

LECTURE 9

LABOUR COST CONTROL PRACTICES

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All monies paid out to employees servicing the food and beverage cycle either directly or indirectly form the labour cost. These monies may be paid out in form of wages, salaries, bonuses, incentives, benefits etc.

The cost of labour takes up a great percentage of the operation's expenditures. Managing the cost of labour should not automatically translate into maintaining a minimum wage. This is particularly because employees are the most important asset within any organization; therefore, it is paramount that their needs are somehow addressed in order to motivate them into enhancing organizational performance.

Labour cost control entails employee management efforts aimed at maximizing productivity by strategically allocating appropriate resources. The assumption is that satisfied employees are motivated in attaining organizational objectives. Labour cost control objectives are achieved by concentrating on certain principles. These include:

1. Production should be planned for by ensuring that all activities and processes are streamlined for an ideal utilization of labour.
2. Standards ought to be established through work, time and motion studies for precision in cost of labour and control activities.
3. A labour budget needs to be prepared for any variations on costs to be observed.

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4. All forms of remuneration used should be studied to establish their effectiveness in the operation.
5. Records on efficiency of labour should be maintained in order to guide management decisions on cost of labour.

The difference between the budgeted and the actual cost of labour is indicated by a variance which can be determined through:

- a. Labour Cost Variance = (Standard time × Standard Rate) – (Actual Time × Actual Rate)**

Labour cost variance indicates a difference between the standard and actual labour cost for direct labour. Ideally, the actual labour cost should be lower as this indicates that work was completed within the specified range.

- b. Labour Rate Variance = (Standard Rate – Actual Rate) × Actual Time**

The rate is established for indirect labour by the hour for all hours worked.

- c. Labour Efficiency Variance = (Standard Time – Actual Time) × Standard Rate**

Efficiency is achieved when work is completed within the standard time otherwise a variation is observed. In case labour is diversified, variations are captured by using the standard time and rate for each division.

- d. Idle Time Variance = Idle Time × Standard Rate**

Idle time may occur as a result of go slows, breakdown of equipment, power outage, presenteeism etc. Idle time variance indicates abnormalities in utilization of labour by use of time.

The primary goal in labour cost control is to utilize labour efficiently and economically. To do this, the following activities can be used.

- Implementation of labour budgets
- Preparation labour reports
- Utilization of performance measurement procedures
- Using objective methods of measurement and production planning
- Adopt an appropriate accounting system
- Practice fair and equitable compensation

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The human resource department tasked with management of labour supports an operation by ensuring the welfare of its labour force. The department contributes to the control of labour by;

- Effectively conducting recruitment and selection
- Planning for training and overseeing training programs
- Preparation of job descriptions, specifications, analysis etc.
- Conducting performance management and appraisal
- Providing a safe working environment
- Supervising on time management
- Managing all compensation efforts
- Maintaining appropriate records

The human resource team liaises with the accounting department in the analysis and evaluation of various costs pertaining to labour as well as the compilation of various cost reports.

Time Management

In matters labour cost control, time management refers to any actions taken to ensure that the labour force effectively utilizes the time for which they are compensated. Time is officially allocated to different events such as checking in to work, lunch breaks, closing etc. as such, the workforce is paid according to the amount of time worked and this necessitates the need to supervise how time is utilized to ensure maximization in outputs.

Data gathered on how the workforce utilize an operation's time is used in the preparation of the payroll as well as the calculations of the cost of labour for different jobs and departments. Any time that is unaccounted for forms part of idle time. Methods of gathering data on time may be referred to as time keeping and may include:

- a. Attendance sheet or register – one signs the time of arrival and departure against their name. May not be accurate when a large workforce is involved.
- b. Token approach – each member is allocated a number which is indicated on a token. The token is placed in a slot designated for arrival or departure times. A separate slot is used for late arrivals or departure.
- c. Clock cards - one receives an individualized card that is then used to record the time which the member checks in or out. The time is imprinted on the card once it is inserted

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in a recording clock. Other methods used similar to this include the dial and key recorders where the time stamp occurs on a sheet inside a gadget.

On the other hand, time booking indicates how much time each worker spends on a job while at work. Time booking offers a basis for cost control since one is capable of finding out exactly how much time or financial resources were spent during production. From the figures obtained, the department is then able to evaluate performance and establish what should be paid out to the labour force with precision. To maintain time booking data, the following methods may be used:

- a) Time sheets – this could be filled in on a daily or weekly basis depending on the frequency of work. The time sheet highlights the name of the staff along with their output within a specified time.
- b) Job cards – indicate the type of work, time and the wage owed to the employee. The details may be hand-filled or captured by a time clock.

Any method used to monitor on time spent should be strictly supervised to ensure accuracy by avoiding false reporting. Another way of promoting this is by maintaining double records. For instance, one could be required to record their arrival and departure time both at the gate or main entrance and in their department or section.

Idle Time – contributes to an increment in cost due to unproductivity. Regardless of caution taken by an operation, idle time can be caused by unavoidable occurrences. However, it is the management's responsibility to ensure that these causes do not persist.

Causes of idle time

- a) Breakdown of equipment
- b) Power outages
- c) Poor planning
- d) Unavailability of materials for input
- e) Presenteeism
- f) Seasonability of work
- g) Strikes
- h) Accidents etc.

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Time and Motion Study – another way of lowering the cost of labour is performing a work study on the standard time that is needed to get a task or job done. An analysis is done and recorded for a series of motions within a job.

The motion study intends to simplify tasks by eliminating unnecessary movements in order to perform an activity in the least possible time and effort. It ensures that workers are well remunerated while production costs are lowered.

Advantages

- Promotes fair distribution of work or allocation of tasks
- Enhances production planning
- Informs on appropriate wage rates for different tasks
- Increases job satisfaction and employee motivation
- Provides an objective method of measuring work done
- Establishes a basis for incentives

Turnover

Turnover refers to the changes that occur in a workforce when some members of staff permanently leave the operation and others are recruited to fill the vacant positions. These employees leave for diverse reasons such as: death, retirement, homecare, better job/ salary elsewhere, poor work environment, poor health or official discharge among others. A high turnover rate indicates internal issues that need to be addressed unless the employees were let go for unavoidable reasons like retirement, redundancy, retrenchments, closure of business etc.

Labour turnover rate within a specified period is denoted by:

$$\frac{\text{Number of Employees Replaced} \times 100}{\text{Total Number of Employees}}$$

A high labour turnover rate should be avoided for the following reasons:

- It costs the operation a lot of time during induction of new employees.
- The operation may experience increased rates of accidents and malfunction of equipment.
- Recruitment and training of new employees is costly.
- Turnover interferes with production and service activities.

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Therefore, in order to minimize this occurrence, the operation needs to:

- a. Foster a good working environment
- b. Implement an appropriate compensation scheme with both monetary and non-monetary rewards
- c. Distinguish between types of talent and manage them accordingly

Compensation of Labour

Compensation is a term that encompasses both monetary and non-monetary rewards for labour. Ideally, compensation should encourage employees to offer their best in performance whilst attracting talent to the operation. A well balanced compensation strategy reinforces an employee's staying power.

Characteristics of a good compensation scheme

- a) Meets both the employer and employees' needs
- b) Maintains a healthy turnover rate
- c) Enhances job motivation and satisfaction of employees
- d) It is acceptable to the unions
- e) Accommodates any abrupt changes
- f) Should not fall too far below what other similar operations offer
- g) Promotes fairness and equity
- h) Attracts talent
- i) Promotes the control of labour cost
- j) Complies with legal requirements

Measuring Efficiency

Efficiency refers to one's ability to utilize an operation's resources such as time, manpower, materials and equipment in a manner that guarantees the greatest yield.

$$\text{Productivity} = \text{Standard Output} - \text{Actual Output}$$

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Thus, in order to measure productivity, a standardized figure within a specified time frame ought to be specified. The figure acts as a goal that an employee aims to achieve for them to be considered as being productive.

The actual time taken to complete the task and the output are then compared to the standard. The **efficiency ratio** can be computed through:

$$\frac{\text{Actual Output} \times 100}{\text{Standard Output}}$$

One is termed as inefficient if more work could be done within the same time taken. Ways of enhancing efficiency include:

- Recruiting skilled employees
- Skill training
- Implementing job descriptions
- Employing the right number of staff
- Conducting time and motion studies
- Performing standardization or simplification of work if necessary
- Use of effective compensation strategies

Importance of labour cost control

- a. Manages increase in wage rates
- b. Enhances utilization of labour
- c. Basis for pricing strategies
- d. Enables the maximization of output
- e. Improves labour management practices
- f. Promotes time management
- g. Ensures the operations resources are utilized

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Quiz

1. State the principles any operation should observe in order to be effective in their cost control efforts.
2. Mention various ways labour cost can be controlled.
3. Outline the importance of a human resource management department in controlling the cost of labour.
4. Explain the essence of time management.
5. Describe various methods used in time booking.
6. Discuss how turnover contributes to increased labour cost.
7. Explain how you would enhance the efficiency of your labour force.
8. Outline the essence of controlling the cost of labour.

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