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The Evolution of Time and Attendance Systems

A new kind of management tool develops

By Jill Sherman

The end of the “bells and whistles” era is upon us when it comes to time and attendance systems. Automated time-tracking technology has matured to the point that some degree of automation is taken for granted at employers with large numbers of hourly workers.

Furthermore, many companies have discovered the benefits of electronically capturing the exception time of their salaried workforce. Plenty of vendors offer systems that are robust, reliable, and can handle the principal time and attendance tasks.

Human resources (HR) and payroll managers are looking for more than simple time-tracking these days. They want to get the maximum value out of time and attendance systems as a full-blown management tool.

Going Beyond the Basics

However, the traditional reasons for installing time-tracking technology are still valid. Companies still want to reduce their payroll error rates, eliminate manual labor associated with paper-based time sheets, and prevent “buddy punching.”

But payroll managers want more. They want reports that let them see an up-to-the-minute picture of attendance, job tracking to find out how internal resources are being spent, easy access to archived time sheets, the uniform enforcement of work rules, and the ability to keep tabs on time that falls under the Family and Medical Leave Act (FMLA), among others.

It all boils down, then, to a new phase in time and attendance automation as a standard tool for workforce management. “Getting people paid is basic time and attendance,” said Michael DiPietro, Vice President of Product Marketing and Strategic Alliances at Kronos Incorporated. “Now we are asking for something more. People want time and attendance to give them information to help manage their workforce.”

Keeping Compliant

One of the tasks this new management category can help with is compliance—a hot issue in the time and attendance market. A flurry of recent FMLA-related lawsuits has raised

awareness of compliance issues. And new regulations under the Fair Labor Standards Act (FLSA) that radically change overtime eligibility have also heightened interest in getting complex work rules built into time and attendance systems.

According to a 2003 survey cosponsored by the American Payroll Association (APA) and Kronos, 49% of employers surveyed cite overtime rules as one of the most challenging FLSA requirements to comply with, and 59% cite confusion among employees on overtime eligibility as a concern.

Overtime regulations have always presented challenges, and time and attendance systems have evolved to meet the demand for help on this front. That means systems must have the ability to cope with large numbers of business rules that combine in complex ways.

“Any time and attendance system that’s worth its salt should be able to accommodate a wide range of rule configurations,” said Greg Bell, Marketing Manager for Unitime Systems.

On top of shift rules, overtime rules, and work-type rules, the rule configurations must include different locations, different types of employees, and different goals or purposes, said Bell. “For example, hourly employees might be assigned to a rule class that defines overtime as all hours greater than 40 within a work-week, while exempt employees are assigned to a rule class that does not pay overtime hours.”

Robert Maxwell, Director of Sales in the Time Solutions Division of Amano Cincinnati, Inc., notes that the latest time and attendance systems can be customized to accommodate highly complex pay rules and shift rules.

“For instance, if a union employee works the night shift and crosses midnight, he or she may be entitled to a pay differential and a cash bonus depending on the specific tasks performed,” he said. “This is the kind of calculation complexity a system should handle.”

Another spur to compliance concerns comes from the Sarbanes-Oxley Act of 2002. Sarbanes-Oxley puts many senior executives at risk of jail time for accounting irregularities. That

means payroll and HR professionals are getting plenty of pressure to provide accurate tracking of leave accrual liability (*see case study sidebar*). Time and attendance systems can help.

Dealing With Dishonesty

Payroll professionals have also shifted their thinking on how to portray time and attendance systems to employees. At one time systems were considered threatening—a tool for policing the workforce. Now that perception has changed.

Of course, overtime abuse and buddy punching remain a concern for many employers. “Savings from the elimination of buddy punching are substantial,” said Robert Thomas, Division Vice President of Time and Labor Management at ADP, Inc. “Estimates range from 1% to 6% of a company’s gross payroll.”

According to Bell, one organization that implemented Unitime Systems’ biometric time clocks saved \$25,000 in the first month through the elimination of buddy punching and increased payroll accuracy.

Lately, though, employers have also begun to look at time and attendance systems as a way of providing value to employees.

“Best-of-breed vendors have provided an opportunity to take employee satisfaction into account as part of using the time and attendance systems appropriately,” said DiPietro. “That’s part of a general trend towards viewing time and attendance systems as employee friendly. Employees can use the systems to indicate shift preferences, for example, or look up vacation balances. And the systems often make your best employees happy since less conscientious coworkers can’t abuse the system.”

DiPietro quoted one Kronos customer as saying, “The reason the employees like it is because everyone is paid according to the rules, and that’s fair.”

Systems as Strategic Tools

Time and attendance systems can provide important organizational diagnostics as well. Payroll professionals want the systems to help them see how efficiently the organization is performing.

According to Brian Koniuk, Managing Director at the consulting firm Answerthink, “HR and business unit leaders are thirsting for precise knowledge of what people are doing. For HR, workforce management systems can help the performance evaluation process. Operational managers can get a more accurate picture of productive versus nonproductive time.”

Time and attendance automation is being used today to better track work orders. The payoff is significant with “improved forecasting, which leads to more effective scheduling, which translates into reduced cycle times and increased productivity,” said Koniuk.

Bell notes that complex labor tracking scenarios might require the capability to track 10 or more levels of labor detail. Labor levels might be tied to work order numbers, sequences, process numbers, or many other business variables.

The information collected on these variables can be fed into billing, manufacturing, and general ledger systems to help drive many processes outside payroll. A good time and attendance system can deliver customized reporting for analyzing labor usage.

Most vendors have built the components employers need to achieve these aims, notes Maxwell.

In the past, many companies tracked only specific employees’ time and attendance such as those in warehouses and manufacturing plants. No more, said Maxwell. “More and more organizations are taking a closer look at all their employees. Time and attendance vendors are accommodating these needs.”

That means adding specific modules that function well for white-collar employees working in a traditional office environment. These systems allow employees to punch in and out using the Web or a computer on their network, according to Maxwell. It also means incorporating devices to accommodate a mobile

Time and Attendance Vendor Types

Time Sheet-Oriented

Typically lack scheduling, leave management, and complex rule management, but provide flexible Web time sheet capabilities that can be integrated with expense management and billing systems.

Full Time and Attendance Solutions

Offer the same capabilities as time sheet-oriented vendors, and typically have the advantage in integrating heterogeneous human resource and payroll environments.

Enterprise Resource Planning and Human Capital Management

Offer out-of-the-box integration of time and attendance with their human resource and payroll applications. They tend to be used by enterprises that are considering centralized time management (with decentralized time entry and approval).

Source: Gartner, Inc.



workforce, such as applications that work with cell phones and PalmPilots for construction workers.

Time and attendance systems can even be used to track contract labor, says DiPietro. For example, hospitals nationwide are struggling to cope with an acute nursing shortage and are hiring temporary nurses through nursing agencies.

"This helps to control overtime costs, but the agency nurses still need to be tracked through the system to make sure they have the right skills, applications, and that they are billed appropriately and paid properly," explained DiPietro.

Time and attendance systems also improve customer service because they allow an organization to accurately project staffing levels. Take the hospitality industry, for example. "Not having enough housekeepers when the hotel is full can generate a loss of satisfaction and loss of business," said Thomas.

That's just one more reason that time and attendance has become more than an afterthought among HR-related solutions. "Time and attendance is now included in the category of strategic applications," Thomas said.

Integrating Scheduling

Some vendors offer time and attendance solutions already integrated with a scheduling component.

In recent research on time and attendance solutions, Gartner, Inc. identified three vendor types. At one end of the scale are time sheet-oriented solutions that lack scheduling or, in some cases, complex rule processing, but can be integrated with other systems.

At the other end are enterprise-wide resource planning solutions that include scheduling, time and attendance, and many

other functions (*see vendor types sidebar*).

In a July 2003 research report, Gartner noted that the more integrated solutions have an advantage in terms of "out-of-the-box integration of time and attendance with their human resource and payroll applications." Sometimes though, "too much functionality may be overkill, relative to the cost."

Jeff Rutherford, Product Manager for the time and attendance solution offered by TALX Corporation, said it all depends on what fits for the client. "Some of our clients tell us that they just don't need the space shuttle," he said. Instead, they may need something that can handle complex rules and feed data into other systems, but not necessarily handle scheduling. In addition, the more comprehensive solutions sometimes require implementation timelines that are too long to suit an employer's pressing objectives. The key is flexibility, said Rutherford.

Whatever time and attendance system you choose, it should be easy to customize so it reflects all of your business rules. It should also recognize employees when they log in and adapt to them, showing only the functionality they need according to the business rules applicable to them.

More Time-Entry Devices

Another sign of maturity in time and attendance solutions is the widespread availability of a complete range of devices for entering time and approving time sheets.

"The number of devices that can be used for entering time has expanded," said Thomas. These include biometric devices that scan fingerprints or handprints, telephone interactive voice response (IVR) systems, badges, and personal digital assistants (PDAs).

Biometric devices such as hand scanners have been around since 1997, and lately, resistance to these devices has decreased. DiPietro explained that until a few years ago, biometrics were not widespread, but they are rapidly becoming commonplace. In fact, one out of every three Kronos 4500 terminals delivered today has biometrics, he said.

Examining ROI

With all the potential improvements that an HR or payroll department can make, a consensus is building that the return on investment (ROI) from a time and attendance solution is substantial.

Bell said the average ROI for automated time and attendance solutions is one to two years, though some customers reach this milestone in less than a year. He noted that savings come from many sources, including:

- Reduced pay for unearned overtime
- Increased accuracy of payroll
- Reduced "time theft" from buddy punching
- Reduced amount of time that management spends on payroll and data management

"In some cases, ROI can be realized in as little as five months," said Thomas.

A report commissioned by Kronos and developed by Nucleus



Research, Inc. found that the median ROI of all survey respondents was 469%. In other words, annual savings is over four times the cost of the system!

Yet many employers continue to collect paper time sheets, requiring a staff member to manually key in data. Given the potential benefits of automated time and attendance systems, what is holding them back?

It may have to do with organizational structure and the changing way in which HR organizations view their role. HR traditionally considers its primary responsibility to be transaction processing. But, "as HR organizations continue to shift ... to a more top-down focus, which emphasizes partnering with business units to implement strategy, the time and attendance function gets neglected," said Koniuk.

Another barrier to adoption, he continued, is the challenge

of quantifying benefits. But compelling business cases can be made in support of time and attendance initiatives, he said. "Time and attendance represents that largest cost component of payroll processing and therefore represents that largest area for potential savings."

Driving Deployment Through Savings

As word spreads about the savings available to employers that implement best practices in time and attendance, these solutions are sure to find a home at more organizations and companies.

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Case Study: Automated Time and Attendance Means Flawless Bookkeeping at Humana

When Humana launched its time reporting project in March 2003, the company was able to automate key processes to reduce administrative costs and improve reporting capabilities for recording time away from work.

Because salaried employees were finding the paper-based process of reporting vacation time to be time-consuming, many underreported their vacation time. In fact, about 50% of salaried employees were recording a week or less of their annual vacation each year. Vacation accruals were piling up on the books. Those accruals represented a drain on resources that could have been used elsewhere in the company to support its success.

Humana partnered with TALX Corporation to build a time and attendance system to track complex rules for a variety of employees. At the same time, a new vacation policy was implemented to coordinate with the effort.

According to Josette Goulet, Director of Humana's Associate Service Center, the project resulted in a dramatic improvement in vacation reporting. "Now, 90% of salaried associates are recording their vacation as they take it," she said.

Goulet and her team achieved other benefits with their time reporting project. They slashed the payroll error rate from 5% to less than 1%, and the number of dedicated payroll full-time equivalents fell from six to two. They are providing their population with real-time eligibility verification for FMLA leave and short-term disability leave right from the desktop.

In addition, the bottom line on vacation liability was eye-popping. The company saw a total reduction of \$5.5 million from a combination of time reporting improvements and the vacation policy change. "The system exceeded our goals and expectations," said Goulet.