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RESEARCH NOTE LEAVE MANAGEMENT: CUTTING LABOR COSTS

THE BOTTOM LINE

Without leave management, the average employee takes 1.25 unearned days off annually. Nucleus has found this cost can be eliminated by using leave automation tools to accurately track employees' leave balances and avoid the granting of excess days off. Productivity is another benefit of leave automation tools, which save managers time by eliminating leave-related discussions, research, and record keeping. Returns can be particularly high for organizations with time and attendance deployments, since many of the required investments in data gathering have already been made.

Workforce management vendors, including many profiled in the Workforce Management Value Matrix recently published by Nucleus, provide organizations with tools for streamlining, automating, and managing tasks related to leave administration, employee absences, and attendance violations. Key components of these applications include:

- Automated enforcement of leave-related policies for time off, accrual rules, and attendance policies, as well as compliance with federal, state, and company-specific leave rules and regulations.
- Automated updating of employees' balances of a variety of leave types, including sick time, vacation time, and time granted under the Family and Medical Leave Act (FMLA.)
- Reporting for documenting compliance with leave-related requirements and FMLA regulations.
- Alerting functionality which informs managers when a leave-related policy violation has occurred or if a manager is at risk of causing a violation.

THE CHALLENGE

Many organizations find it difficult to accurately and cost effectively administer leave requests. One factor making leave management difficult is volume. Every employee makes multiple requests annually for a variety of leave types, such as vacation, sick time, personal time, and time granted under the FMLA. Another challenge is complexity. Calculating the balances of each type of leave for a given employee requires the application of different rules incorporating factors such as seniority, job type, certifications, holidays, and period-to-date usage of time off. Some leave types such as medical leave are unpaid, while others are paid.

By examining a number of deployments of workforce management applications, including time and attendance tracking and leave management, Nucleus has

TOPICSEmployee Management
Applications

Software as a Service

determined that a decision not to support leave management with automation can be more costly than managers expect. Some of the costs include:

- **Productivity.** When managers and employees have to manually calculate leave balances, the number of variables involved cause the process to be a labor-intensive and costly distraction from job duties.
- **Litigation.** With so many variables impacting a given leave balance, manual calculations tend to be error prone. When an organization incorrectly denies a time-off request, employees can respond with litigation or a grievance.
- **Excess compensation.** When managers can not rely on automation for leave balances, excess leave compensation is incurred for two reasons. First, with so many variables involved in the calculation of leave balances, errors result in the granting of excess days off. Nucleus estimates the average number of excess days off granted per employee in error is 1.25 days per year. Another factor is task avoidance. When managers have to calculate leave balances manually, they become more likely to simply grant an employee time off in order to avoid the involved research and litigation risk.
- **Scheduling.** Most leave-related absences require a manager to adjust work schedules in order to ensure adequate staffing levels. When managers incorrectly grant employees excess time off, they create additional scheduling work and sometimes incur overtime costs unnecessarily.

THE OPPORTUNITY

Organizations that have deployed time and attendance systems have the opportunity to achieve significant cost savings by extending these deployments to leave administration. In fact, Nucleus has found the ROI on such deployments of leave automation can be significant because many of the required investments have already been made. These investments include training, the deployment of data-collection devices such as kiosks or bar-code swipe terminals, and the creation of databases for storing a variety of workforce-related data types. In fact, Nucleus strongly cautions companies not to become complacent once time and attendance has been automated. Nucleus has found that the gains from time and attendance deployments can be so significant that users often overlook potential returns from automating other HR-related processes such as leave administration.

BENEFITS FROM AUTOMATING LEAVE MANAGEMENT

By examining deployments of leave automation, Nucleus analysts identified benefits in two areas. First, the automation of administrative tasks made managers more productive. Second, the improved accuracy reduced the amount of paid time off granted in error.

Improved manager productivity

By automating complex and labor-intensive tasks, leave management tools improve the productivity of managers. Leave management tools automate every step along the leave process, including:

- **Request.** Kiosks, portals, and Web-based self service tools from the major workforce automation vendors enable employees and their managers to replace face-to-face meetings with far more efficient media for exchanging time-off requests and related information.

- **Research.** By consulting a continuously updated database, rather than manual records such as spreadsheets, managers can spend far less time deciding whether to approve or reject a request for time off. This can be particularly true for organizations operating in multiple states or in states where employment is more highly regulated.
- **Update.** By using an automated system to approve and record an employee's time-off request, managers also eliminate the time consuming and error-prone task of manually updating an employee's accrual balance.

The creation of a more transparent and accurate leave process also reduces the number of requests that managers have to handle. Nucleus has found that employees are less likely to make inappropriate leave requests when they know that their managers have accurate accrual balance data as a result of a leave administration application.

Nucleus estimates that the productivity benefits from leave automation can be significant. As a result of automation, the time required for a manager to process a leave request can decrease from an average of 20 minutes to less than five minutes. In the case of FMLA-related requests, which are less frequent but more complex and labor intensive, the reduction can be far more significant. Nucleus estimates that for a manager with 15 direct reports, the productivity improvement from leave automation can be approximately 4 percent. For small organizations, this means managers spend more time training and developing their employees. Larger organizations can use the productivity improvement to increase the number of employees per manager, enabling them to grow their revenues without adding managers.

Reduced excess compensation

The elimination of time off granted in error is also a significant benefit of leave automation. Nucleus estimates that in the absence of automated leave tracking, error-prone manual processes and managers' reluctance to deny time-off requests cause the average employee to receive an average of 1.25 days of excess time off.

Companies that do not automate leave management grant their employees an average of 1.25 extra unearned days off.

Eliminating this source of overcompensation can result in significant savings. Assuming an organization's average employee costs \$25 per hour, the savings would be \$125,000 for every 500 employees. In fact, Nucleus finds that the \$250 cost avoidance per employee is well in excess of the per-employee cost of leave automation.

CONCLUSION

Organizations need to think of their time and attendance deployment as the starting point for workforce management, not the finish line. While payroll error reduction and automation improvements from time and attendance systems are well known, the potential benefits from leave automation improvements are often overlooked. Nucleus views leave management automation as a high ROI, low risk implementation opportunity that every organization needs to evaluate.