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A Model for Costing Absenteeism in Hotels

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A Model for Costing Absenteeism in Hotels

Abstract

While absenteeism models have been developed and applied in the manufacturing industries, little work has been done on absenteeism in service industries. Due to the labor intensity of service industries, specifically the hotel industry, a model to track and quantify the costs of absenteeism could be useful to managers. The authors propose just such a model.

Keywords

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A Model for Costing Absenteeism in Hotels

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While absenteeism models have been developed and applied in the manufacturing industries, little work has been done on absenteeism in service industries. Due to the labor intensity of service industries, specifically the hotel industry, a model to track and quantify the costs of absenteeism could be useful to managers. The authors propose just such a model.

Productivity leadership and quality of service are topical issues, all of which reflect and relate to the state of human organization. Through the years, many indicators have been developed to gauge the state of human organization. Human resource accounting, one such indicator, applies standard cost accounting to employee behavior and indicates an organization's non-productive dollars.

The impact of absenteeism as an employee behavior on an organization's productivity and service quality is not disputed. Hotels are no exception. A hotel's operation and concept of teamwork, required to deliver the service quality, can be held in abeyance by the absence of a team member. In the hotel industry, management often accepts absenteeism as inevitable and still continues to hold line managers and supervisors accountable for subordinate performance. The latter are evaluated based, in part, on subordinate performance. Cost measures of absenteeism, turnover, and accidents can be a valuable barometer for performance measurement. Such measures can also help in identifying crisis areas as well as in guiding in the development of profit-sharing and incentive plans.

A model for tracking and calculating costs of absenteeism in hotels can be valuable. To construct that model, it was necessary to first investigate the basic orientation to absenteeism in the hotel industry: how it is being handled and where its related aspects fit into the overall human resources picture. Therefore, a questionnaire was mailed to 50 human resource/personnel executives of multi-unit system hotel companies and corporations listed in AH&MA's 1988

Directory of Hotel & Motel Systems, 57th Edition; 23 usable responses were secured. There are issues of sample representativeness in the data; however, the goal was to simply determine a normative idea on the state of absenteeism.

Most Respondents Represent Multiple Properties

More than 87 percent of the survey respondents had four or more properties in their system, with 50 percent having 20 or more properties. Thus, the majority of the respondents performed their human resource functions for multiple properties. These respondents were employed by corporations and chains which were in the hotel business as professional operators, as shown by the fact that more than 85 percent of the respondents had more than 1,000 rooms in their system. About 50 percent of the respondents had a room to employee ratio of less than 3 to 1, i.e., one employee for every three rooms. This ratio indicated a process orientation for the majority of the properties.

Respondents were asked to identify by rank ordering the critical issues facing them. A review of the literature suggested a list of 16 variables which were rank ordered by respondents. Those human resource issues, in addition to the option of listing "others," were as follows:

- turnover
- shortage of skills personnel
- shortage of supervisory personnel
- recruitment
- selection
- orientation
- skills training
- supervisory/management training
- lack of teamwork
- absenteeism
- performance appraisal
- guest relations
- discipline
- employee liability
- tardiness
- termination

The issues and the percentages of respondents ranking them at the top were as follows: turnover, 32; guest relations, 27; shortage of skills personnel, 23; selection and recruitment of employees, 23; supervisory/management training, 23.

For 90 percent of respondents, turnover was among the top two issues. Absenteeism, as far as the majority of respondents was concerned, was one of the lowest four issues. Interestingly, even though the respondents perceived the shortage of skills personnel as a major issue, the related item of skills training was not a priority issue. This may indicate a tendency to recruit trained personnel, rather than train recruits themselves. Or it may show a lack of

interest in skills training on the part of the respondents. This lack of interest in skills training may, in part, be reflected in their attitudes toward absenteeism.

Further, when these executives were asked about their tracking of absenteeism, it was discovered that most of the respondents have internalized absenteeism as a fact of life in the hotel industry caused by low wages and the type of work. The majority of the respondents felt that absenteeism is a symptom and not worth treating directly. Perhaps this apathy could be due to not knowing the absolute dollar costs associated with absenteeism.

With regard to the monitoring of absenteeism, almost half the respondents (45 percent) did not monitor absenteeism. Furthermore, among those who did monitor absenteeism, only 14 percent calculated the dollar cost of absenteeism, indicating that a standard model could be of help. In fact, 82 percent of the respondents indicated that they would use an absenteeism costing model, if a standard model was available.

The survey also discovered if costing human resources was a norm in these hotel organizations or if it was something new. Based on the responses, 45 percent did not cost any human resource aspects, and among those who costed some human resource aspects, all costed employee benefits and training. Interestingly, both these costs can affect the costs of absenteeism and the results indicate that a knowledge of absenteeism costs and an understanding of the trend of the costs will help to know and gauge the impact of these costs on the hotel operations.

Data Indicate Prevalence of Absenteeism

This research also discovered some generic information on the prevalence and selected characteristics of absenteeism. Respondents noted that 85 percent of their employees were absent four days or more a year, with 30 percent of the employees absent eight days or more a year. Almost all respondents agreed that absenteeism is not a problem of length, but of frequency. The length aspect of absenteeism gives human resources executives and management an opportunity to build effective and economical contingency plans. On the other hand, frequent absences often occur unannounced, thus impacting the operations to a major degree. Interestingly, 36 percent of the respondents noted that, on any given day, about five percent or more of employees were absent. However, for both these items, the rate of response was only 50 percent, thus considerably reducing the capacity to generalize.

Respondents also identified Saturday as the highest absentee day, closely followed by Monday, Friday, and Sunday. These days for hotels (perhaps barring downtown business hotels) are the days requiring all scheduled personnel to handle peak demand. The month of January, following the holiday season, was the highest absentee month; October and May were the lowest absenteeism months. As far as respondents' perceptions of the trend of

absenteeism in the last two years, they were almost equally divided between an increase and a decrease. This reinforces a strong need to cost absenteeism and measure the trend accurately and effectively.

Nevertheless, 80 percent of the respondents did penalize absenteeism. About 30 percent budgeted extra labor or included additional overtime to cover absenteeism. Fewer than 35 percent of the respondents used human resource-based motivational approaches to reduce absenteeism. However, all respondents agreed that absenteeism affects other variables in the hotel's operational system and thus endangers profitability.

The survey results indicated that 82 percent of the respondents were aware that absenteeism lowers the hotel's productivity and service levels. In addition, respondents believed that absenteeism also affected supervisor's time lost, person days lost, and dollars lost. These last three variables are measurable.

Absenteeism obviously was a variable that did command attention from the human resource/personnel executives, but for whatever reason, they have accepted it as a part of doing business. They did act on it in one way or another, but without a complete understanding of the total costs. They also had limited understanding of the worthiness of their actions as well as the results of their actions in the area of absenteeism and turnover management.

Model Provides for Continual Tracking

The next step was to develop a model that could be used to cost absenteeism. A thorough literature search was done on the topic of absenteeism, and a model by Kuzmitz¹ was selected as a foundation, based on several factors. It is the only one that could be applied to a service industry; others presented manufacturing and production applications. The model selected provided for continuous tracking of absenteeism; others required random sampling once a year.

From this basis, the first step was to define absenteeism. Though some variable definitions can be found in the literature, for both practicality and simplicity, absenteeism was defined as a failure to report for work or remain at work as scheduled, regardless of reason. Thus the only criterion for absenteeism was that an employee was previously scheduled and not substituted in the schedule by another employee in the last 24 hours. It is possible that an employee's sudden absenteeism was excused by the supervisor (in the previous 24 hours); still it was considered absenteeism. The rationale for this was that such absenteeism, even if excused, is difficult to manage at such a short notice without impinging negatively upon some aspect or operation.

The next effort was directed at identifying the significant variables, both direct and indirect, that are affected by absenteeism. This was necessary since it was believed that any understanding of the cost magnitude of absenteeism should necessarily include the cost magnitude of the variables impacted by absenteeism.

Table 1
Variables Involved in Costing Absenteeism

Variables	Department Responsibilities	High (Direct)	Degree of Certainty of Cost Quantification	
			Moderate (Derived)	Low (Subjective)
Absenteeism				
Hours absent	D	•		
Employee status (Full time - part time) (Paid - unpaid)	D	•		
Employee wage rate	D	•		
Overtime use and rate	D	•		
Temporary labor use rate	D	•		
Benefits				
Profit sharing	P		•	
Pensions	P		•	
Health insurance	P		•	
Paid vacations	P		•	
Holidays/casual leave	P		•	
Turnover Costs				
Training managerial costs	P		•	
Training time costs	P		•	
Orientation costs	P		•	
Unemployment tax	P		•	
Costs of hiring	P		•	
Supervisor Costs				
Supervisor salaries and benefits	P		•	
Supervisory time in absent management	D		•	
Incidental Expense				
Guest complaint costs	D&P			•
Production/service losses	D&P			•
Teamwork deterioration	D&P			•
Other employee stress	D&P			•
Lost contribution to income	D&P			•

D - Operating department
P - Personnel or human resources

Table 1 contains the variables that require costing for the proposed model, grouped under five subheadings. Under absenteeism are the variables that directly relate to absenteeism. Under benefits are variables which are given to employees and whose costs accrue even during an employee's absence. Since absenteeism and turnover are correlated, and since in some situations chronic absenteeism can lead to turnover, the model tries to assess the amount of turnover directly related to absenteeism and the related costs. Therefore, the third group carries variables related to turnover costs indirectly accruing from chronic absenteeism.

On the presumption that absenteeism demands supervisory time which could have otherwise been used productively, an estimate of such supervisory costs and such related variables is required in the model. The final group includes variables affected by absenteeism. These variables, though easily perceived, are the most difficult to measure and quantify; they have the ability to profoundly affect the hotel's long-run competitive ability and survival.

The columns in Table 1 also indicate which departments in the hotel should cost the variables and the level of certainty in the quantification of the variables, based on the model used. These two columns evolved from testing of the model.

The model presented here evolved as it was tested at the Peabody Hotel in Orlando, Florida. Some items of the model were also derived after extensive interviews with hotel managers.

The model itself consists of various forms for deriving information on absenteeism along with the methodology to convert the information into dollar values. The costing methodology suffers at two levels. First, some dollar components are by necessity averaged across either persons or incidents of behavior. Secondly, they incorporate estimation. It is possible that further refinements could be done to the model as identified from differing operating styles of hotels.

Model Involves Several Forms

Form 1, to be found in Appendix A, is the employee absence record. This form is originated and maintained by respective operating departments for a period of two weeks, after which it is turned over to the personnel department. The operating department is responsible for filling in the first 13 columns in the form and the three additional questions. A step-by-step approach instruction for filling these columns is provided along with the form. In the applied testing of the model it was discovered that, in reference to column 5, there were situations where an absence was excused as casual leave after the fact. It is suggested that it still be considered an absence, based on the definition.

From the operating departmental level, the form goes to the personnel department for filling in columns 14, 15, 16. Column 14 requires calculation of hourly benefits per employee. To derive this calculation, Form 2 has to be filled out. It is suggested that the hourly benefits be derived separately for salaried and non-salaried

employees, as there is a significant variance between the two. Research indicates that, in many hotels, paid vacations and casual leaves average about three weeks per employee per year. This hourly benefit should be entered in column 14, depending on whether column 6 carries an "S" next to it. If column 6 is "S," then column 14 should carry "salaried" employees' hourly benefits. Instructions for the personnel department to fill in columns 14, 15, and 16 are enclosed in the model.

The next step, step 4, involves the personnel department calculating the absenteeism-based turnover costs. This is related to the information on turnover provided by additional question 3 of Form 1. The "Instructions for Personnel - Step 4: Turnover Costs" contains the format for the calculation of turnover costs per employee.

Step 5 of the model derives the departmental supervisory salary and benefit cost on an hourly basis. This is necessary to calculate the total supervisory cost in managing absenteeism. Step 6 calculates the actual time lost by supervisors in managing absenteeism. It is true that Form 4 involves estimation. It is possible that a standard could be derived by hotels as to the amount of supervisory time lost per absence. In such a case, the figure needs to be multiplied by the total number of absenteeism for the fortnight. In applied research at the Peabody Hotel, the hourly supervisory salary and benefits (Step 5D) came to \$9.20, and the amount of time spent on managing absenteeism by all supervisors in housekeeping was 59 hours per fortnight (Step 6). Thus the total supervisory cost per fortnight for managing absenteeism in housekeeping was \$542 (Step 7).

Step 8 deals with incidental expenses of absenteeism. Form 3, with two variations (weighted and simple), helped in deriving this cost. This aspect of costing is the most difficult and subjective part of this whole model. In the application at the Peabody, it was discovered that supervisors usually were better at approximating the total incidental expenses first and then breaking them down into the six categories on an assumed basis. Further, there was a definitive variation in the cost of absenteeism between guest contact and non-guest contact area absences. Noting this, it would be useful if some standard weights for incidental expense items for guest and non-guest contact areas could be derived.

Therefore, 30 managers/supervisors from two different hotels were asked to distribute the weights according to their perceptions. The weights are provided in Form 3 (weighted). It is not possible to claim the generic applicability of these weights. They could differ considerably between hotels based on management priorities, operating systems, and hotel types. It is possible, however, with a large sample size, to set up some standard weights for the industry as a whole. For the purpose of applying this model, it is suggested that each hotel set up its own standard weighting. At the Peabody Hotel, the supervisors estimated the incidental expense at \$100 per two weeks per supervisor, which was distributed back to individual items in Form 3 based on weights.

Step 9 is the final one in the model where the final cost of absenteeism is derived. In the applied case at the Peabody, total absenteeism costs per two weeks in housekeeping based on the model were estimated at about \$2,191. Given 165 employees in housekeeping, per employee cost of absenteeism in a two-week period, was estimated at \$13.28, which is over \$50,000 per year in the Peabody Hotel's housekeeping department alone.

It is possible that hotels, based on their operating system, can simplify this model for adoption. The researchers encourage hotels to do so. It is also expected that this model will be refined with applications over a period of time.

Once these costs are known, the hotel's personnel department should objectively look at absence factors such as work schedules, age, outside interests of employees, counseling practices, sick pay plans, and other absence-related variables and set up policies for management.

Absenteeism Can Be Reduced

A number of suggestions to reduce absenteeism have been proposed in the literature; some of these are effectively being utilized by hotel companies. Suggestions can be classified into the following general categories: selection, policies, training and development, assistance, performance evaluation, recognition and rewards, and tracking.

Selection should include contacting previous employers to determine the applicant's prior attendance record. The company's written attendance policies should be covered in the selection phase of hiring.

A written personnel policy regarding absenteeism should be developed, communicated, and regularly monitored. A formal process of progressive discipline should be known to all and consistently applied.

Training and development must include supervisory training in absenteeism control. Specific strategies such as job enrichment, rotation, and cross-training can help reduce employee boredom and absenteeism. Since training and development are an ongoing process and not a one-time effort, evaluation (both qualitative and quantitative) is essential to improving the results of training.

Assistance suggestions should minimally include supervisory counseling of employees who are chronically absent. Through counseling, the cause of the problems (personal, job-related, or abuse of the system) can be identified and the appropriate action taken. Another form of assistance includes providing direct child care benefits for families of employees. Flexible work schedules may be another alternative.

Performance evaluation includes an appraisal of the absenteeism rate for an individual employee. This rate should be included in the overall performance evaluation and the resultant salary adjustment. Additionally, supervisory performance should be evaluated, in part, based on the absenteeism rate for the unit supervised.

Recognition and rewards attempt to highlight efforts and accomplishments. Some companies recognize those employees who regularly show up for work and make a positive contribution. Others have implemented a system where the reward is attendance points that can be exchanged for prizes, cash, or additional pay for sick days not used. Still other companies recognize perfect attendance at an annual banquet and award ceremony. The recognition sometimes takes the form of a cash bonus.

Finally, tracking is suggested as a method for monitoring absenteeism. Depending on the size of the company and the resources available, it may be helpful to analyze daily attendance and absenteeism information at least monthly. The model utilized in this research should be adapted to the specific needs of the company.

The extent of an organization's commitment to costing and controlling absenteeism depends, to a large extent, on the benefits in relation to the costs incurred. Controlling absenteeism can be achieved with relatively low incremental costs, provided the necessary information is readily available and used by managers. The development of a computerized system for tracking the costs of absenteeism would greatly enhance the usability of the model that was tested.

Perhaps the greatest commitment to controlling absenteeism is achieved when the costs of absenteeism are initially identified in an organization. Any efforts to control absenteeism can be considered to be successful only when decreasing absenteeism costs are clearly apparent.

References

- ¹ Frank E. Kuznitz, "How Much Is Absenteeism Costing Your Organization?," *Personnel Administrator*, (June 1979), pp. 29-33.

Steps for Completing the Employee Absence Record

This form should be maintained daily and submitted to the personnel department every two weeks. Include those who may have contacted you for approval not to be present, even if you have given approval in the last 24 hours and they have been on schedule in the last 24 hours. In other words, as long as they have been on schedule in the last 24 hours and are not at work, whether sanctioned or not sanctioned, they are included. Only the names of those who are absent by the following definition should be entered: failure to report for work or remain at work as scheduled regardless of reason. Those not present due to vacation, holiday, jury duty, or military duty or those on officially sanctioned leave should not be entered. Steps to complete the employee absence record are as follows:

- **Column 1:** Enter employee name, only if the person was absent according to this definition.
- **Column 2:** Enter date.
- **Column 3:** Enter hours absent; if full day, enter eight hours. If employee is consecutively absent for more than a day, for every day of absence enter the name and fill in the columns.
- **Column 4:** Check if the employee is full time (greater than or equal to 40 hours) or part time (fewer than 40 hours). Use appropriate column.
- **Column 5:** Check if the employee was paid or not paid during the absence. Use appropriate column.
- **Column 6:** Enter employee's hourly rate. If the employee is on salary, divide the salary by the hourly duration, i.e., a weekly salary should be divided by 40 hours. (Put an "S" next to such salary figure).
- **Column 7:** Enter if employee is on company benefits or not. Use appropriate column.
- **Column 8:** Enter overtime hours if they were used to cover the absence. If not, leave blank.
- **Column 9:** Enter the hourly overtime rate only if overtime was used to cover the absence. If not, leave blank.
- **Column 10:** Multiply column 8 by the column 9 figure and enter. This calculation gives total overtime wages expanded to cover a particular absence.
- **Column 11:** If temporary help was hired to cover the particular absence, enter hours employed. If not, leave blank.
- **Column 12:** Enter the hourly wages of the said temporary help. If no temporary help was used, leave blank.

- **Column 13:** Multiply column with column 12 and enter total wages of temporary help.

At the end of the form (for every two weeks) total line by summing the columns 3, 4, 5, 7, 8, 10, 11, and 13 and complete the three additional questions at the bottom of the form.

Instructions for the Personnel Department - Absence Record

- **Step 1 - Column 14:** If column 7 was ticked "yes," enter hourly value of benefits (see instruction sheet on calculating hourly benefits) - Form 2. Be sure to enter salary benefits if column 6 carried an "S" next to hourly rate.
- **Step 2 - Column 15:** Enter only if column 5 is checked "paid." Multiply column 3 by column 6 and enter direct absentee wage expense.
- **Step 3 - Column 16:** Enter the total of column 10, 13, 14, and 15. Also, total the columns 14, 15, and 16 at the bottom of the form for every two weeks.

Form 2
Instruction Sheet: Personnel Department Use
Calculation of Hourly Benefits (Column 14)
Total Annual Departmental Expenses in the Form of Benefits

Department _____			
	Salaried	Hourly	
Profit sharing	\$	\$	
Pensions	\$	\$	
Health insurance	\$	\$	
Life insurance	\$	\$	
Paid vacation	\$	\$	
Holidays/casual leave (# days per employee X average daily wage per employee)	\$	\$	
Other benefits	\$	\$	
	Total \$	_____	
Hourly benefit: Divide total by 2920 hrs. (8 hours per day for 365 days)	\$	_____	

**Instructions for the Personnel Department
Calculation of Indirect Absenteeism Costs
(Applied Calculation at the Peabody Hotel)**

Step 4 - Absenteeism-based turnover costs: Peabody Hotel, housekeeping department. Refer to the additional question items on Form 1 to calculate turnover costs. (Identified turnover in this case was one employee).

- **Training and orientation costs:** To calculate the costs per employee, take last year's total costs and divide by last year's total average number of employees. Do the calculation for the whole hotel and do not worry about departmentalizing.

Training managerial costs per employee (10 managerial hours at \$25/hour)	\$250
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Training time costs per employee (training time X cost per hour per employee) (20 employee hours at \$5.50 per hour per employee)	110
---	-----

Orientation costs (orientation time x cost per new employee hour) (10 hours x \$5.50 per hour)	55
---	----

Orientation costs (orientation time X cost of the person conducting the orientation) (10 hours at \$10 per hour)	100
--	-----

- **Unemployment tax** (average per employee turnover)
(Industry average is about 7 cents per \$100 payroll.
Therefore, for an average annual pay of \$12000:
 $\$12000 \div 100 = 120$, $120 \times .07 = \$8.40$) 8

- **Cost of hiring:**

Advertising (total job-related advertising divided by the number employees hired last year)	80
--	----

Cost per employee for medical examination	30
---	----

Personnel interview time lost spent in hiring an employee (Note: please include cost or time spent if three people are interviewed for every hire)	120
--	-----

Uniform and administrative costs per employee	40
---	----

Total (Step 4 only)	\$793
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Absenteeism-based turnover costs (multiply additional question item 4 by above total)	\$793(A)
--	----------

Step 5 - Departmental supervisory salary and benefit cost calculation:

- Total salaries of all supervisors in the department (daily) \$ _____
- Total benefits of all supervisors in the department (daily) \$ _____
- Total step 5A and 5B \$____(B)
- Hourly supervisor's salary and benefit. Divide step 5C by 8 hours \$____(C)

Step 6 - Supervisors' total time:
Add all spent on absence. (Add all form 4's) \$ _____

Step 7 - Total supervisory cost
in managing absences: (Multiply step 5D by step 6) \$____(B)

Step 8 - Total incidental expenses
of absence for all supervisors (Add all form 3's) \$____(C)

Step 9 - Total absenteeism costs from the department

Add the following:

- Direct absenteeism costs of employees Bottom total of column 16, Step 3 \$ _____
- Turnover costs from Step 4 - (A) \$ _____
- Supervisory cost of managing absence from Step 7 - (B) \$ _____
- Incidental expenses from Step 8 - (C) \$ _____

Total \$ _____

To derive absenteeism cost per employee, divide by the number of employees in the department.

Form 3
For Personnel Department Use

Incidental Expenses of Absence

This form should be applied to all the supervisors on every department that notes an absence in a two-week period. First, explain the definition of absence. If there is more than one supervisor in the department, every supervisor should fill one. Therefore, restrict dollar calculations to shift operations only.

Based on the fact that there was an absence among your employees, the department may have incurred some incidental expenses. To handle this situation, which may not have been investigated so far, a list follows. Put an approximate dollar figure in front of each item arising out of absence in the last two weeks.

Guest complaints/production/service losses	\$ _____
Teamwork deterioration	\$ _____
Other employees stress	\$ _____
Lost contribution to income	\$ _____
Underemployment of management/supervisory time	\$ _____
Others (specify): _____	\$ _____
_____	\$ _____
_____	\$ _____
	Total \$ _____

**Form 3 (Weighted)
For Personnel Department Use**

Incidental Expenses of Absence

This should be used when there is more of an idea of the total than individual teams. Take this total and multiply by individual weights. Use the appropriate column weights depending on whether calculating for guest contact or non guest contact department.

		Weight by type of position	
		Guest contact	Non-guest contact
Guest complaints/production/ service losses	\$ _____	.3	.2
Teamwork deterioration	\$ _____	.2	.3
Other employee stress	\$ _____	.3	.4
Lost contribution to income	\$ _____	.1	-
Underemployment of management/supervisory time	\$ _____	.1	.1
Others (specify) _____	\$ _____		
_____	\$ _____		
_____	\$ _____		
		Total \$ _____	

**Form 4
For Personnel Department Use Only**

Cost of Supervisory Time Lost Due to Absence

This form should be applied to all the supervisors in every department who note an absence in a two-week period. First, please explain the definition of absence. This is for the overall absence for a two-week period and not for a single absence. Also, if there is more than one supervisor, each will have to complete this form separately.

Some time must have been spent on the following aspects due to an employee absence. Give an estimate of direct time spent on the following:

	Hours	Minutes
Handling and solving production and service problems	_____	_____
Rearranging schedules	_____	_____
Monitoring replacement (for absentees) workers' tasks.	_____	_____
Counseling and discussions related to absence	_____	_____
Guest complaint handling	_____	_____
Rearranging the schedule	_____	_____
Other (specify) _____	_____	_____
Total time spent per supervisor on absence: every two weeks for all absence	_____	_____