



The Business Case for a Time and Labor Management Solution

This white paper outlines the strategic advantages of an automated time and labor management system for businesses and employees.

Executive Summary

Most business owners are familiar with the tasks involved in tracking employee time and attendance. Typically, this involves the collection of time sheets or cards, adding and approving time totals, and the calculation of data — all of which are subject to error. What is not commonly understood is the extent to which automation can simplify and improve this essential business process.

Integrated time and labor management systems streamline the payroll procedure by automating data collection and calculation, while making the routine more efficient and less error prone. In the long run, such systems can significantly reduce the cost of payroll processing.

When economic headwinds grow stronger, businesses of all sizes are directly or indirectly affected by downsizing and cost cutting. This means they have an increased need to do more with less and be more efficient to compete. Increased efficiency is associated with increased productivity and less waste — all of which can be aided by automated time and attendance systems.

Employees need to know that they are getting paid fairly, and businesses need to know that they are not underpaying or overpaying. Since labor is typically the largest operating expense of any business, it is wise to carefully monitor this expense. An automated time and labor management system can help you do this efficiently.

Since labor is typically the largest operating expense of any business, it is wise to carefully monitor this expense. An automated time and labor management system can help you do this efficiently.

What Is an Automated Time and Labor Management System?

A time and attendance system collects, tracks, and manages employee work hours and pay. This information is required to process a payroll. Companies commonly use manual methods, such as paper time sheets or a mechanical time clock, to record employee time. These methods are inherently labor-intensive and lack the ability to track vacation days, sick time, and holidays.

Automated time and labor management systems use electronic time clocks and software to collect and analyze time and attendance data. They allow managers to review, edit, and approve employee time for payroll processing in less time and with greater accuracy.

Automated systems can track employee time by several methods:

- Reading magnetic stripes or bar codes on employee cards.
- Reading employee fingerprints via biometric terminals. This newer technology eliminates the problem of lost badges and “buddy punching” (the act of one employee clocking in or out for another).
- Reading times logged in at a personal computer.

Benefits of automated systems:

- Time Savings.
- Data Accuracy.
- Less Lost Time, Increased Staff Productivity.
- Reduced Overtime Costs.
- Better Labor Law Compliance.

Benefits of an Automated Time and Labor Management System

The following topics summarize the benefits an automated system can provide.

Less Paper, Less Paper Handling

Automated systems eliminate inefficiencies associated with paper time card systems. These include:

- No more printing of paper time sheets.
- No time wasted transferring time sheets to the appropriate employees.
- No need for a supervisor’s approval of time sheets.
- No data entry into the payroll system.

Time Savings

Seven minutes. According to industry estimates, that’s the average amount of time it takes a supervisor to manually calculate time-card data for each employee during each pay period. By itself, seven minutes doesn’t sound like much. But, it becomes significant when it represents the time required to calculate total payroll hours for dozens or hundreds of time cards, two or four times per month. Automating the time and attendance process allows managers to reallocate time to other important business, and may even help reduce payroll staff.

Data Accuracy

Eliminating paper time sheets has been shown to improve payroll accuracy up to three percent. A time and labor management system automates the process of tracking employees as they check in and out for work, resulting in more accurate time data and fewer payroll processing errors. And, data accuracy is invaluable when a company is audited and can provide a detailed trail of employee exceptions and manager approvals.

Less Lost Time and Increased Staff Productivity

Unless employee behavior is monitored carefully, there may be habitual tardiness or unauthorized extension of lunches or breaks. According to a Robert Half Associates survey of theft of time, the average worker “steals” four hours and eighteen minutes a week by coming in late, taking long lunches and breaks, and leaving a few minutes late to get overtime.¹

An automated time and attendance system helps recover lost time by tracking actual time on the job more closely. Since employees know that they are being paid accurately and fairly for the hours they've worked, productivity can increase. In addition, accurate tracking can be used to develop employee reward programs as incentives for good attendance and disciplinary actions for poor attendance.

Reduced Overtime Costs

When a company employs hourly workers, excess overtime can be costly. An automated system allows greater awareness of extra hours worked. Managers can run reports that identify employees who are approaching overtime and adjust schedules to avoid unnecessary costs. In addition, consistent application of pay rules and policies helps to control costs.

Labor Law Compliance

Complying with labor laws and time-keeping requirements is required for both large and small companies. How essential this compliance is was demonstrated in a 2008 ruling by the U.S. Department of Labor's Wage and Hour Division, which required a firm to pay \$168,220 in back wages to 27 employees for violations of overtime laws associated with the Fair Labor Standards Act.³

An automated time and attendance system can help guarantee that management applies pay policies consistently to all employees. Archived records of time records and policies can help defend a company against noncompliance issues. In addition, audit trails are accessible so managers can see when changes are made and who made them.

Integration with Payroll

Time and attendance systems are even more beneficial if integrated directly with a payroll or human resources program. This eliminates manual data entry and the potential for error in two or more systems.

A payroll interface makes it easy to transfer data to and from time and attendance software, including data such as overtime, hours worked, department, holidays, sick time, and vacation hours. If changes are made to payroll policies, updating both systems is quick and efficient.

“The Employment Standards Administration’s Wage and Hour Division (WHD) recovered more than \$185 million in back wages for over 228,000 employees in the fiscal year 2008 to put the eight-year cumulative total of back wages collected by the agency at over \$1.4 billion.”²

Case Study: The Hidden Costs of Manual Timekeeping

Consider how a time and attendance management system can be applied in the real world with the following example company.

Tower Supply Company has traditionally calculated time sheets by hand. The company's payroll clerk is 97% accurate, making errors in just 3% of the manual time card calculations.

Company Profile: Tower Supply Company

- Employees: 20
- Hourly wage of employees: \$7.25 average
- Days per payroll period: 14
- Hours worked per payroll period: 80 average per employee
- Time to calculate time cards manually: 7 minutes average per time card (includes manual calculation of time cards and time that supervisory personnel need to check for accuracy)
- Hourly wage of payroll clerk: \$12.00
- Payroll error with manual calculations: 3% average
- Time employee misses per day: 6 minutes average (includes tardiness, long breaks, and leaving early)

Tower Supply Co. will save more than \$15,000 each year by automating their time and labor management processes.

Costs	Formula Used	Calculation	Result
Manual Calculations	(No. of Employees × Hourly Wage Rate × Minutes per Calculation) ÷ 60 Minutes per Hour	$(20 \times \$12.00 \times 7) \div 60$	\$28
Lost Employee Time	[(No. of Employees × Hourly Wage Rate × Time Missed per Day) ÷ 60 Minutes per Hour] × Days per Payroll Period	$[(20 \times \$7.25 \times 6) \div 60] \times 14$	\$203
Payroll Errors	(No. of Employees × Hourly Wage Rate × Hours Worked per Pay Period) × Payroll Error %	$(20 \times \$7.25 \times 80) \times 3\%$	\$348
Total Cost of Manual Calculation per Pay Period			\$579
Annual Cost (26 pay periods)			\$15,054

In this example, Tower Supply Co. will save more than \$15,000 each year by automating their time and labor management processes.

Conclusion

Automating employee time and attendance functions can simplify the data collection process and improve the quality of data. As a business case is made for an automated time and labor management system, benefits that should be considered include:

- Time savings
- Improved data accuracy
- Decreased lost time
- Increased staff productivity
- Improved labor law compliance
- Decreased costs of time and payroll management

Endnotes

1. Contomo, Joseph (February 1984). The Incredible Time Machines Taking Time Clocks Out of the Dark Ages. Payroll Exchange. American Payroll Association, New York Education Division.
2. U.S. Department of Labor, Employment Standards Administration Wage and Hour Division (2008). 2008 Statistics Fact Sheet.
<http://www.dol.gov/esa/whd/statistics/2008FiscalYear.htm>
3. T.L. Wallace Construction Inc., of Columbus, Mississippi. Wallace was a subcontractor to Heritage, Inc., which held the contract with the Federal Emergency Management Agency (FEMA) for the inspection and repair of trailers provided to people affected by Hurricane Katrina. The firm agreed to pay \$168,220 in back wages to 27 employees for violations of the McNamara O'Hara Service Contract Act (SCA) and the Contract Work Hours and Safety Standards Act (CWHSSA).
<http://www.dol.gov/esa/media/press/whd/statistics/2008FiscalYear.htm>