WHITEPAPER

REVOLUTIONIZING PAYROLL MANAGEMENT

How to Prevent Payroll Leakage and Increase Profitability with Workforce Analytics

PROHANCE

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Abstract

Payroll is critical to every business's bottom line. For most organizations, payroll represents the highest company expense, and without efficient, well-organized payroll systems, companies cannot operate successfully or retain profitability. With this in mind, it is important for payroll teams to evaluate payment platforms regularly to identify leakages and improve efficiency.

Payroll leakage, defined as unintended or unexpected spending and lost revenue related to labor, can be caused by a range of factors, including errors in data collection, excessive overtime and bonus pay, and outdated or ineffective payroll management systems. According to Deloitte, payroll leakage costs employers 2.5% of total payroll expenses, on average.[1]

This whitepaper addresses four key challenges that contribute to payroll leakage and explores how an integrated workforce analytics solution can help resolve them. It also introduces ProHance, a cloud-based solution to optimize workforce processes with real-time analytics. In addition, it includes a case study that shows how ProHance helped one organization reduce payroll leakage and improve efficiency.

A. Challenges that Contribute to Payroll Leakage

As a leader in workforce analytics, ProHance works with over 273,000 users in 25 countries, tracking data analytics across 67 client accounts. In our work to improve productivity and efficiency for organizations around the world, we have observed the importance of payroll optimization firsthand. Four of the greatest payroll challenges we see most organizations struggling with are: (1) over-reliance on manual data entry, (2) difficulty tracking attendance with remote / hybrid work, (3) managing the complexities of exempt and non-exempt employees, and (4) navigating various state and national laws. In this whitepaper, we will explore each challenge and its manifestations, and discover how workforce analytics can resolve these problems, leading to payroll transformation.

1. Deloitte. "Payroll Leakage: What it is and How to Fix it." 2014.

https://www2.deloitte.com/content/dam/Deloitte/us/Documents/process-and-operations/us-cons-payroll-leakage-081114.pdf

A.1. Over-Reliance on Manual Data Entry

How do your employees track their time at work? Do you use an automated time tracking solution that measures employee activity based on software and system use throughout the day? Or, do you use time clocks or manual timesheets that allow employees to enter their own hours? According to Intuit Quickbooks, 38 percent of U.S. employees still use manual systems like punch cards and paper timesheets. In Canada, 58 percent still track time using manual systems.[2] Often, these timesheets must be corrected, because employees are unable to remember their hours accurately—or, they may forget to clock in or clock out. Even more concerning, employees may intentionally enter inaccurate hours, in order to increase their pay. Manual timekeeping is not reliable or accurate, and over time, it can cost companies thousands of dollars. A recent study by the American Society of Employers showed that U.S. companies lose about 20% of every dollar they earn due to employee time theft.[3]

A.2. Difficulty Tracking Attendance with Remote / Hybrid Work

Before COVID-19 and the rise of remote work, tracking attendance was fairly simple. Employees arrived at work, clocked in or checked in with their manager, and left at the end of the work day. If an employee was absent or left work due to an emergency, it was easy to track. That employee simply wasn't there. Now that many companies allow remote and hybrid work, tracking attendance has become more difficult. If you can't see your employees arrive or leave the workplace, how do you know they were truly present? Many companies track attendance with login/logout data, but this information can be unreliable, as an employee can easily log into their computer at home, and then leave their workstation for hours at a time, undetected. In a recent study by Harvard Business Review, about 40% of the 215 supervisors and managers survey expressed low self-confidence in their ability to manage workers remotely.[4]

2. "The Ultimate List of Time and Attendance Statistics." Intuit Quickbooks. 2024. Online. https://quickbooks.intuit.com/time-tracking/resources/time-attendance-stats/. Accessed April 5, 2024.

3. Czerwonka, Eric. "Lower Your Labor Costs by Eliminating Time Theft." Buddy Punch. 23 January 2024. Online. https://buddypunch.com/blog/lower-your-labor-costs-by-eliminating-time-theft/#:~:text=The%20American%20Society%20of%20Employers,over%20%24400%20billion%20per%20year. Accessed April 5, 2024.

4. Parker, Sharon K. Knight, Caroline. Keller, Anita. "Remote Managers Are Having Trust Issues." Harvard Business Review. 30 July 2020. https://hbr.org/2020/07/remote-managers-are-having-trust-issues. Accessed April 5, 2024.

A.3. Complexity of Exempt and Non-Exempt Employees

Payroll departments must classify employees as exempt or non-exempt, and abide by state or national laws regarding hours worked and overtime pay. However, laws differ from one region to the next, so for international organizations, this aspect of payroll is complex, and requires careful attention.

In the U.S., for example, employers are not required to pay overtime to employees who are classified as exempt. The U.S. Department of Labor requires that employees must meet certain qualifications to be classified as exempt, including earning a salary above a specified amount, and working in "white-collar" roles such as administrative, professional, executive, computer or outside sales work. In contrast, non-exempt employees are usually paid by the hour, and earn a wage or salary less than the Department of Labor minimum for non-exempt work. Non-exempt employees are entitled to U.S. minimum wages for hours worked up to 40 hours per week, and must be paid no less than time and one half their regular pay rate for each hour over 40 in a workweek. Misclassification can result in fines, penalties, and employee lawsuits.[5]

However, in the Philippines, all employees who work more than 8 hours per day are entitled to overtime pay, and employees who work on holidays and rest days are entitled to premium pay.[6]

Today, many companies have employees working in locations around the world. When each country or region has its own unique laws for exempt and non-exempt employees, the complexities of compliance can be very difficult to manage.

A.4. Various State and National Laws

Beyond differing overtime requirements, various states and countries also have different standards for minimum wages, days and hours worked, tax implications and more. For example, in the United States, minimum wage is $7.25 per hour, and non-exempt employees are entitled to 12 weeks of unpaid family leave per year. In the United Kingdom, minimum wage is £8.91 ($11.26 USD) per hour, employees work a maximum of 48 hours per week before accruing overtime, and employers must provide 28 days of paid annual leave per year.[7] In India, minimum wage differs in every state, and is categorized by region, industry, skill level, and nature of work. The national-level minimum wage is around INR 178 ($2.16 USD) per day, or INR 5340 ($65 USD) per month, and maximum working hours typically range between 8-9 per day, depending on the region.[8]

Global employers must understand employment regulations in all the regions where their employees work, and comply with all regional compensation and labor laws.

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5. "Overtime Pay." U.S. Department of Labor. 2024. https://www.dol.gov/agencies/whd/overtime. Accessed April 5, 2024.

6. "Philippine Labor Laws 101: A Comprehensive Guide for Employers." Manila Recruitment. 2022. https://manilarecruitment.com/manila-recruitment-articles-advice/philippine-labor-laws-101/. Accessed April 5, 2024.

7. "Understanding Employment Regulations in Different Countries." Mobility HR - Linked In. November 22, 2023. https://www.linkedin.com/pulse/understanding-employment-regulations-different-countries-knwmf/ Accessed April 5, 2024.

8. "Minimum Wages and Salary Structures in India." India Briefing, from Dezan Shira & Associates. https://www.india-briefing.com/doing-business-guide/india/human-resources-and-payroll/minimum-wage#workinghoursHeader. Accessed April 5, 2024.

B. Manifestation of Challenges

Now that we've reviewed the four leading challenges to payroll management, let's look at four ways these challenges manifest themselves in payroll leakage: (1) overpayment, (2) unjustified overtime, (3) inability to pay based on type of employment, and (4) increased unaccounted absenteeism liability.

B.1. Overpayment

When companies use manual systems to track time and don't have clear visibility into daily attendance, they are likely to encounter payroll errors, including overpayment. Payroll overpayments occur when employees receive excess compensation—and while this may seem like a good thing (for employees), overpayments ultimately must be corrected. There are many potential causes for overpayment, including manual payroll miscalculations, employees who forget to clock in or clock out, and employees who intentionally manipulate work hours.

Regardless of the causes of overpayment, they can add up quickly. Ernst & Young reports that 1 in 5 payrolls contain errors, and each one costs a business $291, on average, and up to $705. Their study also noted that the average organization makes 15 corrections per payroll period, leading to lost revenue, time spent correcting errors, and potential lawsuits.[9] One in six surveyed companies indicated they had litigation issues because of payroll errors, resulting in an average of $3,200 in direct costs, and 29 hours of internal time to settle.

Accounting for payroll errors requires time as well as money—which, of course, costs companies more money. Ernst & Young's survey revealed that a full-time payroll employee spends over half a year correcting common payroll issues.

9. Ernst & Young. "Costs and Risks Due to Payroll Errors: Results of the 2022 HR Processing Risk and Cost Survey." Ernst & Young / Paycom. December 2022. https://eyquest.com/files/Cost_and_Risks_Due_to_Payroll_Errors_2022_Final.pdf. Accessed April 5, 2024.

B.2. Unjustified Overtime

Overtime pay has a major impact on payroll costs. While rates vary greatly depending on the country and company policies, overtime may be as high as 1.5 or even two times the normal hourly rate. Because of the increased costs of overtime pay, along with higher levels of employee stress and declining work product, most employers seek to limit unscheduled overtime. Yet, employees may view overtime as a means to increase their income. If your company is being billed for unjustified overtime, it can cause the payroll department to go over budget and limit the company's potential for profitability. But how do you know if overtime is not justified?

Life Exchange, a company that focuses on team and organizational management, suggests that if an employee's wages are consistently 30-45% higher than their salary, the payroll department should be asking questions.[10] Studies have shown that productivity declines as overtime increases. An analysis completed by Stanford researcher John Pencavel found that when people begin working more than 50 hours per week, their hourly output declines. [11] Many studies have also shown that accidents and injuries rise with excessive working hours and overtime.[12]

To measure, track and reduce overtime, companies need to communicate clearly about schedule expectations, seek to understand and address root causes of excess overtime, and implement systems to ensure schedule adherence.

B.3. Inability to Pay Based on Type of Employment

When employers don't have clear visibility into the actual hours worked by each employee, they are unable to pay employees correctly based on their employment type, which can result in legal and financial problems.

For non-exempt employees, employers are required to accurately track working hours, and adjust pay based on the number of regular and overtime hours worked. When hours are entered manually, employees may make errors, causing miscalculations and potentially triggering overpayments for unjustified overtime. Errors in reported time can also trigger regulatory action, if it appears that labor laws have been violated.

For exempt employees, employers pay a predetermined salary, and are not required to pay overtime. However, employers do have the option to provide overtime pay to exempt employees, if they desire. Whether an employee is exempt or non-exempt, it is critical to correctly enter their status when calculating payroll. If the employee's status is entered incorrectly into the system, this can cause additional payroll errors.

10. "Are You Paying Too Much in Overtime?" Life Exchange. https://lifexchangesolutions.com/too-much-overtime/#:~:text=WARNING%20SIGNS%20OF%20TOO%20MUCH,especially%20if%20it%27s%20every%20month.

11. Pencavel, John. "The Productivity of Working Hours." Discussion Paper No. 8129 April 2014. Stanford University / IZA. https://docs.iza.org/dp8129.pdf

12. Wong, Kapo, Chan, Alan, Ngan, S.C. "The Effect of Long Working Hours and Overtime on Occupational Health: A Meta-Analysis of Evidence from 1998 to 2018." National Institutes of Health (NIH) / National Library of Medicine / National Center for Biotechnology Information / Int J Environ Res Public Health. June 13, 2019. https://www.ncbi.nlm.nih.gov/pmc/articles/PMC6617405/

B.4. Increased Unaccounted Absenteeism Liability

Tracking paid and unpaid leaves and absences is another payroll problem that can lead to leakage. If an employee takes an unpaid leave from work, but that leave is not entered into the payroll system, they may be paid in error. In the case of a paid leave that is not accurately documented, an employee may not receive timely payment which they are owed. Unaccounted absenteeism can also occur when employees appear to be present at work, but are not productive—for example, when an employee logs into a system remotely for 8 hours, but only works for one hour.

According to the Integrated Benefits Institute, productivity losses linked to absenteeism cost U.S. employers $2,945 per employee per year.[13] Beyond financial implications, these unaccounted absences also cause problems with shift scheduling, time tracking, and adherence to labor laws.

C. Ideal Solution: Solving Payroll Challenges with Workforce Analytics

Companies can solve each of these payroll challenges with workforce analytics software. Workforce analytics programs collect and analyze employee data, enabling employers to track hours worked, software usage, productivity and other workforce factors. This data can be used to support payroll functions, and to measure and improve workplace efficiency. The ideal workforce analytics solution should meet four requirements: (1) be fully automated, (2) verify overtime, (3) provide role-based payroll support, and (4) support shift adherence.

C.1. Fully Automated

Manual systems are prone to errors, miscalculations and tampering. To prevent payroll errors and improve accuracy, organizations should use fully automated systems for time tracking and payroll calculation. Automated systems capture time spent on systems accurately and effortlessly. Employees simply log in, and the system automatically tracks their time and activities throughout the workday. The most comprehensive workforce analytics systems track productivity as well as work time, classifying time spent in core work applications and work-related activities, as well as non-work-related time and idle hours.

C.2. Verifies Overtime

The ideal workforce analytics solution should have the capability to verify overtime hours before overtime payments are issued. Systems that track logged hours as well as productive hours provide the best solutions for overtime verification. Armed with this data, managers can compare logged time on the system with productivity reports for the same time period. For example, suppose an employee logged 10 hours of work for an approved 8-hour day, claiming 2 hours of overtime. However, a manager reviewing the data sees that only one hour of overtime was spent in a core application, with the remaining time idle. By viewing this data, a manager can determine that the employee only worked one hour of overtime. This enables employers to optimize overtime payment, and avoid overpayment for unjustified overtime.

13. The Cost of Poor Health." Integrated Benefits Institute, 2019. ibiweb.org/resources/cost-of-poor-health-infographic-2019-data#. Accessed April 5, 2024.

C.3. Role-Based Payroll Support

To simplify payroll calculation, reduce payroll errors and improve compliance, companies should use a solution that includes role-based payroll support. This type of system would allow an administrator to enter an “exempt” or “non-exempt” employee type for each employee, setting specific rules for hours worked and pay scale. Once initially entered, these rules would automatically be applied every time the employee is logged into the system, making role-based payroll calculations accurate and effortless.

C.4. Shift Adherence

The ideal system should also support shift adherence. As in the example above, an administrator should have the ability to set rules for each employee, taking into account the employee’s location, employee type, and the organization’s work schedule, including rules for the number of hours required to constitute a full day, a half-day or a short day. When an employee logs into the system, their time would be tracked automatically, making it easy to see if an employee adhered to their posted shift.

D. Introducing ProHance

A cloud-based solution to optimize workforce processes with real-time analytics

ProHance, a cloud-based workforce analytics solution, offers best-in-workplace analytics with a real-time view into work time, work output, workflow and analytics, combined with customizable smart reporting and dashboards. ProHance provides accurate data and analytics, allowing companies to manage distributed teams effectively and ensuring key operation metrics are met. Benefits of ProHance include the ability to:

D.1. Track Time Automatically

ProHance’s Work Time Module provides a real-time view into each user’s workstation engagement by automatically tracking time on and off the system, including productive hours, idle hours, and schedule adherence. This module includes an Activity Dashboard that summarizes work time metrics, with the ability to drill down for more details. Workers are categorized by exempt or non-exempt type, for easier payroll management.

D.2. Reduce Payroll Errors and Overpayments

On average, ProHance reduces time tracking errors by a staggering 95%, reduces payroll discrepancies to less than 1%, and reduces the error margin in data validation to a mere two percent. This improved payroll accuracy benefits employers by ensuring they only pay for actual work hours, avoiding billing errors and overpayments. It also benefits employees by enhancing financial stability and reducing payroll errors.

D.3. Improve Payroll Efficiency

Manual time tracking doesn’t just cause errors. It also costs companies many hours of valuable administrative time. ProHance helps payroll departments improve efficiency and profitability by saving companies an estimated 20 hours per month in administrative tasks. This frees up administrative time for more valuable work and plays a critical role in client billing by ensuring accuracy and upholding the true value of the services rendered.

D.4. Automate Leave and Absence Management

Managing absences and accounting for leaves are among the most time-consuming processes for payroll teams. Using ProHance, organizations can streamline and automate these processes, ensuring that leaves and absences are seamlessly tracked and well-coordinated between employees and managers. This creates an ecosystem where manual input is reduced to managing exceptions, rather than managing the entire time tracking process.

D.5. Easily Verify Overtime

Using the Work Time and Work Output modules, managers can verify attendance and measure how productive employees are during the hours they spend at work. Using this information, they can easily verify earned overtime hours, and reduce or eliminate unjustified overtime.

ProHance estimates that the average organization pays out 10% - 30% in overtime compensation, on top of their regular hours. These organizations could benefit from potential savings of about 20% in overtime pay, purely by ensuring adherence to schedules assigned to employees, and tightening overtime approval processes.

Here is a useful formula to calculate the potential overtime savings your organization could achieve with ProHance:

OT Savings = (Current OT Hours × OT Rate) – (Reduced OT Hours × OT Rate)

Below is a hypothetical example:

- If an organization currently averages 1,000 hours of OT per month at an OT rate of $30 per hour, the monthly OT cost is $30,000.
- After implementing ProHance and improving their overtime policy, suppose their OT is reduced by 20%.
- The new monthly OT cost is 800 hours × $30/hour = $24,000.
- Therefore, the OT savings would be $30,000 - $24,000 = $6,000 per month.

Remember, these numbers are hypothetical, and the actual savings would depend on the specific circumstances and efficiencies gained in your organization. Additionally, while direct savings in OT payments are significant, indirect benefits like reduced burnout and improved employee satisfaction also contribute to the overall value of process improvements.

D.6. Improve Compliance Across Geographies

Beyond tracking employees' work time and productivity, ProHance also has the ability to track employees location when they are logged into the system. This makes it easy for employers to apply location-specific rules to specific employees based on the regions where they are working, helping to ensure compliance with local labor laws, and providing evidence.

E. ProHance in Action: A Case Study

The following case study demonstrates ProHance's effectiveness in resolving payroll challenges:

E.1 Business Process Management Company Saves $400,000 due to Payroll Leakage

Challenge: The client, an industry-leading business process management company, was having difficulty identifying mismatches in the leaves applied by users via the Human Resource Management System (HMRS) portal, as compared to the actual leaves taken by the users. This led to a liability on the books of the company's client, and leakage in the payroll mechanism, leading to additional costs and substantial loss of revenue. Noncompliance to rosters and schedules was also causing disruption in daily operations and resulting in missed business opportunities.

Solution: The client compared ProHance data with their HRMS punch-in details and used the information to discover leakages and analyze optimization opportunities. By reviewing ProHance Logged Hours, they were able to discover three key reasons for discrepancies: (1) When employees took leaves due to emergencies, there was often a lag in updating HRMS systems, resulting in discrepancies. (2) Some employees were not deploying ProHance, resulting in a lack of accountability and transparency. (3) When employees were engaged in physical trainings or meetings that did not require machine access, their time was not being recorded accurately. After identifying and investigating these discrepancies, managers were able to minimize leakages in attendance and payroll.

Results: ProHance enabled the client to bring down its payroll leakage from 100 man-days to zero, proving sustainable cost savings and mitigating time theft. The organization also worked with its operations team to drive improvement in compliance and adherence. This enabled the organization to identify attendance leakage within the same pay cycle, saving $400,000 over two years.

F. About ProHance

ProHance is a New Age Workplace Analytics & Human Capital Management platform that provides insights for smarter decisions in today's complex, distributed and hybrid workforce. Leading organizations are using ProHance to improve work/life balance and productivity within their organizations, and to unlock the true potential of their human capital. ProHance's SaaS-based modular approach allows enterprises to effectively measure time and effort contribution, with over 100 customizable reports. ProHance is a rapidly expanding organization with over 273,000 users in 25 countries.

For more information, visit [www.prohance.net.](http://www.prohance.net)

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Biddappa Sachin Machanda is a seasoned leader with extensive experience in both BPO and Captive environments. He specializes in running large-scale operations, P&L management, organizational strategy, and multi-channel process improvement. With a proven track record in people development and driving transformative initiatives, Sachin has worked with clients across industries, including ISPs, Telcos, financial information services, computer and phone manufacturing, healthcare, digital infrastructure services, and enterprise product support. His expertise lies in setting up and scaling businesses from the ground up, building best-in-class teams, and leading initiatives that deliver operational excellence. With an in-depth understanding of the global BPO landscape and a robust network of industry leaders, clients, and associates, Sachin brings unparalleled insights to his work.

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