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A Framework of the Labour and Service Delivery Costs Model for Service Delivery Companies in Mutare, Zimbabwe

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Abstract

This article formulated the labour and service delivery costs model for service companies. Nevertheless, the model can be adapted for manufacturing companies since they provide services to their products. The explicated model is L=100-S, $10 \leq L \leq 25$ and $75 \leq S \leq 90$, where L is the annual labour cost and S is the annual service delivery cost (annual operating cost minus annual labour cost). The model ameliorates the quality of service tendered and encourages service delivery companies to develop reliable and sustainable strategies for collecting revenue. It also provides a range of labour cost to service delivery cost ratios from which companies could select one for implementation. The service stakeholders play a crucial role of maintaining the model in steady state. Thus, target costing is critical for service delivery companies in order to maintain a cordial relationship with the indispensable stakeholders. The survey results revealed that the service delivery companies in Mutare were operating without the labour cost allocation methodology or labour cost cap policy. The immediate intervention by developing the required labour and service delivery costs model could reduce the effect of high labour cost in service delivery companies in Mutare, Zimbabwe.

Keywords: Labour Cost, Service Delivery Cost, Steady State, Labour and Service Delivery Costs Model, Labour Cost to Service Delivery Cost Ratio

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Paper Classification: Research Paper

Introduction

The production level of the service delivery company depends on the proper utilization of the labour that requires stringent control of its cost. The labour cost covers the cost incurred by the company to use labour to deliver service plus compensation. McDonald and Pape (2002) stated that millions of South Africans were having serious challenges in accessing basic delivered services. According to Ruwende (2016), the Government of Zimbabwe through the responsible ministry, advised local authorities to be in line with the 30:70 labour cost to service delivery ratio. However, Ruwende (2017) reported that the Harare City Councillors resolved to align the cost of operations in line with the ministry's 40:60 salary to service delivery cost ratio. This shows a review of the 2016 labour cost to service delivery cost ratio. According to Martin (1993), the failure by governments to precisely calculate the total cost of in-house and contract service

delivery was due to lack of consistent cost allocation methodology. The labour is a support service (Langfield-Smith et al., 2003) and therefore, its aggregate cost proportion to the operating cost should be optimum. According to Spring Singapore (2011), labour can be measured in three ways, namely, number of hours worked, number of workers engaged and cost of labour. The labour cost is very high in service delivery companies. Langfield-Smith et al. (2003) stated that the service companies often incur high labour cost that can be traced to service delivery activities. Furthermore, Yandrasevich (2011) submitted that labour cost of 45% of the operating cost is very high. Therefore, what is the acceptable labour and service delivery costs model for service delivery companies? What causes high labour cost in service delivery companies? What are the possible solutions to the causes of high labour cost in service delivery companies? What ratio of the labour cost to operating cost is feasibly acceptable and sustainable in service delivery companies?

The highly unjustifiable labour cost creates inharmoniousness among the service stakeholders in many companies in developing economies particularly in Africa. The service delivery companies should reduce unnecessary production costs (Murairwa, 2016) such as high labour cost. Some examples of service delivery companies are governments, retailers, education institutions (schools, universities), wholesalers, local authorities and non-governmental organisations. The service delivery companies should manage the labour cost to stakeholders' satisfaction. The unwarranted high labour cost breeds poor services that force stakeholders to withdraw their participation in sustaining the service delivery model in a steady state. This 3 top-down service delivery approach was inflexible, cumbersome and expensive. Therefore, this research formulates a feasibly acceptable and sustainable model of the labour and service delivery costs that is crucial for the survival of service companies in developing economies. The research assumes that the annual budget (B) and operating cost (O) {aggregate service delivery cost} are equal and the investment (I) varies. Furthermore, the investment (I) is the revenue (R) minus the budget (B).

Research Objectives

The main objective of the research was to determine an acceptable labour and service delivery costs model for the service delivery companies in Mutare, Zimbabwe. The sub-objectives were to

- establish the causes of high labour cost in service delivery companies;
- suggest solutions to the causes of high labour cost in service companies and
- propose the labour cost to operating cost ratio that is feasibly acceptable and sustainable in service delivery companies in Mutare, Zimbabwe.

Research Contribution

The research provides a labour and service delivery costs model for service delivery companies in developing economies. There is no evidence in the literature of related studies that developed a consistent labour allocation methodology in service delivery companies operating in developing countries. Therefore, this research is responding to the need for a labour and service delivery costs model for service delivery companies in Zimbabwe and Africa as a whole. The research suggests possible solutions for the causes of high labour costs and proposes a feasibly acceptable and sustainable labour cost to operating cost ratio in service delivery companies.

Literature Review

The service companies deliver help, utility or care; provide an experience, information or other intellectual content (Langfield-Smith et al., 2003). Martin (1993) stated that the lack of consistent

methodology led to failure by governments to accurately compute the in-house and contract service delivery costs. Langfield-Smith et al. (2003) stated that most manufacturing companies provide service components to their products. Antos (1983) discussed the labour cost and compensation. The value chain by Langfield-Smith et al. (2003) classified labour as support service to the primary processes of the value of the services. Furthermore, the researchers stated that most service companies experience high labour cost. According to Yandrasevich (2011), the labour cost in the hospitality industry is very high amounting to approximately 45% of the operating cost. As stated by Gray et al. (2015), the operating cost caters for inbound and outbound, wage, team demographics, tax and real estate costs. On the other hand, Holzer et al. (2009) after reviewing literature discovered that the labour issues were among the most usual obstructions to integration of service delivery.

Yandrasevich (2011) identified sources of the labour cost and suggested the proper management of labour as a way of controlling the labour cost. Langfield-Smith et al. (2003) articulated that the service delivery companies have high direct labour cost that can be directly retraced to delivered services. The labour cost could be immensely reduced by handing over certain services to voluntary labour (Macdonald and Pape, 2002). Iga (2015) and Langfield-Smith et al. (2003) classified the labour cost into direct and indirect costs. Furthermore, Iga (2015) and Langfield-Smith et al. (2003) classified service costs as controllable and uncontrollable costs. However, all costs should be controllable. The sources of activities and costs in service companies are upstream, production and downstream (Langfield-Smith et al., 2003). The labour cost represents a large proportion of the total cost of operations in many companies. According to Wild et al. (2012), there are five constraints to high quality service delivery and these are political market imperfections, policy incoherence, and lack of effective performance oversight, moral hazard and collective action. However, these were not common among the countries reviewed by Wild et al. (2012). In Ruwende's (2016) article, the budget fails to perform to expectations if the responsible authority delays to approve it. McDonald and Pape (2002) described the service access difficulties faced by South Africans as crisis of service delivery that was caused by the pro-market policies implemented by the Government since 1994. The efforts to implement Igoli 2002 in Johannesburg, South Africa, were met with a series of demonstrations against the notion (Mcdonald and Pape, 2002). The intention of Section 155 of the Local Government Act, 1999 of South Africa is that the service rates charged should only recover the total service delivery cost and nothing more or less (Iga, 2015). However, the empirical results show that there was under and over recovery of the cost of the service delivered. Thus, the revenue collection rate for the delivered service varies with time.

Research Gap

Most service companies in developing economies are having high labour cost (Langfield-Smith et al., 2003) but offering poor services. Karanja and Okoth (2003) found poor solid waste management in Nairobi, Kenya, due to lack of partnerships in delivering services. The labour cost of 45% of the operating cost is very high (Yandrasevich, 2011). Consequently, Yandrasevich (2011) recommended the management of human resources in order to reduce labour cost. The Zimbabwe government, in an effort to reduce the labour cost experienced by local authorities, proposed the labour cost to service delivery cost ratio of 30:70 (Ruwende, 2016). The policy was reviewed to 40:60 (Ruwende, 2017). Thus, there is need to formulate an acceptable framework of the labour and service delivery costs model in support of Yandrasevich's (2011) call for the reduction of the labour cost to below 45% of the operating cost.

Research Methodology

Type of study

A cross-sectional study was used to investigate the labour cost to aggregate service delivery cost ratio implemented by service delivery companies in Mutare.

Variables of the study

The research gathered the gender, age group, labour cost proportion and causes of high labour cost service delivery companies. All of the service companies approached to participate in the survey were skeptical and unwilling to provide the required data.

Sample

The research targeted the service delivery companies that were willing to provide the required data. The data was collected from forty service delivery companies.

Sampling technique

A hybrid of the Voluntary (Murairwa, 2015), Simple Random and Snowball sampling designs was used to select forty willing service delivery companies that were given the questionnaire to complete. The starting service delivery company was randomly selected. Then, the Snowball sampling design was applied to select the other willing service delivery company. The data was collected from the management of the volunteering service delivery company.

Data collection instrument

The research designed a questionnaire for collecting data. The questionnaire was pilot tested and adjusted for the final data collection. Specific questions were avoided in the final questionnaire after the service delivery companies refused to answer them during the pilot test. A willing service delivery company was given the questionnaire to complete while the researcher was waiting to collect back the completed questionnaire.

Method of data collection

The questionnaire survey was used to collect data for the study. A questionnaire was designed and distributed to willing service delivery companies to complete while the researcher was waiting to collect back the completed questionnaire.

Statistical tools used

- The relative frequency (RF) is computed with

$$RF = \frac{Frequency}{Total\ frequency}, \quad \text{.....(1)}$$

- The percentage relative frequency (PRF) is computed with

$$PRF = \frac{Frequency}{Total\ frequency} \times 100, \quad \text{.....(2)}$$

- The research applied ranking procedure to determine the most preferred solution that can reduce service labour cost. The RT-1 (Conover and Iman, 1981) of assigning ranks to

percentage scores was applied, that is, the percentage scores are ranked in descending order with the largest percentage score being ranked 1.

Results and Discussions

The response rate was 100% because the research applied Voluntary sampling design (Murairwa, 2015) to select the respondents for the survey. The research investigated the labour cost proportions that were being used by service delivery companies in Mutare and presented the results in Table 1.

Table 1: Proportion of labour cost to total service delivery cost

Gender	labour cost proportion						Total
	<10	11 – 20	21 – 30	31 – 40	41 – 50	>50	
Male	0.0000	0.0000	0.0500	0.0750	0.1250	0.4750	0.7250
Female	0.0000	0.0000	0.0000	0.0500	0.0750	0.1500	0.2750
Total	0.0000	0.0000	0.0500	0.1250	0.2000	0.6250	1.0000

Table 1 shows that most service delivery companies that participated in the survey were experiencing high aggregate labour cost. The probability of selecting a service delivery company that was experiencing a labour cost of more than 50% of the aggregate service delivery cost was 0.6250. Thus, 62.50% of the service delivery companies that participated in the survey were experiencing challenges of high labour cost. The causes of high labour cost of delivering service are presented in Table 2.

Table 2: Causes of high labour cost in service delivery companies

Causes	% score	Rank
Lack of consistent labour cost allocation methodology	23.33	1
Economic challenges	21.67	2
Lack of labour cost cap	16.67	3
Weak labour cost controls	13.33	4
Lack of technology	11.67	5
High salaries that are not proportional to service delivered	6.67	6
Challenges in calculating aggregate labour cost	3.67	7
Aggregate service delivery cost difficult to measure	3.00	8

Table 2 shows that 23.33% of the service delivery companies that participated in the survey agreed that high labour cost was as a result of lack of consistent labour cost allocation methodology. According to respondents, the second ranked cause of high labour cost was the economic challenges (21.67%) the country was facing. Of all the respondents, 16.67% companies wanted a policy that controls the amount that can be paid for service labour. The service companies suggested ways that could reduce the labour cost of delivering service. The suggestions are presented in Figure 1.

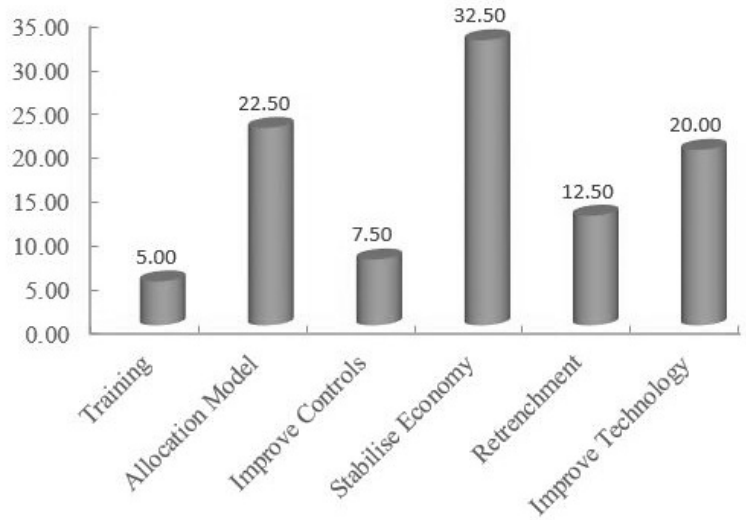

Figure 1: Schemes to reduce high labour cost of delivering service

Figure 1 shows that 32.50% of the service delivery companies that participated in the research survey wanted the economy to stabilise. The participants wanted the development of labour cost allocation model (22.50%) and implementation of current technology (20%) considered as high priorities. Therefore, this research develops a labour and service delivery costs model.

Labour and service delivery costs model

The factors of the labour and service delivery costs model measured annually are the service delivery cost (S), labour cost (L), budget (B), operating cost (O) {aggregate service delivery cost}, revenue (R) and Investment (I). Given the assumptions presented earlier, S=B-L. The labour cost (L) to service delivery cost (S) ratio is given by

$L:S$…..……...…… …… ……..…….(3)

The service delivery cost (S) is the operating cost (O) minus the labour cost (L); S=O-L. Thus,

$O=L+S$……..…….(4)

Since B=O, it implies that B=S+L. Thus, B=100%. This is the equilibrium state of the model. The budget (B) {operating cost (O)} is fixed for the financial year. Therefore, the model of B, L and S is

$L=100-S$……..…….(5)

where $10 \leq L \leq 25$ and $75 \leq S \leq 90$. These limits were derived from the comments made by the service delivery companies during the discussions organized by the researcher during data collection. However, for the model to remain in a steady state, the company's annual revenue (R) must always be greater than or equal to the annual operating cost (O) giving an inequality

$R \geq L+S$……..…….(6)

Equation 6 is the steady state condition of the labour and service delivery costs model. The inequality supports the company's investment (I) thrust. The inequality can be written as

$R \geq O$…..…….(7)

Since O=B=L+S. This implies that I=R-O for R>O. Equation 7 illustrates the general situation for a company in which the revenue (R) must always be greater or equal to the budget (B). The equilibrium state occurs when the operating cost (O) {budget (B)} equals to the revenue (R); O=R. Thus, to maintain the model in equilibrium state, there is need to add annual investment (I) component to the annual operating cost (O) in Equation 7. This gives the model

$R=O+I$…….(8)

This implies that R=L+S+I using Equation 4. Since O is fixed and R varies, then I varies. The equilibrium state dismisses the notion of profit in service delivery companies since the profit is the investment (I). This is supported by Yandrasevich (2011) who stated that only the profits after-tax are available for re-investing into the company. Therefore, there is no profit to talk about in service delivery companies but investment (I). The breakeven point occurs when there is no investment (I=0) in Equation 8, implying that R=O.

Steady state and equilibrium conditions

(a) $R \geq L+S$, *implies* $I>0$ (Steady state)

$R=I+L+S$

If $I>0$, $R-I=L+S$

If $I=0$, $R=L+S$ (Equilibrium state/Break-even point)

(b) The revenue's (B) deficit is covered from the investment (I).

(c) $R \geq \Delta L+\Delta S$. The changes in L and S should not disturb the steady state condition of (a) or Equation 4.

(d) $R=L+S$, equilibrium state. This means that there is no money for investment (I=0).

(e) $S>>L$ in Equation 3; $L=100-S$.

(f) $R-I=L+S$. Since $O=B=L+S$, it means that $B+I=R \rightarrow B=R-I$, the operating cost (O) of the service delivery company.

The break-even point is achieved when the revenue collected is only enough for wages and delivering high quality services to clients. This is the model's equilibrium state. This state is not conducive for the service company because any slight decrease in the revenue (B) collected or increase in the operating cost (O) can trigger the beginning of the unsteady (unacceptable) state condition that is presented in Equation 9.

$R<L+S$,……..(9)

where I=0. The unsteady state could occur as a result of incompetence, cavalier control of labour, poor quality of service, reluctance to raise fees even when clients could afford to pay more for the services and paying highly unjustified wages. The service delivery company can implement reviving strategies (Murairwa, 2016) in order to recover the steady state condition. Some of the reviving strategies are:

(a) retrenching team members (Murairwa, 2016);

(b) improving service delivery technologies (Murairwa, 2016);

(c) partnering with other agencies (Karanja and Okoth, 2003);

(d) enhancing revenue collecting strategies;

(e) sub-contracting some service functions;

(f) accessing funds from investment portfolio;
(g) improving continuously the quality of service (Murairwa, 2012; 2016);
(h) convening ad-hoc stakeholders' consultations;
(i) decentralizing the services (Muhangi and Mugisha, 2003; Mubvami and Nhekairo, 2003);
(j) diagnosing the current labour and service delivery costs model and
(k) switching service delivery mode; direct or contract or joint mode (Brown et al., 2005).

Graphical Presentation of the Labour and Service Delivery Costs Model

The graphical presentation of the relationship between annual labour and service delivery costs is depicted in Figure 2.

Figure 2: Annual Service Delivery and Labour Costs Model

Figure 2 shows a negative relationship between the labour and service delivery costs. The model is $L=100-S$, where $10 \leq L \leq 25$ and $75 \leq S \leq 90$. The service delivery cost (S) is the independent variable with values from 75 – 90 percent and the labour cost (L) is the dependent variable with values from 10 – 25 percent of the operating cost (O). Therefore, the services to be delivered should determine the labour required and not vice versa. Figure 2 illustrates that the service delivery companies could implement a 25:75-10:90 labour cost to service delivery cost ratio. However, the 10:90 ratio demands the use of highly sophisticated service delivery technologies. Therefore, Figure 2 provides a range of labour cost to service delivery cost ratios for companies to select one for implementation.

Conditions Essential for the Implementation of the Model

The successful implementation of the labour and service delivery costs model depends on

(a) Quality of the service being delivered to the clients; this determines the clients' payment pattern for the delivered service. The clients are willing to pay for high quality services.
(b) State of the country's economy; it measures the excess funds available to be used to pay for the services. A stable economy offers excess funds while an unstable economy does not.
(c) Strategy for collecting revenue; this determines the average amount of money available for the model.
(d) Performance of the investment portfolio; the investment portfolio hedges the model against the risks that may disturb the steady state of Equation 4.
(e) Ad-hoc meetings; these are platforms for sharing ideas and incentivizing stakeholders to fulfil their bargain of the model. They enable feedback to service stakeholders.

(f) Voluntary participation (Murairwa, 2016) of service stakeholders; all stakeholders should participate willingly in all activities that maintain the model in steady state.

(g) Qualified and committed team members; this is necessary for implementing, monitoring, evaluating and controlling (Murairwa, 2016) the adopted model.

(h) Monitoring, evaluating and controlling the model; this keeps the parameters of the adopted model at optimum levels.

(i) Government policies; they determine the status of the country's economy. Thus, sound (bad) government policies promote success (failure) of the model.

Purpose of the Model

The labour and service delivery costs model can be used to:

(a) rationalize the labour of delivering service;

(b) constrain growth in labour cost without affecting efficient service delivery;

(c) control the service delivery funds;

(d) enhance the quality of service offered;

(e) harness the corruption that has affected most service companies;

(f) determine the strategy for collecting revenue;

(g) encourage service delivery companies to implement technologies in order to offer high quality services and reduce labour cost;

(h) determine the team members' remunerations and

(i) provide a range of labour cost to service delivery cost ratios for companies to choose from.

Implementation Procedure

Initially, the service delivery company should determine the rate at which it is collecting revenue from its clients. Thus, it should assess itself in order to establish the gaps and areas of improvements in revenue collection. The average monthly revenue collection rate determines the labour cost to service delivery cost ratio that can be adopted by the company. The implementation process of the labour cost to service delivery cost ratio is presented in Figure 3.

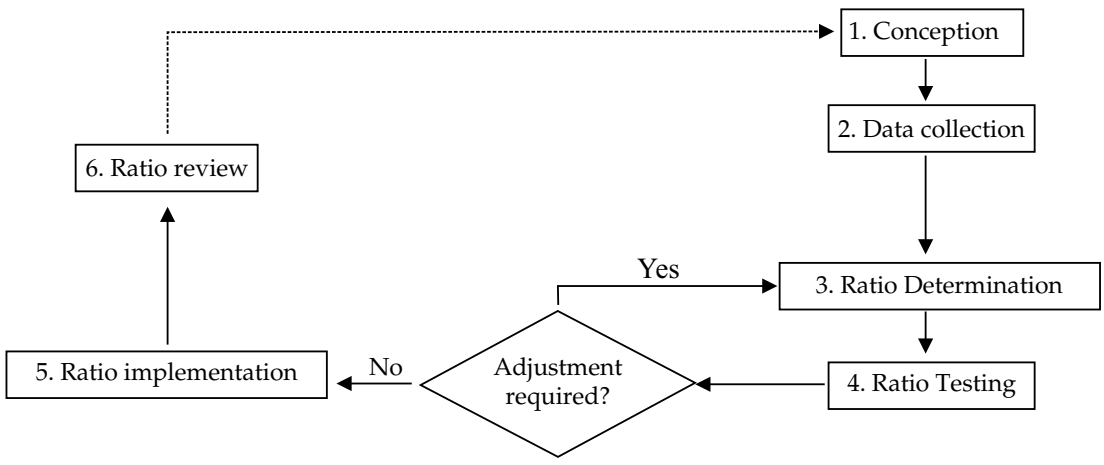

Figure 3: Implementation of the labour cost to service delivery cost ratio

The implementation steps of the labour cost to service delivery cost ratio that are presented in Figure 3 are explained henceforth.

S1: The company develops the Work Breakdown Structure (WBS) and Logical Breakdown Structure (LBS) of all activities involved in service delivery to clients.

S2: The company gathers data of all activities identified in Step 1 (S1) and determines the average monthly revenue collection rate. The stakeholders determine the budget of the company.

S3: The company determines its labour cost to service delivery cost ratio from the proposed framework; $L=100-S$, where $10 \leq L \leq 25$ *and* $75 \leq S \leq 90$.

S4: The adopted ratio is piloted for at least six months in order to understand the behaviour and determine other requirements of the ratio. If the ratio meets the minimum requirements of the company, it is implemented; otherwise the company returns to Step 3 (S3).

S5: The service company adjusts the labour requirements, revenue collecting strategies and service delivery technologies to the requirements of the adopted ratio among others.

S6: The service company monitors, evaluates and controls (Murairwa, 2016) the adopted ratio. There is also need to continuously improve the service delivery technologies in order to further reduce the labour cost of delivering high quality of service to the clients.

Implementation challenges of the adopted ratio

The following challenges can affect the successful implementation of the adopted ratio:

(a) Cavalier revenue collecting strategies.
(b) Complexity of the costing system.
(c) Corruption and nepotism.
(d) Data measurement problems (labour cost and compensation).
(e) Government policies and regulations.
(f) Labour expense cap policy.
(g) Obsolete service delivery technologies.
(h) Poor service pricing system.
(i) Rigid company slogans.
(j) Stakeholders' resistance to change.
(k) Unqualified and unskilled team members.
(l) Unsustainable economic conditions.

Conclusion and Recommendations

The article formulated the labour and service delivery costs framework for service delivery companies. The framework provides a range of optimum ratios from which companies can select one for implementation. Since most manufacturing entities offer services with their products, therefore, the development can also be customized for manufacturing companies. However, the model should be implemented in real life situations in order to control its parameters and determine a specific ratio for service delivery companies. Therefore, a company can select a ratio for continuous improvement to suit its requirements. It is recommended that service delivery companies should adopt the development. The service delivery companies should implement

advanced service delivery technologies in order to enhance service delivery and minimize the labour cost.

Limitations of the research

This is a new area with limited literature. This is a theoretical configuration taking into consideration the views that are in the literature and of a snowball survey of service companies in Mutare. The views suggested by this article require support from empirical findings. It was difficult to obtain the required data from service delivery companies. This forced the researcher to restructure the questions of the questionnaire after the pilot test.

Areas for further studies

There is need to implement the model in order to test its applicability in real life situations and adjust its parameters accordingly. There is also need to investigate the effects of the factors that affect labour cost such as promotion, attainment of higher qualification and labour ratios among others. Furthermore, there is need to explore the effect of the labour cost cap concept in constraining the growth of labour cost in service delivery companies in developing economies.

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