ABSTRACT

“Study of Strategic Cost Management in selected small scale Engineering units in Pune”

Introduction

Book keeping, accounting, management accounting and costing are some of the devices with which small scale industrialists are not much acquainted. Most of the small scale units are owned by technocrats. Many of them are first time entrepreneurs. It is generally observed that these technicians are very strong in terms of knowledge of technology, appropriate to their businesses. However they usually feel that financial matters do not play very significant role. When the business is on tiny scale, perhaps most of the figures are on the tip of their tongue, but as the business grows they are very happy when they bag the new orders. There is no doubt that marketing has an important role to play in the success of the business, but some attention to costing is obviously essential. In an enthusiasm to bag the new orders lot of concessions are offered and the prices which are quoted are on general knowledge. Ultimately the transaction ends up with very thin margin. Unfortunately payment terms agreed upon are not maintained by the party. It leads to tragedy of short of working capital on the face of so called growing business.

The key to success is costing and cost management. The present study is an attempt to provide direction to small scale industry that “Cost management in general and strategic cost management in particular is an index of business success.”

As per the dictionary meaning of the term strategy means carefully worked out plan of action / strategic/ strategist. The term strategy drawn from military science means essentially a plan of action to win the battle. In
case of business small or large it amounts to winning the transaction to the advantage of an entrepreneur.

Unfortunately there is a wide spread misunderstanding that a small industry can not afford sophisticated costing and financial management techniques. However a lot of money is spent on buying new technology. Thus an entrepreneur fails to see the difference between spending and investing.

The techniques like ratio analysis or Balance sheet analysis are useful to all big, medium or small scale Industrial units.

In this study 25 case-studies are included to demonstrate various techniques being used by small scale units in managing their costs and assuring business success.

**Objectives of the study**

1. To analyze various elements of cost and establish linkage with performance management.
2. To study the shades of cost elements in variety of industrial and business activity.
3. To identify the relationship between cost effectiveness and performance.
4. To explore the significance of strategic cost management in various functional areas like production, marketing, finance, administration in small scale engineering units.

**Arrangement of Topics**

1. A) Introduction and History of Cost Management, Strategic Cost Management - Concept, Overview of costing, Costing methods and Techniques, Classification of cost

2. Literature Review – Analysis of papers presented on costing, Strategic Cost Management.


4. Study of strategic cost management in selected small scale engineering units.

5. Findings from case studies.

6. Suggestions and Recommendations to Entrepreneurs, Trade Associations, Government and Local authorities and Scope for further research.

7. Bibliography

**Hypothesis**

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

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

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

**Research Methodology**

a) It is true that there are number of methods used in the study of social science research to explore the subject matter scientifically. Research is a journey to develop understanding about the subject under study. Obviously researcher has to maintain the balance between Qualitative aspects and Quantitative aspects. It is also desirable to balance “Subjective” and “Objective” elements. As a researcher one must be able to take impartial view of the topic under study. There should be no prejudice in the mind of researcher.
As a teacher and student of costing researcher always felt the need not only to understand the techniques of cost accounting like ratio analysis, ABC analysis, value analysis and various concepts like material cost, labour cost, administrative cost etc but to explore how these concepts and techniques can well be practiced not only by large units but also by small units. In recent years various new techniques have come into play like inventory management, PERT (Programme Evaluation and Review Techniques) and CPM (Critical Path Method) etc.

Some of the industrial engineering techniques like time study, motion study, methods study etc. also play significant role in shop floor management.

In view of all this researcher was in search of a method which will satisfy the curiosity of researcher in understanding and applying these techniques to small scale engineering units. In this search it is observed that “Case study method” will be directly useful in arriving at some conclusions about the use of at least selected techniques in selected small scale engineering units.

The analysis and discussion of case problems has been the most popular method of teaching strategy and policy for many years. The case method provides the opportunity to move from a narrow specialized view that emphasizes functional techniques to a broader, less precise analysis of the overall corporation.

Case present actual business situation and enable us to examine both successful and unsuccessful corporations. Case analysis involves critical analysis of situation in which manager has to take a decision of long term corporate importance. This approach gives feel what it is like to be faced with making strategic decisions and implementation of it. Burgess has used the words “the social microscope” for case study method.
b) Interview method – The Questionnaire is prepared and given to 25 selected industries (entrepreneurs). After due discussions and personal meeting the same was completed.

c) Conference of small scale engineering units owners / office bearers to understand closely the views about the cost management, strategic cost management, application of strategies and practical difficulties in implementation. The object is to search better ways and means for effective business policies and ethics.

Analysis of Questionnaire

The questionnaire duly completed by the small entrepreneurs after personal discussion and meeting with researcher the following points came to know from the same.

1. Type of organization –

2. Year of establishment –
   1947 – 1974 – 02 Units
   1975 – 2000 – 14 Units
   2001 and above – 09 Units

3. First Generation Units – 19
   Family Business - 06

4. Factors motivated to start business unit consist of Ambition, transferring treading to manufacturing, Employment to self employment, inspiration from friends and relatives, project at college level, family business continued and market survey also.

5. The milestones consist of Training at works, Innovation during service, support from relatives, product substitute for imported product, opening of service branches at different places, expansion of manufacturing unit from small place to bigger one, reaching at national and international level, obtained ISO certification, diversification of activities and various progressive steps.
6. The Accounting System / method consist of manual – 01 Unit and Computerised 24 Units which consist of self designed programmes - 05 Units and standard package – 19 Units are using.

7. Considering about the costing departments
   Separate costing Dept – 01 Unit.
   Using A/cs dept as Costing dept – 04 Units
   Owners Driven Costing – 17 Units
   Professional Driven Costing units – 03 Units

8. 16 units obtained ISO certification, In case of 02 units it is under process and 07 units have not yet decided about the same.

9. Regarding staff Welfare majority of them following standard practices (to comply statutory provisions), 22 entrepreneurs says it is most useful while 03 says not so useful.

10. Regarding HR practices applied as such there was no proper response, 11 entrepreneurs says most useful while 14 says not so useful.

11. The turnovers for one year (2009 – 10) consist of -
    Below 1 Crore – 03 Units,
    1 – 2 Crores – 05 Units,
    3 – 4 Crores – 07 Units,
    7 – 8 Crores – 03 Units,
    11 – 12 Crores – 02 Units
    and one unit is having 67 crores turnover.

12. The clientage consist of major clients 01 to 10 in number and 02 to 500 in minority. 19 units are working in domestic market only where as 06 units are working at domestic plus other countries also.

13. Regarding capital structure
    100% own capital – 10 units
    75 – 90% own capital - 3 Units,
    50 – 74% own capital - 07 Units,
25 – 49% own capital - 04 Units.
Cash credit, long term loans and advances are taken by 14 units.

14. Application of costing techniques knowing it / not knowing –
Minimum 12 and maximum – 31 techniques are known to them,
Few of them are not known and using these techniques is based on
practical requirement only.

15. Classification of Cost Consist of 41 – 90% materials, 2 – 30%
labour, 2 – 38% overheads.

16. 19 Units says that Research and Development is most useful and
06 units are of the opinion that i.e. partly useful.

17. Regarding Social responsibility 12 units are of the opinion that it is
most useful, 10 units says partly useful and 03 unit says not so
useful.

18. 75% of the units says professional management approach, profit
maximisation, ploughing back of profits is most useful.

19. 90% of the units are favourable for cost consciousness and cost
awareness.

20. All the units are in profit zone and crossed Break Even Point.

Suggestions and Recommendations:

Why SME’s should use modern management techniques?
The study of 25 SMEs reveal that most of the units are 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 best of
their abilities essentially because cost management has not been 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 always take backseat. Dictatorial and unilateral approach of the entrepreneur prevents employee empowerment therefore the potential is not fully achieved.

There are 2 approaches to correct situation

1) To appoint cost consultant for regular scrutiny of business from cost management point of view

2) To establish 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 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.

Suggestion to Owner Manager / Entrepreneurs

1. Owners should strictly follow organisation chart and delegate the authority to subordinate accordingly. As a result inspite of spedning
the time on Managerial work entrepreneurs can use their valued time for other important work, research and development, application of new techniques in business and knowing the recent trends and policies for business development.

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 systematised manner.

3. The owners must think about all basic business processes, breakdown of all conventional designs of functions and departments. i.e they must follow the technique of Business Reengineering.

4. Review and redesign organisation structure and view the business from a fresh outlook. The entrepreneurs must have the attitude of willingness to change according to present scenario.

5. They should concentrate on strategies in capital investment in different areas.

Suggestions to Professional Managers, Staff and Employees

1. Establish system in such a way so that routine problems will be solved at managerial level and for creative and most important issues involve the top management.

2. Plan for department-wise strategies e.g Production department – Strategies in Manufacturing process, material, tooling, labour cost, upgradation of productivity etc.
   For Marketing and Sales Department – New methods and techniques of marketing, creating reciprocal relationship among the person connected with the department.
   For Purchase department – Effective purchasing, development of professional attitude and approach, separate purchase department etc.
For Administration – Paperless office, use of modern techniques and software, involvement of staff and employees in decision making according to their knowledge, capacity and position.

3. Overburdening should be avoided, imaginative methods of work should be adopted. Necessary training facilities (Internal / External) should be provided to employees.

Suggestions to Government Authorities, Local Bodies and Outside agencies.

1. After 1990 government has announced the policy of liberalization, privatization and globalization (LPG). All these government bodies should change their approach and tendency to exploit the position. They should not work as troublesome centres but to work as supportive centres to SMEs. This positive attitude can save Time, Money and Energy of both.

Suggestions to Small Scale Industrial Association

1. The association must establish cordial relation among the entrepreneurs, govt authorities, community, all the concerned organizations with SMEs and establish a linkages to perform the work systematically and create a friendly environment among them.

2. To establish effective communication system with all concern. The communication consists of internal as well as external communication with respect to particular task. The association must develop the attitude of exploring and not exploiting with the concerns. They should work as a intermediary and always try to establish healthy relations among the business organisation and community.

Recommendations

1. Establishment of Cost Reduction Committee (CRC) and every employee must get the opportunity to become a member of CRC. The
committee members are suggested to be constructive and always positive while making the suggestions.

2. Implementation of suggestions by CRC properly at proper place at proper time for effective working.

3. Appointment of professional cost consultants and advisors to develop professional approach amongst the staff and management.

Conclusion
In view of the findings from the case studies of 25 Small Scale Units, researcher papers, literature review it can be said that cost reduction is a continuous process. To develop the strategic management attitude among the concern person is important task. As such cost reduction committee / council plays a significant role in motivating the employees and developing the attitude of cost awareness.

Based on the research and the findings here are certain recommendation in brief which would prove useful to the organization and their management in effectively achieving strategic cost management in the organization.

1. Establish transparency in day to day activities.
2. Encourage the employees to express their views / opinions without fear of repraisal.
3. Effectively use the upward channel of communication in process of cost reduction.
4. Empower the employees for taking more and more decisions, barring certain key policies decisions which need to be taken at the Top Managerial Level.
5. Create suitable opportunities for growth and development, tying up with certain universities and institutes, industrial training centres, research and development centres, government departments etc. should be explore and implemented.
6. Arrange systematic and proactive training interventions.
7. Develop pride of the organization by innovating and introducing new ideas for cost reduction.

**Scope for further research**

The areas of cost reduction and process of cost reduction are very vast. Abundant literature in the form of books, articles and research papers has been published till todate and it would continue in the years to come. New dimensions, views and thoughts would also keep on emerging. While carrying out the research study, various topics and themes flashed on which further research could be carried out. 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.

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