

THE HIDDEN COSTS OF LOST TIME

Some degree of employee absence is inevitable. Outside of vacations and holidays, employees legitimately get sick or have personal business to attend to that cannot be done outside of work hours. As we all realize, however, some employee absence is capricious. The "they don't appreciate me, so I'll show them" type absences occur when employees just don't feel like coming to work. Employee absence is more than irritating to managers and those co-workers left to cover the duties of the missing in action employee, though. Employee absence represents a significant cost to business.

The first step in getting a handle on the impact of lost work hours at your place of business is to determine your absence rate. This can be calculated by dividing total worker days lost through absence during the time period being studied (usually one month) by the average employee population during the period times the number of work days available per employee. To illustrate, an employer who loses 25 work days during August and has 40 employees has an absence rate of approximately 3%. (25 divided by 840 [40 employees times 21 work days in August].)

Knowing the amount of time lost through absence is the starting point, but the absence rate is meaningless unless it is compared to rates of other employers in the community, the industry, or of similar size. Additionally, internal comparisons can shed light on various issues. It might be insightful to calculate the absence rates of various departments, various types of jobs, and over several successive months to uncover any trends that may be occurring.

The next step is obviously to determine the cost of lost time. This can be a very sophisticated process, which can include such variables as cost of employee benefits, supervisory time/cost incurred due to the absences, etc. For our purposes, however, we will make the calculation as straightforward as possible. A basic determination of the cost of absenteeism per employee requires the following pieces of information:

Total work hours lost for all reasons (except holidays and vacations) during the period

Weighted average hourly pay rate for group(s) being studied

Total number of employees in group(s) being studied

Miscellaneous costs including cost of other employees' overtime due to absence, cost of temporary help, etc.

The calculation is made as follows: Multiply the total work hours lost by the weighted average hourly pay level, add the miscellaneous costs, and divide this total by the number of employees. To illustrate: An employer with 200 work hours lost in August, and average salary of \$8.00 per hour, who spent \$450 on temporary employees, and who has 40 employees has a monthly absence cost *per employee* of \$51.25 (200 lost hours times \$8.00 per hour average salary plus \$450 temporary help cost, which equates to 2050, divided by 40 employees). It should be noted that a basic premise underlying this calculation is that employees are paid for lost work hours.

Measuring the cost of absenteeism brings to light this hidden cost, but, as with absence rate, to be most meaningful, the cost should be compared to that of other companies (survey data on this topic is available, but somewhat dated by the time it is published), studied over time to determine a trend, or compared with other departments within the organization.