



Enterprise

The Value of Rude Health

Report for

Royal Mail Group

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Foreword from Dr Steve Boorman, Chief Medical Adviser to Royal Mail Group

The UK may anecdotally be known as ‘the sick man of Europe’, but recent debate has focused more than ever on the role of employers to nurse the population back to health. Workplace absence is on the rise, and with an estimated 175 million days lost each year, the burden of the cost sits heavily on the taxpayer’s shoulder. We, as businesses, need to start taking greater responsibility for helping those absent through injury or illness – the majority of whom want to return to work – take the first steps and return as healthy, productive and supported members of the workforce.

UK businesses are increasingly being urged to become more responsible employers. Recent comments by the Secretary of State for Health on transforming the UK ‘from a sick-note culture to a well-note culture’ coupled with Dame Carol Black’s review of the health of working age people, firmly put the spotlight on what organisations can do to manage absence and sickness in the workplace.

But we also need to educate employees on their responsibility to their employers, and the effect of their absence on the organisations they work for. Individuals may not truly understand how vital and valued they are as a part of the workforce or the importance of being at work – both for them, and for their employer. It is important that businesses and employees work together to address issues, whether they are medical or non-medical, to help people return to work.

At a time when health and wellbeing is rising up the agenda for business and for Government, this report demonstrates how a comprehensive approach to managing the issue – as adopted by Royal Mail Group since 2002, with the support of occupational health provider Atos Origin – is not only good for people, but is good for business too. The effects of absence management on business performance – from employee morale to productivity and other indicators of business performance – are clearly laid out in this report

The Value of Rude Health Report sets out what is considered to be a blueprint for a range of UK organisations operating in a variety of sectors on tackling the issue. Investing in and improving workers’ health and wellbeing is not only the right thing to do, but it makes perfect business sense too.

Introduction

What: Over the following 40 pages, extensive analysis of one of the UK's most extensive and innovative approaches to tackling absence outlines a convincing business case for investing in health and wellbeing policies.

The London School of Economics has thoroughly examined the approach to addressing the health and wellbeing of the workforce at Royal Mail Group. With 180,000 employees in its Royal Mail, Parcelforce Worldwide and Post Office businesses, the organisation is one of the UK's largest employers. It successfully reduced absence from 7 to 5% between 2004 and 2007 – equivalent to an extra 3,600 full-time employees back in work. The figures used here reveal for the first time just how valuable the savings associated with this reduction are – saving Royal Mail Group more than £227 million over three years.

As well as indicating the headline cost savings, the analysis also examined the effect of such policies within Parcelforce Worldwide to draw conclusions about a range of other, hidden long-term benefits of the policies to the organisation, its people and its customers.

Operating in a complex environment and competitive marketplace, Royal Mail Group has faced a number of challenges in managing the health and wellbeing of its workforce. Since 2004, the organisation has invested £46 million in a range of health and wellbeing activities designed to improve attendance, drive forward key business objectives, and help the organisation to move towards its vision of becoming demonstrably the best and most trusted mail company in the world.

The policies introduced have not only saved the organisation huge sums of money, and helped improve employee morale. They have also enabled Royal Mail Group to compete more effectively in the liberalised postal services marketplace, improve the level of service it offers to its customers, and increase the reliability and effectiveness of deliveries.

This report sets out the following over six chapters:

- The impact that health and wellbeing policies and reduced absence have had at Parcelforce Worldwide and Royal Mail Group
- The cost savings achieved by Royal Mail Group thanks to these policies
- The impact these policies have had in helping Parcelforce Worldwide and Royal Mail Group achieve wider business goals and meet a number of key performance indicators
- Conclusions which indicate a strong business case for investing in such policies
- An illustration of the benefits to the UK economy of adopting an approach used by Royal Mail Group to tackling absence

Why: Royal Mail Group has commissioned this report to develop a fuller understanding of the impact its approach to employee health and wellbeing is having across the organisation. Internal reporting has suggested that this approach is having a significant impact on employee health and wellbeing, key performance indicators, as well as more generally on issues such as employee morale. However, Royal Mail Group wanted to develop a deeper understanding of the linkage between the policies and these factors.

Returning employees absent through illness or injury to work is hugely valuable to organisations. The benefits of such policies also go farther than reducing the huge direct costs associated with absence – paying people who don't turn up to work – and recouping the indirect costs associated with absence, including substitution, training and management time. A comprehensive policy as implemented by Royal Mail Group can also improve the productivity and motivation of existing staff.

By sharing a detailed analysis of its policies, Royal Mail Group is looking to engender a wider understanding among stakeholders, business partners, customers and other UK organisations of the material benefits of investing in the long term health and wellbeing of employees, and to extend the benefit of its experience. Despite the benefits of investing in such policies and the business critical

nature of tracking the costs associated with absence, currently only 45% of organisationsⁱⁱ have a policy in place for monitoring the cost of absence.

The issue is growing in importance politically too. Dame Carol Black recently proposed a series of policy recommendations emphasising the responsibility of employers in tackling the problems of ill health and promoting health and wellness amongst UK workers.

Royal Mail Group is making the report available at www.royalmailgroup.com/valueofrudehealth to extend the benefit of its experience to other organisations interested in tackling the issue.

How: The London School of Economics has produced a detailed analysis of the impact of health and wellbeing policies at Royal Mail Group.

Over the course of a year, LSE has:

- Calculated the value to Royal Mail Group of the cost savings through reduced absence
- Analysed the hidden, long-term benefits of health and wellbeing policies designed to tackle absence through detailed examination of a single business unit of Royal Mail Group:
 - Interrogated three years' worth of absence data, as well as profitability, cost and productivity measures across the UK network of 48 Parcelforce Worldwide depots
- Conducted extensive one-to-one interviews with key personnel from within Parcelforce Worldwide and Royal Mail Group
- Analysed employee satisfaction survey data

LSE tracked the specific effects of the policies within one of Royal Mail Group's business units to understand the 'before' and 'after' effects of absence policies on a range of key performance indicators used by Royal Mail Group. Data available within Parcelforce Worldwide – Royal Mail's express delivery business – was some of the most complete and discrete data available within the organisation. The phased introduction of the policies within Parcelforce Worldwide also enabled LSE to build up a detailed picture of the 'before' and 'after' effects of the policies. Where possible, these data sets were also supplemented by data for Royal Mail sites to begin to build up a picture of effects of the policies across Royal Mail Group.

LSE analysed data covering a range of measures including: absence rates; Quality of Service (a measure of productivity indicating delivery standards and which reflects the number of First and Second Class and time tracked delivery items delivered on time); items delivered per full time hour, another measure used to indicate productivity; and unit costs.

LSE analysed these sets of data from across the 48 Parcelforce Worldwide sites, covering the period 2004 to 2007, as well as Royal Mail sites in Heathrow and Plymouth. The policies introduced across the 48 Parcelforce Worldwide sites are the same in content and delivery as those introduced across Royal Mail Group.

Based on the correlations between evidence gathered from the Royal Mail and Parcelforce Worldwide sites, the similarities in workforce population and common nature of the work in terms of processing and delivery, this report argues that the experiences at Parcelforce Worldwide give a good indication of the wider effects of the policies across the Royal Mail Groupⁱⁱⁱ.

Data analysis and modelling was supplemented by a series of in-depth interviews taking place over several weeks with Operations Managers at Parcelforce Worldwide depots with a good regional spread, as well as at a variety of Royal Mail Group sites such as Liverpool, Newport and London.

Executive summary:

The report demonstrates that health and wellbeing policies at Royal Mail Group have had a number of significant and material effects:

- **Royal Mail Group has successfully tackled the issue of absenteeism (CHAPTER ONE):**
 - Royal Mail achieved significant reductions in absence – from 7% to 5% – between January 2004 and May 2007, equivalent to an extra 3,600 employees in work
 - Parcelforce Worldwide reduced absence from 7% to 4.5% between January 2004 and May 2007 equivalent to an extra 104 employees in work
 - There is a strong link between both organisations' range of health and wellbeing and absence policies and reductions in absence (based on available data and interviews)
- **Reducing absence has enabled both Royal Mail Group and its Parcelforce Worldwide business unit to make significant cost savings (CHAPTER TWO):**
 - LSE estimates of the annual staff cost of 1% short-term absence across Royal Mail would be on an annual basis:
 - **£34.8 million^{iv}** excluding the cost of replacement labour such as overtime and agency staff / **£75.9 million** including such costs
 - LSE's estimates suggest that reducing absence by 2% between 2004 and 2007 would have contributed to a total saving across Royal Mail Group over the three years of as much as **£227 million^v** in terms of direct costs
 - These estimates are based on the accounting cost of a day's absence in terms of pay and benefit costs, and use of replacement labour either through agency staff or overtime
 - Reducing absence will have saved at least **£1.79 million^{vi}** in direct costs annually for each percentage point reduction in absence in Parcelforce Worldwide
 - Since being introduced in 2004, it is estimated that the policies which led to this 2.5% reduction in absence could have contributed to a total saving over the three years of as much as **£6.7^{vii} million** in direct costs for Parcelforce Worldwide
- **Controlling absence specifically enables managers at Parcelforce Worldwide to hit their targets more easily (CHAPTER THREE):**
 - It removes unpredictability in meeting profitability targets that managers are set, enabling them to keep unit costs down as well as hit targets for items delivered per day and grow depot net income more easily Across, all depots, reducing absence by 1% is worth **£1,317,000** to Parcelforce Worldwide annually in terms of meeting net income targets^{viii}
 - Reducing absence by 1% takes an average depot **£2,300** closer to its daily net income target
- **Tackling absenteeism reduces dependency on replacement labour, including agency staff. The evidence from Parcelforce Worldwide suggests that doing so safeguards performance indicators such as Quality of Service (QoS) and improves net income through bringing costs down (CHAPTER FOUR):**
 - The experience across Parcelforce Worldwide shows that reducing dependence on replacement labour such as agency staff prevents key performance indicators from slipping and strengthens a depot's bottom line. Reducing absence by 1% adds more than **£319,000^{ix}** annually to net income through reduced dependence on replacement labour
 - This is primarily as a result of:
 - i. Cost savings (replacement labour is expensive)
 - ii. Improved efficiency – analysis suggests agency staff are half as efficient. This is supported by evidence drawn from interviews with managers
 - LSE estimates that that the 2.5% reduction in absence achieved by Parcelforce Worldwide between January 2004 and May 2007 would have contributed at least **£1.2 million^x** to improved net income across the group
- **Reducing absence has a positive effect on Quality of Service (QoS) – a key performance indicator both for Parcelforce Worldwide and for Royal Mail – by around a factor of 12 to one.**

Improvements in QoS enable Parcelforce Worldwide to capture additional business and improve net income (roughly equivalent to profitability) (CHAPTER FIVE):

- Reducing absence by 2.5% between January 2004 and May 2007 would have contributed to a **0.2%** point increase in QoS all things being equal.
 - i. This figure is derived from estimates relating to the individual depots. It is difficult to draw concrete conclusions about the aggregate movement in QoS across all depots
 - Improvements in QoS enable depots to bring in more business through building a reputation for reliability with customers
 - A 2.5% reduction in absence contributes to an improvement **in net income of £448,000** annually through improvements in QoS
 - This improvement in net income reflects:
 - i. Greater cost savings through reduced absence
 - ii. Greater efficiency
 - Analysis by LSE suggests that between Jan 2004 and May 2007, improvements in QoS would have contributed at least **£672,000^{xi}** to Parcelforce Worldwide's annual net income
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- **LSE has extrapolated from the example of Royal Mail Group to illustrate the wider benefits to the economy of tackling the issue of health and wellbeing** (CHAPTER SIX)
 - Royal Mail's success in addressing the health and wellbeing of its employees provides an effective blueprint on tackling absence for the 13 worst performing sectors in the UK in terms of absence rates
 - By concentrating on raising attendance in the poorest performing sites and depots and moving them towards average rates of absence, Royal Mail Group has demonstrated a highly effective method for improving the group-wide average absence rate
 - Following the example of Royal Mail Group in addressing the 'long tail' of absence and investing in such policies among the 13 sectors in the economy with the highest absence rates would be worth **£1.45 billion^{xii}** to the UK economy

1. Chapter One: setting the scene

Key conclusions:

This chapter sets out the following key conclusions:

- The success of Royal Mail and Parcelforce Worldwide in tackling considerable organisational challenges and reducing high rates of absence:
 - From 7 to 5% at Royal Mail between January 2004 and May 2007
 - From 7 to 4.5% at Parcelforce Worldwide during the same time period
- The strong linkage between health and wellbeing policies introduced by the organisation and reductions in absence (based on available data and interviews)

Absence at Parcelforce Worldwide

Between 2002 and 2004 Parcelforce Worldwide underwent a major transformation, restructuring its operations towards higher value-added services, to cut financial losses and move towards greatly improved financial health.

Despite greater efficiency and better financial health achieved by the end of this process, absence rates at Parcelforce Worldwide were very high, running at around 7% through much of 2004, and reported employee morale was poor. The difficult nature of the work and the proportion of the workforce drawn from labour markets with a tradition of adversarial employment relations added to the challenge of controlling absence.

Royal Mail – the letters processing and delivery division of Royal Mail Group – which employs 167,000 people and handles 83 million items of mail a day faced a similar situation. It too underwent a significant period of restructuring resulting in a reduction in jobs, as well as significant structural changes across its 69 mail centres and 1,400 delivery offices.

In recent years, the market for postal services has changed fundamentally. Following the deregulation of postal services within the UK, competition for the business customers' market has stiffened, even as online purchases have soared. Time tracked services too have exploded and are the fastest-growing and most lucrative in the market, and therefore also the most attractive to private sector competitors.

For postal service and delivery operators, drivers and their delivery centre / depot staff make a critical contribution to both cost and reliability, and ultimately to an organisation's ability to compete. Their attendance affects both cost and reliability and therefore the organisation's performance. The level of absence adds to cost through continuing to pay the absentee, especially for short-term absence^{xiii}, whilst depending on replacement labour – either overtime or agency staff – to cover their work.

There is a reputational cost too since organisations that provide time tracked delivery products have made time promises to their customers. Reputation for reliable time tracked delivery is perhaps even more important than cost, and time tracked delivery services are especially vulnerable to poor and unpredictable attendance.

Employees at Royal Mail, Parcelforce Worldwide and other time tracked delivery operators play an important customer service function too and can enhance the organisation's reputation for reliability by taking trouble with major customers, picking up any adverse feedback and relaying to delivery centre and depot managers, and so on. On the reverse side, arriving late for collections and being offhand with customers' dispatch staff can all undermine the customer's confidence that their goods will be delivered on time.

The solution: How Royal Mail Group – and specifically Parcelforce Worldwide – improved work attendance

Policies initiated and developed following the restructuring at both Royal Mail and Parcelforce Worldwide comprise a blend of 'carrot' and 'stick' approaches identified by the CBI in its 2006 absence

survey as perhaps the most effective approach to tackling the issue. The 'carrot' improved dialogue and communication between local managers and their staff and introduced a series of policies to improve workforce health and well being. The 'stick' sought to improve the recording of absence, and to enable managers to use the long-established absence rules more effectively. These procedures were reinvigorated and given a company-wide boost in the winter of 2004-05 under the 'Absence to Attendance programme' rolled out across Royal Mail Group and a programme to devolve more responsibility to local managers (Chart 2). This included giving training to managers.

Royal Mail Group's policies place it at the forefront of organisations addressing the medical, social, and psychological causes of absence and seeking to balance support for its employees with a firm approach to tackling the issue. Royal Mail's analysis indicating that the majority (more than $\frac{3}{4}$) of sickness absence has causes that are not strictly medical, whether or not it is supported by a doctor's note^{xiv}, underpins this approach. The CIPD's and EEF's absence surveys of UK organisations^{xv} corroborate the suggestion that absence has many 'non-medical' causes, such as stress and workplace bullying and harassment, personal and family problems, the difficulties of combining work and domestic demands etc. Tackling stress and harassment, offering counselling, looking for mutual adjustments to ease conflicting work and domestic roles are all given weight within the organisation to improve attendance. Likewise, communication plays a key role in helping employees appreciate the effects of their absence on their business's performance.

In most organisations there are those who treat sick absence days as an entitlement. In such cases, if managers are seen to do nothing about it, this behaviour can cause other employees to become resentful or affect their own willingness to attend. It can undermine the morale of other employees.

A critical factor in helping Royal Mail and Parcelforce Worldwide to tackle absence has been improvement of the tools enabling line managers to take an active role in getting to the causes of individual absences: to 'manage rather than medicalise' sick absence. Two factors are critical to this: regular contact with employees reporting sick (including return to work one-to-one interviews); and good attendance records which enable line managers to discuss absence behaviour and any patterns with individual staff. This information can support the one-to-one interviews in seeking to establish the underlying causes and identify possible ways in which the manager can help.

In respect of the one to ones, the health and well being policies of Parcelforce Worldwide and Royal Mail make an important contribution. They provide local managers with the resources they need to be supportive, whether from the increased authority to manage resources locally, or by means of resources from the medical services company, Atos Origin, or from others summarised in the time chart (Chart 2 below). They also play an important part in management's communication with individual employees. They can help explain to employees the effects of absence on the business, the impact on cost and even more on its reputation for reliability.

Communication is also undertaken within weekly 'Work Time Listening and Learning' (WTLL) sessions, where each line manager engages with his or her team and deals with a range of issues.

The fact that the procedures were applied all the way through managerial teams contributed towards Royal Mail and Parcelforce Worldwide's success in managing absence. Getting absence down and keeping it down requires constant vigilance and effort from the whole management team.

Since 2004, both Parcelforce Worldwide and Royal Mail have introduced a wide range of innovative, leading edge health and wellbeing policies on an unprecedented scale. These policies potentially benefit 180,000 employees – one of the UK's largest workforces.

Specific initiatives have included:

- Empowering line managers to take an active role in improving attendance through improved record keeping and communication with staff
- A programme to reduce non-attendance and sickness absence focusing on management training and HR support
- Improving access and broadening occupational health support services to include physio and occupational therapy
- Communication and awareness raising programmes and health promotion materials targeting smoke and back pain

Further details on specific initiatives are outlined in Chart 2 below.

The results: evidence linking health and wellbeing policies and improved performance at Parcelforce Worldwide and Royal Mail

Parcelforce Worldwide figures^{xvi} show improvement in absence up to early 2006. Chart 1 shows this and extends the story up to autumn 2007. The figures document the fall in absence rates for Parcelforce Worldwide as a whole from around 7% in 2003, to about 6.5% in 2004, around 5.5% in 2005. The series is continued by sickness absence data from the central Royal Mail Group HR reporting team for Parcelforce Worldwide, albeit on a slightly different basis, which shows a further fall to about 4.5% through 2006 and into 2007. A significant contribution to the overall improvement at Parcelforce Worldwide has come from greater than average progress made by the 'tail-enders'. In contrast, improvements among depots with below median absence rates have been more modest, but nevertheless real.

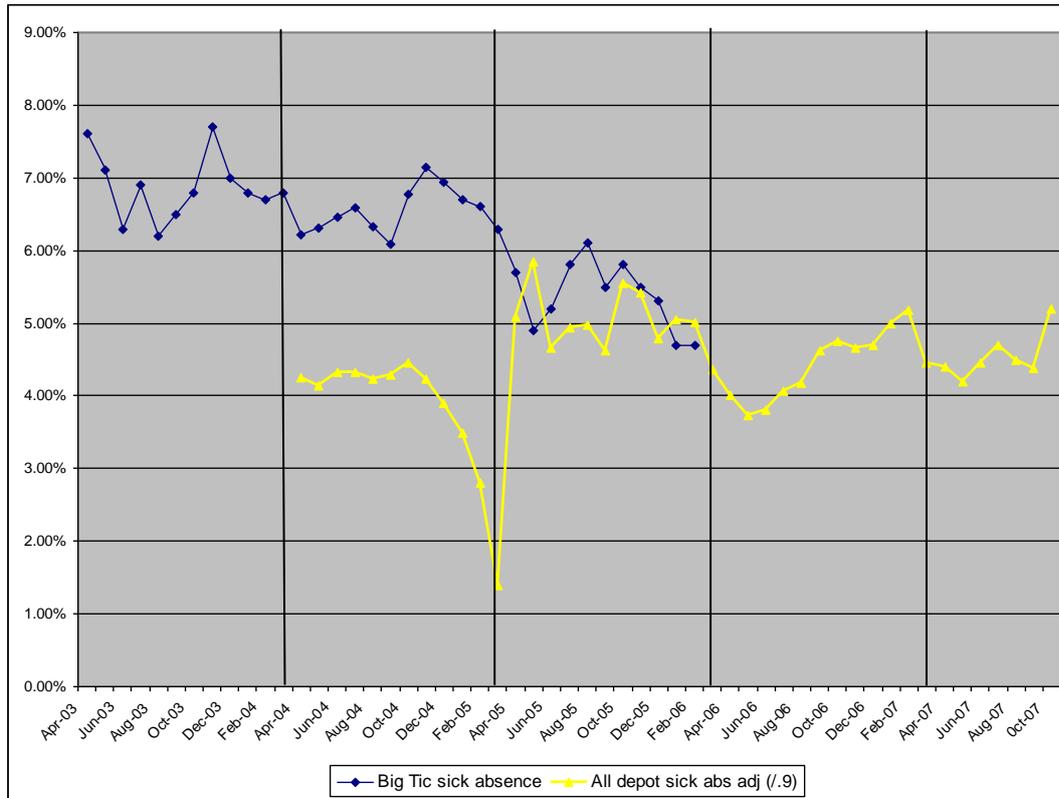
There appears to be a strong link between the quality of management communication with employees in depots and their absence rates. According to the annual 'Have Your Say' attitude survey of Parcelforce Worldwide employees, depots where employees participate most in the Work Time Listening and Learning sessions, and where managers are seen to deal with the issues raised by employees at these meetings and more generally, are those with the lowest absence rates. Like the statistical analysis summarised later in this report, these calculations take account of local and depot-specific factors that might also affect absence. This finding reinforces the conclusion that local management action has played a big part in successfully managing absence at Parcelforce Worldwide.

Figures provided from Royal Mail Group's central HR reporting team reveal that absence rates within Royal Mail fell from 7 to 5% between January 2004 and June 2007.

Chart 2 shows the same figures for absence rates within Parcelforce Worldwide with the timing of major attendance and well being policies superimposed. The thick red lines show the start of major policy initiatives such as the launch of the 'Absence to Attendance' programme which focused on establishing one-to-one sickness interviews across the whole organisation and to revitalise sickness reporting, and the thin black lines represent the start of other, important but less far-reaching, policies.

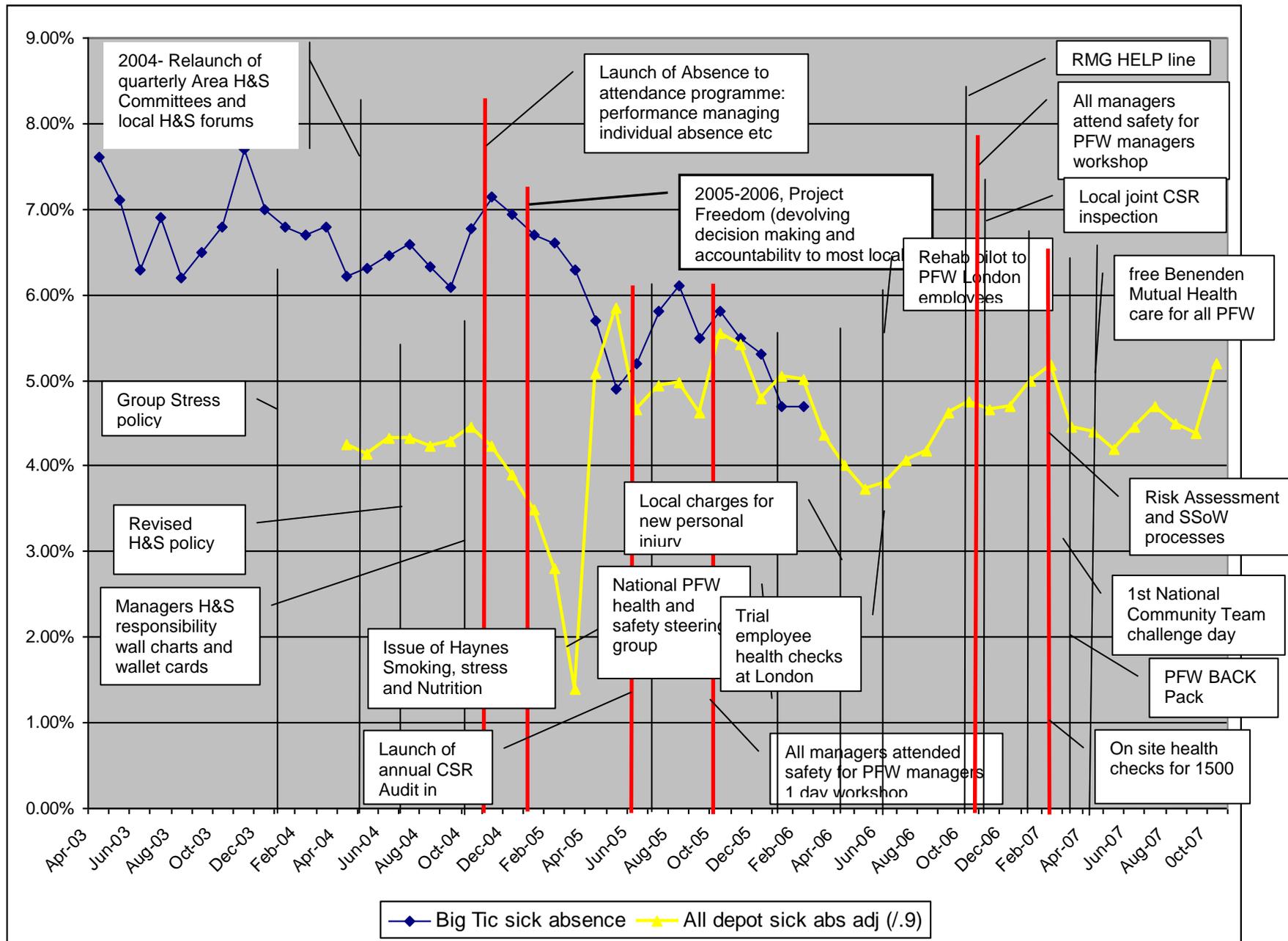
The major policy initiatives appear at times of significantly higher levels of absence, and are followed by a noticeable decline, suggesting an initial impact as they are rolled out. The smaller-scale policies appear fairly regularly over time, but there is a notable cluster of measures between the autumn of 2006 and early 2007 as absence levels appeared to rise again.

Chart 1. Sickness absence by monthly reporting period 2003-2007.
The vertical bars show April of each year.



Note on sickness absence data.

Sickness absence is derived from hours of sickness absence divided by total contracted hours and adjusted by a factor of 0.9 to take account of annual leave. Data for the earlier period relate to the whole of Parcelforce Worldwide, and were included in the Business in the Community Award application, whereas those for the second relate to employees in depots. Notably, they cover about 3000 employees in these, omitting about 1000 employees in the Coventry Hub and elsewhere in Parcelforce Worldwide. The data for early years of the more recent series had to be extracted from archives, and exclude employees who left more than three years before the extraction date, in this case, December 2007. Another factor affecting depot-level information for the earlier years is that the current statistical system for monitoring absence was in the process of being set up then, with the aim of improved reporting and better comparability between depots. This was still in process in 2004, and could further affect comparability between the two series.



In summary:

Analysis of Royal Mail and Parcelforce Worldwide data demonstrates how both organisations successfully reduced absenteeism between 2004 and 2007. This data is supported by extensive interviews with delivery centre managers and depot managers within both organisations.

- Royal Mail Group has taken a highly successful approach to reducing absenteeism
 - Policies introduced across Royal Mail – benefiting some 167,000 employees – helped reduced absence from 7% to 5% between 2004 and 2007
 - Policies introduced across Parcelforce Worldwide – benefiting some 4,176 employees – were reduced from 7% to 4.5% between 2004 and 2007

2. Chapter Two: the financial benefits of tackling absenteeism

This section explores the financial value of reducing rates of absence across Royal Mail Group. The chapter sets out the following key conclusions:

- The financial benefits to Royal Mail Group of tackling absenteeism are significant
- An estimate of the direct cost savings achieved by such policies across Royal Mail Group indicates that a 1% reduction in absence saves:
 - £34.8 million excluding the cost of replacement labour such as overtime and agency staff costs^{xvii} / £75.9 million including such costs
- Estimates suggest that the 2% reduction in absence achieved by Royal Mail Group since 2004 is likely to have contributed to a total saving over the three years of as much as £227m^{xviii}
- A 1% reduction in absence at Parcellforce Worldwide saves £1.79^{xix} million in direct costs alone (i.e. costs relating to wages for absent employees as well as the cost of fees for agency cover)
- The 2.5% reduction in absence achieved by Parcellforce Worldwide since 2004 is likely to have contributed to a total saving over the three years of as much as £6.7 million^{xx}
- Furthermore, internal reporting figures used by Royal Mail Group indicate that the indirect cost savings associated with lower absence could be three times as high as the direct cost

The accounting cost of absence across Royal Mail Group

LSE's analysis initially focused on the 'book' or accounting cost of absence at Royal Mail Group. It is based on a widely accepted methodology and since it is more straightforward to identify compared with the other effects of improved absence – such as improved profitability and productivity as outlined in Chapters three, four and five – it forms the basis of the business case for investing in health and wellbeing policies. Around this robust estimate of the book cost of absence across the group, LSE developed its estimates for these additional, 'hidden' effects.

The accounting cost method is commonly used to calculate the financial impact of absenteeism and is used by organisations such as the CBI and CIPD. It is worked out by taking the average daily salary of an employee, and adding on employer's national insurance and pension contributions. Since replacement labour is used to provide cover to ensure that the organisation meets its delivery commitments to customers, this method includes these costs as well.

One of the most striking conclusions drawn by LSE is the sheer scale of the savings associated with the reduced levels of absence achieved by these policies. With 180,000 employees, Royal Mail Group is one of the UK's largest employers. Successfully reducing absence from 7 to 5% between 2004 and 2007 across Royal Mail Group is equivalent to an extra 3,600 full-time employees back in work. Reductions in absence on this scale mean huge cost savings.

The accounting cost of absence at Royal Mail Group

To calculate the book cost of absence at Royal Mail Group, LSE took the average daily salary of an employee of £85 as of February 2008. The basis for the calculation was as follows:

- Of 180,000 staff, as at the end of financial 2007, a 1% absence rate amounts to 1,800 people being absent, costing about £153,000 a day
- Estimates of the annual staff cost of 1% short-term absence across the organisation would be:
 - £34.8 million without replacement labour costs^{xxi}
 - £75.9 million including replacement labour costs^{xxii}
- The improvement in absence rates from around 7% to around 5% achieved by Royal Mail Group between 2004 and 2007 would be equivalent to saving of about £69.7 a year in direct costs of pay for absent employees, or £151.8m if the costs of replacement labour are included
- LSE's estimates suggest that reducing absence by 2% between 2004 and 2007 would have contributed to a total saving across Royal Mail Group over the three years of as much as £227 million^{xxiii}

The accounting cost of absence at Parcelforce Worldwide

To take the April 2007 weekly rate of Parcelforce Worldwide frontline customer service staff:

- Of 4,176 staff, as at the end of financial 2007, a one percent absence rate amounts to about 42 people being absent costing about £3,654^{xxiv} a day.
- Since each of those people were covered by replacement labour, the cost would rise by £4,200 assuming a daily replacement labour cost of £100, covering agency or overtime costs
- Estimates of the annual staff cost of 1% short-term absence across the organisation would be:
 - £828,000 without agency costs
 - £1.8m including agency costs
- LSE's estimates suggest that reducing absence by 2.5% between 2004 and 2007 would have contributed to a total saving across Parcelforce Worldwide over the three years of as much as £6.7 million^{xxv}

These straightforward calculations are based on direct wage costs for both absent staff and replacement labour costs. They do not take account of the indirect costs of absence which relate to the less tangible effects of absence, comprising costs such as management time for training and providing briefings for agency staff, the cost of administrative time and resource for correspondence and communication with agency staff, as well as reflecting the fact that agency staff will take a period of time to 'learn the ropes' in a particular role, and therefore won't be immediately as effective or efficient as an equivalent full time member of staff.

Based on a detailed examination of these additional factors, Royal Mail has calculated that the indirect costs of absence is more than three times as much as the direct cost^{xxvi}.

Factoring in administrative costs as well as management time, Royal Mail has calculated that the direct cost of absence for one member of staff is £289 compared with £85 for direct wage costs excluding replacement labour costs or £185 for direct wage costs including these replacement labour costs.

On this basis, the potential savings due to reductions in absence across Royal Mail Group would be substantially higher:

- A 1% reduction in absence will save £118,605,600^{xxvii} annually in direct and indirect costs
- On this basis, LSE estimates that 2% reduction in absence between 2004 and 2007 would have contributed to a total saving of as much as £355,816,800^{xxviii}. This compares with a group turnover of £9.2bn, and an operating profit of £233m, for 2006-07.

In summary:

- The sheer scale of operations at Royal Mail Group mean that reducing absence enables the organisation to save a very significant amount of money
- Royal Mail Group saves £75.9 million (including replacement labour costs) for each 1% that absence is reduced:
 - Parcelforce Worldwide saves £1.79 million annually for each 1% that absence is reduced
- The likely savings achieved over the three years that Royal Mail Group and Parcelforce Worldwide have reduced absence are considerable:
 - Reducing absence by 2% is likely to have contributed to a £227.7 million saving across Royal Mail Group
 - Reducing absence by 2.5% is likely to have contributed to a £6.7 million saving across Parcelforce Worldwide between 2004 and 2007
- The indirect costs of absence are likely to mean that this figure is much higher.
 - In the case of Royal Mail Group, £118,605,600 million would be saved for each 1% that absence is reduced based on the organisation's estimates for the indirect costs of absence

3. Chapter Three: Hitting Productivity and Profitability Targets

The 'accounting' cost for investing in health and wellbeing policies set out in chapter two forms the basis for the business case for investing in health and wellbeing policies.

Chapters three, four and five strengthen the business case further by outlining a number of the hidden, longer-term benefits associated with reducing absence.

The following chapter specifically examines the effect of tackling absence within Parcelforce Worldwide on improvements in managers' abilities to hit productivity and profitability targets.

Key conclusions

This section demonstrates the effect of absence within Parcelforce Worldwide on managers' ability to plan their resources and to hit targets set for them by central management. It sets out the following key conclusions:

- Controlling absence specifically enables managers to hit their targets more easily
- It removes unpredictability in meeting targets for productivity, profitability and keeping unit costs down
- Specifically in relation to targets for **productivity** (measured in terms of parcels delivered by each employee^{xxix}), increases in absence lead to significant shortfalls on targets of parcels annually
- Specifically in relation to targets for **profitability** (measured in terms of net income per employee) increases in absence make targets for profitability significantly harder to achieve

Effect of sick absence on variances from target

Central management in Parcelforce Worldwide establish targets to guide the decisions of depot managers and monitor how well management teams are achieving their objectives, as well as benchmark performance between depots. Targets and 'budget' levels are carefully set to ensure that they are both stretching and realistic, taking account of local circumstances.

Targets are used by central management to determine decisions around resource available to managers in running their operations. The targets determine the levels of income, productivity and volumes that each site is expected to contribute to the group. They are crucial in helping managers to plan resource and balance capacity to meet demand. In the wake of the restructuring, with depots afforded little slack in operations, small fluctuations in absence creates considerable difficulty for managers in planning capacity. This is particularly true with profitable and lucrative time tracked delivery services since it is hard to predict absence, and variability can make it hard to plan for time tracked deliveries.

Absence can play havoc with target setting and place significant strain on the organisation and its people. In response to rises in absence, managers have little choice but to hire agency staff or pay staff overtime, since allowing QoS to fall and failing to meet time tracked delivery contracts is not an option.

Thus increases in absence can very quickly cause the depot to fall short on its performance targets, leading costs to rise and income to fall. In turn, this affects planning and performance during subsequent months, since targets will be revised downwards to reflect any previous over-spend and under-performance.

This can create something of a vicious circle with managers reducing capacity to bring costs down and reduce the risk of missing targets in the future.. This can in turn further restrict managers' ability to service existing customers as well as bring in new business.

In this way, rises in absence can significantly pull managers off course in terms of planning resources and meeting targets for productivity (numbers of items delivered), profitability (income per head) and running costs.

Evidence:

Table 3 looks at the effect of sick absence on how well Parcelforce Worldwide depots achieve their targets for productivity, unit costs and profitability as measured by income per head per day:

- **Productivity:**
 - At both individual depot and group level, increases in absence make productivity targets harder to achieve, thereby increasing the costs associated with achieving these targets^{xxx}
 - At depot level, a 1% cut in absence brings the depot an extra 13 parcels closer to target for numbers of items to be delivered daily per full time equivalent employee
 - At group level, an increase in the rate of absence by 1% can lead to a cumulative shortfall on targets of 164,000 additional parcels to be delivered each year across the 48 Parcelforce Worldwide depots and which must be delivered by agency staff or other means
 - Delivering against more stretching targets will mean managers' costs rise. Over-spending runs the risk that subsequent targets will be revised downwards, reducing managers' leverage in running their operations
- **Profitability (net income per head)**
 - At both individual depot and group level, increases in absence make profitability targets harder to achieve
 - At depot level, an increase in the rate of absence by 1% can add £2,300 extra for a depot manager to achieve in terms of his monthly target for income per head^{xxxi}
 - An increase in the rate of absence by 1% can add at least £1.3 million extra for the group to achieve in terms of annual income targets
- **Unit Costs:**
 - At both individual depot and group level, increases in absence make unit cost targets harder to achieve
 - At depot level, an increase in the rate of absence by 1% can make depot managers' targets for unit costs more expensive to achieve by £762 / month
 - At group level, an increase in the rate of absence by 1% can make the group's targets for unit costs more expensive to achieve by £439,000 per year
 - As above, over-spending runs the risk that subsequent targets will be revised downwards, again reducing managers' leverage in running their operations

**Table 1^{xxxii} The effect of sick absence on the gap between actual and target outcomes on performance indicators
(Based on actual outcome – target outcome)**

	Productivity: items delivered per full time equivalent worker	Unit costs (i.e. the amount it costs the operation to deliver items)	Profitability: net income per head (£)
At individual depot level			
A 1% increase in sick absences is associated with the following effect on monthly depot targets:	Shortfall of 13.6 parcels	Excess of £762 cost	Shortfall of £2,287 net income
At group level (across 48 depots)			
A 1% increase in sick absence is associated with the following effect on annual Parcelforce Worldwide targets:	Shortfall of 7,817 parcels	Excess of £439,000 cost	Shortfall of £1,317,644 net income

The original estimates were calculated on the basis of productivity in terms of parcels delivered per full-time equivalent person per day; unit costs in terms of direct costs per parcel delivered per day; and profitability in terms of net income per head per day. Measures were standardised per day because accounting months differ in length, and where relevant ‘per head’ to take account of differences in employment size among depots.

All the figures based on the statistical analysis in this report are subject to a margin of statistical error. Only reported are those results on which such error is fairly small by conventional standards. Full details will be made available in a longer technical paper to be published by LSE.

In summary:

- Capacity at Parcelforce Worldwide is carefully planned and managers are set stretching targets which are reviewed and revised regularly
- Absence makes productivity, profitability and cost targets harder to achieve and more expensive to deliver against
- Underperformance against those targets lead to downward revisions in targets thereby making it more difficult for managers to adjust and achieve previous levels of productivity, profitability and operating cost
- The experience at Parcelforce Worldwide reveals that controlling absence better equips managers in their longer term planning and helps keep them on course for delivering against their targets

4. Chapter Four: managing absence and reducing dependence on replacement labour

As in the previous chapter, the following builds on estimates for the book cost of absenteeism and strengthens the business case for investing in health and wellbeing policies by examining some of the hidden, longer-term effects of reducing absence.

This chapter demonstrates how absence, health and wellbeing policies have enabled Parcelforce Worldwide to control resources efficiently and cost effectively and to eliminate both the additional cost and minimise the effect of using of replacement labour on organisational performance indicators.

Key conclusions:

The chapter sets out the following key conclusions:

- Reliability is crucial for Parcelforce Worldwide's ability to compete. Greater competition for time tracked deliveries makes it harder for managers to adjust to variations in absence by delaying the delivery of items
- It is hard to predict absence and therefore difficult to plan for time tracked deliveries in particular
- Replacement labour – either agency staffing or overtime is a principal buffer used by Parcelforce Worldwide and other organisations to meet peak demand although it raises unit costs, reduces productivity, QoS and net income
- Analysis by LSE and interviews with operations managers indicate that agency staff are half as efficient as full time equivalent Parcelforce Worldwide employees
- Reducing dependence on replacement labour through cutting absence contributes to cost savings, plus improvements in productivity and profitability (net income per head)

Effect of replacement labour usage on performance indicators

Competition in the time tracked delivery market is intense. As outlined in the following chapter, maintaining a reputation for reliability is absolutely crucial for Parcelforce Worldwide

Levels of absence within the organisation add to cost because of the need to continue paying the absent individual. It also often involves replacement labour costs such as hiring agency staff or paying staff overtime to provide cover.

Adjustments to staffing levels to cover absence can be made, but at Parcelforce Worldwide, capacity is tightly controlled and unnecessary slack is minimised. Given this fact, there are limits to the organisation's ability to cover absence by depending on colleagues to provide cover. Therefore agency workers are regularly used as a 'buffer' to meet peak demand across the organisation, as is the case in a wide range of organisations.

Indeed, agency staff are prevalent in UK industry in general^{xxxiii}. The TUC reported that there were at least 700,000 agency workers in the UK at the end of 2004^{xxxiv}, and other estimates are significantly higher. According to CIETT, the International Confederation of Temporary Work Businesses, 27% of companies most often use temporary agency workers to fill in for staff absences.

Nearly 86% of temporary employees worked in the service sector^{xxxv}. Agency staff are becoming a common resource for organisations to draw on when full time staff are absent, but it is often not a simple matter of substituting one individual with another.

There are number of drawbacks associated with agency staff. Firstly, agency staff are more expensive than regular employees (and therefore associated with higher costs). They are also less efficient than full time Parcelforce Worldwide employees. And finally, they are also unable to make the critical contribution that regular workers do to building Parcelforce Worldwide's relationship with customers and reputation for reliability.

Apart from the additional accounting cost of agency services, depot managers indicated in detailed interviews that agency staff often lack the detailed knowledge of delivery routes and customers that regular drivers have. Conditions on routes can be uncertain, and route maps out of date. Interviews with depot managers indicate that regular drivers are twice as effective as agency drivers.

Regular drivers also provide an essential channel for feedback from customers and can be instrumental in generating new business leads. Regular Parcelforce Worldwide drivers are regarded as brand ambassadors and ‘the eyes and ears’ of the organisation. They are able to address specific customer problems as they arise and feedback issues to management. Beyond customer feedback, regular drivers can pick up proposals for new business, with some depots formalising a follow up process for any leads identified by drivers. The better the reputation for reliability, and the better the flow of information from drivers, the easier it is to retain existing customers and to win new customers. Agency staff are unable to support this function in the same way. This suggests that reducing dependence on agency staff – should be a key priority for depot managers.

Effect of agency usage on performance indicators: the evidence

- A 1% increase in absence over a year across 48 Parcelforce Worldwide depots corresponds with a £288,000 loss in net income over the year
 - This loss reflects the additional cost of hiring agency staff
 - This also reflects the lower efficiency of agency staff
- These figures are smaller than the earlier estimates of the ‘book cost’ of using agency workers. A likely reason is that they reflect a number of adjustments made by managers and staff at the local level in order to keep costs down. Such adjustments often require considerable flexibility on the part of depot employees, something which often depends on good working relationships at the local level.

Table 2. Effect on key performance indicators of sick absence via use of agency workers 2005-06

	Net income per head / day	Unit costs (£)	Parcels delivered
One person increase in agency usage	£288,146 reduction on an annual basis across 48 depots	Additional unit costs of £186,428 on an annual basis across 48 depots	A fall in parcels delivered on time of 812,791 per year

All estimates are subject to a margin of statistical error. The results on which these figures are based were significant at the 1% level. See the forthcoming technical paper.

In summary:

This chapter has outlined:

- That the business case for investing in health and wellbeing policies is significantly strengthened by examining their effect on reducing Parcelforce Worldwide’s dependence on replacement labour including agency workers
- This is because agency staff – a principal buffer used by Parcelforce Worldwide and a wide range of organisations to meet peak demand – raise unit costs, reduce productivity, Quality of Service and net income
- Agency staff are half as efficient as full time equivalent Parcelforce Worldwide employees

- Reducing dependence on replacement labour through cutting agency usage through reducing absence contributes to cost savings, plus improvements in productivity and profitability (net income per head)

5. Chapter Five: Maintaining Quality of Service

The previous two chapters have helped strengthen the business case for investing in health and wellbeing policies as first introduced in chapter two by outlining the hidden, longer-term benefits of such policies including their effect on managers' abilities to hit targets and reduced dependence on replacement labour.

This chapter examines the extent to which absence threatens Parcelforce Worldwide's productivity, as measured by the organisation's ability to deliver items on time. This is measured by Quality of Service, a key performance indicator for both Royal Mail and Parcelforce Worldwide.

Key conclusions:

The chapter sets out the following conclusions:

- Reducing absence within Parcelforce Worldwide has a positive effect on Quality of Service (QoS) by around a factor of twelve to one
- In the context of the modern marketplace, improving QoS directly affects Parcelforce Worldwide's ability to compete in increasingly competitive market for time tracked products
- Hitting QoS targets means Parcelforce Worldwide depots build a reputation with customers for reliable time tracked deliveries
- LSE's analysis reveals that improving QoS increases depots' net income, reflecting customers' willingness to use Parcelforce Worldwide rather than a competitor
- Through its effects on QoS, tackling absence directly enables Parcelforce Worldwide depots to improve net income

Effect of absence on Quality of Service

As indicated earlier, the postal services and delivery market has changed fundamentally in recent years.

For Parcelforce Worldwide, Royal Mail and other companies competing in the time tracked market, reliability is critical as slippage can easily mean the loss of business. Many customers using time tracked services have in turn made promises to their own customers to deliver goods within a particular time period, so they are particularly sensitive to the issue of reliability. In addition, under customer contracts, late time tracked deliveries are made free of charge so Parcelforce Worldwide both loses money and has to pay administration charges.

Quality of Service is a measure used by Parcelforce Worldwide to track the number of items successfully delivered on time. In effect, it is a measure of the business' productivity. It is an index which reflects the proportion of items successfully delivered on time and is calculated as a percentage. Depot managers carefully track the QoS index as even minute changes can have a significant impact on the business:

- The average depot handles 3,854 parcels daily
- 0.1% change in QoS will affect 38 parcels. If one assumes that each of these parcels could be delivered on behalf of 38 different customers, any issues could adversely affect 38 clients' businesses

Time tracked delivery services are especially vulnerable to poor and unpredictable attendance. Therefore, managing absence is critical for maintaining Parcelforce Worldwide's QoS levels, and for enhancing Parcelforce Worldwide's ability to compete for lucrative time tracked delivery contracts.

Reliability is critical therefore to safeguarding Parcelforce Worldwide's reputation, and for enabling it to keep hold of valuable business. Furthermore, enhancing its reputation brings in new business and generates additional income. If depots build a good reputation with local businesses, as indicated by managers in extensive interviews, this can generate additional business. A good reputation with local customers for on-time and reliable collections can increase their willingness to use Parcelforce Worldwide rather than one of its competitors, and this trade will pass through the depot concerned.

Managing absence can directly affect a depot’s ability to build this reputation, by sustaining strong QoS performance targets and generating additional income – effectively sustaining and growing the business.

LSE initially concentrated on demonstrating how successfully managing absenteeism improved Parcelforce Worldwide / Royal Mail’s ability to meet its Quality of Service targets and fulfil its standards of delivery.

Effect of sick absence on Quality of Service: the evidence

As suggested by LSE’s analysis, the key performance indicator Quality of Service is sensitive to absence levels^{xxxvi}.

- Analysis by LSE suggests that for every 1% shift in absence, correspondingly QoS rises or falls by 0.08% or a factor of around 12 to one
- Thus, between January 2004 and May 2007 when Parcelforce Worldwide reduced absence by 2.5%, this would have contributed to a 0.2% increase in QoS

Table 3. Effect of sick absence on quality of service 2005-06

Sick rate	Effect on delivery QoS (%) (QoS is an index which measures the percentage of items successfully delivered on time)
A 1% increase in sick rate	-0.080
A 12.5% increase in sick rate	-1%

Key benefit of health and wellbeing policies: controlling absence increases QoS, in turn improving net income

Sustaining, and where possible improving QoS is crucial for controlling costs since late time tracked deliveries are made free of charge. It is also crucial for retaining and winning new customers and thereby increasing net income or *profitability* (measured by depots as net income per head per day^{xxxvii}).

Absenteeism places a strain on the organisation and its people to meet commitments made to customers for volumes and time tracked delivery. LSE analysis outlined the extent to which improved QoS – due to better control of absence – affected depot managers’ ability to expand the business and improve profitability (as measured by net income per head).

QoS and net income: the evidence

- The analysis reveals that a 1% improvement in QoS corresponds with an improvement in net income of:
 - More than £2,900 per month for the average depot
 - £1.7 million per year across Parcelforce Worldwide group (48 depots)
- LSE analysis indicates that reducing absence by 2.5% between 2004 and 2007 would have contributed to a 0.2% improvement in QoS over that period
- LSE analysis indicates that a 1% reduction in absence is worth more than £179,000 to Parcelforce Worldwide each year
- Analysis by LSE suggests that between Jan 2004 and May 2007, improvements in QoS would have contributed at least £672,000^{xxxviii} to Parcelforce Worldwide’s annual net income

Table 4: effect of absence on delivery QoS^{xxxix}

Delivery QoS: (QoS is an index which measures the percentage of items successfully delivered on time)	Net income per head / day
1% improvement in QoS...(leads to)	£2.17 improvement (per head per day) at depot level
1% improvement in QoS...(leads to)	£2,993 improvement (per month) at depot level
1% improvement in QoS...(leads to)	£1,724,185 improvement (over the year) at group level

In Summary

This chapter has outlined:

- That in a competitive marketplace, maintaining high standards of deliver – as measured by Quality of Service – is critical to enabling Parcelforce Worldwide and Royal Mail to compete
- Successfully tackling absence has a measurable impact on improved Quality of Service
- Improving Quality of Service helps Parcelforce Worldwide managers to build a reputation for improved reliability and improve net income

6. Chapter Six: applying the lessons from Royal Mail Group more widely

In the following chapter, LSE sets out the broader lesson for UK plc and the economy more widely in tackling the issue of health and wellbeing, based on Royal Mail Group's experience.

In further developing the business case for investing in health and wellbeing, LSE concentrated on identifying the effect of the health and wellbeing policies at Royal Mail Group that could most readily be applied to other organisations, and to then understand what the potential financial gain from this would be.

Key Conclusions:

- Royal Mail's success in addressing the health and wellbeing of its employees provides an effective blueprint on tackling absence for the 13 worst performing sectors in the UK in terms of absence rates
- By concentrating on raising attendance in the poorest performing sites and depots and moving them towards average rates, Royal Mail Group has demonstrated a highly effective method of tackling and improving group-wide average absence rates
- Following the example of Royal Mail Group in addressing the 'long tail' of absence among the 13 sectors in the economy that are worst performing in terms of addressing the health and wellbeing of their people is worth **£1.45 billion** to the UK economy

Putting the Royal Mail Group story in context

This section of the report sets out how Royal Mail Group and Parcelforce Worldwide's story of reducing absence could be applied to other high-absence sectors of the UK economy, employing some 25 million workers. The aim is to illustrate how the policies applied at Parcelforce Worldwide and across Royal Mail Group can be effectively used as a blueprint for other UK organisations – with the positive impact of these policies demonstrating the potential benefits of implementing similar policies more widely.

It is important to put the effects of health and wellbeing policies at Royal Mail Group between 2004 and 2007, and specifically Parcelforce Worldwide, in the context of other figures on absence currently in the public domain. Doing this demonstrates the consensus over the *size* of the problem – the cost of absence is a huge drain on the UK economy – as well as illustrating how other organisations view absence, and consequently its management. This in turn shows what the application of Royal Mail Group and Parcelforce Worldwide's model of implementing health, wellbeing and absence management policies and assisting managers in addressing poor absence rates could achieve for these organisations.

To elaborate on this model, from April 2005, an important part of the overall reduction in absence at Royal Mail Group was achieved by improving attendance at the lower end of both organisations, and in the case of Parcelforce Worldwide targeting absence within the bottom 25% of depots in terms of absence rates. An important part of the post April 2005 improvement has come about by raising attendance among the bottom 10-15% of sites and depots with persistently poor attendance rates,.

Interviews with the depot managers have highlighted how both organisations address the challenge of 'bringing up the tail' and how absence management policies are used to keep absence down at Royal Mail Group and Parcelforce Worldwide. The use of manager networks, for example at regional level, allows managers to share ideas of good practice among depot management teams. Becoming aware of an attendance problem, seeking advice from colleagues, and implementing all take time. LSE analysis also highlights the importance to both organisations of good benchmarking, as well as establishing comparable KPIs across depots so that problems can be identified and successes learned from. These are all things that Parcelforce Worldwide managers are supported and trained on.

To put Royal Mail Group's experience in context, figures from the CIPD Absence Survey 2007 reveal the following:

- The average annual cost of absence per employee is £659
- The day cost of absence is £78
- Multiplied across an employee workforce of approximately 25m, this equates to roughly £16.5bn

In comparison, the CBI Annual Absence Survey for 2006 calculated the total annual cost of absence for that year as amounting to £13.6bn. The different figures can be attributed to the fact that the CBI figures took into account the difference between the direct and indirect costs of absence – referenced earlier within this report in relation to Royal Mail Group. Whether looking at the £16.5bn or the £13.6bn figures, the story is still the same; absence is costing the UK economy billions of pounds – and according to the 2007 CBI survey, this cost has begun to rise again^{xi}.

The corresponding direct cost (in terms of wages and employer contributions) of a day's absence for Parcelforce Worldwide in 2007 was about £87^{xii} and £85 at Royal Mail Group. As seen earlier in this paper, the book cost of absence in Parcelforce Worldwide is not very different from that calculated from the CIPD's survey results, so in this respect places Parcelforce Worldwide in a similar position to other organisations which traditionally suffer from high absence.

Looking deeper into the results of the CBI and CIPD surveys reveals that the great majority of the organisations responding to their surveys believed that much sick absence is genuine, and that it is unrealistic to treat the respective headline figures of £16.5bn or £13.6bn as a measure of what can be saved across the UK by reducing absence. From a practical point of view, however, much can be learned from the gap between the sectors with a real handle on absence, and those with the higher absence rates. This gap is more likely to be the result of differences in the effectiveness of absence management than in the incidence of genuine illness.

Scope for improvement based on Royal Mail Group's experiences

Examining table 8, which illustrates the absence rates of 15 sectors covered by the CIPD Absence Survey across the UK, the range of absence varies from 3.7% per year to 5.5%. The CIPD Absence Survey indicates that there is clearly scope for improvement, since two-thirds of the organisations reporting improved absence management policies also reported improvements in their absence rates.

Table 8 shows that the highest absence rates occur in the health, central government, and other public services sectors. Transport, which would include logistics and is therefore relevant to postal services is among the high absence rate sectors. The table concentrates on above average sectors – i.e. those with absence levels above 3.7%. Manufacturing and private services, which are below average, are not shown.

Broadly, Royal Mail Group and Parcelforce Worldwide's experience illustrates an approach that these low-performing public sector organisations could take to improve their absence rates. Royal Mail Group acts as a strong blue print given its public sector characteristics – a commercial business delivering a vital public services – including a long standing relationship with a trade union, employees with long-service and a number of managers which have risen from within the ranks.

These factors suggest that the journey taken by Parcelforce Worldwide in reducing absence from 7 to 4.5% and Royal Mail Group of reducing absence from 7 to 5% could be taken by these other public service organisations. This is because these organisations could also benefit from using health and wellbeing policies to lower the absence rates of within particular parts of the organisation which have a real issue with absenteeism.

Specifically, the lesson for these sectors lies in the approach adopted by Royal Mail Group of raising attendance at the poorest performing sites and depots and bringing them in line with the group average; of consistently and effectively implementing a range of health and wellbeing policies; and empowering managers to show proactivity and wider business understanding of the impact of absence. Other organisations have similar methods of managing absence, but there is huge disparity in the way the policies are used – as demonstrated by the varied absence rates.

Although the great majority of organisations (85%) use policies such as return to work interviews for short term absence and 67% give line managers primary responsibility for managing absence, the picture tails off rapidly in relation to supporting policies (CIPD 2007, Table 24). Only 55% of

organisations provided training for line managers for dealing with absence, and only 24% provided online support facilities, and less than a third provide employee well being policies to support absence management.

One of the key lessons for other organisations is in supplementing basic policies with real support and training for managers, to empower them to add value to things like the return to work interviews. The Royal Mail Group story, and particularly the evidence from interviews with operations managers, highlights how important these additional policies can be. Line managers need support if they are to take the lead in return to work interviews. Without the systematic records, it is hard to focus the discussion and identify solutions, and without the well being policies as back-up, it is hard to engage in a positive discussion as opposed to threatening a punitive approach.

The approach developed by Royal Mail and Parcelforce Worldwide could be especially relevant to some of the sectors with high absence rates, such as health, education and government. These are also large employers of women workers. As is well-known, responsibilities for caring for children, the elderly and the sick are not equally shared between men and women in our society. A frequent cause of absence from work arises from the tension between domestic and work responsibilities. The one-to-one interviews between line managers and employees returning from absence were found to be especially useful in helping managers explore the support given by the, the training, advice and general facilities, all which they can draw and use to identify adjustments which benefit both parties.

Calculating the financial gains of the Royal Mail Group model

LSE used the approach at Royal Mail Group and Parcelforce Worldwide in terms of bringing absence rates in the poorest performing sites in line with the average to understand what savings could be achieved across the UK if the worst performing sectors were to do the same.

LSE examined the cost benefit and potential savings of the worst 13 sectors (outlined in table 8) bringing their absence rates down to the average of 3.7% (as identified by the CIPD), using the Parcelforce Worldwide approach.

Based on figures in Table 8, and focusing on direct costs, this report estimates that the gain across these sectors of following the Royal Mail Group example and implementing a range of measures to address the health, wellbeing of the workforce and reducing absence in the worst performing areas of the organisation would be about £1.45bn^{xiii}.

This figure is smaller than headline figures reported by the CIPD and CBI, but is a more realistic indication of the saving that can be achieved considering that achieving 0% absence (as assumed by the CIPD and CBI calculations) is not realistic.

That need not exhaust the scope for improvement, as organisations at the average position could also seek to narrow the gap with the leaders in terms of work attendance.

Manual and non-manual employees	Absence rate (%)	Average working days lost per year per employee	Cost per employee per day lost / year (£)	Cost saving per employee per year if absence cut to UK average	Number of employees (% by sector)	Grossed up annual cost for all employees in sector (based on LFS weighted estimates) (£)
Health	5.5	12.6	65.3	274	7.8	579,706,000
Central Government	4.9	11.1	61.1	165	2.6	112,478,000
Housing associations	4.6	10.5	73.8	155	0.9	35,784,000
Charity services	4.6	10.5	74	155	1.4	56,647,000
Other public services	4.6	10.4	70.9	142	5.7	215,977,000
Transport, distribution and storage	4.5	10.3	56.4	107	2.2	60,653,000
Public services	4.5	10.3	71.1	135	0.0	/
Education	4.2	9.6	76.4	92	10.0	248,562,000
Non-profit organisations	4.2	9.6	67.5	81	3.4	/
Food, drink and tobacco	4.1	9.4	52.4	52	1.5	21,011,000
Paper and printing	3.9	8.9	140.4	70	1.8	33,559,000
Care services	3.9	8.9	61.3	31	0.6	5,218,000
Retail and wholesale	3.9	8.8	43.8	18	15.2	69,054,000
Local Government	3.7	8.5	80.2	0	5.5	11,628,000
AVERAGE all sectors	3.7	8.4	78.5	/	26,056,000	/
TOTAL COST SAVING FROM REDUCING ABSENCE RATES IN THE WORST PERFORMING SECTORS TO AVERAGE RATES £1.45 billion						

Source: CIPD Absence Survey 2007 (Based on Tables 1 and 13), and the ONS Labour Force Survey for employment weights. Where the LFS did not provide the necessary detail, the number of organisations responding to the CIPD survey was used to apportion the weights

Note: the matching of LFS employment sectors to those assigned to the organisations responding to the CIPD survey can be only approximate.

In Summary

This chapter has outlined:

- Key to Royal Mail Group's approach in tackling absence has been focusing on bringing up the 'long tail' of absence in terms of addressing high rates of absence in poor performing sites and depots and bringing these in line with the average
- That Royal Mail Group's approach to addressing the health and wellbeing of its people and in reducing absence provides an effective blueprint for the 13 worst performing sectors in respect of absence rates

- Tackling absence using Royal Mail Group's approach and addressing absence rates in these 13 worst performing sectors would be worth £1.45bn to the UK economy

7. Conclusion

Over the last few years, Royal Mail Group has invested in a wide health and wellbeing policies benefiting its 180,000 workers. It has done this for various reasons.

First, the organisation's commitment to promoting and sustaining the health, wellbeing and welfare of its people reflects the organisation's broader commitment and approach to CSR. Royal Mail Group is committed to improving the lives of its workforce, their families, and of local communities.

The problem of absence facing the organisation between 2002 and 2004 was costing millions.

And thirdly, Royal Mail Group needed to boost the productivity and morale of its workforce in order to effectively compete in a newly liberalised market place.

The significant challenges facing the organisation required a bold approach. Innovative, leading edge health and wellbeing policies designed to address the root causes of absence were introduced on an unprecedented scale. These tackled the biological, social and psychological causes of absence. They carefully balanced support for employees with a firm but fair approach.

Analysing the effect of these policies at Royal Mail Group has enabled LSE to outline a strong business case for investing in health and wellbeing policies. These policies have:

- Enabled the organisation to reduce absence and keep it at a low level
- Saved millions across the organisation and brought thousands of employees back to work
- Delivered a wide range of hidden benefits, including improvements in productivity, profitability and performance
- Allowed Royal Mail Group to attract and retain excellent people
- Improved delivery standards and levels of service for customers

For Royal Mail Group, tackling absence has been a critical factor in helping the organisation towards meeting its objective of becoming demonstrably the best and most trusted mail company in the world. The blueprint that Royal Mail has set should provide a benchmark for other UK organisations to follow.

Following this blueprint will have significant benefits not only for individual organisations themselves. In the case of the UK's worst performing sectors, Royal Mail Group's example could provide a significant boost to the health of the UK economy.

Glossary

ⁱThis draft has been prepared by David Marsden on the basis of joint work assembling the data by David Marsden, Simone Moriconi and Bethania Antunes. The interviews were carried out by David Marsden. We wish to express our thanks to all those who have given up their time to help provide the information on which this report is based, as well as Chris Lauwerys and Depali Sanghvi of Blue Rubicon. We also acknowledge the help of Sue Fernie, Rafael Gomez and Paul Willman in the early stages of this work. David Marsden is Professor of Industrial Relations at the London School of Economics and an Associate of LSE's Centre for Economic Performance, and Simone Moriconi is a researcher at the Centre for Economic Performance.

ⁱⁱ CIPD Annual Employee Absence Survey 2007

ⁱⁱⁱ Royal Mail operates from 69 Mail Centres around the UK and 1,400 delivery offices. Employees number 168,000. Altogether, they handle almost 83 million items every working day. These are then delivered to 28 million addresses around the country. Parcelforce Worldwide is a more streamlined operation, with 4,176 employees. There are 48 depots, but 2 major hubs, one of which handles national parcels, and the other has an international remit. Operating with 1,600 vehicles, Parcelforce Worldwide's network delivers 185,000 parcels a day – with this being upped to 267,000 every day in December

^{iv} 1% of the workforce (1800) x £85 day rate (used throughout this report as the day rate used by Royal Mail Group) x 228 days in the year = £34,884,000. To this figure must be added the costs of absent duty being covered by replacement labour (either overtime or agency staff). The cost of replacement labour is based on a conservative estimate of £100 per day, a guideline given to depot managers. In practice, it is likely that the cost of extra agency staff and overtime is somewhat higher than this figure. Therefore the cost of 1% absence at Royal Mail Group due to replacement labour is £41,040,000 annually (1% of the workforce (1800) x £100 x 228 = £41,040,000). In total, a 1% rate of absence therefore costs Royal Mail Group £75,924,000 a year (£34.8 million + £41 million).

^v This calculation is designed to take account of the gradual reduction in absence over the three year period. LSE calculates the effect of the policies across Royal Mail Group using a cumulative average of the reduction achieved over the three years. Using the average of 0.66 (2% averaged over 3 years) This assumes that a 0.66% reduction was achieved in the first year and should be assumed for 2.5 years of the three year period, that a 1.33% reduction was achieved in year two and should be assumed for 1.5 years of the three year period, and a 2% reduction was achieved in year three and should be assumed for 0.5 years of the three year period. Thus the estimate for the benefit of the policies is calculated as:

- STEP 1: 0.66% x £75,924,000 (cost of 1% absence at Royal Mail Group based on direct pay plus replacement labour either through agency cover or overtime) x 2.5 years = £126,540,000
- STEP 2: 0.66% x £75,924,000 (as above) x 1.5 years = £75,924,000
- STEP 3: 0.66% x £75,924,000 (as above) x 0.5 years = £23,308,000

On this basis, the total estimated cost saving of a 2% reduction in absence over three years is **£227,772,000**

^{vi} A one percent absence rate amounts to 42 people being absent for one day across Parcelforce Worldwide. The day rate used by LSE to estimate direct costs for Parcelforce Worldwide specifically is £87, therefore direct daily cost of 1% absence including costs or overtime or agency fees is £7,854 (42 x £87 + 42 x £100). The annual cost therefore is £1,790,000 (228 x 7,854)

^{vii} This calculation is designed to take account of the gradual reduction in absence over the three year period. LSE calculates the effect of the policies across Parcelforce Worldwide using a cumulative average of the reduction achieved over the three years. Using the average of 0.83 (2.5% averaged over 3 years) This assumes that a 0.83% reduction was achieved in the first year and should be assumed for 2.5 years of the three year period, that a 1.6% reduction was achieved in year two and should be assumed for 1.5 years of the three year period, and a 2.5% reduction was achieved in year three and should be assumed for 0.5 years of the three year period. Thus the estimate for the benefit of the policies across Parcelforce Worldwide is calculated as:

- STEP 1: 0.83% x £1,790,712 (cost of 1% absence for Parcelforce Worldwide based on direct pay plus agency cover) x 2.5 years = £3,730,649
- STEP 2: 0.83% x £1,790,712 (as above) x 1.5 years = £2,238,389
- STEP 3: 0.83% x £1,790,712 (as above) x 0.5 years = £746,129

On this basis, the total estimated cost saving of a 2.5% reduction in absence over three years is **£6,715,167**

^{viii} Income per head per day is a target set for depot managers in terms of the amount of income generated by each of their employees. It reflects managers' ability to keep costs low whilst allowing enough slack to grow throughput or volume of items delivered. LSE analysis reveals that a 1% increase in absence corresponds to a £1.65 reduction in income per head per day. Across the group, this equates to a £1,317,644 improved in income per year

^{ix} LSE analysis indicates that one additional full time member of agency staff across 48 depots equates to a £269,963 reduction in net income over a year. The same analysis by LSE reveals that a 1% reduction in absence is equivalent to about 1.2 less agency staff per depot which LSE calculates is equivalent to adding £319,000 to annual group net income

^x To understand how much falls in absence at Parcelforce Worldwide affected net income through reduced dependency on replacement labour, LSE has calculated the effect using a cumulative average of the reduction achieved over the three years. Using the average of 0.83 (2.5% averaged over 3 years), this assumes that a 0.83% reduction was achieved in the first year and this should be assumed for 2.5 years of the three year period, that a 1.6% reduction was achieved in year two and should be assumed for 1.5 years of the three year period, and a 2.5% reduction was achieved in year three and should be assumed for 0.5 years of the three year period:

- STEP 1: 0.83% x £319,109 (change in net income due to 1% fall in absence) x 2.5 years = £664,810
- STEP 2: 0.83% x £319,109 (as above) x 1.5 years = £398,886
- STEP 3: 0.83% x £319,109 (as above) x 0.5 years = £132,962

On this basis, the total estimated cost saving due to reduced dependence on replacement labour as a result of a 2.5% reduction in absence across Parcelforce Worldwide over three years is **£ 1,196,658**

^{xi} Quality of Service (QoS) works as a measure of productivity. It is an index which reflects the proportion of items successfully delivered on time, calculated as a percentage. LSE calculated that a 1% reduction in absence was worth £179,207 to Parcelforce Worldwide annually in terms of improved QoS. To calculate the cumulative effect over three years of a 2.5% reduction in absence, LSE used the following calculation:

- STEP 1: $0.83(2.5\% \text{ averaged over 3 years}) \times £179,207 \times 2.5 \text{ years} = £373,349$
- STEP 2: $0.83 \times (£179,207 \times 1.5 \text{ years}) = £224,009$
- STEP 3: $0.83 \times (£179,207 \times 0.5 \text{ years}) = £74,670$

On this basis, the total estimated value of a 2.5% reduction in absence in terms of improved QoS over three years is £672,028

^{xii} This calculation uses Labour Force Survey estimates of employment in these sectors as the weights. Where the LFS did not provide sufficient detail, as on non-profit organisations, LSE used the CIPD response numbers to apportion the LFS employment figures between the individual sub-sectors.

This was calculated as per the following:

- STEP 1 – Take the reported cost of a day's absence from the survey for each sector
- STEP 2 – Multiply that by the number of days saved if each sector were to reduce its absence to the average level (3.7%)
- STEP 3 – Multiply that by employment weights derived from the Labour Force Survey and the CIPD.

For example, Central Government has a reported cost of absence of £61.1 per working day lost. It loses 11.1 days/employee a year through absence, and bringing this down to the average would represent a saving of $11.1 - 8.4 = 2.7$ days. The total saving for Central Gov would be $2.7 \times £61.1 = £165$ per employee. To combine this across sectors, we need an estimate of the number of employees, which is not given by the CIPD, hence the use of the Labour Force Survey. That shows about 682k employees in that sector - multiply £165 by 682k employees to get a sectoral cost of days lost through absence of £112m. This has been done for each sector, and then totalled up to equal a final sum of £1.45bn over 13 sectors.

^{xiii} Statutory sick pay provisions do not apply to absences of less than four days. For long-term absence the calculations are more complex.

^{xiv} The origin of this figure is not entirely clear. According to one source, it was the result of calculations by the late Peter J. Taylor, a former Chief Medical Officer of the Royal Mail made during the 1980s. However, other sources suggested a different origin. Talking to depot managers, it seemed that several were of the view that this piece of received wisdom accorded with their practical experience of dealing with absence in the normal run of their duties.

^{xv} Chartered Institute of Personnel and Development, Absence Management, Annual Absence Survey 2007, CIPD, London. See also the Engineering Employers' Federation (EEF) Absence and Turnover Survey 2005, and its publication 'Fit for Work' (www.eef.org.uk).

^{xvi} Parcelforce Worldwide application for the Business in the Community Award, June 2006

^{xvii} $1\% \text{ of the workforce (1800)} \times £85 \text{ day rate} \times 228 \text{ days in the year} = £34,884,000$. To this figure must be added the costs of absent duty being covered by replacement labour (either overtime or agency staff). The cost of replacement labour is based on a conservative estimate of £100 per day, a guideline given to depot managers. In practice, it is likely that the cost of extra replacement staff and overtime is somewhat higher than this figure. Therefore the cost of 1% absence at Royal Mail Group due to replacement labour is £41,040,000 annually ($1\% \text{ of the workforce (1800)} \times £100 \times 228 = £41,040,000$). In total, a 1% rate of absence therefore costs Royal Mail Group £75,924,000 a year (£34.8 million + £41 million)

^{xviii} This calculation is designed to take account of the gradual reduction in absence over the three year period. LSE calculates the effect of the policies across Royal Mail Group using a cumulative average of the reduction achieved over the three years. Using the average of 0.66 (2% averaged over 3 years) This assumes that a 0.66% reduction was achieved in the first year and should be assumed for 2.5 years of the three year period, that a 1.33% reduction was achieved in year two and should be assumed for 1.5 years of the three year period, and a 2% reduction was achieved in year three and should be assumed for 0.5 years of the three year period. Thus the estimate for the benefit of the policies is calculated as:

- STEP 1: $0.66\% \times £75,924,000 \text{ (cost of 1\% absence at Royal Mail Group based on direct pay plus cost of replacement labour)} \times 2.5 \text{ years} = £126,540,000$
- STEP 2: $0.66\% \times £75,924,000 \text{ (as above)} \times 1.5 \text{ years} = £75,924,000$
- STEP 3: $0.66\% \times £75,924,000 \text{ (as above)} \times 0.5 \text{ years} = £23,308,000$

On this basis, the total estimated cost saving of a 2% reduction in absence over three years is **£227,772,000**

^{xix} With a total workforce of 4,176, as at the end of financial year 2007, a 1% absence rate amounts to 42 people being absent, costing about £3,654 a day. If the workload of each of those people was covered by replacement labour (either agency staff or overtime), the cost would rise by £4,200. On a one-for-one basis, this would raise the cost of a day's absence to £7,854, assuming a daily replacement labour cost of £100. $£7854 \times 228 = £1,790,800$

^{xx} This calculation is designed to take account of the gradual reduction in absence over the three year period. LSE calculates the effect of the policies using a cumulative average of the reduction achieved over the three years. Using the average of 0.83 (2.5% averaged over 3 years), this assumes that a 0.83% reduction was achieved in the first year and should be assumed for 2.5 years of the three year period, that a 1.6% reduction was achieved in year two and should be assumed for 1.5 years of the three year period, and a 2.5% reduction was achieved in year three and should be assumed for 0.5 years of the three year period. Thus the estimate for the benefit of the policies is calculated as:

- STEP 1: $0.83\% \times £1,790,712 \text{ (cost of 1\% absence for Parcelforce Worldwide based on direct pay plus replacement labour costs)} \times 2.5 \text{ years} = £3,730,649$
- STEP 2: $0.83\% \times £1,790,712 \text{ (as above)} \times 1.5 \text{ years} = £2,238,389$

- STEP 3: 0.83% x £1,790,712 (as above) x 0.5 years = £746,129

On this basis, the total estimated cost saving of a 2.5% reduction in absence over three years is **£6,715,167**

^{xxi} 1,800 (1% of workforce) x £85 x 228 days in the year = £34,884,000

^{xxii} 1,800 (1% of workforce x £185 (to the direct wage cost of £85 must be added the costs of absent duty being covered by replacement labour – either overtime or agency staff. The cost of replacement labour is based on a conservative estimate of £100 per day, a guideline given to depot managers. In practice, it is likely that the cost of extra agency staff and overtime is somewhat higher than this figure) = £75,924,000. Several of the operations managers interviewed believed that it took more than one agency person to cover for an absent regular employee, a point confirmed by our statistical analysis. However, other adjustments are also used, such as overtime, and redistributing work among those present.

^{xxiii} See endnote xviii

^{xxiv} Assuming a year comprises 228 working days, as in the CIPD calculations to take account of average holidays, the daily cost per person is £87.0. If we assume it is a short absence of less than four days, statutory sick pay provisions do not apply. Thus with a total workforce of 4,176, as at the end of financial 2007, a one percent absence rate amounts to about 42 people being absent, costing about £3,654 a day.

^{xxv} See endnote vii

^{xxvi} Based on a calculation produced by Royal Mail Group management accountants based in manpower planning

^{xxvii} 1,800 (1% of 180,000 employees) x £289 x 228 working days in the year = £118,605,600

^{xxviii} This calculation is designed to take account of the gradual reduction in absence over the three year period. LSE therefore calculates the effect of the policies using a cumulative average of the reduction achieved over the three years. Using the average of 0.66% (2% averaged over 3 years), this assumes that a 0.66% reduction was achieved in the first year and should be assumed for 2.5 years of the three year period, that a 1.33% reduction was achieved in year two and should be assumed for 1.5 years of the three year period, and a 2% reduction was achieved in year three and should be assumed for 0.5 years of the three year period. Thus the estimate for the benefit of the policies is calculated as:

- STEP 1: 0.66% x £118,605,600 (cost of 1% absence for Royal Mail Group based on estimates for the indirect cost of absence) x 2.5 years = £197,676,000
- STEP 2: 0.66% x £118,605,600 (as above) x 1.5 years = £118,605,600
- STEP 3: 0.66% x £118,605,600 (as above) x 0.5 years = £39,535,200

On this basis, the total estimated cost saving of a 2.5% reduction in absence over three years is **£355,816,800**

^{xxix} The measure that Parcelforce Worldwide uses is items delivered per full time equivalent worker, equivalent to headcount. It reflects the specific make-up of Parcelforce Worldwide staff and records two half-time workers as one full time equivalent employee

^{xxx} Targets should be distinguished from actual productivity or net income. The targets are used to steer the business and to guide the decisions of individual depot managers but they are distinct from the actual performance measures achieved. If head office raises a depot's targets, they may become more difficult to achieve, but performance can still rise. Thus a depot can increase productivity or net income in the current period but still have a large shortfall because targets have been raised

^{xxxi} Income per head per day is a target set for depot managers in terms of the amount of income generated by each of their employees. The net income per day reflects managers' ability to keep costs low – running their operations at peak capacity – whilst allowing enough slack to grow throughput without placing undue strain on employees. The more tightly they can run their operations, keeping their operations lean, and where possible increase their share of more profitable, time tracked delivery, the greater the net income per head per day figure

^{xxxii} The original estimates were calculated on the basis of productivity in terms of parcels delivered per full-time equivalent person per day; unit costs in terms of direct costs per parcel delivered per day; and profitability in terms of net income per head per day. Measures were standardised per day because accounting months differ in length, and where relevant 'per head' to take account of differences in employment size among depots.

All the figures based on the statistical analysis in this report are subject to a margin of statistical error. Only reported are those results on which such error is fairly small by conventional standards. Full details will be made available in a longer technical paper to be published by LSE.

^{xxxiii} In Spring 2004 the sector breakdown for temporary agency staff was as follows:

- 43% worked in public administration, education and health
- 17% in distribution, hotels and restaurants
- 13% in banking, finance and insurance
- 9% worked in manufacturing.

^{xxxiv} <http://www.tuc.org.uk/law/tuc-9098-f0.cfm>

^{xxxv} www.euro-cieltt.org Temporary agency work in an enlarged European Union report

^{xxxvi} These conclusions are based on an unweighted average across depots. The analysis concentrated on depot level data. In theory this should aggregate upwards all things being equal. However, the figures are not held constant in a simple average across depots

^{xxxvii} Income is calculated per employee per day to reflect the fact that depots vary in staff numbers, and variances in numbers of working days in different months. Clearly the more higher value items handled by a depot, the greater the ratio of income per head of employee

^{xxxviii} Quality of Service works as a measure of productivity. It is an index which reflects the proportion of items successfully delivered on time, calculated as a percentage. LSE calculated that a 1% reduction in absence was worth £179,207 to Parcelforce Worldwide annually in terms of improved Quality of Service. To calculate the cumulative effect over three years of a 2.5% reduction in absence, LSE used the following calculation:

- STEP 1: $0.83(2.5\% \text{ averaged over 3 years}) \times \text{£}179,207 \times 2.5 \text{ years} = \text{£}373,349$
- STEP 2: $0.83 \times \text{£}179,207 \times 1.5 \text{ years} = \text{£}224,009$
- STEP 3: $0.83 \times \text{£}179,207 \times 0.5 \text{ years} = \text{£}74,670$

On this basis, the total estimated value of a 2.5% reduction in absence in terms of improved QoS over three years is £672,028

^{xxxix} **Likely underestimation of the effectiveness of controlling absence on improved QoS and net income.** It is important to recognise that we observe absence and health policies in conjunction in Parcelforce Worldwide so it is not possible to separate them, or to categorically state that one of these policies was the cause of better attendance.

The analysis conducted by LSE indicates that the relationship between QoS and absence is likely to be non-linear. This means that the strength of the relationship, and the affect of absence on QoS increases at higher levels of absence (illustrated in Chart 4 below). This is important as it suggests that it means the strength of the relationship between absence, QoS, and net income is likely to be underestimated.

For an individual depot, small changes in absence are unlikely to be particularly harmful to quality of service, but large ones can play havoc with it. What the figures do suggest however is that sick absence rates can fluctuate much more at the level of individual depots. For example, at the level of a typical depot with 65 employees, six employees being absent at the same time gives a rate of over 9%.

^{xl} CBI/AXA absence and labour Turnover survey 2007: Summary, report May 2007, CBI, London

^{xli} Including national insurance and pension contributions

^{xlii} These calculations use Labour Force Survey estimates of employment in these sectors as the weights. Where the LFS did not provide sufficient detail, as on non-profit organisations, LSE used the CIPD response numbers to apportion the LFS employment figures between the individual sub-sectors. This was calculated as per the following:

- STEP 1: Take the reported cost of a day's absence from the survey for each sector
- STEP 2: Multiply that by the number of days saved if each sector were to reduce its absence to the average level (3.7%)
- STEP 3: Multiply that by employment weights derived from the Labour Force Survey and the CIPD

For example, Central Government has a reported cost of absence of £61.1 per working day lost. It loses 11.1 days/employee a year through absence, and bringing this down to the average would represent a saving of $11.1 - 8.4 = 2.7$ days. The total saving for Central Government would therefore be $2.7 \times \text{£}61.1 = \text{£}165$ per employee. To combine this across sectors, we need an estimate of the number of employees, which is not given by the CIPD, hence the use of the Labour Force Survey. That shows about 682,000 employees in that sector. Multiply £165 by 682,000 employees to get a sectoral cost of days lost through absence of £112m. This process was repeated for each sector, and then totalled up to equal a final sum of £1.45bn over the 13 sectors with above average rates of absence.