What every employer needs to know about staff costs

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The Zimbabwean economy has made a turn in the wrong direction once again, and most employers and employees are now reliving the horrors of the 2008 hyperinflationary environment. The cost of living is going up on a daily basis, while employees are struggling to make ends meet with current earnings. While most employers have made an effort to increase employee earnings through various means, the exchange rate fluctuations are fast eroding these adjustments at an alarming rate posing compensation adjustment sustainability concerns. The current environment has made managing staff costs a nightmare for most businesses.

For a long time Staff costs have been known to contribute significantly to operational costs with most organisations, in my opinion, spending an average of 49% of total operational costs and 40% of income on staff costs. As such successful businesses will be those that are able to efficiently manage their staff costs. Volatile business cycles mean that success of businesses in Zimbabwe and abroad hinges on extremely flexible, proactive and responsive staff costs control.

Managing staff costs effectively and efficiently is a vital skill that requires attention to numbers, sensitivity to the needs and morale of staff, being decisive in complex scenarios, and a determination to monitor and react to an ever-dynamic business environment.

In broader terms, staff costs are those of employees on a full time or part-time employment contract with an organisation. They are made up of gross wages, salaries, commissions, and employer contributions to national social security and the cost of all other fringe benefits.

Other organisations separate staff costs into two classes namely direct staff costs and indirect staff costs. Direct staff costs include wages for the employees physically making a product, like workers on a car assembly line. These costs can be directly traced to a finished product or service. On the other hand, indirect costs are associated with support labour, an example being employees that maintain factory equipment but don't operate the machinery themselves.

Direct staff costs are more likely to vary with the volume of business while indirect staff costs may remain fixed. Each business unit in a departmentalised organisation may have the minimum number of staffing, this is considered fixed staff costs whereas additional employees as required by a business as volume varies are regarded as variable staff costs.

Line managers have an absolute responsibility to control costs and among them staff costs which are by far the largest in terms of expense amount. This means that whatever outcome of their cost containment strategy good or bad, it is their total responsibility. Line managers need to invest their effort where it yields the greatest return, they should focus their efforts on controlling their staff costs efficiently.

In the event that line managers had no other responsibilities, managing staff costs could have been simple, but maintaining sufficient staffing levels to properly serve shareholders' interest is also a major requirement of their jobs.

Staff costs drivers refer to any factors that cause the change in the value of staff costs. The cost drivers are the link between business activity and staff costs. For instance, recruitment is a staff cost driver and the metric is headcount as it influences total recruitment cost. Headcount, in turn, is influenced by the business model depending on whether it is capital or labour intensive. The concept can be demonstrated by capital intensive manufacturing industries that have managed to invest in heavy machinery and robots while the banking industry introduced ATMs, whereas service industries like hotels largely remain labour intensive as their activities rely heavily on human intervention.

Business cycles can see staff costs varying during a particular year as seasonal fluctuations determine headcount. Work hours are another example of staff costs drivers as they determine how much an employee will be paid in the form of normal time or overtime remuneration. Leave liability is also another driver of staff costs as there are incidents were organisations end up offering cash in lieu of leave for employees that have accumulated many days and it will be imperative that they remain at work.

The location of the organisation plays a role in determining staff costs as evidenced by the remuneration disparity between urban areas and rural areas which is influenced by cost of living. Organisation‘s skills demand and workforce supply in a particular location also determines staff costs. Several organisations located in areas with less educated workforce have ended up offering financial incentives for skilled employees to relocate to their areas of business.

Task difficulty determines the level of education and skills required to perform a job implying that the more complex the job is the higher the staff costs and vice versa. The efficiency of the business contributes to staff costs in several ways. Poorly maintained equipment, unproductive meetings and shortages of basic materials all increase labour costs. Inefficient scheduling that results in overtime leads to high labour costs. Poor workflow planning, bad building layout that results in more effort and time to complete a task is also likely to increase staff costs.

In light of the several issues highlighted above, managers are strongly urged to perform workforce planning under the guidance of qualified consultants to ensure that they maintain adequate staffing levels and are prepared to meet future demands for more skills. Managing leave liability by scheduling vacations on slow time to avoid replacing staff and watching out for misuse of sick leave helps a lot in containing staff costs. Staff rationalisation should always be the last resort after looking at all business factors, a lesson well learnt by Albert Dunlap who sent most of Sunbeam plc. employees to the unemployment line through an aggressive cost-cutting scheme and still failed to turn around the company.

In a broad and general way, this article discussed the challenges of efficiently managing staff costs and suggested some strategies for doing this. As with any complicated matter, there is no simple solution. It is through the constant application of a number of these principles and strategies that a manager will achieve success in managing staff costs.

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