



A RESEARCH REPORT BY THE SOCIETY FOR HUMAN RESOURCE MANAGEMENT (SHRM)

Total Financial Impact of Employee Absences Across the United States, China, Australia, Europe, India and Mexico



In collaboration with and commissioned by



The *average rate of paid time off*, including 1) vacation and personal time off, 2) sick time off, 3) paid time off (PTO) (U.S. only) and 4) other paid time off, such as bereavement, parental and civic leave offered to employees, a key driver of the cost of employee absences, ranged from 6.7% in China to 11.7% in Europe.

The *direct costs (i.e., wage/salary)* of paid time off offered as a percentage of payroll in 2013 ranged from 6.3% in China to 12.3% in Europe. Although this value could not be calculated for India and Mexico due to a low response count for annual base salaries (n < 25), we can infer the values are roughly equivalent to the average rate of paid time off for the respective countries (10.9% and 7.3%, respectively).

Overtime, another driver of the direct costs of employee absences, was used to cover 20% to 47% of employee absences in 2013, with the lowest rate among responding organizations in China and the highest rate among responding organizations in the United States.

Replacement workers, including temporary workers, outside contractors or other additional workers (exclud-

The total cost of paid time off as a percentage of payroll, when accounting for both direct and indirect costs, ranged from 20.9% to 22.1% in the United States, 32.8% to 34.0% in Australia and 36.3% to 38.3% in Europe.

ing existing employees), were used by 30% to 73% of responding organizations to provide coverage for at least some employee absences in 2013. Responding organizations in Mexico were the least likely to report using replacement workers to cover employee absences (30%),

and the United States and Europe tended to be the most likely to report using replacement workers (69%-73%).

Average productivity loss due to replacement workers, an indirect cost of employee absence, ranged from 19.9% in Australia to 31.1% in the United States. Perceived co-worker productivity loss ranged from 24.0% in Europe to 40.3% in Mexico, and perceived supervisor productivity loss ranged from 15.7% in the United States to 26.0% in Mexico.

The *annual expense for organizations to comply with administering FMLA leave* is another expense organizations in the U.S. (that are required to comply with the FMLA¹) must take into consideration when determining the cost of employee absence. More than one-quarter (27%) of U.S. respondents indicated the annual cost of administering FMLA leave for the overall organization (including dedicated staff time, outsourcing expenses, legal support, internal audits, etc.) was between \$10,000 and \$19,999. Roughly one-fifth (21%) indicated the annual cost was between \$20,000 and \$49,999; 9% reported the annual cost is \$100,000 or more.

PRODUCTIVITY LOSS

Employee absences inevitably lead to productivity loss, whether due to replacement workers who are not familiar with the role they are filling, co-workers who are less productive on their “regular” work because they are filling in for an absent employee, and supervisors who must spend time dealing with employee absences (e.g., adjusting workflow, obtaining replacements). Indirect costs resulting from productivity loss tend to be more challenging to calculate due to the subjective nature involved in assessing the productivity of an employee. Nevertheless, productivity loss can be costly and should be taken into consideration when planning and budgeting for employee absence.

Unplanned absences were likely to lead to the greatest perceived productivity loss compared with *planned* and *extended* absences across all countries and Europe, except China. In addition, the United States and India tended to perceive higher productivity loss due to replacement

workers for all three types of absences compared with Australia, China, Europe and Mexico. Respondents in Mexico tended to perceive the highest co-worker and supervisor productivity loss during a “typical absence day” compared with the other countries/region studied.

Unplanned absences led to the greatest perceived productivity loss compared to planned and extended absences across all countries and the Europe region, except China.

TABLE 2. Productivity Loss Due to Employee Absences

	U.S.	China	Australia	Europe	India	Mexico
Productivity loss due to replacement worker, by type of absence						
Unplanned absence	36.6%	26.0%	26.0%	31.6%	35.5%	31.4%
Planned absence	22.6%	17.8%	15.2%	15.2%	18.4%	14.3%
Extended absence	34.0%	32.8%	18.4%	21.4%	34.0%	25.6%
Average productivity loss	31.1%	25.5%	19.9%	22.7%	29.3%	23.8%
<i>n</i>	277-284	64-65	75	70-73	63-64	60
Co-worker productivity loss						
“Typical” absence	29.5%	27.3%	34.3%	24.0%	26.8%	40.3%
<i>n</i>	438	122	83	95	84	72
Supervisor productivity loss						
“Typical” absence	15.7%	17.7%	18.2%	17.0%	23.8%	26.0%
<i>n</i>	420	111	84	87	82	65
Note: Productivity loss due to replacement worker was calculated by type of absence: an unplanned absence, a planned absence or an extended absence. Differences may not be statistically significant.						
Source: Total Financial Impact of Employee Absences (SHRM/Kronos, 2014)						

Respondents were asked several questions on the impact of employee absences, including their perceived impact on overall productivity and revenue. Across all countries and Europe, two-thirds to three-quarters of respondents indicated they perceived employee absences to have a “moderate” to “large” impact on productivity and revenue, except for China, where fewer respondents (about one-half) were likely to indicate a “moderate” to “large” impact.

Respondents were also asked to identify other effects of unplanned absences—other than productivity loss. “Adds to workload” and “disrupts work of others” were among the top three cited perceived effects of unplanned absences. However, for China, respondents tended to cite “penalizes or reflects badly on all in the group or team” or “reduces quality of work output” among their top three cited perceived effects of unplanned absences in addition to “adds to workload.”

TABLE 3. Other Effects of Unplanned Absences

	U.S.	China	Australia	Europe	India	Mexico
Adds to workload	69%	57%	75%	77%	64%	67%
Increases stress	61%	31%	54%	51%	47%	48%
Disrupts work of others	59%	45%	55%	62%	65%	78%
Hurts morale	48%	32%	31%	36%	19%	28%
Reduces quality of work output	40%	48%	36%	32%	45%	47%
Adds mandatory overtime	29%	27%	38%	30%	35%	49%
Requires additional training	20%	27%	22%	16%	24%	22%
Penalizes or reflects badly on all in the group/team	19%	52%	17%	28%	26%	25%
<i>n</i>	512	132	110	118	94	81

Note: Percentages do not total to 100% due to multiple response options. Bolded percentages represent the respective country's/region's top three cited perceived effects of unplanned absences. Differences may not be statistically significant.

Source: Total Financial Impact of Employee Absences (SHRM/Kronos, 2014)

ATTENDANCE POLICIES AND TRACKING EMPLOYEE ABSENCES

The vast majority of organizations across all countries and Europe tracked the number of employee absences, with the United States appearing to be slightly less likely to track employee absences than the other countries/region studied. Similarly, although the majority of responding organizations across all countries and Europe indicated their organization had formal, written attendance policies in place, the United States tended to report a lower percentage of organizations with formal, written attendance policies in place.

About three-fifths of responding organizations indicated their employees requested time off by submitting a written request using a form or by e-mail across all countries and Europe, except for India, where less than one-half indicated the same. About one-third of responding organizations indicated they used automated third-party software to track employee time and attendance, except

in Australia and Mexico, where use appeared to be slightly higher (about one-half); one-quarter to two-fifths of responding organizations indicated they used an integrated system as a component or module of an HR information system (HRIS), with use of this technology appearing to be slightly higher in the United States and India than in the other countries/region studied.

See page 47 for a summary of what these findings mean for organizations.

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TABLE 4. Attendance Policies and Tracking Employee Absences

Attendance Policies						
	U.S.	China	Australia	Europe	India	Mexico
Formal, written attendance policies in place	58%-71%	80%-95%	70%-84%	70%-82%	68%-83%	68%-78%
Individual departments have their own informal policies/rules	10%-23%	3%-12%	6%-15%	6%-11%	0%-8%	8%-13%
No policy	12%-32%	3%-8%	10%-14%	8%-21%	13%-25%	10%-25%
<i>n</i>	150-216	104-110	86-106	92-99	66-84	63-72
Person Responsible for Enforcing Attendance Policies						
	U.S.	China	Australia	Europe	India	Mexico
Direct supervisor	57%	25%	69%	44%	23%	22%
A department manager (if not the same as direct supervisor)	35%	22%	17%	23%	12%	23%
HR staff	7%	49%	9%	26%	60%	50%
Other	0%	2%	3%	4%	5%	5%
Organization does not enforce attendance	1%	2%	2%	2%	0%	0%
<i>n</i>	225	127	108	115	93	78
How Employees Request Time Off						
	U.S.	China	Australia	Europe	India	Mexico
Written request using a form or by e-mail	66%	62%	61%	58%	45%	63%
Submit electronic request using time-keeping system	24%	28%	29%	28%	45%	14%
Verbal request	9%	5%	5%	11%	5%	23%
Other	1%	6%	6%	3%	4%	0%
<i>n</i>	225	127	108	115	93	78
Tracking the Number of Employee Absences						
	U.S.	China	Australia	Europe	India	Mexico
Percentage of organizations that track employee absences	83%	99%	95%	96%	98%	95%
<i>n</i>	692	119	86	104	84	69
System/Process Used to Track Employee Absences						
	U.S.	China	Australia	Europe	India	Mexico
Integrated system as a component or module of an HR information system*	35%	23%	29%	30%	41%	26%
Automated third-party software with terminals or web entry	29%	32%	48%	38%	36%	51%
Home-grown system	20%	18%	6%	12%	10%	10%
Manual spreadsheets	8%	19%	7%	17%	7%	4%
Manual paper timesheets or punch cards	8%	8%	10%	3%	6%	8%
<i>n</i>	240	119	94	106	87	72

* i.e., a workforce management solution

Note: Percentages may not total 100% due to rounding. Differences may not be statistically significant.

Source: Total Financial Impact of Employee Absences (SHRM/Kronos, 2014)