

# The Cost of Unproductive Employees

By Diane C.O. Gilson, CPA, CIA, President, Info Plus<sup>(+)</sup> Accounting<sup>SM</sup> PC

Re-printed from Nation's Building News, March 21, 2005

This is the twelfth in a series of articles on preventing fraud from affecting your business.

When you trade money for an asset, you own tangible property. You can touch it and feel it — and you'd certainly know if it disappeared.

Now, think of the money you pay your employees. Are you receiving tangible assets in return for your investment, or is the return on this investment disappearing over time?

## How Much Does Pat Cost Per Hour?

Many business owners think of the cost of employees in terms of their hourly cost (e.g., Pat's rate is \$17 per hour, plus some payroll taxes). But, let's see what Pat really costs his employer for each hour he is available to work.

Start by calculating the number of hours an employee is potentially available to work. We'll start with 2,080 hours (52 weeks per year x 40 hours per week). But then we need to subtract the following non-working periods for the year:

- Six holidays
- 10 vacation days
- Six sick or personal days
- Two days of training seminars.

This comes to a total of 24 days or 192 hours, leaving us with 1,888 available working hours.

We then subtract about two hours from each remaining work week (47) for miscellaneous administrative meetings, timekeeping, shop time and so forth (breaks are charged to jobs).

This reduces the available production time by another 94 hours, so now Pat is actually available for approximately 1,794 hours.

Pat's \$17-per-hour compensation comes to \$35,360 per year. In addition, Pat's employer has additional costs that are "attached" to this employee's job:

- \$3,005 in payroll taxes (based on the state unemployment rate of 2.7% on the first \$9,000 and no other state disability taxes)
- \$3,536 in workers' comp (at \$10 per \$100)
- \$4,200 in health insurance (at \$350 per month)
- \$1,060 in retirement benefits (at 3% of compensation)
- \$720 in cell phone costs (at \$60 per month)
- \$150 in uniforms (four logo shirts at \$25, one logo jacket at \$50)
- \$3,000 in company vehicle usage (depreciation, gas and oil, maintenance, license, insurance)
- \$300 in small tools and equipment usage (at \$25 per month)

- \$708 estimated annual bonus (2% of wages)
- \$100 employer-paid snacks, meals, parties, entertainment
- \$250 in training fees, seminars, etc.

This totals just over \$17,000 in additional costs and brings Pat's annual cost to \$52,389.

So, Pat's *real* cost to his employer is \$29.21 per production hour (\$52,389/1,794 hours). That's 72% more than Pat's hourly rate.

Pat is truly a costly and valuable asset whose time should be carefully guarded.

### **Time as 'Tangible Property'**

Time is money. We've heard that over and over.

For your employees, that's definitely the case. They are trading *their* time for *your* money.

So, if *their time* equals *your money*, you need to safeguard that time as carefully as you would safeguard your new vehicle, a state-of-the-art computer or the money in your wallet.

And, you must begin to think of the theft or waste of time as the theft or waste of money. Then you must present your revised view of time to your employees. To help with that mental transition, let's look at the following examples in terms of cold, hard cash coming out of your pocket.

### **A Sad Story**

Several years ago I hired a start-up landscaper to help landscape my new home. He was starting his business as an adjunct to another company he owned and wanted to see if the landscaping business would work out for him.

My new home had large windows with a view of the backyard. I worked from home on several occasions when the work was to have taken place. Because my car was in the garage, the crew didn't know I was there. What I saw from my windows was *not* pretty.

The owner arrived with four workers, showed them the site and gave them instructions. He then left to get additional equipment and supervise another job.

About 15 minutes later, I saw that the work had slowed noticeably. Within another 10 minutes or so, two of the four workers had stopped working completely and were engaged in an earnest conversation while leaning on their shovels and rakes.

Shortly after that, worker #3 decided to join in while worker #4 continued to work diligently in the hot sun. Eventually worker #4 stopped working and joined the group.

I continued to look out the window periodically and saw that the most productive activity involved worker #2 tossing a rock from one hand to the other. There were also "group meditations" during which all four workers stared intently for prolonged periods at one of the holes previously dug in the ground.

When I shared this with the owner of the fledgling landscaping business, he wasn't totally surprised — after all, work had been progressing quite slowly.

My landscaping eventually was finished, but unfortunately, so was his start-up business.

## Time and Money Drains

Less dramatic examples of time theft surround us constantly. Employees who would never even think of stealing work tools, or who would be aghast at the thought of taking a \$20 bill out of a cash drawer, think nothing of routinely “carrying off” multiples of those amounts in the way they mismanage their time.

Using Pat as an example, let's see what happens when we quantify some of those time drains on an employer's bank balance. You can imagine how these liabilities cost a company even more by raising stress levels and reducing employee morale and client satisfaction.

- **Breaks and lunches.** A friend of mine used to say, “Well, I came in late today, so I'd better leave early.” Of course, as a diligent employee, he was just being humorous, but plenty of workers often take advantage of their breaks and lunches (e.g., taking extra breaks for coffee, cigarettes, the restroom, personal errands, etc).

It's amazingly easy to slip in an extra five or 10 minutes of non-productive time here and there. Let's say that Pat carries an extra five minutes at lunch, takes four extra 10-minute coffee, restroom or smoke breaks during the day and then leaves 10 minutes early for a personal errand. That's 55 minutes of time lost in bits and pieces throughout the day. At \$29.21 per production hour, Pat's time is worth nearly 50 cents a minute so he has just *stolen* \$26.78 worth of time.

Would you believe that, if Pat does this every working day, you're looking at \$6,316 out of your pocket? It's sad, but true.

And for some employees, 55 minutes a day may be just the tip of the iceberg. Think of the following scenarios that can also divert their time and your money.

- **Personal phone calls and e-mail.** With cell phones, office phones and computers continually at hand, the temptation is always present to fritter away time on personal matters.
- **Personal conversations with co-workers.** Depending on the number of participants, this can be a double, triple or even quadruple dip into your pocketbook.
- **Playing games, daydreaming, gazing into holes, etc.** I call this “doing nothing when you could be doing something of value.” These are valuable activities for folks who are off work or on vacation, but *you* shouldn't finance these past-times while your employees are supposed to be working.
- **Being unprepared.** Companies can lose a truly staggering amount of time and money when employees forget or lose tools, arrive at the job site in improper clothing, mix up driving directions and forget job materials or don't bring enough of them. Inefficiency, extra trips and repeat work all abound when workers are not thinking “ahead of the game.”
- **Lack of direction or “wrong” direction.** When employees lack initiative or receive unclear instructions, they wander about trying to figure out what to do first, second or third. You can imagine what a huge waste of time that is. It's just as harmful when employees work very quickly at the wrong thing. This usually wastes time and resources to get to the wrong place and then undo the mistakes created in the process.
- **Unreliability and disruption.** How much stress and chaos can you stand? An unreliable worker will eat up not only his time but your time and your team's time. Can you afford it?
- **Personal crises (kids, spouse, parents, pets, car trouble, sickness, etc).** Even the most dependable employees have an emergency now and then or get ill, but some workers seem to live in a cloud of crisis situations. Don't try to fix their dramas. Just find someone who's in a better position to safeguard your “worker funds.”
- **Passive-aggressive behavior.** A passive-aggressive person is often very nice and agrees wholeheartedly with you — until you walk away. Then the employee turns around and does as he or she pleases. If you've got one of these folks on your staff, you'll lose their production time and then spend more of your time wondering if something is wrong with your own communication skills (or if you read the person wrong). Then you'll try again and the same thing will happen. Don't continue the investment.

- **Impaired by alcohol, marijuana or other drugs.** You'll definitely lose assets and resources if you have employees who abuse substances. You lose their time and skills when they don't show up or under-perform due to the previous night's (or weekend's) activities, and your other employees' productivity and morale may suffer, too. In addition, substance-impaired employees are downright dangerous to themselves and others if they use alcohol or drugs on the job. They frequently experience money issues and may ask you for loans between paychecks.

You may face related liability issues as a result of employing someone impaired by alcohol and drugs. (See ["Lifestyles Can Be Red Flags: Know the Warning Signs of Fraud"](#) for more information on other fraud dangers related to substance abuse.) You must be very careful about safeguarding your assets if you're dealing with a substance abuser.

- **Outright time theft (fraudulent clock-ins, reporting work time when not working).** You should make it clear via policies and conversations with employees that such activities are grounds for **immediate** dismissal. No ifs, ands or buts about it — you will not tolerate theft.

If your employees engage in any of the above time and money drains, you are not receiving an honest day's work in return for your valuable time, trust and hard-earned money.

Run some time and money loss calculations of your own the next time you encounter one of these situations. Be sure to include the cost of all parties involved. Compute the daily, weekly, monthly and annual projections.

You may want to share the results of your calculations with your employees. They'll probably be quite surprised when you show them what they are costing you in wasted time and squandered assets. They'll probably realize that you are very aware of the cost of their time, and that you are closely watching how they handle the "time funds" that you have entrusted to them.

In the next articles, we will discuss what you can do to stop or prevent employees from wasting time on your dime.