For many organizations, payroll can account for over half of all expenditures, as human capital is often any organization's largest, and most important, asset. Labor accounts for as much as 60 percent of overall operating expenses, but managing the costs of this workforce is not always done efficiently. Payroll overspend is a problem for today's employers, and related losses can account for 0.5-2 percent of a large company's total annual payroll and labor expenses. For many Fortune 500 companies, this can amount to upwards of $30 million[i] a year being lost due to

reliance on part time workers, overtime may diminish, but unwanted time inflation could persist and become even more difficult to detect and avoid without new ways of thinking and creative types of controls.

Audits can be outdated and fail to identify sources of labor overspend because the sources of overspend can have small impact at the individual level but be pervasive across the organization. Patterns of long standing overspend won't stick out in an audit. For example, missed meals are a common source of unwanted, unbudgeted paid time, and are easy to excuse or overlook. Tracking these missed meals can be time consuming and burdensome. However, when you multiply the number of employees across the enterprise who are missing meals, resulting in additional or overtime pay, the amount of overspend can result in millions of dollars being spent unnecessarily.

Why does it matter?

Any type of overspend is compounded by the fringe costs of labor – the employer taxes, benefits, and obligations that are attached to every payroll dollar and every worker. By reducing overspend, an organization can add an additional $.15 to $.25 on every dollar saved[ii]. It may seem incremental but because labor is one of the top expenses, a small improvement in labor spend can have a significant impact on profits. By eliminating labor overspend, organizations can create funding for other business initiatives that will provide money year over year.

Why is overspend so overlooked?

One reason overspend has been so overlooked may be because, to date, schools don't teach finance classes on timekeeping, labor scheduling, and the systems that actually manage labor. Finance leaders tend to look at trends in spending without updating and validating whether the baseline is reasonable. The data is also looked at in aggregate instead of in detail, and the large volumes of data end up obscuring the

- **People report underpayments, but rarely report overpayments**

Just ask payroll how many manual checks are for an overpayment correction, versus underpayment, and you will see the disparity. When these figures are not similar, the checks and balances are outdated and not identifying the overpayments, especially when they are inflationary, discretionary, and happening routinely.

- **HR has almost never met a policy with an expiration date**

Pay policies are designed to solve a workforce payment gap – such as an incentive to get people to work weekends or holidays, or to comply with a meal break mandate. These policies however are rarely written with a termination date or even a review cycle to evaluate whether the business need still persists. Practice becomes policy, policy becomes the perpetual status quo.

- **Few organizations see payroll and time and attendance as strategic**

Organizations tend to not invest in the tools and skills necessary to achieve success by analyzing, quantifying, and remediating excess labor spend.

- **Pay is personal**

Change is difficult because no one wants to be the person who "takes pay away." However, it is part of the fiduciary responsibility of the organization to spend wisely and to direct limited funds to the activities that drive a healthy organization.

What you can do about it

• Ask whether your organization can pinpoint where time can be inflated and productivity wasted

• Figure out what the gaps are in your processes and systems

• Charter new policies and strategies that outline how things and people should

misreporting. Additionally, time and people analytics tools can help track inefficiencies and create line item accountability with workforce management practices. These tools can help identify sources of labor overspend—fixing an immediate need, optimizing for future improvements, freeing up HR, and saving hard dollars.

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[i] Where Workforce Costs Are Hiding," ISG and Deloitte Analysis

[ii] As found through Deloitte experience