

Managing Employee Absence: Absence Makes the Heart Grow Fonder, and Time Is Money

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Employee absence can account for more than 3% of direct payroll costs. Yet, surprisingly few organizations manage this increasingly important issue effectively. HR and IT should work together to implement self-services and simple analytics to support effective absence management policies.

Key Findings

- Absence is expensive; it may have direct costs of more than 3% of payroll, as well as double-digit indirect costs.
- Less than half of organizations measure or manage employee absence effectively.
- Disciplined absence management has a direct cost savings benefit. Best-in-class organizations incur one-quarter of the costs of their less-disciplined peers.
- Absence analytics can identify serious organizational and management weaknesses.

Recommendations

- Deploy employee and manager self-service scenarios to easily capture absence transactions.
- Use the HR software you already own to get started.
- HR professionals should use proven analytical methods to identify potential individual issues and organizational problems. Include absence as a measure in managerial dashboards. Calculate the costs, and use the data to inform managers and employees.
- Train managers to see unplanned absence as not always the fault of the employee, but sometimes as an early indicator of serious workplace issues.

WHAT YOU NEED TO KNOW

Absence is a significant payroll cost. Yet, it is often poorly measured, analyzed and understood. Not tracking absenteeism effectively means that your organization is wasting money. By deploying absence self-services and providing the right reports to monitor and analyze unplanned absences, the IT department can help HR reduce costs and can encourage a more productive work environment. Many organizations already have the technology in place to better manage this issue, but have not yet deployed it. Cutting one-third of unplanned absences is quite feasible, and, even by conservative measures, this is equivalent to a direct saving of 1% of payroll costs (see Note 1). Excessive absences are often a symptom of deeper organizational issues, which could be significantly even more expensive. According to a major study, more than one in 10 absences are not genuine.

STRATEGIC PLANNING ASSUMPTION(S)

Through 2011, at least 50% of organizations will waste at least 1% of payroll costs through poor absence management.

ANALYSIS

What Does Absence Cost?

In the U.K., the CBI and AXA insurance advisors have conducted a survey for more than 20 years on absence and labor turnover. Here are some key points from the most recent study in May 2008:

- In the U.K., a total of 172 million days were lost to unplanned absences, costing the national economy £20 billion.
- Direct absence costs, such as hiring temporary labor to replace absent staff, or paying additional overtime to cover the work, amount to 3.1% of payroll alone.
- The indirect impact of absences, such as lost sales, missed deliveries and poor customer service, increase these costs significantly.
- A significant study by the IES employment studies institute suggests that the true total cost of unplanned absences can be as high as 16% of payroll costs.

Most Employers Don't Measure the Cost of Absence

Effective absence data is vital to understand the extent of the absence problem, and whether policies work or not. Without measurement, it is difficult to pinpoint problems and take action against individuals. An organization must assess whether it has a problem with absence, the extent of the concerns and the best way to tackle the problem. However, in the latest Chartered Institute of Personnel and Development (CIPD) "Annual Survey Report 2008" absence survey:

- Fewer than half of employers monitor the cost of absences.
- Only half of organizations have set a target for reducing absences.
- Just 39% of organizations benchmark themselves against other employers on this issue.

In many countries, absence data is required by law for social insurance and health benefit reasons, but many organizations still perform these administrative processes manually, or via labor-intensive spreadsheet consolidations.

Tighten Absence and Attendance Management Processes via Standardized Employee and Manager Self-Service Processes

Organizations will save costs by taking simple steps to use basic employee self-service functionality to better control vacations, sick time and other absences. Most organizations already have this functionality in their core HR management systems (HRMSs) or time-recording systems. Almost all modern HR systems offer absence recording via employee self-service, as well as adequate reporting via standard reports, and these systems often support more-sophisticated analyses via predefined cubes in a data warehouse.

However, many organizations don't use self-service to record and track absences. Managers often store data in spreadsheets, and this data takes a long time to consolidate. Lengthy consolidation times may cause missed deadlines for and other issues with health and safety regulations, and other labor laws. Furthermore, spreadsheet-based tracking of this type of data is frequently inaccurate. Some managers are diligent, but others are not. Still, most core HR systems and time and attendance solutions offer self-services to capture and monitor attendance and absences. Many organizations have already bought this functionality as part of a broader ERP deal, but have not taken the time to deploy it. Sophisticated time and attendance tools for shift and workforce schedule optimization also have strong absence management functionality. The surveys mentioned above have noted that simply implementing proper measurement can reduce employee absences.

Finally, many organizations have rolled out a first wave of self-services, but have not followed through with the second wave. During the past few years, much of HR's technology focus has shifted to talent management. However, HR technology investments need to balance talent management innovations with more-prosaic processes.

Taking Sick Days, and Signs of Bigger Problems

If absence is not managed well, then the culture of taking what is referred to as a "sicky" can easily take root. More importantly, employees taking excessive absences are a sign of a failing workplace. Bullying, poor management, inflexible work schedules and badly designed roles are often the underlying causes of unplanned short absences. Unplanned absence is a leading indicator of employee turnover.

Unplanned absences can affect a business in much the same way as a late supplier or a defective raw material. Organizations that invest heavily in lean processes and efficient supply chains, but ignore the impact of absences, put the quality and timeliness of their products on the line. The IES and CBI studies noted that the best-performing organizations lose an average of 2.6 days per employee to absence, as compared with the worst-performing organizations, which lose 11.4 days to absence (see ["Employee Absence and Attendance"](#)).

The CBI-AXA survey notes that average absence levels across the U.K. public sector stood at nine days, which is 55% higher than the 5.8-day average of the private sector. The private sector improved its absence levels over 2007, while the public sector stood still.

The study also showed that the absence gap between manual and nonmanual workers continued to narrow, with averages of 7.6 days and 6.1 days, respectively. Sectors with the highest rates included the public sector (9.0 days) and utilities (7.6 days), while IT, professional services and hotels, restaurants and tourism recorded the lowest, with 4.5, 4.2, and 4.0 days, respectively.

In the public sector, the highest absence rates were found in healthcare/social care services (12.6 days) and police and probation services (9.9 days), while education saw lower overall levels (7.5 days).

There are variances by sector, but the survey notes that more than one in 10 absences is not genuine.

This major study is for the U.K. only, but the figures for Australia are only marginally better. In the U.S., the 2007 Mercer National Survey of Employer-Sponsored Health Plans, which covered 455 employers, found that the equivalent of approximately 9% of total salary costs were incurred due to unplanned absences. In the U.S., there are considerable differences between the public and private sectors (see ["How Can Employers Limit the Cost of Absenteeism? An International Look"](#)).

Use Workforce Analytics to Discover "Hot Spots" and Issues

The ratios to analyze absences are relatively straightforward. Most HRMSs and time and attendance systems deliver these as standard reports, or via a simple ad hoc report. For more-sophisticated trend analysis and benchmarking, we recommend using a business intelligence (BI) tool. Several BI vendors offer preconfigured HR data cubes, but begin by using what you already own. Alternatively, there is a growing market in HR software-as-a-service (SaaS) analytics. Because this data is sensitive, we recommend that sickness trend analyses be done with anonymous data. It is a good practice to initially work with anonymized data, and HR professionals should lead this exercise.

Health issues are highly sensitive and personal, and privacy and labor laws come into play in these instances. Therefore, access to this information should be limited to HR, and once it is deemed necessary, access can be expanded to include the appropriate management. Remember that most unplanned absences are genuine.

Use the formulas in Note 1 to conduct internal and industry benchmarks. Healthcare providers, benchmarking providers, studies such as the ones mentioned here and government data sources provide rich resources for benchmark data. Internal benchmarking will help you focus on hot spots, but the benchmarks will give you a good idea of your relative position.

This analysis enables HR to identify potential cases or departments to investigate. In many instances, there may be valid medical reasons for short absences, unrelated to workplace issues. In other cases, short absences may connect closely with outside events, such as the football season, but unless you do the analysis, you won't know. According to the CBI survey, roughly 12% of absences are nongenuine. Most of the time, the reasons for these absences aren't the shirking workers, but are symptomatic of bigger HR and management issues.

If you combine absence data with other data sources, such as employee engagement surveys, then you will highlight the potential problems and enable a richer analysis of workplace issues, such as:

- Poor management
- Poor policy design
- Badly designed workloads
- Workplace stress
- Weak employee care programs, forcing people to take work time to care for themselves and their families

- Employee apathy, engagement and cultural issues

The Issue of Absence Needs More Than Technology

- HR must establish and monitor policies that reduce unplanned absence, but managers need to take responsibility.
- Effective absence monitoring is the starting point. Consider the following approaches to reduce unplanned absence:
 - Return-to-work interviews for employees (these could be random).
 - Provide managers with data on absence levels in their teams; this can be delivered via standard manager self-service.
 - Absence management must be a management responsibility, not just something HR worries about.
 - Where possible, allow flexible work schedules; this enables employees to attend to personal matters openly, without shirking their responsibilities.
 - Discuss your absence management plans with key health benefits providers or specialists. Often, they have innovative policies to help, because it is also in their interests to reduce workplace absences. Implementing a good absence management practice may even significantly reduce your benefit program costs.

Employee Absence Is Not Just About Policing

Tracking absences when you haven't done so in the past may seem intrusive to some employees. You may wish to work with your healthcare providers to include this as part of a broader focus on improving employee well-being.

Don't Ignore Employee Engagement in Challenging Times

The single biggest factor in reducing absences is for managers and leaders to run organizations that manage work fairly and appropriately, motivate and engage their employees, create positive team cultures, and take genuine concern in employee well-being. Engaged employees are more productive. Too many organizations in a recession make the mistake of seeing "you are lucky to have a job" as an adequate retention and motivation strategy. However, studies since the early days of industry have shown links between employee well-being and business success, as a recent study by Towers Perrin notes that in a study of 50 multinational companies, conducted over 12 months, companies with high levels of engagement outperformed those with less-engaged employees in three key financial measures: operating income, net income growth and earnings per share.

A high number of unplanned absences has a significant correlation with low engagement.

Planned Time Off Is Not a Panacea for Sick Leave issues

Many U.S. organizations, instead of providing employees with vacation, sick and holiday quotas, simply bundle all the days off into planned time off (PTO). This often seems like a good idea, especially for employees who are healthy, because they get more days off. Many employees value the flexibility and privacy that this creates. CFOs also like PTO, because it limits the leave liability that needs to be tracked on the balance sheet, and is an opportunity to clean up a mishmash of old and complex policies.

However, some employees see PTO as a vacation entitlement, and come to work when they should be out sick. People who are genuinely ill may not receive adequate vacation time. PTO is easier to administer, and it may help reduce the abuse of sick days, but sweeping all time off into one bucket may mask significant workplace issues.

Organizations that have switched to a PTO policy often use the changeover to implement an employee and manager self-service scenario.

Managing a Global Workforce

Leave policies vary by country, typically because of legal and cultural reasons. Self-service scenarios make it easier for managers who look after employees in multiple companies to comply with policies and the law, and to be sensitive to cultural issues.

IT Leaders: Start With Your Department

IT departments also suffer unplanned absences. CIOs should work with HR to analyze absence trends in IT. An unplanned absence spike could be an indicator of a failing project, or evidence of overworked or bored employees. Few IT leaders make effective use of HR analytics to pinpoint management problems, but absence seems an ideal place to start, especially when cost optimization is of paramount concern.

Tactical Guidelines

- Take the opportunity to determine how much absence is costing you today.
- Tighten up absence and attendance management processes through the use of standardized employee and manager self-service processes.
- It is likely that you can leverage HR technologies you already own.
- Use analytics to discover absence hot spots.
- Work with HR to implement policies that reduce absence.
- IT leaders need to access their own departmental performance, because IT absence and turnover are often relatively high.

RECOMMENDED READING

"Best Practices: Workforce Analytics Skills Are Vital for Effective Cost Optimization"

"HR Self-Service Applications Defined"

Note 1

Absence Formulas

For the purposes of this research, absence excludes planned absences from work for reasons such as holidays, vacations, sabbaticals and jury duty.

Useful Formulas

Average absence: Days per employee

Absence rate: Total number of days lost to absence x 100/228 days x average of the total numbers employed across the year (this formula can be adjusted to reflect statutory public holidays and vacation allowances).

Bradford factor: Many short absences by an employee are more disruptive than a long absence, and this formula takes that into account.

- $S \times S \times D =$ Bradford points score
- S is the number of absences during the past 52 weeks, and D is the total number of absences during the past 52 weeks.
- So, for employees with a total of 12 days' absent during a 52-week period, the Bradford score will vary significantly, depending on the number of absences.
- So, for example:
 - One absence of 12 days is $(1 \times 1 \times 12)$ 12
 - Six absences of two days each is $(6 \times 6 \times 12)$ 432
 - 12 absences of one day each is $(12 \times 12 \times 12)$ 1,728

Although a rolling year is common, other time scales, such as 13 weeks, may be used, with the associated points total correspondingly lower.

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