An HR director's guide

Absence: what's the cost?

An information guide from Access

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Introduction

"Putting a cost on absence helps organisations identify the savings that can be made through investing in better absence management practices." – CIPD Annual survey report, 2010

Sickness-related absence is higher up the agenda for more of us than ever. A huge 82% of organisations are now recording our employee absence rate compared to just 70% last year.[1]

So why this sudden interest in absence? Like so often, the economy is to blame. With tough conditions set to get tougher in the light of Budget cuts, absence is likely to remain high-profile for a good while yet. And with the average cost of absence standing at £700 per employee[2], there's good reasons why.

Over the past couple of years alone, we've seen some cash-strapped businesses using attendance records as a factor when considering redundancy. In boom times, organisations are more likely to overlook the odd absence while now, few businesses who have already reduced their workforces to the lowest numbers possible and are adopting LEAN principles can ill-afford to overlook any factors that affect overall morale, productivity and profitability.

And the effect can be felt nationwide – fears of job security mean that absence levels are only slightly changed from last year's all time-low of 7.4 days per employee.[3]

With employers starting to view unplanned absence as something that can be measured and improved to positively impact both employee engagement and the bottom line, the pressure is on for all organisations – not just those at the enterprise level – to take sickness absence seriously.

So what can you do to ensure you have a true handle on the costs – and to ensure you're taking all action needed to protect your budget? The answer lies with gathering timely, accurate information. Only then can you treat absence the same way you do 'traditional' KPIs such as turnover and profit.

This guide will help you take practical steps towards measuring and tackling the costs of sickness-related absence in your organisation. We will also look at the invaluable role that HR information systems have to play in making this process as efficient as possible. But firstly, let's look at some basic terminology.

What counts as sickness absence?

Sickness-related absence falls into two categories: short-term and long-term. The first is defined as repeated periods of absence, typically for 1-2 days at a time. Causes of short-term absence are highly varied, ranging from back pain to minor illness (colds, flu, headaches etc).

Long-term absence is typically characterised by extended periods away from work. Some companies define this as 20 working days or one calendar month while others will intervene earlier if reasons for absence show signs of becoming prolonged.

Why is it so important to measure absence?

Absence isn't just annoying for those left to 'carry the can'. It causes operational difficulties, undermines quality and it increases costs. Just some of these costs include:

- Sick pay
- Lost productivity/lost sales
- Reduction in quality/service
- Low morale – leading to higher staff turnover and reduced productivity for the rest of the team
- Additional overtime and administration costs
- Risks of litigation/payouts
- Additional burden of costs of managing escalated absence issues
- Cost of absence in terms of budgeting and forecasting.

Where do organisations go wrong?

Absence is often perceived as a sensitive issue with severe consequences for those that get it wrong – for example, fears of costly lawsuits arising from wrongful dismissal.

For this reason, organisations may not address absence levels explicitly until it becomes a serious problem and even then, aren't confident that they're able to demonstrate they've followed fair procedures.

Others believe that measuring absence requires resources they don't have. Either way, the most important step is to take an accurate record of all absences. From there, you can carry out some basic calculations and establish how much absence is costing your business.

The key is to have a simple and open policy on how your company manages absence, which should also include an 'open door' message. The subtle rewards of early communication with employees about planned absence can be just as important as the obvious positive impact on the bottom line. It will also ensure that you are seen as a responsible employer with a vested interested in its employees wellbeing. A well-written policy can help you manage all these things.

How can I measure the costs of absence?

We've used a well-known method of calculating absence to illustrate the cost of paying employees off sick.

Worked example
Take an organisation with 200 employees earning an average £498 per week, for 260 days per year. If the average absence per employee is 2 days, then the direct cost of absence is £39,846. By reducing the average absence by just 0.5 days to 1.5, the organisation can make a cost saving of £9,961.[4]

So you can see that by reducing the cost of absence, even by small increments, can result in significant cost savings. Armed with this information, you can begin to understand whether absence is a problem worth tackling – and justify investment in better systems to achieve this.

HR systems go a step further by doing the calculations automatically. They should be able to look at actual days lost based on individual working patterns and their salaries, and calculate the actual costs incurred.

In this way, you can see at-a-glance how much absence is costing you.

First, you'll need to get an accurate record of all absences across your organisation. This is where being clear on your absence process is key. Effective management of absence in terms of engaging with employees when they have been off sick means you'll have a great starting point when getting the data you need to make informed decisions.

Step 1: Capture data

Collecting full and timely details of each absence is critical. By recording all activity, you can analyse your data, spot absence patterns, establish any underlying issues and create a clear set of rules that will underpin your absence policy.

For many organisations, the starting point for recording absences is a hard-copy return to work form, which employees fill out manually and pass to a line manager for validation. This information is then input into a central system.

Limitations of traditional systems
Using the traditional paper format, it can be difficult to capture much detail about the absence in question. Moreover, getting the information into the system in the first place encompasses several stages, all of which can be subject to hold-ups. Even the most efficient HR department will experience delays as this information is transferred from one source to another, while re-keying the data runs the risk of user error and inconsistencies.

How can a HR system help me?
Today's HR systems are designed to make recording absences quick and easy. The software should allow you to collect data via an easy-to-use electronic form, configured to capture all the relevant information required by your business.

As a minimum, you should be able to record:

- Name of employee
- Contact details
- Date of first day of absence
- Cause (e.g. work-related)
- Working days absent
- Further action required
- Any risks/specific needs or adjustments.

Who should collect this data?
The most appropriate person to collect the absence data will depend on your specific set-up. In some cases, a line manager is the best person to do this. In others, a front-line point of contact, such as your receptionist might be best. Again, whatever your strategy, a good HR system will help make this process as simple as possible.

A system that updates in real-time is essential, since data is as accurate as the moment it's entered. It's also particularly important, for example, to keep a rolling count of working days absent. Software that operates via the web will allow line managers to update the system from a remote location – helping an increasingly mobile workforce manage its employees whether they're at their desk or at customer sites.

All of this helps eliminate time-consuming form-filling – avoiding bottlenecks at all times, not just when you're dealing with a flu-ridden workforce!

Step 2: analyse data

So you've recorded the absences – what now? The next stage is to analyse this data at its most basic level – to calculate the days lost to absence. From there, you will want to use this data to start identifying absence patterns and trends. For example:

- What is the balance of short and long-term absence?
- Is absence higher in a specific area of the business (e.g. in particular departments or locations)?
- Do absence patterns occur at specific days of the week, day/s of the week or year?
- Is absence higher by age or gender?

Limitations of traditional processes
Think back to the spreadsheet. In order to gain detailed information about absence levels, you will need to re-format this information in some way to make any sense of it. This requires advanced knowledge of Excel at the very least. Not only that, each new report requires you to start from scratch which again, takes valuable time that could be better utilised within your department. Plus, this method doesn't assist you in conducting the actual process of proactively managing staff absence cases.

How can a HR system help me?
All good HR systems should provide reports as standard, allowing you to run detailed absence statistics at the touch of a button, without re-keying or re-checking.

The software should be geared up to give you this information in a couple of clicks and simple to use regardless of your mathematical knowledge. Moreover, this kind of system will turn raw data into an accurate, timely and professional report, which is then available on demand to distribute via email or via the monthly board pack. Plus, an HR system with self-service facilities will provide employees with crystal-clear visibility of their own sickness levels – one of the most powerful passive tools is staff having sight of exactly how much time they are away from the business.

Dashboards
In addition to traditional reports, good HR systems allow you to monitor real-time information, such as absence, in a highly visual format. 'Dashboards' take data held in your system and deliver it, via easy-to-understand charts, to the user's desktop. Using dashboards, your managers could log on first thing in the morning and see all absences for his/her team and monitor the situation as it unfolds.

Information you could include might consist of:

- **Benchmarking figures** – enabling you to compare your absence levels against other companies – both nationally, locally and in comparison to other sectors
- **Company-wide comparisons** – the lengths, types and frequencies of absence across your organisation as well as different departments (that may have different absence targets).

Armed with these up-to-the-moment statistics, decision-makers have the detailed and accurate information they need to investigate reasons for absence and develop new procedures and incentives.

Key reports to look for

As a guide, the most basic of HR systems should enable you to calculate:

Lost time rate

This calculation enables you to calculate the % of total time available that is lost due to absence within a specific period. This is useful as a starting point for analysing lost time across your entire organisation and will enable you to spot patterns of absence. For example, is the figure higher during peak production or selling time?

Frequency

This type of calculation has the advantage of showing you the difference between lots of short term absences or several long ones. By calculating the average spells of absence per worker/department, you can highlight and target any 'problem' areas.

Bradford Factor

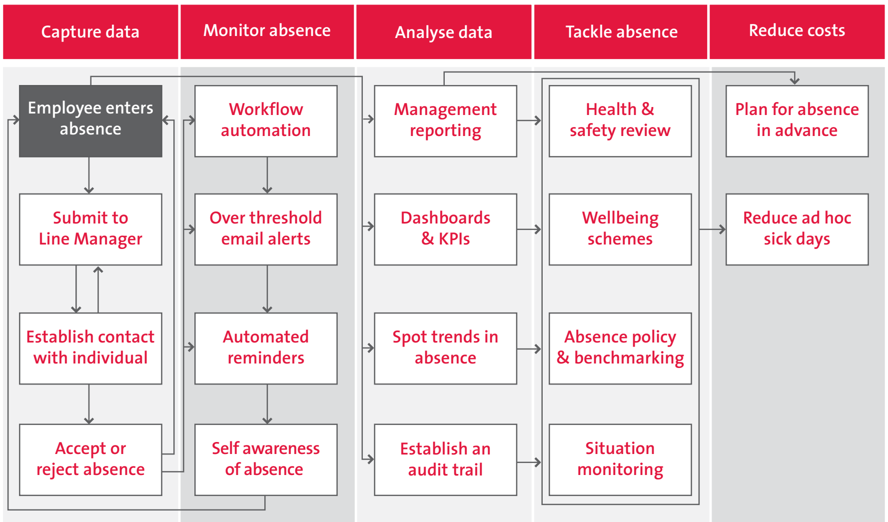
Developed by the University of Bradford in the 1980s, this now-familiar type of calculation is used in HR to measure worker absenteeism. It's based on the theory that short, frequent and unplanned absences are more damaging than longer ones. In order to give a 'true' picture, the employee's Bradford score should be set against other methods for measuring absence as well as your own qualitative research.

The formula is: **$B = S^2 \times D$**
where:

- B is the Bradford Factor Score
- S is the total number of spells of individual absence over a set period
- D is the total number of days of absence for that individual over the same set period (typically 52 weeks).

Worked example

Tim takes seven days off in one hit to recover from an injury. His Bradford score is seven. Compare this to Kelly, who takes six absences for minor illness over six days. Her Bradford score is 216.



Four steps to reducing absence: good HR systems enable you to collect, monitor, and analyse absence patterns as well as assess the impact of your absence-reduction policies.

Step 3: Monitor absence

Capturing and reporting on absence data is important. But how do you track which absences merit further investigation? On a manual system, you have little option but to regularly count up the number of absences and see whether they fall into your 'acceptable' levels – something which time-strapped managers rarely perform on each employee.

Another advantage of an HR system is that it takes care of all these calculations for you. By letting you build your KPIs into the software and activating 'triggers' when these levels are reached, you can keep on top of procedures without manual intervention.

An alert (such as an email) will say when an action is required – whether conducting a return to work interview, advising when pre-requisites are required e.g. a doctor's certificate, or even telling you what length of absence constitutes a home visit or phone call to the employee. By using alerts to know when pay levels are to be amended for example, an HR system can also help you manage costs efficiently when sick pay is managed on a sliding scale.

By incorporating your own thresholds and providing at-a-touch computerised reporting, triggers make it easy to apply your absence policy while lifting the administrative burden from HR and line managers.

Setting triggers

Triggers can be applied to individuals and departments, or across the whole company. Here are just a couple of examples:

- **Length of sick leave** (10 days = return to work interview with HR and referral to occupational health)
- **Number of absences & spells** (employee is off 6 times in 4 months) = Stage 1 review
- **Patterns of absence** (> 4 Mondays over 12 months) = Stage 2 review

You could also incorporate the Bradford Factor (see left) to trigger a review when the employee's absence levels reach your chosen 'score' (which in many organisations, is set at 200).

A word of caution

With all these facts and stats at your disposal, you will be able to start uncovering absence patterns within your organisation and take some practical steps to reduce absence in specific areas. Some of these methods are covered in the next section.

It's important to bear in mind that all statistics, however accurate and timely, only show half of the story. And it should always be your priority to understand each individual's personal circumstances first. Your policy and process will provide an excellent framework under which staff and managers can feel informed and consulted during a time of natural uncertainty that any prolonged or regular period of ill-heath inevitably brings.

Effectively, this is where the capacity of the HR system ends and your managerial role begins. Your findings will need to be substantiated with qualitative research, gained through your chosen methods – for example, face-to-face meetings with managers and individuals as well as other ways to glean information, such as employee surveys.

Step 4: Take measures to reduce absence

As already stated, detailed absence information is useful for benchmarking purposes when asking key questions. Moreover, you can begin to create and implement procedures that will reduce the cost of absence.

Possible methods

Absence reduction methods are wide-ranging, from the relatively straightforward (back-to-work interviews, flexible working strategies) to the more complex (occupational sick pay and wellbeing programmes). Not all of these will be suitable for your organisation. Whatever measures you choose, you will need to formalise them in your absence policy and/or contract.

What is an absence policy?

An absence policy simply formalises your organisation's expectations when it comes to absence and sets out the procedures that will be applied. It should include a clear statement of the standards you expect, and the procedures that you'll follow for managing (and investigating) absence.

By stating clear rules and ensuring that staff follow them consistently, you can expect to minimise absence across your organisation – while providing full support for legitimate absence and helping people get back to work.

This section highlights just a few of the measures for consideration in your business. All of them can be made more effective when used in conjunction with HR software.

The return to work interview

The return-to-work interview allows your company to probe details of the employee's absence and to keep a detailed record of absence patterns that can be easily investigated in the future.

It has also proved a popular measure. In the latest CIPD survey, 23% of those surveyed claimed to have introduced this tool into their absence reduction strategy in the last 12 months.[5]
So how can you make sure you're making the most of this tool?

To be effective, the interview needs to be carried out as soon as possible after the employee's return to work. This will enable the manager to:

- ensure that the employee is fully fit to return to work
- identify the reason for absence, and to confirm its length
- identify/address any problems that may be contributing to the absence
- discuss and/or identify any adjustments to the workplace/hours/duties that may be causing or contributing to the absence
- consider any adjustments or monitoring that needs to take place to facilitate the effective return of the employee to the workplace – providing understanding, and helping maintain compliance with the DDA, DRA and ERA
- Agree the priorities for the post absence period and update the employee.[6]

On the employee's return to work, neither employee nor manager will want to waste valuable time on administration. That's where good HR systems can help. By enabling as much information as possible to be entered via the employee online and sent to the manager for sign-off, paper-based administration is eliminated and critical information captured as quickly as possible.

The system should also be able to incorporate a workflow to ensure the relevant information is captured and signed off, and support attachments (e.g. scanned doctor's certificates). All in all, you'll gain a complete record of the employee's absence for detailed analysis and future reference.

Triggers and reminders will also enable you to comply with regulations such as the DDA and ERA where possible, building your confidence as an HR manager.

Appraisals

Good HR systems will already have functionality specifically dedicated to the appraisal process, enabling you to create a smooth workflow from initial data entry to setting and reviewing objectives.

A system that then links through to absence records will provide a detailed statistical log that can be used to open up discussion during the appraisal process. This in turn shows the employee that you take absence seriously while enabling you to highlight any obvious problem areas – or just as importantly, recognise employees with good absence levels.

For example, a series of short-term absences may appear tardy on the face of it but reveal workload-related stress under detailed scrutiny. In this way, the HR system offers two-way support, highlighting any underlying issues before they threaten the overall health of employee or business.

Benchmarking/company goals

Producing regular, reliable stats about your company's absence levels can be a useful indication of how your organisation compares against other organisations, although you should always bear in mind that these can vary hugely between sectors and industries, and by geographic.

A more hard-hitting measure is to use these stats to produce your own internal 'league tables' and incorporate absence-reduction targets into your overall company goals. You could split these figures by area, department or manager – and make them readily available to appropriate senior management on a need-to-know basis.

By showing employees how their specific absences affect performance, these figures can act as a powerful incentive to improve standards while encouraging employees to pull together. How you use these statistics is up to you: as always, it is important to emphasise that no employee should ever be compelled to come into work when they are genuinely sick.

Recruitment & selection

Likewise with appraisals, a good HR system will have functionality devoted to the recruitment process.

At its most basic, you should be able to upload job descriptions and CVs, and provide online access for agencies. The system should also enable you to capture full details of applicants applying for each position.

Good HR software will also help you by enabling you to build pre-requisite questions into the application, ensuring that only those who meet the mandatory criteria may apply. You should also be able to build questions or required competencies into the application form which could help with screening once the application has been submitted.

Performance management/incentives

No doubt a powerful incentive, only 12% of the respondents in the CIPD survey have chosen to link absence levels to bonuses/incentives in the last 12 months.[7] For those that do, an HR system will provide you with the rock-solid statistics you need to allocate pay accordingly and to measure its effect on overall absence figures.

Less controversial is using absence rates as a key performance indicator, with a significant 45% of those surveyed having incorporated this measure to reduce short-term absence.[8] Again, a good HR system will enable you to set an 'acceptable' level and provide detailed reports about which individuals are eligible. You could also incorporate absence levels into a 'scorecard' alongside more standard KPIs such as turnover and profit.

It's also important to recognise those who do regularly achieve or surpass, your acceptable absence levels. Showing that you value high attendance can act as a powerful motivator among colleagues and get rid of any underlying resentment from those whose efforts to come into work have gone unnoticed.

Let's say you choose to provide a gift to all those that have achieved high attendance over the past 12 months. Your HR system makes it easy to set the threshold for what constitutes 'outstanding performance' and find out who is eligible in just a few clicks.

Occupational sick pay

At its most basic, monitoring absence figures allows you to see whether an employee is entitled to occupational sick pay and to calculate their entitlement.

A good HR system goes one step further by enabling you to monitor this area regularly and identify whether you've hit the right balance between supporting genuinely ill colleagues and those who've taken advantage of your generosity. Regular reports will also help you inform specific areas of your absence policy, for example, whether to provide occupational sick pay only after a specific period length of service.

Flexible working

As a measure to cut short-term absence, flexible working is popular. A significant 51% of respondents in this year's CIPD benchmarking survey have introduced it over the last 12 months.[9]

It's based on the idea that employees are less likely to call in sick if they are able to fit working hours around other arrangements (e.g. arranging childcare) or emergencies that might otherwise only take an hour out of the working day.

Employers naturally have concerns around the introduction of flexi-time, for example: how can I ensure our core hours are covered? How can I know when to expect my staff into work? How do I know that the hours are being fully made up? Like everything, accountability is key to making it work.

A good HR system can help you keep a reliable track of all hours worked by ensuring that employees 'clock in' every day. Clocking on facilities will add up time as you go, in increments of minutes and hours, to ensure each employee completes the required time each week. If you wish, it can also total up any overtime which is then carried forward into their flexi-time balance. When the employee wishes to take this time as 'flexi' they can simply send an electronic request to a line manager which, once approved, comes out of their overall flexible working entitlement. Choosing a web-based system has the additional advantage of enabling your employees to enter this information anywhere they have the internet – facilitating fast and accurate data entry.

Timesheets can also be used separately or in conjunction with clocking on tools, useful when you need to account for casual as well as full-time staff. For visibility, completed timesheets can be viewed at any time by a manager and sent for approval at whatever intervals you require (e.g. daily or weekly).

If required, your chosen HR system should be able to transfer all these values into the payroll, minimising re-keying and errors. This applies whether you use the supplier's timesheet facilities or choose to integrate with your existing systems such as Shop Floor Data Capture (SFDC) applications.

Health and safety

By running regular reports, you should soon be able to spot whether work-related accidents are a key cause of absence within your organisation. Moreover, the system will help you review these causes in detail – by type of accident, specific location and by department.

Any trends in these areas may warrant investigation of your Health and Safety policy. Again, an HR system will provide a robust way to document any injuries as soon as they've been incurred, and to review centrally held H&S documents with ease. It will also allow you to set alerts to ensure that the accident is reported to the HSE and RIDDOR, and manage your obligations when it comes to auditing COSHH and providing PPE.

Conclusion

In this guide, we've seen why it's important to measure the cost of absence. We've discussed why it's important to keep accurate, timely records and the advantages of a computerised HR system over manual methods. We've also looked at the role of reporting and shown how regular and reliable reports can help you uncover absence patterns within your organisation.

We've demonstrated how software devices such as triggers can help you monitor absence levels, and ensure that appropriate action is always taken at the appropriate time. Finally, we've looked at some popular measures to cut absence and demonstrated how a good HR system can help you achieve this while ensuring you give 100% to your organisation. This, after all, is what it's all about.

References

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2 IRS employment review, issue 917: The most effective ways of managing absence

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4 Source: Office of National Statistics

5 Absence Management: How do you deal with short-term recurrent absence? CIPD 2006, p4

6 Source: Durham University www.dur.ac.uk/hr/policies/absence/returnwork/

7 Absence Management: Annual Survey Report 2010, CIPD, p30

8 Absence Management: Annual Survey Report 2010, CIPD, p30

9 Absence Management: Annual Survey Report 2010, CIPD, p30

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Access will give you the advice, tools and clarity you need to make effective decisions, quickly and with certainty. As both a business-focused consultancy and a specialist software developer, we combine our innovative software with practical experience to deliver a solution that's exactly right for you and your business.

You can rely on us to provide you with a solution that's simple, proven and relevant to your company. We have 20 years' experience of developing software here in the UK and our regional consultants have tailored and implemented this software all over the UK and in Ireland.

The expertise we've gained gives us an unbeatable ability to accurately assess your needs and deliver maximum impact with ease and confidence. All our software is accredited by industry bodies including the HM Revenue & Customs, the Institute of Chartered Accountants in England and Wales, the Business Software Developers Association and Microsoft.

We believe your solution must be ready for the future, as well as right for today. We design and own our software, so we can continually innovate to meet your changing needs as well as those of your industry. For instance, we worked with the Carbon Trust and DEFRA to create a way for your organisation to measure its carbon footprint without adding extra administration or complexity to your current processes.

Because your business will constantly evolve, we provide a software solution that grows with you. Our modular software covers a complete range of business, financial and administration processes and can be flexed to give you the precise view of your business that you need at any time.

Our supportive consultants combine their first-class software expertise with in-depth industry knowledge to constantly improve and simplify your business processes so that your solution delivers maximum value and a continual return on investment.

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