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## HIDDEN COSTS AND SOCIAL CONTROL MANAGEMENT

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**Abstract:** Social control management differs from classical management control, as operating in a different environment, the people activities and relationships that are established in the organization around the production. Knowledge of wage and social costs of enterprise has two features that make them an exciting scientific approach: it combines chance and necessity. From a certain point of view, there are certain technical and legal issues, arithmetic rules of behaviour developments of wages fund that show the required area. On the other hand there is the variety of players, of behaviors, the effects of training and experience, whose objective quantification is not possible. It thus falls in appreciable, where modeling is impossible. The paper lies in the foreground and shows how, through techniques of analysis of the differences of accounting, can give a sense of the salary fund by decomposing and isolating of a certain number of basic causes or explanatory factors grouped by nature.

**Jel classification: M40, M41**

Key words: social management, fund wages, changes, shaping, scorecard.

### 1. INTRODCION

Management control is defined as a tool to improve enterprise performance. The requirement of an always higher level of quality and of well managed costs is a successful way recognized by all specialists. Information systems such as accounting records most of the costs, but some of them remain difficult to analyze and lead to a lack of gains for the enterprise, for it is not evaluated. Hidden cost is a cost that can not be revealed by information systems such as general accounting, analytical and budgetary. It is a cost related to the company failures that can not be measured. These failures involve additional costs for removing their consequences, such as replacing a person missing, a lack of quality, the absence of rules of evaluation methods, etc. The origin of these costs is linked to several causes, most notably absenteeism, workplace

accidents, staff turnover, quality defects, direct productivity differences. Some of these costs are incorporated into the quantified efforts of the enterprise, others are not. Since the origin of hidden costs relates to the quality of human resources management in the organization and that it has its proper information subsystem is interesting to study the relationship between these costs and the social control management.

## I. Model of analysis and measurement of hidden costs

Any organization can be defined as a dialectical relationship between its structures and human components of actors faced with these structures, namely managers, shareholders, employees, customers and suppliers. The concept of structure reveals, in such a context, a wider vision than of classical management. Researchers<sup>1</sup> have spotted five types of structures, namely physical, technological, organizational, demographic and mental. These structures are characterized by their stability and their poignancy of human behavior and the model recognizes the existence of an interaction between structures and human behaviors. In turn, the last ones are eventually working to change structures. In turn, behaviors were studied through five logics, such as individual, categorical, of activity, affinity and collective, each individual being stimulated by these different logics.

Economic activity arises from complex interactions among these five types of structures and five behavioral logics and cleaves in two parts:

- a) Efficient and effective work;
- b) Failures, defined as differences between actual and self-financing operation.

Research conducted in 27 different countries allowed tracking of six sensitive areas of regrouping failures: working conditions, work organization, working time management, communication- coordination- consultation trio, integrated training and strategic deployment. These failures have been reviewed by semi directive maintenance of all categories of players. They are often signs of some "disorder" of human behavior, the shortcomings of technical and managerial skills, gradually eroding the trust between these actors.

Socio-economic theory of organizations thus establishes a relationship between sociological and economic variables, particularly financial. It gives an important role in explaining the performance of the infrastructure company, which is the cornerstone of its strategic force directly to the company, namely its ability to mobilize all available resources: human, technologic, market, financial. Hidden costs calculus in the social sphere is an extension of cost accounting<sup>2</sup> practices possible to identify major problems by providing a means of entering and exploring the socio-economic system of the enterprise. Martory<sup>3</sup> points the affiliation of hidden costs to social control management, a new element of management systems, in a new and equally dynamic environment. Hidden costs measure loss of economic resources caused by failures that occur as a result of actually employed resources (expenses that have been completed), of current potential resources (lack of added value) and future (not developing potential). Broad

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1 Savall H., Zardet V., "Les couts et la gestion des ressources humaines", dans "Encyclopedie des ressources Humaines", Edition Vuibert, Paris, 2003, p.290-302

2 Savall H., Zardet V., "Hidden costs and managerial practice. Reducing hidden costs to increase efficiency and quality", *Strategie du Management*, no. 171, Dossier "Entreprise", mai 1989

3 Martory B., *Controle de gestion sociale*, Edition Vuibert, Collection Gestion, Paris, 2005, p.6

notion of cost is in the socio-economic theory anything which adversely affect the economic outcome of public or private organizations.

This result is assessed by three indicators:

- a) added value,
- b) self-financing gross margin,
- c) net income (profit-oriented enterprises only).

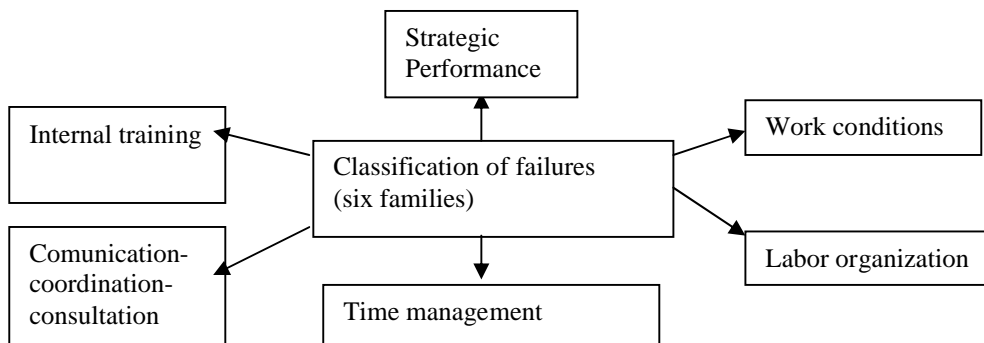
Hidden costs are calculated by means of extra accountable indicators and in this regard do not constitute an integrated system in general and analytical accounting.

Once calculated, the hidden costs are indicators of balanced scorecard. "To speak of social pilotage means to achieve a typical approach, addressing:

- to fix social or socio-economic objectives to be achieved in the short term (one month) or longer-term (one year or a three-year social plan);
- to adjust registered gaps on the road and advance the new desired target .

In this way human resource management becomes a voluntarist dimension, emphasizing a more passive social administration. It involves, such as other functions, mobilizing people to improve performance. <sup>4</sup>

Interaction between structures and behaviors within the company creates six families of failures. Meanwhile, these six families are, explanatory variables of the operation and levers of action for disposal. (Fig. 1). A study conducted in 2007 by ISEOR (France) aims to estimate hidden costs recorded in a majority of the French economy branches (Table 1). Levels are not at all reassuring and they call for a focus of management attention to this important chapter that affects the performance. To reveal the need for action to reduce hidden costs, ISEOR made a study on a team in pilot-scales action (Table 2). In all pilot actions valued reductions of failure were calculated from 4000 € to 80,000 € per person and per year, converted into costs savings, increased performance (especially of turnover) and self-financed development of intangible investment. Simultaneously was obtained an improving satisfaction of those outside (customers, suppliers) and organization members, from managers to worker.



**Fig. 1. The six families of enterprise failures**

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<sup>4</sup> Martory B, Idem, p.4-5

**Table no 1**

Dimensions of hidden costs Activity sectors	Euro/person/year	% of wage fund
Industry:		
Electronics	64800,00	220
Metallurgic	25000,00	80
Appliances	53500,00	150
Glassware	17000,00	50
Agribusiness	15600,00	45
Services:		
Banking	24500,00	45
Maintenance	22400,00	40
Telecommunications	10800,00	35
Town hall	12100,00	40
Distribution		

Source: [www.iseor.com](http://www.iseor.com)

**Table no.2**

**Qualitative, quantitative and financial results of socioeconomic actions to eliminate failures**

Indicators	Qualitative results	Quantitative results	Financial results (euro)
Absenteeism	-greater personal motivation -personalized schedules	-reduce absenteeism due to illness in 3%	800,00
Work accidents	-the best trainings to risk accidents -reducing precipitation		
Staff rotation	-less risks of rotation to new employees -easier training		
Quality defects	-less defects the best regulation to defects -less articles lost	-cut in half the reject rate	3200,00
Direct productivity	-higher speed -the smallest delays	+16,2% on period -reduction of 2.5 weeks of delays	7700,00
Total	*	*	11700,00

Source: [www.iseor.com](http://www.iseor.com)

The evaluation of hidden costs allows overcome the limits of the analytical accounting whose expensiveness cannot be obtained relevant information, to be used in decision-making of the enterprise. Hidden costs are characterized by their high explanatory potential and their ability to support decision making. They allow the introduction into the economic calculation of ergonomic variable, sociological or

psychological, which typically are removed from the normal costs. Another matter which hidden costs method and socio-economic analysis model gives a solution is the combination of economic performance (broadly understood - technical and commercial) and human and social performance. Social performance is related to how to handle the six families of the above failures. Regarding economic performance, it involves short-term size (immediate results) and other long-term scale, which aims to create material and immaterial potential. Therefore the concept of economic performance is different from classical as integrating long term economic effects of current actions and activities that require new measurement criteria of management scorecards.

The fundamental assumption is that there is an area of compatibility between economic and social performance as today's failures that deteriorates the social performance, while causing the emergence of hidden costs that reduce the economic performance. Reducing failures may therefore under certain conditions, to improve economic performance and social performance of the company. Therefore overall performance of the business model is the referential socioeconomic analysis of organizations.

Socio-economic theory suggests organizations simultaneously an explanatory model of failures and hidden costs and a prescriptive model to help developing a proactive strategy. Method of intervention in the organizations is the organization is progressive operation of a hidden costs reduction through a participatory process of change. Reducing hidden costs achieve four objectives:

- a) improving the quality of management, working and enterprise products;
- b) increasing the volume of products / services sold / delivered;
- c) development of creating the tangible and intangible potential;
- d) increasing the actors remuneration (shareholders or employees).

The enterprise transformation process is to act on structures and human behavior after three simultaneous axes of action and process, decisions and tools.

*The action axis* assumes a departure from a socioeconomic diagnosis of failures and hidden costs. Elaborating a participatory method of an innovation project in the field, carrying out the actions, specific sections of the project implementation and, ultimately, the impact assessment and its results on the evolution of behaviors, practices, economic and social outcomes and cognitive representations of the actors. The socioeconomic diagnosis aims to notice and to measure the disturbances and their economic consequences that are hidden costs. It is based on conducted semi directive interviews that allow the recording of the expression of different categories of actors in terms of disruption of their professional life. These meetings answer in addition to their technical function, identification and tracing of failures, also a psychosocial function by listening to stakeholders.

*The device axis* proposes the selection and adaptation of some simple tools of strategic and operational management, some of which relate to how human resources are managed. For their use to be more effective it should be included in a special training plan of management and professionals, who need to know and apply it in best condition.

*The decisions axis* represents the dynamics of its own organization, its management and staff, who take sequential decisions on the structural changes, management systems, especially of human resources management. Strategic innovation arising from these decisions results from the combination of strategic actions on the enterprise infrastructure and stimulating interactive relations which it maintains with

internal and external actors. By reducing the hidden costs of failures, the organization improves its strategic force, thus it stimulate and implement a proactive strategy, focused on internal and external stakeholders.

Moreover, the more a company is a victim of internal and external failures, the more its strategic strength lowers. Proactivity is practiced in five main areas: products, markets, technologies, organization, and human resources.

## II. Management control, the main tool in identifying and preventing hidden costs

Control procedures are contingent on new ways of organizing production. Developing "social control" or human resources management is one of the systems adequate to current environmental developments. Martory considers social control "one of the components and an extension of classical control management, a social support system of pilotage organization, aiming to contribute to human resource management in terms of performance and cost."<sup>5</sup>

The main engine of economic and social development is today the creation of added value. Human resources are not currently able to reliably measure their contribution to human performance of the business, primarily due to lack of appropriate management tools.

Standardizing the results, by setting goals based on accounting and financial indicators, and standardized methods, based on the definition of management rules and procedures, have long constituted the main forms of coordination, mechanisms and control of organizations. In this field were developed the key concepts and tools of management control in classical forms of mechanistic and divisional organization.

The development of new organizational forms, complex and dynamic, no longer rely on such formal mechanisms of coordination and control, but on informal processes of self-control, which reveals the main role of actors in performance management and highlight the need to find ways to integrate the human resource management and management control.

Today, both researchers and practitioners, see generally the management control as a system to regulate behaviors applicable to organizations, that exceed their old skills and involves strong human resource managers, whose task it's to mobilize the greatest added value, people to achieve certain objectives.<sup>6</sup>

Social control management, which complements traditional management control, is an ongoing organized process, involving active participation of human resources function in achieving the objectives which it has set in the development of the company's strategy. Thus it must identify key success factors of organizations human potential and encourage the undertaking of their performance measurement indicators. Its main objectives towards meeting the best condition of his mission and concerns:

1) anticipating social climate development, which ensures cohesion between the centers of responsibility and understanding of social behavior and social dialogue;

2) designing, implementing and running an information system, such as defining and ensuring the operation of databases and scorecards to track employees, their activities, performance and costing records;

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<sup>5</sup> Martory B., *Controle de gestion sociale*, Edition Vuibert, Collection Gestion, Paris, 2005, p.6

<sup>6</sup> Khaboute Z., *Le controle de gestion sociale*, 2008, [www.memoireonline.com](http://www.memoireonline.com)

3) economic analysis and socio-economic management which require a pilot rational analysis of trends such as wages fund, analyze performance trends, state budget gaps in staff costs etc.;

4) implementing in decisions the proposals resulting from socio-economic analysis.

Finally, social control management should enable detailed and relevant quantitative information resulting from the organizations strategy for its human resources.

Regarding the social impact of control management, most authors agree that all its influence has to pass on the wage funds, remuneration, training and human resource performance.

*Wages fund* is all business expenses incurred by the organization by way of remuneration and its calculation is related to the precise definition that is given. According to this definition differs total wages fund, payroll tax and wages fund paid to employees.

Determination of this indicator is linked to the company's ability to pay employees, and further added value.

*Compensation* is viewed as a structured system of wages payment within the fund. Besides the evaluation of posts, which offers a post-pay (base salary), and this includes issues related to performance evaluation and employee compensation, bonuses and other gratifications. How you handle these levers is ensured pay equity and staff motivation.

*Continuous training*, which became a must in the knowledge economy due to aging of experiences, now has several tools to measure the effort and its effects. Because of these instruments it can be chosen the best training options. Performance evaluation states as a management tool participating in the pilot business process. This generally provides practical tools and systems whose roles are intended to circulate the strategy and objectives of the organization. These instruments collect, treat and disseminate information both provide decision support and its internal communication, depending on the strategy and its specific business objectives. Social management control rests on a combination of techniques adapted to the environment, strategy and objectives of the organization compete to set and remote control behaviors, based on indicators quantified in monetary or physical units. To achieve its own management control, human resources function has the necessary means to ensure the objectives which it has set and measure the accurate efficiency of investment. Through its prediction side, control management aims to avoid failures that may occur as a result of strained sizing fund salaries, equity pay, and training to support strategic decision making process. With its instrumentation, management control offers the choice of ethical and effective evaluation system for employees, which depend on their satisfaction and mobilization, achieving desired behavior. Management control concerns, normally the corrective side behavior of human resources through continuous monitoring how all human resources functions is done.

Besides updated indicators for each of these activities, an important place is set to indicators that quantify factors development influencing the business climate<sup>7</sup>, such as turnover, index resignation, the stability of staff, absenteeism, level of seriousness, other indicators of crisis, staff satisfaction, staff involvement, strategic alignment, etc.

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<sup>7</sup> Naro G., *Controle de gestion sociale*, 2008, [www.122people.fr](http://www.122people.fr)

## CONCLUSION

The firm must face a host of hidden costs, measurable in terms of hard scale and their implications. Financial and accounting situations are unable to locate these costs that they hide behind the general class of indicators. Management control is a tool through which is desired standard of human behavior in business. It corresponds to the classical concept of organization and management of the company, the human factor is simply not a constant like, for example, fixed assets. The evolution theories about enterprise and the increasingly influence of large social dimension showed the limits of management.

Hidden costs are affiliated into a pattern analysis of organizations where the structures and human skills are sociological and economic variables, particularly financial.

Hidden cost calculations are an extension to the social cost accounting practices, allowing identification of major issues and provide a means of entry and operation of socio-economic system of the enterprise. It measures the loss of economic resources due to failures occurring in the enterprise.

Hidden costs are calculated by extra countable indicators included in the balanced scorecard. They are measured through five groups of indicators: absenteeism, accidents at work, staff turnover, quality defects and differences of direct productivity.

Hidden costs method and socio-economic analysis model to involve the association of economic performance to human and social performance. Socio-economic theory suggests organizations, meanwhile, an explanatory model of failures and hidden costs and a prescriptive model to support the development of a business proactive strategy.

Control management is the field that includes and incorporates hidden costs method in a larger assembly that it becomes an important element of business strategy and social policy.

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