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CES Working Papers

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Suggested Citation: Sukach, Olga (2014) : Improving the Labour Costs Efficiency at Ukrainian Enterprises, CES Working Papers, ISSN 2067-7693, Alexandru Ioan Cuza University of Iasi, Centre for European Studies, Iasi, Vol. 6, Iss. 1, pp. 171-180

This Version is available at:

<https://hdl.handle.net/10419/198298>

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IMPROVING THE LABOUR COSTS EFFICIENCY AT UKRAINIAN ENTERPRISES

Olga Sukach^{*}

Abstract: *Generally, labor costs are more complicated than other inputs. But wages and labor productivity in Ukraine are significantly lower than in the market economies. Also the share of the basic wages consisted by 61.1 per cent at Ukrainian enterprises. While, the developed countries keep a basic wage at the rate of about 80-85 per cent. Consequently, wage is transformed into one of the version of a social assistance, which in less degree dependents on the results. The main purpose of the article is a theoretical studied of a system of economic indicators of labor costs efficiency and a critical analysis of their calculations in Ukrainian enterprises and abroad. In support of correlation between the share of basic wages and labor productivity the multiplicative model of labor productivity is developed and was practically used by the author on one of Ukrainian enterprises.*

Keywords: remuneration of labor; payroll; labor costs; labor productivity; own-product real wage.
JEL Classification: M52; J31; E22; C38.

INTRODUCTION

Recently, wages and labor productivity are among long-term debated topics. Undoubtedly, labor resources are crucial type of enterprise resources, which influence the competitiveness of companies. Nowadays the remuneration of labor is a problematic question for the Ukrainian economy. As we know, wage level is one of the most important indicators of labor market functioning. In fact, wage is a powerful motivator of labor potential. Unfortunately, it is transformed into one of the version of a social assistance, which in less degree dependents on the results.

Labor costs are segregated from other types of enterprises' costs. On the one hand, labor costs as all other costs are tried to be reduced by a company. As a consequence, we will increase production price and also will reduce profit. On the other hand, the increasing of labor costs leads to higher social tax and social insurance funds to the state budget and also improves levels of incomes and standards of living of the population. The remuneration of labor functions as a stimulator of employees to labor. Rise of labor

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costs on enterprises supposes enhance of labor productivity. And the efficiency results of the wage-fund usage can be obtained by a system of economic indicators. This system allows to estimate efficiency of wage-fund usage and to specify the departmental policy of remuneration of labor.

Recently, the attention of scientific researches and their publications have been focused on the problems of wages, for instance, such authors as T. Dolinina, O. Gamowa, L. Gorelova, S. Gordeev, L. Shevchuk, O. Grishnova, O. Doronina, A. Kalina, I. Laptiy, Y. Romusik, M. Semikina, A. Strup and others. The general organization of management wages is the main sphere of interests and focus of above mentioned authors. Obviously, that confirms the importance of our research as for labour costs efficiency.

1. INDICATORS OF LABOUR COST EFFICIENCY

Generally, in the process investigation of labor costs scientists used different terminology. Thus, V. Kerimov proposed the concept of “wage costs” (Kerimov, 2005). At the same time, V. Ivashkevitch and L. Popova focused their attention on definition of “labor costs” (Ivashkevitch, 2004 and Popova, 2006).

In their study, A. Sheremet, A. Nikolaeva, S. Popolyakiv, considered the term “labor expenses” (Sheremet, Nickolayeva, Polyakova, 2005) and M. Sapozhnikova called “personnel expenses” (Sapozhnikova, 2006). Economic theory interpreted the category of “labor costs” as a total cash income received by the employee for the work done. In turn, L. Shevchuk cited the conception of “labor found” (circulating assets, which are formed from various sources and will be used for defrayal concerned with the following payment: official wages and salaries, social tax) (Shevchuk, 2011).

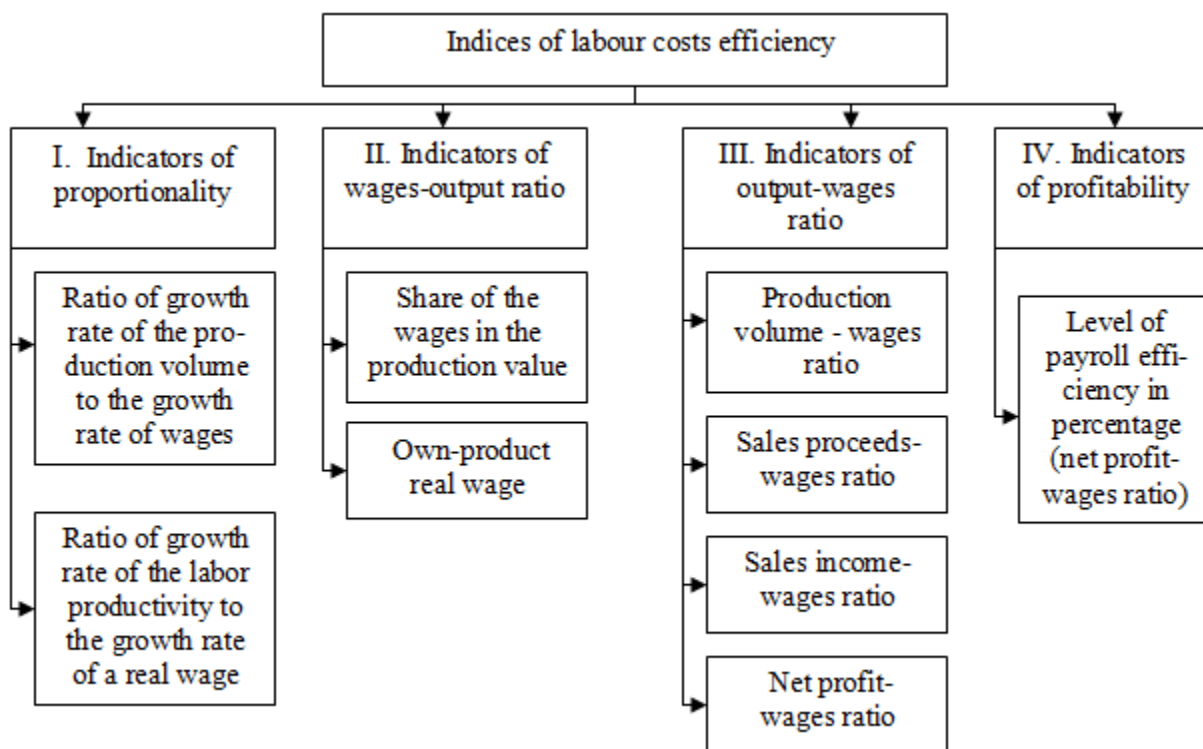
L. Gorelova and S. Gordeev examined the problems in a more comprehensive sense: “Expenses of organization on personnel are basic source to compensate the general costs on the reproduction of labor force. It represents sum of rewards in the monetary and non-monetary forms for the work performed and additional charges for workers’ benefit during the year.” (Gorelova and Gordeev, 2010). A. Liskov also distinguished the above mentioned term and treated it as relations regarding formation and distribution of personnel fund. But the author proposed not to identify the concept of personnel expense with certain directions with a personnel activity (Liskov, 2003).

In practice, the analysis of labor costs comes to analyze the formation and utilization of wage-fund. According to Dolinina (2008), an estimation of efficient use of the wage-fund is necessary for the ground of departmental policy of remuneration labor. The level of wages at enterprises must be established by taking into account a labor market data. However, the financial possibilities of organization play a vital role.

Thus, the generally accepted definition of labor costs efficiency can be represented as the ratio of the results, effects (products company) from labor activity towards the retroactive pay. This figure is called output-wages ratio. Offered method conjectures a determination of the degree of labor costs rationality in the process of creating aggregate output. The important thing is that an improving efficiency guesses increasing of wages and betterment of the performance indicators.

General method of labor costs calculation efficiency conventionally includes four groups of indicators: proportionality, wages-output ratio, output-wages ratio, and profitability (Figure 1).

Figure 1- General activities of labor costs efficiency



Source: Dolinina, 2008.

The following activities are represented in the first group: a ratio of growth rate of the production volume (output, works and services) to the growth rate of wages and a ratio between growth rate of labor productivity and the growth rate of a real wage. Indicators should be calculated twice. In the first case, we are using wages-fund as part of production and sales expenses. In another case, we can use only total payroll.

The second group consists of two indicators, such as the share of the wages in the production value and an own-product real wage.

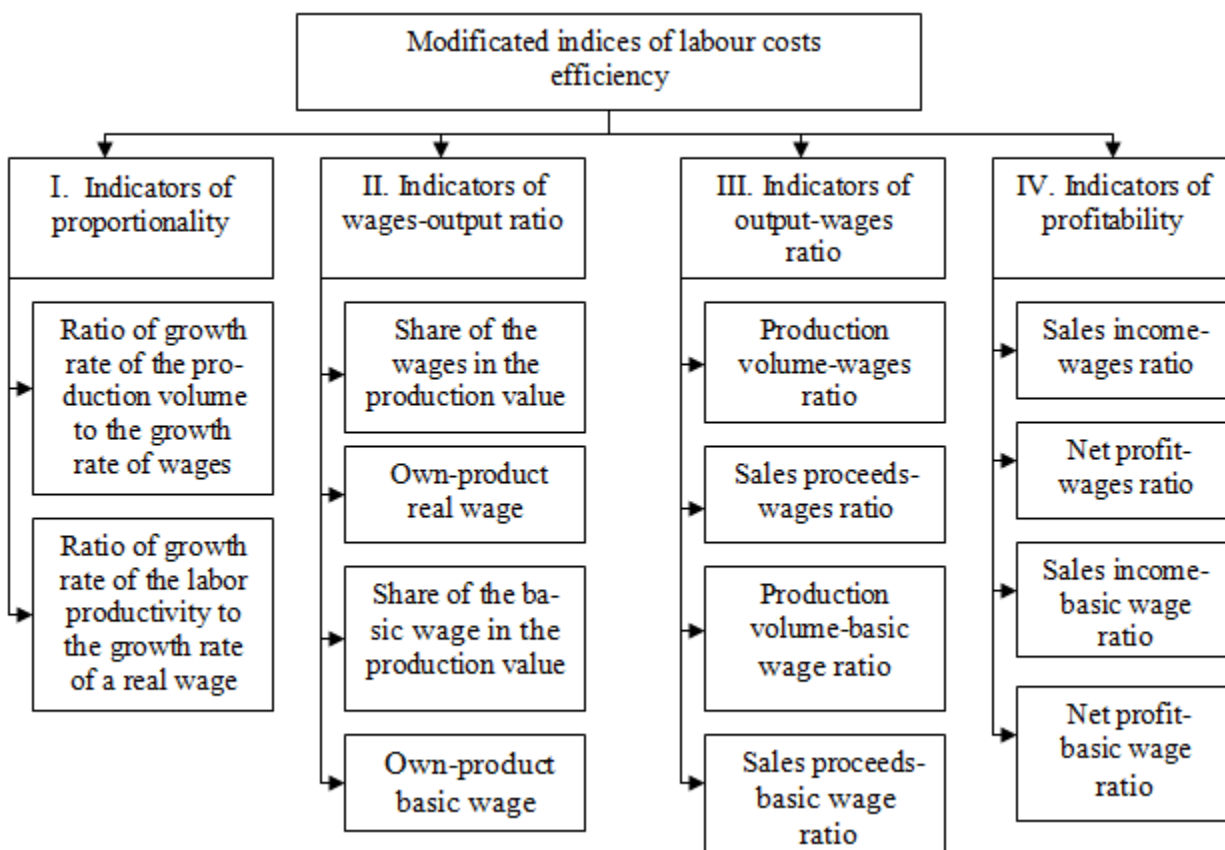
The third group includes four indicators responsible for the results from production volume, sales proceeds, sales income and net profit per 1 hour of payroll. It is also recommended to calculate it twice, as in the first group.

The fourth group has solely one indicator named wages profitability allowing us to estimate the level of payroll efficiency (Dolinina, 2008 and Gamova, 2010).

According to the figure we can find the almost identical indicators. There are net profit-wages ratio and wages profitability. Also one can mention such shortcoming as lack of ratio between results of labor and a basic wage. It is well known merely, that the basic wage distinguishes of another parts of wages-fund governs to perform the general stimulative function. The amount of basic wage forms subject to labor contribution and qualification of a particular worker.

On our opinion it is necessary to: 1) remove the indicators income-labor cost ratio to group of payroll efficiency; 2) remove the dubbed indicator of net profit per 1 hour of payroll; 3) add basic wage to wages-output indicators. Modified activities are represented in the figure 2.

Figure 2 - Modified Activities of Labor Costs Efficiency



Source: author's modifications.

Reducing own-product real wage is a positive result, because it increases the enterprise efficiency level, including the improvement of labor costs profitability. But there exists an opposite effect of own-product real wage. We mean that a low level of mentioned indicator is decreasing the labor efficiency in the final analysis since entrepreneur has not the economic reasons to invest in mechanization and automatization of labor.

Thereunder, we explored the socially unfair redistribution of value added in Ukrainian economy. There is an own-product real wage (a share of wages in GDP) consisted only of 24 per cent. To compare, this indicator in France and Sweden is obtained to 51.6 and 54.4 per cent. And so our economy has underestimation of labor. This is evidenced by a share of labour productivity comprised 15-30 per cent and 10 per cent – average wages in general level EU member states. In-depth study supported to research the standard of wages-output ratio, which was calculated about 4.17 USD/USD in Ukraine. And it is a

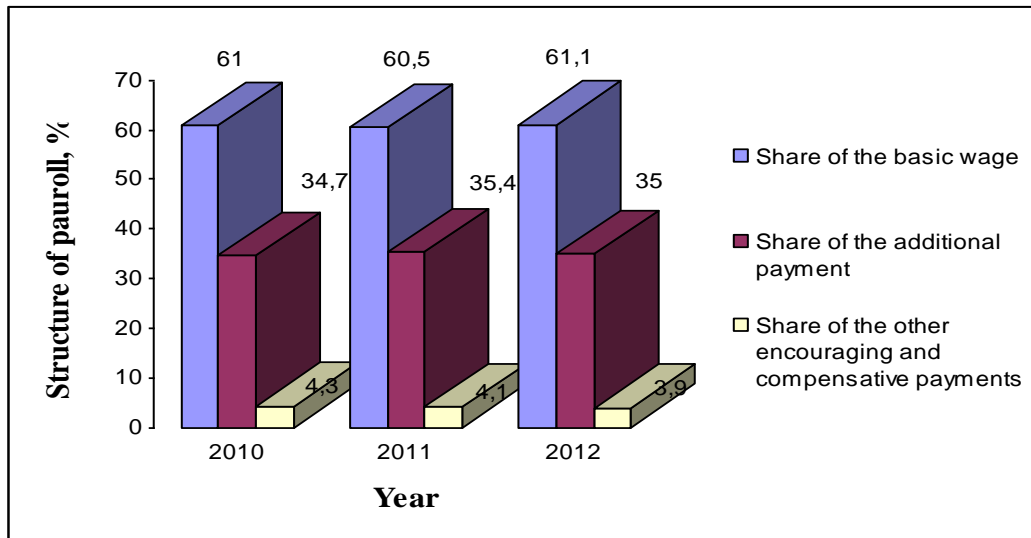
higher standard in comparison with France and Sweden. The appropriate rate calculated less than 2 USD/USD.

According to the activities it is preferable that the labor costs profitability would be demonstrated: the ratio calculated to 83 per cent for Ukraine and around 30 per cent in European countries (International Labor Office database and State Statistics Service of Ukraine, 2011). A general conclusion is made concerning the socially unfair redistribution of added cost. It is obvious, that a major portion of added cost is received by industrialists, unlike to the leading economies, where most part thereof is owned by staff in the form of wages. As a result, Ukrainian economy has the low level of labor productivity and another the interior efficiency indexes. By existing economic conditions, the law ahead of labor productivity growth over the rate of wages growth should not be held in Ukraine.

2. INEFFICIENT REDISTRIBUTION OF WAGES-FUND IN UKRAINIAN ECONOMY

In this case, we can supervise an inefficient redistribution the constituents of payroll: basic wage, additional payment and other encouraging and compensative payments. In 2012, the share of the basic wages consisted by 62.5 per cent in and 61.1 per cent is owned by the industry (Figure 3). While, the leading economics keep a basic wage at the rate of about 80-85 per cent. As we described earlier, increase the share of basic wage costs is a significant condition for motivation and, consequently, enhancement its efficiency (State Statistics Service of Ukraine, 2012).

Figure 3 - Structure of payroll, Ukrainian industry, 2010-2012



Source: State Statistics Service of Ukraine, 2012, accessed at <http://www.ukrstat.gov.ua/> and author's calculation.

In support of correlation between the share of basic wages and labor productivity we developed, theoretically grounded and practically used multiplicative model of working efficiency using the example of Ukrainian enterprise “Odeskabel” (a leading manufacturer of cables), which consists of three factor indices: average wage, sales proceeds-basic wages and the share of basic wage in payroll.

A three-factor model has the following forms:

$$LP = \frac{PR}{SF} \times \frac{SP}{BWF} \times \frac{BWF}{PR}, \quad (1)$$

or

$$LP = LCaver \times SPBW \times BWPR \quad (2)$$

Where:

LP – labour productivity (output per worker);

UAH thousand/person;

PR – payroll;

UAH thousand;

SF – number of stuff, persons;

SP – sales proceeds;

UAH thousand;

BWF – basic wage fund;

UAH thousand;

LCaver – annual average labor costs per employee;

UAH thousand/person;

SPBW – sales proceeds-basic wage ratio, UAH. ;

BWPR – the share of the basic wage in the payroll.

Benchmark data for the construction of multiplicative model of labor productivity is shown in Table 1.

**Table 1 - Influence of economic factors on labor productivity,
Odeskabel, 2008-2010**

Indicators	2008	2009	2010	Absolute divergence (2010/2010)
Payroll, UAH thousand	38009,8	31284	36034,8	-1975
Basic wages-fund, UAH thousand	21448,1	20714,8	24554,9	3106,8
Sales proceeds, UAH thousand	513714	363745	511589	-2125
Number of stuff, persons	1118	895	848	-270
Average wage, UAH thousand/per.	34	34,95	42,49	8,5
Basic wage-output ratio, UAH/UAH	23,95	17,56	20,83	-3,12
Share of the basic wage in the payroll, UAH thousand	0,56	0,66	0,68	0,12

Source: Stock market infrastructure development agency of Ukraine, 2010, accessed at <http://smida.gov.ua/> and author's calculation.

For our analysis we exploited chaining, logarithmic, isolation methods of factors influence. The benefits of the last two methods were detected. In accordance with calculations (performed by means of Microsoft Excel), investigation of the dynamic changes between 2008 and 2010 denoted labor productivity growth by UAH 143800. That was done at the expense of increasing the share of basic wages and annual average labor costs. However, reduction of sales proceeds-basic wage ratio and synergies had pernicious influence.

CONCLUSIONS

By the example of an individual enterprise we confirmed a direct positive impact of increasing the share of basic wage labor costs on the effectiveness of the company performance (labor productivity index). This allows us to emphasize that a low proportion of basic wage in total labor costs is one of the main unfavorable factors in the labor efficiency of Ukraine.

From the results, it is concluded that utilization of an inefficient or an unfair remuneration of labor system decreases labor productivity, goods quality and affects the company performance. Therefore, the assessment of the wage-fund efficiency is necessary to study intra wage policy.

So, present-day market reforms oblige enterprises to keep a competitive status at a high-level and estimation of labor cost efficiency is an inseparable part of their strategy. By this procedure we have the opportunity to improve the no effective functions of labor process, that we will get a maximum effect on employees.

In the future we plan to update the methods of labor cost efficiency more perfectly and they will be calculated on several companies.

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