CHAPTER V
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5.1 INTRODUCTION
The researcher has studied 25 small scale enterprises with reference to the study of strategic cost management. Accordingly the questionnaire was prepared and given to them after personal discussions with the entrepreneurs. (Questionnaire is given in Annexure - I ) These units are selected on the basis of the year of establishment, turnover, contribution towards the engineering technology; products etc and variety of units are considered under study. (The list of units is given in Annexure - II)

After the close analysis of the information obtained from the questionnaire duly completed, the following are the few important observations based on the tables. (Tables are given in annexure III, IV, V)

5.2 COMMENTS ON TABLES -
1. Type of organisation
   Sole Proprietor – 14 Units
   Partnership – 4 Units
   Private Limited Company – 7 Units

Graph 5.1
The following are the observations based on this table.

1. Most of the units under study are proprietary in nature though 30% of the units preferred the private limited company as a type of organisation.

2. Considering the statistics of Mortality of partnerships in the country, it is obvious that only 15% units are under Partnership.

3. In future, there is a possibility that more and more technological development will promote the entrepreneurs to transform their units into Private Limited Company while some existing Private Limited companies will embark upon Public Limited Companies also.

2. Agewise classification

Based on the information of year of establishment –

1947 – 74 - 2 Units
1975 – 2000 - 14 Units
2001 and above – 9 Units

The following are the observations based on this information –

1. It is observed that most of the units under study are established between 1975 – 2000. These units have been operating under controlled economy near about for 15 years. (1975 – 1990) and also with liberalisation policy after 1990 onwards.
2. Most of the units have experience period of recession and prosperity. Naturally most of the units under study are capable of handling new technology and they need to realise importance of cost management.

3. Many units under study might be subconsciously using costing techniques but now it is necessary that conscious decisions are to be taken about appointment of cost consultant, dedicated costing department so that future growth will be on scientific lines.

3. **First Generation / Family Business Units**

   Based on the information obtained from the questionnaire –

   1. First Generation Units – 19 Units
   2. Family Business Units – 6 Units

   The following are the observations on this table –

   1. Majority of the first generation entrepreneurs are dynamic in approach. They will use more and more sophisticated techniques if returns are available.
   2. Family managed businesses have also realized importance of modern management techniques but due to conservative approach, the progress is rather slow.

4. **Factors for motivation**

   Based on the information obtained from questionnaire following are the important factors motivating the entrepreneurs –

   1. Ambition to start the unit – 9 Units
   2. Transferring Trading activity to Manufacturing – 2 Units
   3. From Employment to Self employment – 2 Units
   4. Inspiration from Friends and Relatives – 4 Units
   5. Project work at College – 1 Unit
   6. Family Business – 6 Units
   7. Market Survey – 1 Unit
Note: 6 Units explained 2 motivators Ambition + Employment to Self Employment.

Following are the observations based on the above facts –

1. It is observed that 60% of the Units are motivated due to ambition in life as some of them shifted from employment to self employment. It also means that risk bearing capacity is steadily increasing.

2. Even though these two categories i.e Project Work and Market Survey are in minority, these two factors have great potential in future.

3. It can suggested to family managed units and their owners that their son, daughters, spouse and members of the family to be encouraged to participate and get involved in the business, if possible. During their college education they should be motivated to take project work more seriously.

4. Other factors of motivation like transferring trading to manufacturing, inspiration from friends and relatives also has great potential.

5. **Milestones**

   Based on the information from questionnaire, the following are the few important milestones –

   1. Training at works while in employment.
   2. Innovation during services.
   3. Support from relatives, friends and well-wishers
   4. Product substitute for imported product.
   5. Opening of service branches, manufacturing units at the front places.
   6. Set up of big factory
   7. Reaching at national – international market.
   8. Diversification of activities.


It is observed that various opportunity in job motivated innovative attitude among the entrepreneurs and indirectly to establish even a small scale unit or expansion of existing unit and also increasing the scope of activities, enhancing a market for the product.

These milestones are indicative of progressive management. It is also a transformation from traditional management to modern professional management.

6. Strategies / Techniques adopted by the Small Scale Units

Accounting systems and methods –

Based on the information obtained, the following are the details –

Computerized accounting – 24 Units

Manual / Semi Computerized – 1 Unit

Out of these 24 units, 5 Units are having self designed package whereas 19 units are using standard packages of accounting.

It is observed that 96% of the units are following computerized system of accounting and 20% of them have self designed accounting packages. This automatically provides analytical data for effective decision making. It becomes easy to maintain Financial Balance, Cash / Fund flow management, awareness of routine needs and also balanced approach of the entrepreneurs. The speed, accuracy of the data is maintain which increased reliability in the market and the image of the organisation.

This also indicate the use of computerization by small scale units. It conclusively prove that most of the entrepreneurs in SMEs are marching towards computerized accounting for speed, accuracy and user friendly financial management. One such concrete step is use of
enterprise resource planning (ERP). Few of the entrepreneurs are practically using such types of softwares in managing the business.

7. Costing department

Based on the information, the following details are available about the cost department in organisation –

Separate Costing department – 1 Unit
Using accounts department as costing department – 4 Units
Owners driven costing department – 17 Units
Professionally driven – 3 Units

Considering the above data, 65% of the Units are having owners driven costing department, 16% units are using accounts department as costing department, 12% of units are taking professional help whereas 4% having separate costing department.

This analysis shows that SMEs have realized the importance of costing department but 65% of the owners are directly involved in this process. In fact it is suggested that either they should concern professional cost accountants so that they can use this time for better work of research and development. The responsible person in the organisation should be motivated and trained perfectly which will give indirectly a source of income through saving in expenditure to the organisation.

8. ISO certification

Based on the information the following are the details available about ISO –

ISO certified units – 16 Units
ISO in process – 2 Units
Not yet decided regarding ISO – 7 Units

The above data shows that 64% Units are ISO certified, 8% Units are under process whereas 28% Units have not yet decided about the ISO process.
The above trend shows that the small scale entrepreneurs also prefer the systematized work culture and accordingly marching towards the same. They realize the importance of documentation, systematic working for professional decision making. This shows that SMEs are transferring from traditional management approach towards professional management approach.

9. Staff Welfare and HR Practices

Based on the information obtained 22 Units are using standard practices and accepting the staff welfare activities as most useful whereas 3 units are of the opinion that they are not so useful. Regarding HR practices, 11 entrepreneurs says that they are most useful whereas 14 entrepreneurs are of the opinion that they are not so useful.

Considering this data it seems that there is a wide scope for development of staff welfare and HR practices in Small Scale Units. SMEs (Small and Medium Enterprises) in India account for nearly 45% of industrial output, employ over 60 million people and are expected to produce 22% of the economy by 2012, which is certainly going to have strong influence on the country’s economy. They too often are viewed as growth engine of nation’s economy and expected to increase employment opportunities.

This sector no more operates in a protected zone and consequently subject to the same challenges as big enterprises. In the open economy, playing field is the same for both but unfortunately resources and expertise to handle different domains differ. Problem starts at this point : Small / Medium organizations can’t afford to setup / operate HR function with that expertise and the way big organizations do and invest in this function. One side SMEs need to be more competitive, aligning themselves to new ideas, process and acquire a professional approach by adopting the best management
practices and change the ways of managing business. But on the other side neither they have such mind set nor financial resources to establish people centric systems and processes to build up their Human capital. Country’s employment regulations also act as deterrent and their complexities keep them on back foot.

HR issues in small and medium organizations is the cover feature of this issue which is an attempt to unfold various people issues SMEs face and provide them ways and means to spot solutions. Entrepreneurial businesses can’t afford more to neglect people issues in their organizations. From some point it has to move on.

(Ref. Business Manager, April 2011 issue)

9. Turn Over –
Based on the information the turn over details for year 2009 – 10 which are summarize as an under –
Below 1 Crores – 3 Units
1 – 2 Crores – 5 Units
3 – 4 Crores – 7 Units
7 – 8 Crores – 3 Units
11 – 12 Crores – 2 Units
67 Crores – 1 Unit

Note – 4 units has not given the sales figures.
From the above data it is clear that majority of the units are having good turn over and seems to be established. They are progressive and marching towards the progress.

10. Clients / Customers
Domestic clients - 19 Units
Domestic and other countries – 6 Units
Client wise classification major clients – Min 1 max – 10
Minor client – Min 2, max – 500
From the above data it shows that small scale units are also enhancing their base of clients either in area or in number. They realized the importance of it and dependency on a particular unit may create a problem in future. It is suggested that simultaneously the SMEs should enhance their customers base and if possible try to establish own product or design their product. It will enhance the stability of the organisation and better future.

11 Own Capital
Based on the information it is observed that –
100 % own Capital – 10 Units
75 – 90 % own Capital – 3 Units
50 – 74 % own Capital – 7 Units
25 – 49 % own Capital – 4 Units
Note : Out of the 25 units one unit has not given the details.
Regarding loans and advances 14 units are utilizing Cash Credit and Long term loans.
It seems that few of the above units can expand their business are diversify the product and take the benefit of external finance. They are having the capacity to manage more than one unit or expansion of the existing units. The proper professional consultancy regarding funds management and attitude towards utilizing the external finance as a source of capital is to be developed.

12. Knowing various techniques about costing and business management
In our questionnaire, a list of techniques is given and asked them the usefulness about the same. It is observed that the maximum techniques they are knowing (min 12, max 31) not knowing (2 - 21), and using in business (1 – 28) as per the requirement.
13. Classification of Cost
Material – 41% - 90%
Labour – 2% - 30%
Overheads – 2% - 38%
Considering the above data, it is suggested that there is wise scope in SMEs for cost reduction so far as material cost is concerned. Effective buying, using modern techniques of purchasing, scheduling the purchase orders, maintaining the inventory levels. The SMEs can control or even reduce the material cost without disturbing the quality of the product. They should concentrate on modern techniques, changing mixture of raw material percentage etc. So that material cost will be more effective. Labour cost can be managed by using the material handling equipments, modern techniques effectively which will enhance the productivity also. By using the mechanism and searching the areas where we can reduce the cost. These units can control the overheads also. For e.g. by using material handling equipments, the number of labour will be reduced and absolutely comfortable, marching towards paperless office will also result in to reduction in overheads. The staff should be motivated to find out the areas where we can reduce the cost. Proper awards should be given to them so that SMEs can apply cost reduction programmes effectively.

14. Research and Development
Out of the 25 Units under the study, 19 units are of the opinion that R & D is most useful whereas 6 units are of the opinion that R & D is partly useful. These trends indicate that the SMEs has realised the importance of research and development. Accordingly they should transfer the funds and enhance the activity relating to Research and Development. There is a wide scope for SMEs in this activity and can get the benefits and establish themselves in the scenario of Globalisation.
15. Social Responsibility
Based on the information and study of 25 Units, 12 units are of the opinion that this is most useful, 10 Units of the opinion about partly useful and 3 units says that not so useful.
There is a wide scope to develop this attitude of social responsibility among the entrepreneurs which is an another side of a coin of the business activity. They should be motivated to bear with and the accept the social responsibility by sharing their income utilising for social and cultural development.

16. Professional Management Apporach
Out of the 25 units under study, 21 entrepreneurs are of the opinion that professional management approach is most useful and four units are of the opinion that this approach is partly useful. The analysis shows that SMEs have accepted the importance of professional management, delegation of authorities and marching towards the betterment of business through professional management approach. The first generation business houses are very dynamic having scientific attitude towards work ultimately results into a professional management approach.

17. Profit maximisation and ploughing back of profits
Out of the 25 units under study, 20 units are of the opinion that it is most useful whereas 5 Units are of the opinion that it is partly useful. Awareness of increase in the profits is quite natural but attitude of ploughing back in the business definitely strengthen the capacity of the business houses. It also results into effective expenditure which is really required and attitude of avoiding the unnecessary expenses is automatically developed. The attitude of expenditure as an investment is increasing and this distinction where expenditure or investment definitely supports the business.
18. Cost consciousness / Awareness
Out of the 25 units under study, 24 units are of the opinion that this attitude is most useful and one unit is of the opinion that it is partly useful. Considering this data 96% of the units are cost conscious whereas 4% of the units having the awareness of the fact. This attitude definitely useful for designing and implementing the cost reduction programme. This also helps to decide the strategies towards the cost management professionally. This is an indication that all the entrepreneurs are cost conscious and interested in effective utilization of resources.

19. Position on Break Even Point
While drafting the questionnaire in spite of asking the sensitive issue of profitability, we had given a chart placing 0 to 10 numbers on breakeven line and ask them to mark a position where the unit is. From the details available after completion of the questionnaire the following are the results –
Loss Zone – Nil (Not a single unit is there in this zone)
Break Even Point - Nil (Not a single unit is there in this zone)
This means all units have crossed BEP and they are in profit zone.
Number 4 ticked by one unit, number 5 by 10 units, number 6 by 9 units and number 7 by 5 units.
This results shows that majority of the units are towards the progress and achieving their profitability. They have enjoyed and gone through the recession as well as prosperity period and by all the means they are marching towards a betterment of the business.
5.3 GRAPHICAL POSITIONING OF SMES ON BEP

![Graph showing graphical positioning of SMES on BEP]

Fig 5.1