Saratoga Metric of the Month

The metric of the month is: ***Remuneration/Total Costs***

Metric Group: ***Financial Impact & Productivity***

$$\textit{Remuneration / Total Costs} = \frac{\textit{Compensation + Benefits}}{\textit{Total Costs}}$$

Compensation *is the gross cost to the employer of all salaries and wages, the variable elements, performance related pay (bonuses, commissions, profit linked pay) attendance related pay (overtime, shift allowances, standby) and national insurance / social security.*

Benefits *includes all other reward components e.g. pensions, healthcare, cars, stock options, professional fees, childcare, lifestyle benefits, subsidised Products / services etc.*

Costs *includes the costs of goods and services produced or purchased for resale, direct labour and materials, transfer price of goods purchased from within the organisation, operating expenses and overheads including any corporate recharges, financial expenses (depreciation,amortization and interest) and changes in provisions for bad and doubtful debts. Generally calculated as the difference between revenue and profit before tax.*

Interpretation:

- ***Remuneration/Total costs*** is a structural productivity measure in contrast to the commercially-oriented Remuneration/Revenue. Employee costs are often an organization's single largest controllable expenditure item and intrinsically linked to business size and scope, locational factors, workforce structures and hierarchies etc.
- If the cost to the organisation of an individual (average remuneration) is significantly lower than the cost of all employees in relation to the total cost base (i.e. Remuneration / Total Costs) then this is one of the clearest initial indications of high workforce numbers relative to a benchmark group. Further evidence of this circumstance can often also be seen reflected in Remuneration/Revenue and '***per FTE***' metrics such as (Revenue, Costs and Profits)
- The effect of changes in the overall costs of the organisation should also be considered. Non-remuneration related costs, depreciation, and interest will move over time and therefore, an improvement observed in the Remuneration/Total Costs metric (i.e. ratio falling) may not reflect 'real' structural improvements in the remuneration and workforce size. It could also be influenced by better plant utilisation, the completion of a large investment project, or the repayment of debt.

Have feedback for us?

*Please join us at the '**Asia Pacific HR Analytics Forum**' on **LinkedIn** to exchange your views and tell us how you are using HR measurements to drive workforce success in your organisation.*

If you want to share your experiences or have any feedback on how we can make this programme better, please write to:

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