

# Dysfunctionalities as Source of Hidden Costs under Life Quality at Work Constraint

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To Link this Article: <http://dx.doi.org/10.6007/IJAREMS/v4-i2/1790> DOI:10.6007/IJAREMS/v4-i2/1790

Published Online: 09 January 2015

## Abstract

Performance is a concept that is used in all human activities. In practice, companies are spending significant resources to designing more and more complex performances metric systems to be implemented in the control system. However, these control systems can be also a source of pressure on workers with effects on life quality at work place and in the and can generate dysfunctionalities. From this perspective a control system, if not accepted and understand correctly, can be a source of losses and not of performance. In this paper we approach specific techniques of evaluating the effect of dysfunctionalities using hidden cost methodology in relationship with life quality at work place principles.

**Keywords:** Dysfunctionalities, Costs, Quality, Constraint

## Introduction

The complexity of the economic environment under the conditions of competition imposed by market-oriented economies increases the role of cost information in decision-making systems. The cost information is required at least from three perspectives: First, on the cost basis we can decide to manufacture a product, the acquisition or abandonment, being thus influenced the nature of the relationships with suppliers, customers. Second, costs can represent a base for the justification of the sale price. Third, through cost analysis the company identifies the needs for improving the products and the production process.

We can consider the cost, simultaneously, an informational tool and a management tool, used to improve the performance of future organizations. Information provided, through cost, allow troubleshooting the allocation and use of resources, evaluating the viability of alternative strategies, choosing between alternative decisions and evaluating the results various of activity segments.

Constant interaction between the different structures, inside an organisation, and human behaviors affect competitiveness, profitability, efficiency and quality of operating of an organization.

Economic performance was deemed a long period of time, both in theory and in practice, in order to assess the relevance of economic activity. However, some authors consider that social performance represents a strategic advantage (Hamel & Prahalad, 1990). Economic performance has been evaluated through three indicators: productivity, profitability and competitiveness (Naro, 2004). Emphasis was put on the profitability of the invested capital and the creation of value for shareholders through the calculation of EVA and

MVA (Copeland et. al, 1991). These indicators were preferred because they are relatively easy to determine, and the goal of organizations was short-term profit maximization, for shareholders, skipping the potential of human resource organizations, considering it only a cost and not a strategic resource (Cappelletti, 2006). From this perspective, (Pendaries, 2011) considers that performance is a word with a polymorph meaning, having effect in the domain in which it is assessed by different indicators used.

Concerning the overall work of the Organization, its performance has a multidimensional character (Burlaud & Teller & Chatelain - Ponroy & Mignon & Walliser, 2004), including besides economic performance also the social performance. On the one hand, social performance has been linked to employees satisfaction (Savall, 1981), but on the other hand there are also authors who have determined and analyzed the effects of human resource management for economic performance (Pfeffer, 1995), (Shaw & Gupta, & Delery, 2005). Some scholars (Bourguignon, 1995) appreciates the fact that workers constitute the source of competitiveness and that it is necessary a human resource management, not only financial management. In contrary if the organization does not uses a proper human resource management it will affect the quality at work place and in the and a series of dysfunctionalities will affect the overall performance of an organization.

Organization in her activities accumulates a whole series of malfunctions, bad performances, over expenditures, insufficient productivity or effectiveness, which give rise to 'hidden costs' (Savall, 1981) (they are not intentionally hidden, but they are invisible because they are not assessed), these anomalies are malfunctions of the organization's activities and processes, generating "unnecessary" costs. To correct these failures, it takes a whole series of participatory and synchronized actions, which must concern the entire organization, from the manager to the worker.

Following issues generates dysfunctionalities: working conditions, working structure, time management, communication and coordination, integrated training programs and strategic planning. The last ones constitutes the explanatory variables of any economic or social activities, but also sources of settlement of the disturbances.

In the literature, it is argued more and more the need for the identification, detection and analysis of some unaccounted costs. Thus, alongside the costs, which account the resource expenditures, (known as visible costs), a major category of costs used in the reasoning of an economic decision "hides" company accounts (fail to be identified in standard bookkeeping of a company).

In a widely accepted definition, a cost is a hidden cost, if it do not appear explicitly in the information systems of a company, whether we speak about the system of budgeting, financial accounts or management accounting. By analogy, a cost is visible, if it is detected by the information systems used.

Visible costs, although allow quantifying the results and residuals, do not allow an analysis of the cause's existing at the origin of the phenomenon. Hidden costs are related to the quality of an organisation's operation, being associated with the concept of performance with phenomenological origin (e.g. a hidden cost related to absenteeism means that operation of the organisation was disordered by absences of personnel and the structural changes involved by these absences: stops, reorganizations of production cycle, delays, downtime; this cost will include: wages paid to lacking personel, plus cost reated to reorganize the workplace plus wages for replacements, plus injury for delays, plus losses through lack of experience of new personel).

Basically, the hidden costs, are determined by the known causes (quality defects, delays etc.), but their size is "invisible" because expenditure components are diluted and included in the other costs of the organization (cost of production, indirect costs). The main feature is that these costs are produced collectively, no individual is alone responsible for a certain cost, and instead the actor is jointly with other individuals in the production costs.

Since the functioning of an organization's activity generates not only positive but also loss of energy, human and material resources, which affects the outcome, the theory of socio-economic organizations put emphasis on quality of operation of the organization, on its capacity to manage natural resources, material, human and financial. Such an approach enables demonstration of disturbances, which constantly disrupts the activity of the organization. These malfunctions or anomalies refers to the difficulty of functioning, which hinders the Organization to attain its objectives effectively, by exploiting the material resources and non-material in concordance with his objectives. Disturbances creates a negative dynamic and affects the whole organization, representing a wastage of resources and a reason for conflicts.

The incidence of these malfunctions must be evaluated, because the organization must respond to these failures, by identifying the causes and start corrective actions. This actions will involve certain costs, due to the scrap (defects) or due to unjustified salary expenditure size (e.g. absenteeism).

From this perspective, the hidden costs were defined as the monetary quantification of actions to correct the dysfunctions. The economic concept, hidden costs are appreciated as deferred costs and unrealized opportunities, respectively, as an unrealized result of the activity, product etc at the appropriate time.

### **Hidden costs under conditionality of life quality at workplace**

The issue of hidden costs is not limited just to identify them they need also a financial evaluation. To determine the components of the hidden costs in the literature were identified malfunctions (Savall, 2005) that may affect an organization and have been grouped according to the five broad categories of indicators: absenteeism, accidents at work, rotation of staff (incoming, exits, rotation of personal), quality defects, deviations from direct productivity (quantity). Improving these malfunctions, through various actions, will generate a number of additional costs, linked or by human activity, either by a higher consumption of materials and utilities.

To the five categories are assigned to five components of hidden costs. The first three components are expenditure which the undertaking would be able to avoid, at least partially, if the malfunctions are reduced in intensity:

- extra-salaries, corresponding to remuneration payed without work (the compensation granted in certain cases of absence) or remuneration provided to a replacement better remunerated (salary difference), come from the replacement of persons with other persons better paid.
- extra time of work correspond to settlement activities involving extra time over the normal or waste of time (training for the replacement, correction fee of malfunctions).
- Extra consumption, correspond to the additional costs of energy, materials and services (scrap, waste, non-conforming products).

The fourth component is the non-production and is not an expense, but a non-product or a loss of margin, corresponding to lost opportunities to develop and sell a product (and a

cost of expediency). Non-production measured in work time is a lack of activity or stop of working activities due to malfunctions.

The fifth component (non-creation of development potential) is considered an opportunity cost and represents the value creation potential of actions which the undertaking would have been possible, with its own resources, but that it had not been possible due to malfunctioning (time spent adjusting activities can no longer be affected by activities of research and development, training, etc.)

A fifth component (non creative potential) is also considered an opportunity cost and represent shareholder value creation potential that the company could achieve on its own resources, but that has not been performed due to malfunction (time spent tuning activities can not be assigned to research and development, training, etc.)

We believe that it is necessary introduced a sixth component, the risks. They correspond to control activities, perhaps this component is difficult to quantify but may be retained as a possible source counter performance.

The hidden cost evaluation consists in associating each of the five indicators, considered the most representative from social performance perspective, the five components of hidden costs resulted from necessary corrective measurements.

The model shows the causes of hidden costs and their incidence on the performance of an organization:

1. To overspending correspond:

- Over consumption of materials or services valued at the purchase price;
- Over wages because an activity is carried out by a person paid more than the need to carry out that activity or remuneration does not correspond for that work (benefits under certain conditions of absence);
- Over time required to adjustment activities and they are valued based on hourly contribution to margin variable costs (variable cost margin lost for reasons of over time).

2. Non-production (quality defects are time consuming for retouching or replay certain elements which will reduce production offered for sale over the period considered).

3. Non creation of potential or the cost in human time of investment activities to which the organization had to abandon for a certain period, because its employees were concerned about corrective measures in place of dealing with organizational strategy (hidden cost Strategic).

The last two are estimated in hours lost, assessed based on the variable cost margin per hour.

This pattern of determining hidden costs was built by Henri Savall, 1976 and was further developed in the framework of the Socio-Economic Institute for Enterprises and Organizations (ISEOR)

Henri Savall and the team from this Institute have great merit to point out on the existence of relevant costs related to collective responsibility, diffuse, but that may result in an increase in productivity if they are properly managed.

Analyzing the causes of hidden costs and their incidence on the performance of the organization is apparent that they can be broken down into two major parts, the increase in spending and non production.

Only the first four are having a direct impact on the current account, the effect of the non creation of potential will manifest only over upcoming results accounts.

Such a structure can be achieved depending on usage, i.e. historical cost economic and opportunity costs.

The first category is included in the actual visible costs, being effective cost corresponding to the actual loss to the organization. The second category is not included in the visible costs, being represented by the absence of production caused by malfunctioning and represents a discount to the expected financial performance of the Organization, i.e., are virtual costs (costs of potential) of a subtask. Non creation of potential is also a strategic hidden cost.

In conclusion, the quantity of goods consumed, in addition, bear the name of overconsumption, and to human activities of correction correspond on the one hand, overtime and on the other hand a non production. If to correct a malfunction it is necessary the intervention of a person better paid, this will generate over wage. It can identify and calculate the non creation of potential, as the cost of human in time of investment actions, on which the Organization was forced to give up for a certain period, because its employees were concerned about the corrective measures, in place to deal with its strategy and this can affect in the and the quality of life at work with effect on employees efficiency.

In our opinion In terms of quality of life at work and its effects on the Organization, we ask ourselves the following questions:

- quality of life at work generate costs or for-profit organization?

In the current conditions of competitiveness, companies are increasingly concerned with the improvement of economic performance. But they are bound to comply with the logic of sustainable development, taking account of the legislation relating to the environment, ethics, discrimination, etc. This state of affairs shall be transferred, in the end, on the employees, who are obliged to adapt, and each reacts differently to this pressure. Presently it is considered that organizations should avoid favoring economic performance, at the expense of social performance (Bachelard & Carpentier, 2004). Human resource management in Romania, is carried out within the overall framework of the labour code and the social security law, and at this level we can see that there are major differences between the social and economic context in which these regulations have been formulated and the current context, differences that are usually used in favour of the organisation against the employees. From the perspective of sustainable development should be addressed in the present the needs of performance without the mortgage of the production capacity on a long-term basis. But this perspective, in practice, is neglected. As a result, we believe, that the understanding of the psychological dimension is not altruistic purposes but is summed up in the idea that the concern for the individual contributes to the present and future performance of the organization.

The value of the Organization depends on its ability to develop, building on its notoriety, image (brand) and the savoir-faire of the employees. It also depends on the stability of the personnel, its motivation, quality of management and work environment.

All actions for improvement of aspects evoked above, will not only have a positive effect on employees, but also on the performance of the organization.

- What are the effects of disturbances on the quality of life at work?

Existing dysfunctions in the workplace related to work procedures, usually lead to additional times for work tasks, the uncertainty in achieving goals, lack of clarity in activity, bureaucracy and other elements that negatively affect quality of life at work, inducing discomfort, resistance to change, stress and hence lack of employee performance.

In conclusion: in case of dysfunctions, the real work gets usually much longer than the standard task, and putting under pressure will not necessarily determine, per employee, to

do the same job get a shorter time. In these circumstances, the effect will be a reduction in the efficiency of the employee who will be in a position to carry out all its tasks, the standard parameters, not only the tasks affected by dysfunctionalities.

- Adjustment Measures generate positive and/or negative impact on quality of life at workplace?

Adjustment measures have short-term negative effects on quality of life in the workplace, because current studies reveal a resistance to change from employees, regardless of their field of activity, affecting the quality of life in the workplace.

- What is the relationship between performance and quality of life at work?

In studies conducted by Thierry Gautret (Gautret, 2013) emphasizes the link between the quality of life at work and performance of individual employees. He defines an individual's performance as a whole, competences and behavior's assessed by the organization and which are held by the employee, that positively affecting the achievement of the organizations objectives.

The French author demonstrates that individual performance is significantly influenced by the psychological needs of employees: autonomy, skills, connections with important people for himself, but also the ability of the Organization to not generate a stressful work environment.

## **Conclusions**

Hidden costs are related to the quality of the operation of an organization and are phenomenological as origin and are generated by the internal dysfunctionalities. The cost of these dysfunctionalities are hidden to the extent that classic management accounting "drown" or "diluted" this costs in classic cost of products.

Hidden costs represent, in fact, the financial impact (directly on the performance of the enterprise) of the number of disturbances and the chosen adjusting activities, and their level will depend on these two factors. (In the case of identical absenteeism rate, the two organizations can have different hidden costs, if one prefers the use of substitutes; the other one does not resort to this option).

Hidden costs are defined by opposition to the visible costs that have triple feature to be named, measured and monitored.

The proposed assessment shall take into account the integration of economic variables with social ones, demonstrating the interdependence between professional living conditions of workers and hidden costs that will affect the economic performance of the organization.

Institute of Socio-Economic Enterprises and Organisations in France (ISEOR) conducted a global reflection on the hidden costs and created a method for assessment of hidden costs, according to the five pointers aimed mainly on human resource.

The field of hidden costs is only partly assessable. Compressing them cannot be determine 100% a priori.

The result of the identification of hidden costs demonstrates the stake to study them in an organization, in the context in which it is seeking to improve economic efficiency. Thus, reducing hidden costs, by managing them, has a potential effect on the economic and financial results

To reduce costs and increase performance, organizations will need to apply a method of socio-economic intervention (an operational and functional information system, humanly integrated and stimulating through a system of motivation).

An important contribution in reducing the hidden costs belongs to staff; that's why the management of human resources by fostering learning and creation, change is very important. All employees are potential generators of costs, as they can cause dysfunctions.

The approach for managing hidden costs should be included in the piloting of short-term (dashboard) of an organization, to quickly take hold of the first significant effects.

### **Acknowledgement**

This paper is made and published under the aegis of the Research Institute for Quality of Life, Romanian Academy as a part of programme co-funded by the European Union within the Operational Sectorial Programme for Human Resources Development through the project for Pluri and interdisciplinary in doctoral and post-doctoral programmes Project Code: POSDRU/159/1.5/S/141086

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