

Controlling the Costs of Absenteeism -The CFO Perspective

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The CFO: The missing link in getting absence management results?

Absenteeism is a substantial problem, on many levels, for Canadian employers and an unseen killer of corporate profitability.

But that is not news. The question is why does it continue to be such a significant problem? I believe that the lack of corporate initiatives, led by the CFO, is a fundamental reason for the lack of progress Canadian corporations have made in solving the absenteeism problem. At the heart of the matter, absenteeism is a cost that needs to be fully understood and well managed.

This paper will explore problems behind absenteeism from a CFO perspective. If you are a CFO or executive with P&L or corporate responsibilities, I hope this paper will provide you with some strategies and frameworks you can use to take on this initiative.

If you are not the CFO, but have to deal with the fall out of absence problems, we hope this paper will provide you with some ammunition to take to your CFO to get the corporate support you need.

First, some background on the absenteeism problem.

1. **It's growing:** Absenteeism is growing at an incredible rate and it is extremely costly. The Conference Board of Canada reports absenteeism cost the Canadian economy \$16 billion in 2012 with an average of 9.3 days (12.9 days in public sector, 8.2 days in private sector) employee absences per year. Absenteeism contributes to a substantial amount of cost for organization in Canada with rippling effects on lost productivity and revenue.
2. **It's significant:** total cost of all absences is 35% of base payroll with only 9% of this figure representing health care related costs (e.g. dental, medical, etc.), the remainder (25%) is absence related. Over and above the direct costs of absenteeism, indirect costs (i.e. replacement and productivity costs) are equally significant: for every dollar of direct cost of an absence, organizations can attribute \$0.70 to \$1.50 in indirect costs.
3. **Most companies don't know the size of their absence problem:** Most companies do not have a firm grasp of what their absenteeism rates are and what it is truly costing their organization. The troubling fact is most organizations do not track this vital information. Only 46% of companies track absence data, with only 15% tracking the actual direct costs of absences.
4. **Nobody "owns" the absence management initiative:** Absence management is usually the responsibility of many departments including human resources (HR), health and safety (H&S), and accounting (via payroll). Absence management responses are often further divided and managed into silos: a particular group manages casual absences and short/long term disability, while another group manages occupational absences (i.e. worker's compensation).

The Role of CFO

The role of the CFO or the executive that has CFO-like responsibilities is typically well defined.

Responsibilities include:

- Financial Governance (Reporting, forecasting)
- Risk management
- Treasury Governance (i.e. investment decisions)
- Financial management (efficiency/cost management)

When thinking about the problems and issues that arise from absenteeism, it quickly becomes apparent that absence management costs are material and impact all the items on the CFO's list.

If absence management does not pop up on this list, it is usually because it's seen as an HR initiative and then usually left within HR.

So I need to ask again, why do we find, after dealing with hundreds of organizations, that the CFO is typically not at the absence management table?

I believe the answer lies within the complexity and the often invisible drivers of absenteeism. Simply put, CFOs can't manage what they can't see.

1. The real costs of absenteeism are not tracked. If it were a line item on the P&L it would get more attention.
2. A subset of costs associated with absenteeism is usually buried in "payroll" or "insurance".
3. There is no clear accountability because everyone is accountable – HR, supervisors, operations, divisional or departmental managers. Depending on the organizations size, this list could go on.

To begin to tackle this problem, you need to:

1. Elevate the problem to the CFO or boardroom (if you are not the CFO)
2. Understand the impact of an investment in absence management
3. Uncover opportunity for reductions or savings
4. Drive action plans to ensure results are achieved with on going management and support.

Doesn't that sound like the approach a CFO would take for CFO level problems?

Understanding the impact within the organization

Not only is the financial impact often hidden from the CFO, but so are the operational and “shop floor” problems.

CFO’s and other executives rarely experience the day to day challenges faced by management representatives such as supervisors or general managers that have responsibilities for front line staff.

Supervisors and GM’s are on the front line of dealing with an employee absenteeism which is a complex issue involving many factors including labour relations, HR, and medical issues. The difference is not always apparent.

From a supervisor or GM perspective, absenteeism is a “nuisance” or an “interruption” to proper scheduling and production. Furthermore, supervisors and GM’s often have little training and direction on their organizations absence program or how to properly manage individual absence issues.

At this level, supervisors and GM’s are often challenged by:

- Not being comfortable in dealing with employee medical or personal issues that impact absences
- Little or inconsistent guidelines and processes to develop effective Return to Work (RTW) plans
- Little to no notification of absence reporting by employees and ongoing follow-up
- Poor absence management training
- Dealing with treating physicians notes: Doctor’s notes that don’t really say anything such as “off for medical reasons”

Understanding the cost to the organization

Direct Costs

Direct costs include payroll, overtime and disability insurance for casual, occupational (i.e. workers compensation premiums) and non-occupational costs (i.e. sick, STD/LTD costs) .

Here is an example. This company operates in the service industry and did not have a well-structured absence program.

Summary data:

Employer size	2,000
Casual Policy	Paid, up to 10 days per year
Average annual wages/salary	50,000
Daily average compensation/employee	227.27
Total Payroll	100,000,000.00
STD benefit	100% paid up to 6 months
LTD benefit	60% paid after 6 months
WSIB rate per \$100 payroll	3.00
Industry	Service industry

Based on their current state, the total direct costs of absenteeism was ~\$12M per year.

Cost of casual/sick absences -direct	4,545,455
Cost of STD -direct	3,750,000
Cost of LTD -direct	1,080,000.00
Cost of WSIB premiums (assume no rebate/surplus)	2,800,000
Total Costs	12,175,455
As a percentage of payroll	12.2%

Indirect Costs

Indirect or “soft” costs include:

- Production inefficiencies
- Staff moral
- Additional training
- Production errors
- Service delivery problems

While indirect costs of subjective they are still real although could vary significantly by industry or by department within an organization.

Stats Canada, through surveys, provides estimates for indirect costs by industry. In this case, the ratio 1:1.5 which means it costs \$1.50 of indirect costs for each dollar of direct costs.

Total Costs

The total costs of absenteeism for this client in the whole sale and trade industry is \$12M in direct costs plus an additional \$18M ($\$12M \times 1.5x$) which is about 30% of payroll.

If you don't have the numbers to calculate your absenteeism costs there are a number of published estimates also based on surveys. These estimates range from 20% to 34% of payroll.

A CFO framework to tackle absenteeism

Now that I have hopefully sparked an interest for the CFO to get involved in leading an absence management initiative, I would like to provide a framework that will a “CFO level” initiative.

In order to get started on this initiative to reduce the costs of absenteeism, the , absenteeism issue has to be

1. Well understood
2. Well tracked
3. Well supported

Well understood

A useful framework to help understand the problem is the concept of “leaks” in the process.

The goal of managing absenteeism is managing “Avoidable Absences”. In an ideal world all employees would be available for work 100% of the time. In reality some portion of the workforce will be unavailable on any given day: this is a cost of doing business.

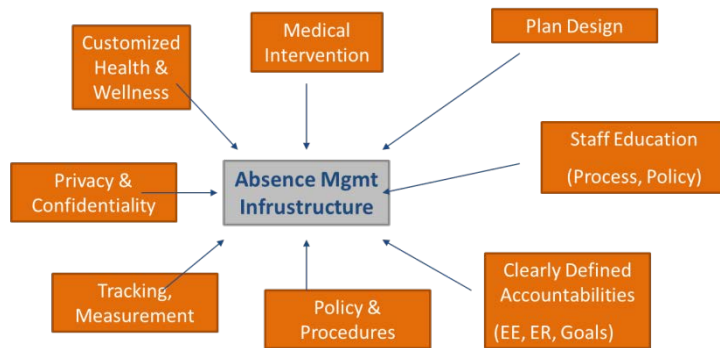
However, hidden in this cost is a second class of expense due to absences that were avoidable or have lasted longer than necessary.

We call this leakage, because it is hard to identify where it is coming from for many companies, but rising costs are the evidence that it exists.

Avoidable absences are typically caused by:

- Poor policy design within a corporation (i.e. casual/sick polices that are structured poorly)
- Inadequate preparation and prevention plans for the employee base
- Passive absence claim/case management
- Poor or no absence tracking and measurement tools
- Over-reliance on attending physician assessments
- Inconsistent guidelines and processes to develop effective return-to-work plansNon-medical expertise within HR administration.

In order to understand the “leak”, each component of the absence management program (as depicted below), requires a “gap” analysis which includes an evaluation of absence performance and costs.



Workplace Medical Corp. has developed a three phase Prevent – Respond – Return to Work (RTW) framework to help focus on the process that drives absences and to help identify where the “leaks” are.

Prevent	<p>What strategies are in place to prevent absences before they happen?</p> <ul style="list-style-type: none"> • Policy development is the single biggest impact on absenteeism. • Other areas to look at are wellness programs and fitness for work policies (both at hiring, during employment and returning to work).
Respond	<p>How quickly are you capturing absence information and distributing it to right people?</p> <ul style="list-style-type: none"> • Capturing the data at the front end for all types of absences is key to understanding your costs and taking action early. <p>Is the capturing of absence data translating into actionable information for supervisors and HR without bogging them down in paper or spreadsheets?</p> <p>Are you and your supervisors getting real time reporting when an absence occurs or an absence policy is broken?</p> <p>Is the right information getting to the right person at the right time?</p> <p>Are absence policies consistently and fairly applied?</p>
RTW	<p>Where are the delays in getting information to case manager or RTW specialists?</p> <p>Are you relying on doctors notes?</p> <p>Early intervention is the key for reducing duration of time loss. How quickly are you getting started? If it’s not day 0, you’re losing time.</p> <p>What medical support do you have in-house or available to you when medical issues arise?</p>

Well tracked

Well tracked means setting clear goals and objectives and then measuring them. Key goals to measure include:

- Target ROI and cost savings
- Frequency and duration
- Categories of absence by employee, division, location and other variables relevant to your organization
- Cost of absenteeism by division, employee, location
- Comparison of the cost of absenteeism by quarter or yearly.

Well Managed

In my opinion, the key to a well-managed initiative (or well-managed company for that matter) is accountability. A well tracked initiative, as described above, is only a tool to help to hold people accountable.

In absence management, there are many stakeholders and hence many people or groups that need direction, goals and accountability.

It starts with the supervisors. As we say, if the supervisors are not part of the solution, they are part of the problem.

The key reason why I believe a successful program requires the leadership and involvement from the CFO or his equivalent is because it ultimately involves risk management and cost management.

The implementation plan for this type of initiative would include:

- Clarity on the gaps and solution –Set the targets (ROI, cost savings)
- Define stakeholders - Ensure the organization has key stakeholders that are responsible to ensure the absence programs are properly executed, reported so that financial and non-financial returns are achieved
- Set goals, metrics and accountabilities for the each stakeholder and the team
- Training stakeholders initially and on an ongoing basis
- Track, measure and report them as KPI within all departments and make it a fiduciary responsibility of all employer representatives right up to the executive tem

The ROI result

Investments in “absence management” are typically not consolidated because the absence problem was not consolidated and as mentioned earlier, no one really knew what the costs were or how they were changed by any “investment” in absence management.

It doesn't have to be that way.

Let's look at our example client again. Their total absence costs were about \$29M which included \$12M of direct costs. What if they could:

- reduce the casual absence days by 2 days per employee from 10 to 8
- reduce their STD duration in line with industry average by lowering it from 55 days to 30 days
- reduce the number of LTD cases from 300 to 200. (Note: better managed STD will reduce the number of LTD cases)

These reductions are based on current experiences with this employer's peer group in the industry as well as well typical absence durations.

This resulted in the creation of a target direct cost of ~\$7.8M which represents a cost savings opportunity of \$4.4M annually. In order to achieve these results, this employer was forecasted to invest \$600K annually.

For this company, reducing the duration and frequency of absence claims by an achievable amount, creates an opportunity of \$4.4 M in annual savings. After an investment of \$600k in absence management services and technology, the net savings was \$3.8M, a ROI north of 600%.

The detailed results are shown on the next page.

	Current Case	Projected Case	Savings
Casual Absences			
Average days used per employee	10	8	2
Non-occupational Absences (STD/LTD)			
Number of STD per year	300	200	100
Average duration of STD claims	55	30	25
LTD claims	33	20	13
Average duration of LTD claims	420	420	0
Occupational Absences (WSIB/WCB)			
Average Cost of comp claim	7,000	7,000	0
Costing			
Cost of casual/sick absences -direct	4,545,455	3,636,364	909,091
Cost of STD -direct	3,750,000	1,363,636	2,386,364
Cost of LTD -direct	1,080,000	654,545	425,455
Cost of WSIB premiums (assume no rebate/surplus)	2,800,000	2,100,000	700,000
Total Costs	12,175,455	7,754,545	4,420,909
As a percentage of payroll	12.2%	7.8%	4.4%
Investment			
Prevent			
Pre-hire assessments			50,000
Wellness			110,000
Respond			
Call Centre/software			120,000
Return			
Medical Intervention (claim work, disability management, RTW tools)			312,000
			592,000
Net Savings (annual)			3,828,909

How do we achieve these results?

It starts with initial absence consulting to frame the size and scope of the issues and opportunity. In this client’s case, we implemented solutions in all categories:

Prevent services	Absence consulting, post offer medical assessments, Wellness programs
Respond services	24/7 call centre and absence software to track, measure, communicate
RTW services	Early medical intervention, disability management

This employer also realized non-financial returns which included more confident supervisors (when dealing with absence issues) and less union grievances

Final thoughts

Absenteeism is not just a human resource or operations problem, but rather a corporate risk that impacts the health and well-being of your organization from profitability, to productivity, operations, sales and business disruption.

Risk and risk management. That is really what this is all about. And at the end of the day, risk management is a key responsibility of the CFO and C-level management. That is the overwhelming reason why the CFO should lead this initiative and why, when that doesn’t happen, the CFO is the missing link in getting absence management results.

About Workplace Medical Corp.

Workplace Medical Corp. helps organizations across Canada, in both the public and private sector, reduce the cost and disruption of avoidable absences by providing services and technology that plug the leaks throughout the absence management process.

WMC's comprehensive range of services supports the entire absence management process from preventing employee absences in the first place, to responding quickly when workplace absenteeism does occur and then helping to return employees to work safely and efficiently.

For more information about our services and how we can help prevent, manage and reduce avoidable absences please visit our website at www.workplacemedical.com