The impact of sunk opportunity and accounting costs

Finance

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Within the organization, there are several factors and condition that affect, inform and influence decision making. When it comes to decisions on cost, opportunity cost is one such condition that has mostly affected decision making within my department of the company I used to work for, which was a logistics company. Zimmerman (2014) explained opportunity cost to be the difference in return in a selected form of investment and another choice that is given up. Opportunity cost could also be seen in terms of cost as the cost of the alternative action or decision that was foregone in pursuit of the selected action. This means that for there to be an opportunity cost, there ought to be more than one form of option of financial based decision that needs to be made. Again, for there to be opportunity cost, there ought to be the weighing of the number of options available before selecting the best fitting or most profitable of the choices (Adams, 1997). Based on the outline given about opportunity cost above, there is a scenario that was experienced within my department that can be given to fit the meaning and implication of opportunity cost.

There was a time that the company acquired new equipment and machinery to be used for heavy duty logistics purposes. The machinery was considered advanced and exotic to what had already been used within the company over the years. It was therefore important that the human resource department in which I belonged to at the time take steps towards getting people to operate and run the new machinery. At the time, there were known experts in a neighboring country who had adequate knowledge and experience in the use of the machinery. The first option for the company was therefore to import these skilled workers and employ them to be regular staff of the company. Among other things, the cost for doing this was to include the travel expense on these people, an international salary quotation that was to be given to them, expatriate benefits, and residential allowances. The other alternative was to train some of the existing employees to take up this role. The training was to last for 6 months. The cost involved here however included time spent on not using the machinery immediately while these people were receiving training, the fee for the training program, and extra allowance for increased responsibility.

Because there were costs involved in each of these cases, it was classified as an opportunity cost. Upon careful consideration, the company settled to go for option one, which was to bring in the expatriates. The opportunity cost with the decision had to do with the savings that would have been made on residential and resettlement allowances, savings on flight arrangement, and the savings on the relatively higher salaries that the expatriates. There was also an opportunity cost with the fact that the company never had the opportunity of having some of its own long serving, tried and tested employees becoming knowledgeable on the use of the machinery. The scenario however impacted on organizational decision and stakeholder agenda. In the first place, the company had recorded decline in profit in the last two quarter and a lost in the immediate past quarter. This had brought a lot of tension within the organization on the need to turn the fortunes of the company around in terms of its revenue generation. Bringing the expatriates meant that instead of waiting for six months to take advantage of the new machinery, which was what had become the order of the day among competitors, there was the opportunity to start competition with the machinery. Eventually, even though there was increase in payroll and human resource expenditure, revenue growth was immediately recorded with the coming of the expatriates. This is because customers who had started leaving to take advantage of the presence of the machinery in other companies started returning to do business with us.

References

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