CHAPTER VII
CONCLUSIONS / SUGGESTIONS AND RECOMMENDATION
7.1 INTRODUCTION

Study of literature and in-depth study of 25 SMEs clearly indicate that SMEs are contributing substantially to the growth of Indian economy and most of them are anxious to grow systematically and scientifically. It was also observed that there was a general misunderstanding, to use costing techniques is a luxury that SMEs can not afford. Since many of the SMEs are family managed, traditional management approach and conservative attitude was main feature of small industries whether it is trading, manufacturing or both. Data proves that most of the units are steadily but surely marching towards modern professional approach. This transformation is not easy but following steps are identified.

1. To start using professional managers for effective day to day functioning
2. To use owners time and resource for development of employees who will surely take more and more responsibility and deserve additional rewards.
3. Top management including family based management should concentrate on two major management functions i.e.
   i. Planning
   ii. Control

Unfortunately at present there is more emphasis on control and less emphasis on planning.
7.2 CONCLUSION

As mentioned earlier, cost awareness is pre condition to strategic cost management which will lead to holistic scientific management within the scope of present study, researcher draws following conclusions –

1. Cost Reduction Committee / Council : Establish a cost reduction committee within the organisation. Every employee must get opportunity to become a member of CRC (Cost Reduction Committee/Council) by rotation. Weekly meeting and quarterly reporting should be held by the committee to the management. Cost reduction suggestions, implementation, practical difficulties should be registered thoroughly and scientifically. The committee members are suggested to be constructive while making suggestions which will be implemented at right time. Cost awareness at every level is important.

2. Suggestions arising out of Cost Reduction Committee / Council should be implemented as early as possible and the employees who implement the same should be congratulated. Every employee must have feeling that he is a part of management.

3. Using accounts department as a costing department initially, Accounts department must be encouraged to devote sufficient time for developing costing data and depending upon the size of cost accounts, if required cost consultants may be appointed. He may be paid on the basis of percentage of cost reduction. Cost Consultants makes diagnostic analysis of case based on facts and figures. Clubbing small errors, rectifying it then and marching towards strategic cost management is vital.

First Step of Strategy

Cost Reduction (CR) efforts need a sound, structured organization for the purpose.
To Establish a Cost Reduction (CR) Committee / Council with the chief of the Unit as the Chairman. Departmental Heads / Functional Heads would be the members of the CR Council. Each Department / Function to have a mini CR Council of it’s own.
Mini Council to report progress / problems/ status to it’s Departmental. Head every month. Main CR Council to review status every two months and solve problems spanning across the functions.

**Cost Reduction Committee / Council**

![Cost Reduction Committee Diagram]

Fig 7.1

Such as institutionalization of the cost function will go a long way to make strategic cost management a successful event.

**Tools for Cost Reduction (CR) Committee / Councils**
1. All Cost Reduction (CR) Committee / Councils of various Depts. to develop an Excel Sheet showing their own expenses / Costs and relationship with their activities.
2. This is the sensitivity analysis which permits decision making at Dept. and Unit level.

**Reporting Methodologies**
1. Who will confirm achievements of CR.
2. Frequency of reporting.
3. Annual Budget to incorporate savings estimated and committed.
4. No report is complete unless failures also are brought out. There should be ‘no blame policy’, it means that Cost Reduction Committee / Council should not discussed who is wrong but must concentrate on what is wrong. This will improve atmosphere in the meeting and future planning will be more realistic.
5. Carry forward and stoppage authority to Managers.

Strategy No. 2

In Cost Reduction initiatives, concentrate on 4 or 5 initiatives picked up after analysis and debate and build more initiatives piggyback on these later. Entire organization should concentrate on these top initiatives whether or not it falls into the work definition of some departments.

Example: If off-loading is taken as a priority initiative, do not take machine utilization improvement as the CR initiative. It can come later as a natural outcome after off-loading is complete.

Strategy No. 3

Create an atmosphere of transparency

Some important strategies to be followed

- A Cost Reduction section in House Magazine / poster which can be displayed on notice board.
- LED flashing Sign Boards.
- Regular / need based training to ALL categories of employees regarding Cost Reduction with reference to case studies within the organisation should be conducted once in a quarter and each and every point should be taken seriously by the management. For training a good mix of internal and external faculty is desirable.
- Brain storming sessions of various classes of employees.
- Make it known upfront to employees of what cost information will NOT be shared.

**Strategy No. 4**
Benchmark your cost patterns with the best in your industry (not just the least)
Caution: You do not really know the secrets of cost reduction strategies followed by your competitor or the best in the class. Blind comparison will result in frittered efforts or frustration.
Tip: Benchmark yourself against your own costs or statistics. Plan for a calculated and/or accepted improvement.

**Strategy No. 5**
Costs are apparent and real. Distinguish between immediate cost and ultimate cost.
Example: A lawyer charging a low per hour fees can take more time than a lawyer who charges more. Final bill of such a lawyer can be more than that of an expensive lawyer. Make an estimate before taking a hurried decision.
Example: Worker's uniform. Cheap with short life v/s. costly with long life.
It is rightly said that “Sasta Roye Bar Bar Mehanga Roye Ek Bar”.
Cost reduction does not mean a reduction in quality or compromising in quality. Quality is absolutely important every time and everywhere at every place. It has never been foolish economy.

Innovation as an enabler for Cost Reduction (CR)
Impediments to innovation
1. A lack of any system measuring return on innovation.
2. A lack of a strategy for product development, resulting in a list of products rather than a cohesive approach to innovation.
3. Insufficient people to man projects.
4. Poor communication between levels of management and across functions, interfering with the setting of clear expectations.

5. A culture averse to risk-taking.

Ten Steps to innovation

1. Foster an environment where happy accidents can happen.
2. Use the expertise you have in-house.
3. Measure results of innovation.
4. Stay ahead of the customer.
5. Celebrate success.
6. Be honest and know when to say “No”
7. Make the Company a lifetime career.
8. Give managers assignments overseas / other states.
9. Keep investing in R & D.
10. Do not do everything that share-markets believe in. Have your own market advisers.

7.3 SUGGESTIONS

The study of 25 SMEs reveal that most of the units are having sound financial position because all of them have crossed Break even point. It is equally important that ambition, transformation from Trading to manufacturing and marching towards partnership and Pvt. ltd. Co’s is an index of sustainable developments. However, the researcher observed that most of the units do not perform to the best of their abilities essentially because of cost management has not given adequate attention. In the 20th Century, it was common argument that Small Industries do not offer luxury of using modern management techniques. It is clear that most of the problems are solved on hand to mouth basis, decision making is concentrated at top, staff training and welfare that always take the backseat. Dictatorial and unilateral
approach of the entrepreneur prevents employee empowerment and so the potential is not fully achieved.

There are two approaches to correct situation
1) To appoint a cost consultant for regular scrutiny of business from cost management point of view
2) To establish a dedicated Cost management department.

It may be clarified that these options are not exclusive, one can phase out in such a way that Cost Consultant becomes a trainer for employees to develop awareness about costing and cost management.

When Globalisation has come to stay and Privatisation and Liberalisation is very fast, SMEs have to tune up to create the future for themselves. It may mean switching over from Trading – Manufacturing, Partnership – Ltd Co etc. It may also mean an integrated approach for expansion of business.

It is strongly recommended that the following techniques be immediately applied and rest of the techniques in a reasonable time frame.

The techniques to be applied consist of various costing methods, understanding the cost effectively, establishing linkages with performance. It also includes budgetary control, variance analysis, activity based costing, inventory related techniques etc.

The SME’s should adopt Enterprise Resource Planning (ERP), Intelligent Resource Planning (IRP) and also think for Management Information System (MIS) and Management Control System (MCS). If required they should train the staff accordingly.

Suggestions to Owners / Entrepreneurs

1. Start delegation of Authority among the concerned employees according to their position held in the organization. e.g. finalization of purchase order based on certain criterias, norms decided by the management, making payments as agreed by
considering the terms and conditions by the accounts department, receipts and issues of stores, material by stores department, adopting better staff welfare and HR practices by personnel department for development of better human relations.

2. Use Management techniques for better planning and must have less emphasis on control. The control must be for the sake of control to manage the activity in the systematized manner. Defining and knowing the proper line between planning and control in fact planning should help directly or indirectly to control the activities.

3. Business Re-engineering: The owners must think about all basic business processes, break down of all conventional designs of functions and departments and introducing newly developed systems and techniques at proper time. e.g. change of conventional machineries and using CNC and SPMs (Special Purpose Machines) in production process.

4. Re-design organizational structure and review interrelation among the departments. Business re-engineering is a methodology of viewing business from a fresh outlook. Outcome of business re-engineering is an organization i.e. willing to change / flexible.

5. A flexible organization adopts in responding to changes and demands and hence is more suited to respond Cost Reduction needs. Remember while re-engineering that it should be intrinsically suited for Cost Reduction. Often Business Re-engineering is considered for speed and better customer orientation.

6. Strategies in Capital investments - How to use technology to improve processes with commensurate cost reduction in ultimate terms, capital investment in area other than operation e.g. real estate. Strategies for taking smart decision must be adopted.
Suggestions to Professional Managers, Staff and Employees

1. Establish system in such a way that routine problems will be solved at managerial level and no need to contact owners for simple things.
2. If possible, plan for department wise strategies i.e. Production, Finance, Marketing – Sales, Administration, Materials / Purchase, Logistics, Other specific Units / Departments.
3. Strategies in manufacturing – apply the appropriate strategies in following areas.
   a. Materials : e.g. Strategy in Purchasing, Just In Time (JIT), packaging of Material under supply, Logistics, Make in v/s Farm out. Reduction in wastages at all points. How many kgs. of raw material finally reaches to customer as a component etc.
   b. Tooling Costs, Shop Overheads, Power costs.
   c. Labour Costs, Productivity upgradation.
4. Involvement of staff and employees in decision making at proper levels according to the knowledge, capacity and position.
5. Overburdening should be avoided. Imaginative methods of work should be adopted.
6. Strategies in administration cost should be suggested e.g. travel, telephones, car expenses and other administrative expenses.

Suggestions to Outside agencies / Government authorities / Local bodies

After 1990 even though the Government has announced into LPG Policy (Liberalization, Privatization, Globalization) not reached at desired levels. SMEs have to face number of difficulties in day to day management. These government agencies having traditional approach and tendency to exploit the position. These power centres are practically troublesome to the SMEs.

It is suggested that these agencies must have a positive and progressive attitude. They must implement users friendly policies.
Instead of number of formalities, documentation system must be comfortable to the concern person and organisations. This positive attitude can save the time, money and energy of both i.e. SMEs as well as Government. They should cooperate to SMEs in all respect to perform the legal formalities and compliance there of.

**Suggestions to Small Scale Industrial Association**

1. The association must lead the SMEs and work as representative of them.
2. They should arrange the meetings at periodical intervals of the owners, professional managers, consultants and outside agencies, government authorities and local bodies to stream-line the functioning of every organization smoothly and properly.
3. They must have constant communication with all concerns of the business organisation e.g. Income tax department, Sales tax department, MIDC, Octroi department, local bodies, excise department, community centres etc.
4. Great sense of justice to prevail in the whole organizational scenario with respect to social responsibility e.g. utilisation of wastages, garbage, destroying the scrap, reuse of drain water etc.
5. Suppliers are the partners of the organization but unfortunately because of better bargaining power they try to exploit the suppliers. Suppliers must be considered properly as partners and important source for the organization.
6. Customers relationship must be maintained by suggesting proper means and ways for developing the relations.
7. The association must establish reciprocal and cordial relationship among the concerns with the business organization which will result into “win-win situation”. The attitude of cooperation must be developed among everybody which will result into better
performance of work. The association must perform the role as a liberator and not as a limitor.

8. They must develop the attitude of exploring and not exploiting with the concerns.

7.4 **RECOMMENDATIONS**

This includes short term and long term strategies consisting of appointment of Cost Consultant, goodwill visit to various organizations, intraface among the SMEs. Long term strategies and establishment of separate Costing Department, seminars and workshops, training programmes and development of relationship of the association with concerned person. The strategy is classified into three different levels

1. Corporate level Strategy
   a. Long term
   b. 5 – more year
   c. Overall purpose and scope of business.
   d. Crucial level.
   e. Meet share holder’s expectation

2. Business level strategy
   a. Medium term
   b. 1-5 year
   c. Future plans of profit centers.
   
   Decision about :
   a. Choice of product
   b. Meeting Need of customer
   c. Gaining Advantage Over competitors
   d. Exploiting new opportunity
3. Operational level strategy
   a. Short term
   b. 0 – 1 year
   c. Undertaken at operational / functional level
   d. Focuses on issue of man, material, money, machine, method.

4. Apply the 5 uses of strategy (Henry Mintzbergs 5 P’s of strategy)

   **Plan:**
   Consciously intended course of action which a firm chooses to follow after careful deliberation on various option available.

   **Ploy:**
   Trick, device, scheme or deception intended to outwit an opponent as a competitor.

   **Pattern:**
   Stream of decision and action to guide and lend the future courses of enterprises to meet the predetermined objective.

   **Position:**
   Means location of the firm in an environment full of external factors pulls and pushes.

   **Perspective**
   Ingrained way of perceiving the world around the organisation and its business operation.
Conclusion
- Take Cost Reduction systematically and seriously.
- No need to wait for a trigger.
- Cost Reduction can be a binding force.
- Participation of wider spectrum of employees and institutionalization is the mantra.
- Benchmarking.

Hypothesis Proved
“Cost Management awareness is pre condition for Strategic Cost Management”.

The literature study on and review on pages 69 to 97, In-depth study of 25 SMEs from pages 128 to 140 and conference as organised of SMEs, report of the conference (refer Annexure VI) and outcome of the meeting on page number 166 to 167 proved that strategic management is possible for SMEs providing they continuously develop cost management awareness amongst all the constituents with the business organization. For implementing and planning the strategic cost management, awareness of cost management is the first basic step. The hypothesis is proved.

“Recent Trends in materials and stores management are leading to Strategic Cost Management.”

Taking into consideration the various techniques known and useful to the SMEs and the information obtained from particular question from SMEs, all the costing techniques applied by the SMEs conclusively proves that they lead to strategic cost management. During the conference the owners explained few examples as a strategy used in their own business and the details and findings from case studies consistently proves that the recent trends in inventory control,
materials and stores management leads to strategic cost management. The hypothesis is again proved. (Ref: Chapter III pages 75 to 97)

“Strategic Cost Management is a pathway to improve profitability and productivity.”

The Literature on the subject of cost management has repeatedly explained importance of improved profitability and productivity. Findings from Case study from page 141 to 167, clearly explain how the productivity and profitability can be improved by applying these costing techniques. The questionnaire also reviews various techniques which are most useful, known and not useful in the analysis of this question. It has clearly explained that strategic cost management is a pathway to improve profitability and productivity. The hypothesis is proved. (Refer to annexure IV)

7.5 TOPICS FOR FURTHER RESEARCH

The scope of strategic cost management is very wide. The researcher observed that there are number of shades to the subject and new techniques of costing are been developed by cost accountants and financial experts. Therefore it may be suggested that the following topics are worth studying for M.Phil. and Ph.D. course both in Commerce and Management faculty. An illustrative list is as follows.

2. Use of Management Information System (MIS) for SMEs.
3. Cash Flow statement and balance sheet analysis for the purpose of planning and control.
4. Role of Trade Association and Chamber of Commerce in supporting small scale industries.
6. Application of costing techniques for effecting management.

All India surveys and International benchmarking will be more important in future. Therefore continuous study is necessary on the subject.