from taking time they have not earned. Some systems offer configurable workflow options to meet the unique requirements of each organization. For example, a time off request can be easily initiated by an employee, automatically sent to the supervisors, quickly validated and approved, reported back to the employee and updated in the system. An absence policy violation can be identified, validated and processed – including a written warning sent to the manager for signature and a counseling session – all without a person doing more than opening a system-generated email and printing out a pre-populated form.

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## **Companies that deploy employee self service models on average realize cost savings as high as \$250 per employee per year.**

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Self-service options vary based on the capabilities of a time and labor management system, but there is evidence to suggest that giving employees better access to information and more influence over where they want to work leads to employees who are more engaged, more satisfied in their jobs, and more productive. According to a 2006 benchmark study conducted by the American Payroll Association, companies that deploy employee self service models on average realize cost savings as high as \$250 per employee per year.<sup>5</sup>

<sup>4</sup> CedarCrestone 2009–2010 HR Systems Survey: HR Technologies, Deployment Approaches, Value, and Metrics, October 2009

<sup>5</sup> American Payroll Association Payroll Benchmarking Performance Study, July 2006



## Enhancing Cost Control by Integrating Absence Management with Time and Labor Management

Attendance is both an operational issue and a cost concern. One in 10 hourly employees in the United States is absent on average, amounting to 10 percent of the workforce. This represents a chronic problem with an estimated price tag of \$3,600 per hourly employee per year.<sup>6</sup> Absenteeism, whether scheduled or unscheduled, increases costs and impedes productivity, and employees who work excessive overtime to cover for absent workers or who work in jobs for which they are not properly skilled are more likely to have accidents and have increased health issues. The indirect costs that result include those from additional worker's compensation claims and greater health costs and represent very expensive side effects. The 2008 survey on the *Total Financial Impact of Employee Absences* by Mercer shows that the indirect costs of absenteeism – lost productivity, unexpected overtime, and cost of replacement workers – make up two-thirds of the cost of absences.<sup>7</sup>

In the case of attendance-based termination litigation, the employer's efforts to manage absenteeism is front and center, with particular emphasis on how the employer handles the interplay between its policies and procedures and leave laws such as the FMLA. Adequate records are vital to the employer's defense in such cases, including not just records of the time worked or not worked, but also the reason or reasons for the time not worked, especially whether the cause was related to a "serious health condition" or other condition protected by federal, state or local law.

Most companies have limited ability to track the time and expense that absenteeism creates. Leaving it unexamined and unmanaged, most companies risk the cumulative affect absenteeism has on the business – increased costs, reduced productivity, and negative effects on morale and turnover. Unplanned absences are perhaps the most costly of all. Organizations that do not manage attendance and leave with an automated solution may be at risk for compliance violations. On average, the cost to defend an FMLA lawsuit (regardless of outcome) is almost \$80,000.<sup>8</sup>

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Time and labor management systems that integrate absence management functionality give employers the means to alleviate the burden in administering multiple and concurrent leave policies. The broad array of tools can help prevent costly liabilities by simplifying everything from determining eligibility to automating the distribution of required paperwork and management of intermittent leave cases. When the absence management system is integrated with the time and attendance and scheduling system, organizations can be more agile in scheduling suitable workers and ensuring adequate staffing coverage in the event of absenteeism.

## Driving Productivity and Revenue Enhancements through Operational Improvements

Human capital management is no longer just an expense issue; it is a value issue and a revenue-generating opportunity. Operational improvements are the ultimate goal because they will drive productivity and revenue. Positioning a time and labor management system to help manage the variability of demand and resource availability in your business and institute controls and mechanisms will result in tighter control over labor costs and more accurate and timely data for improved decision making across the organization.