PROSPECT OF EFFECTIVE COST MANAGEMENT: A STUDY OF SUCCESSFUL AND UNSUCCESSFUL SMALL SCALE UNITS IN MYSORE DISTRICT

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ABSTRACT

In the increasing knowledge-driven economy, emerging trends are key consideration in day-to-day business decisions. New products, technologies, best practices and creative designs appear almost daily on the market and are the result of continuous human innovation and creativity. The individual occupies the prime position in the development process of developing countries, especially the Indian situation, has been the strategy of nurturing the small scale sector through entrepreneurial development having several avowed socio-economic objectives. In recent years, man as a micro-organism has occupied the pivotal role in the management of either the large organization or the small organization. The research findings emphasize actions for success and these actions are under one’s locus of control. The success or failure of any economic enterprise hovers around innovation levels, entrepreneurial orientation and management heuristics. It is also evidenced that nurturing policy of the government has failed to build entrepreneurial people in a country. What is needed is the development of self propelled entrepreneurialism for any society, which has to take self employment as a growth strategy. In this direction, the present study makes an attempt to compare the effectiveness of cost management of successful units (SUs) and unsuccessful units (UUs) in Mysore district. An efficient cost management not only results in effective competition, but also in financial performance. The management of cost can be achieved through cost control and reduction. Cost control refers to the realization of producing a product within or at budgeted unit cost.

Keywords: Micro-organism, locus of control, innovation levels, successful units, unsuccessful units, cost control and reduction.
PROLOGUE

All countries in the world have found an elixir in development. The sheet anchor of this development has been the economic development, which basically denotes material well-being or increased per capital consumption or possession of worldly goods. The term ‘economic development’ was often used as a synonym with ‘economic growth’ to denote an increase in material well being. Economic growth signifies an increase in product availability or consumption per head of population. Further, economic growth signifies a self-propelled positive change and economic development signifies managing the change deliberately with a thrust on socio-economic equity.

Another dimension of development issue has been the role of agriculture and industry. It is popularly held that the development connotes a shift from agriculture to industrialization because the underdeveloped countries are characterized by agrarian economies. According to Chenery (1984) industrialization has become a major hope of all poor countries which are trying to increase their levels of income. The planners of most of the developing countries regard industrialization as the panacea for underdevelopment and poverty. Industrialization not only influences the growth of national output and income, but also enriches the national life and social, political and cultural pattern of the whole social hierarchy.

Another important dimension of development through industrialization has been the relative role of small industries and large industries. Further, the state policy is envisaged to bring industrialization through an effective entrepreneurial environment, moving away from metropolitan cities of the country. In non-metropolitan regions, entrepreneurship is a new challenge and performance of the units established in these regions is highly dependent on an effective cost management.

LITERATURE REVIEW

The studies on cost management strategies and other related factors on small scale units are analyzed. According to Balakrishnan (1972), the small industrialists pay very little attention to external as well as internal sources of finance. He has indicated that small industries are not sound financially as those of big industries. They do not have adequate resources at their disposal and are more vulnerable to changes in the market.

Singh and Sandhu (1988) observe that the average level of capacity underutilization of Indian industries is fluctuating in between 50.00 per cent and 60.00 per cent. Thus, it has become a ‘chronic malice’, which has evaded solution so far. Many factors are found to be responsible for such unpleasant situations. It may be partly due to bottlenecks arising out of inefficient management of material, labour and overheads.

Sharma (1976) reveals that small scale units are suffering from underutilization of productive capacity. The factors responsible are found to be power shortage, dearth of skilled labour, labour problem due to unhealthy motivation, and dearth of raw materials, uncertainty of market and lack of mechanical equipments.

Jha (1976) was of the opinion that at times, the liberal and blanket assistance given to small scale sector had resulted in malpractices and that scarce raw materials were sold in the black market. Such practices resulted in increased cost of production which put them in an adverse position.
Small scale units are expected to serve the hapless labour. Labour is the very backbone of every production activity. Dwett (1988) observes that unlike other factors of production, labour is a living factor. It is not merely a means but also an end of production. Deolankar (1993) observed that the labour supply being abundant in India, cost of labour is almost zero and small scale industries can utilize labour as a substitute for fresh capital at a nominal cost.

Angel (2004) analyzed that the relationship between knowledge management strategy and business strategy was very essential for any business to perform well. The study revealed that the firm size, age and industry are the factors leading to corporate performance. He concluded that the firm should consider all these factors for any enterprise to succeed.

David and Chesebrough (2004) observed that knowledge management increases the efficiency, productivity and efficiency of any business. They also opined that Knowledge management will leads to new opportunities in business. They concluded that master your knowledge then any business will succeed.

Singh (2007) stated that failure of any business was due to mismanagement of various resources like material, labour and like. He also opined that mis-functioning of several functional areas also leads to the poor performance of any business.

Manimala (2011) highlighted that employee engagement, cost management, customer focusing, operational efficiency, corporate restructuring are the strategies used by successful enterprises more frequently than unsuccessful groups.

**OBJECTIVES OF THE STUDY**

The objectives of the study are as follows:

1. To measure the performance of successful and unsuccessful units in terms of cost management;
2. To highlight the importance of different cost elements among successful and unsuccessful units;
3. To present the scope of cost control and reduction of successful and unsuccessful units; and
4. To make relevant findings in the light of objectives of the study.

**RESEARCH METHODOLOGY**

The present study is based on both primary and secondary data. The study makes an analysis of effective cost management of small scale units in Mysore District. In the background and the objectives of the study, the present study was carried out to know the difference between successful units and unsuccessful units in managing various cost elements. Out of the total 175 respondents, the numbers of respondents under successful units and unsuccessful units stood at 100 and 75 respectively and their percentages stood at 57.14 per cent and 32.86 per cent. The identification of successful units and unsuccessful units was done by eliciting the performance status by the respondents themselves and then having cross verification of their performance responses through employees of their units, neighboring units and most importantly the bank branches through which they transacted their business. The respondents were chosen from six industry categories of general engineering, chemicals, plastics, rubber products, packaging materials and electrical based on stratified random sampling. The data was collaged with SPSS package and the statistical tools
comprising of chi-square value, ‘t’ value and mean value were adopted to arrive at meaningful conclusions.

ANALYSIS AND INTERPRETATION OF DATA

In this competitive world, cost efficiency plays an influential role in facing competition. Cost Management has been analyzed under (i) Significance of Cost Management; and (ii) Amenability of Cost Control.

(i) Significance of Cost Management

An efficient cost management not only results in effective competition, but also in financial performance. Significance of cost management has been analyzed under (a) Weightage to Cost Management; and (b) Relative Importance of Cost.

(a) Weightage to Cost Management

Table No. 1 reveals the weightage given to cost management from the viewpoint of material, labour and overheads. The SUs had given the highest importance to material management and the mean value stood at 3.66. The UUs had the mean value of 1.80. The ‘t’ value was above 10 for materials. Labour had the mean values of 3.16 and 1.88 for SUs and UUs respectively. Overheads had the mean values of 3.18 and 1.75 for SUs and UUs respectively. In other words, SUs gave more weightage to the management of material, labour and overheads than the UUs and all the components of cost were found to be highly significant.

Table No. 1

<table>
<thead>
<tr>
<th>Components</th>
<th>Mean Values</th>
<th>‘t’</th>
<th>P</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>SUs</td>
<td>UUs</td>
<td></td>
</tr>
<tr>
<td>Material</td>
<td>3.66</td>
<td>1.80</td>
<td>10.001</td>
</tr>
<tr>
<td>Labour</td>
<td>3.16</td>
<td>1.88</td>
<td>6.525</td>
</tr>
<tr>
<td>Overheads</td>
<td>3.18</td>
<td>1.75</td>
<td>6.847</td>
</tr>
</tbody>
</table>

SUs = Successful Units; UUs = Unsuccessful Units
Source: Field Survey.

(b) Relative Importance of Costs

The relative importance of different cost elements, also called cost centres, has been presented under Tables Nos. 2, 3 and 4 with reference to material, labour and overheads. More carefully managed material cost had a significant effect on the success of the unit. It was evident from table No. 2 that 40 per cent of successful units managed the material cost very cautiously. However, 52 per cent of unsuccessful units showed least preference to the management of material cost.

The successful units managed the labour cost very judiciously. Whereas the unsuccessful units, did not adopt this policy as shown in table No.3. It was evident that there was significant variation in successful and unsuccessful units regarding labour cost.
The table No. 4 revealed that the successful units managed the overhead cost very cautiously, where as the unsuccessful units did not follow this approach. So there is a significant different between successful and unsuccessful units regarding overheads cost management.

SUs = Successful Units; UUs = Unsuccessful Units
Note: Figures in parentheses indicate respective percentages
Source: Field Survey.
(ii) Amenability for Cost Control and Reduction:

The management of cost can be achieved through cost control and cost reduction. Cost control refers to the realization of producing a product within or at budgeted unit cost. Cost reduction refers to the questioning of the budgeted cost and searching for better ways of producing a product below the budgeted cost. In order to achieve cost efficiency, the adoption of these tools is not only important in an efficient financial management but it also as a high potential tool in marketing performance. The importance of amenability for cost control and reduction has been analyzed under (a) Scope for Cost Control and Reduction; and (b) Relative Weightage.

(a) Scope for Cost Control and Reduction:

Table No. 5 presents the scope for cost control and reduction for SUs and UUs from the viewpoint of their mean values. It was observed that SUs had higher mean values regarding material, labour and overheads at 3.12, 2.89, and 2.93 respectively, when compared to UUs with the mean values of 1.81, 1.87 and 1.76 respectively. It was also important to note that SUs rated material as having highest scope for cost control and reduction, but the UUs had the lowest weightage given this material cost. Further, UUs identified labour as the most significant cost element having the scope for control and reduction as against SUs recognizing the least scope.

Table No. 5
Scope for Cost Control and Reduction

<table>
<thead>
<tr>
<th>Components</th>
<th>Mean Values</th>
<th>‘t’</th>
<th>P</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>SUs</td>
<td>UUs</td>
<td></td>
</tr>
<tr>
<td>Material</td>
<td>3.12</td>
<td>1.81</td>
<td>6.654</td>
</tr>
<tr>
<td>Labour</td>
<td>2.93</td>
<td>1.76</td>
<td>5.702</td>
</tr>
<tr>
<td>Overheads</td>
<td>2.89</td>
<td>1.87</td>
<td>5.358</td>
</tr>
</tbody>
</table>

SUs = Successful Units; UUs = Unsuccessful Units

Source: Field Survey.

In other words, the amenability for control and reduction of different cost elements had an entirely different prioritization structure in SUs and UUs. This has led to a high significance for all cost elements.

(b) Relative Weightage

The relative weightage given to material, labour and overheads along with frequency distribution has been presented under table Nos. 6, 7 and 8. The SUs recognized material cost having amenability for control and reduction. However, most of the UUs could not recognize materials cost having amenability for control and reduction. There was a significant variation between SUs and UUs on the perception of material cost subject to control and reduction. Regarding labour as a source of cost control and reduction, there was highly dispersed opinion by SUs, but polarized opinion from UUs. Taking the combined opinion of both the groups, the results were highly dispersed. However, there was a significant difference.
Table No. 6
Cost Control and Reduction: Material

<table>
<thead>
<tr>
<th>Group</th>
<th>Weightage Points</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>SUs</td>
<td>23 (23.0)</td>
<td>10 (10.0)</td>
</tr>
<tr>
<td>UUs</td>
<td>33 (58.7)</td>
<td>27 (36.0)</td>
</tr>
<tr>
<td>Total</td>
<td>56 (32.0)</td>
<td>37 (21.1)</td>
</tr>
</tbody>
</table>

SUs = Successful Units; UUs = Unsuccessful Units

Note: Figures in parentheses indicate respective percentages
Source: Field Survey.

\[
\chi^2 = 0.458 \quad P = 0.000
\]

Table No. 7
Cost Control and Reduction: Labour

<table>
<thead>
<tr>
<th>Group</th>
<th>Weightage Points</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>SUs</td>
<td>19 (19.0)</td>
<td>22 (22.0)</td>
</tr>
<tr>
<td>UUs</td>
<td>39 (52.0)</td>
<td>15 (20.0)</td>
</tr>
<tr>
<td>Total</td>
<td>58 (33.1)</td>
<td>37 (21.1)</td>
</tr>
</tbody>
</table>

SUs = Successful Units; UUs = Unsuccessful Units

Note: Figures in parentheses indicate respective percentages
Source: Field Survey.

\[
\chi^2 = 0.364 \quad P = 0.000
\]

Table No. 8
Cost Control and Reduction: Overheads

<table>
<thead>
<tr>
<th>Group</th>
<th>Weightage Points</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>SUs</td>
<td>24 (24.0)</td>
<td>22 (22.0)</td>
</tr>
<tr>
<td>UUs</td>
<td>43 (57.3)</td>
<td>13 (17.3)</td>
</tr>
<tr>
<td>Total</td>
<td>67 (38.3)</td>
<td>35 (20.0)</td>
</tr>
</tbody>
</table>

SUs = Successful Units; UUs = Unsuccessful Units

Note: Figures in parentheses indicate respective percentages
Source: Field Survey.

\[
\chi^2 = 0.392 \quad P = 0.000
\]

It was found that successful units perceived scope for overhead cost with efficient managerial performance. But majority of unsuccessful units perceived very little scope for control of overhead cost. Hence, overhead cost control had significant effect on success of the units.
On the whole, cost management was found to be more effective in SUs than in UUs. Further, the scope for cost control and reduction was perceived positively by SUs and negatively by UUs.

FINDINGS OF THE STUDY

The following were the major findings of the study
1) The weightage of cost management was more directly discernable in SUs than in UUs and the overall mean values stood at 3.33 and 1.81 for SUs and UUs respectively. The utmost importance was given to materials in cost management with the mean value of 3.66 by SUs and this was followed by overheads and labour with their mean value standing at 3.18 and 3.16 respectively.
2) All cost elements in cost management were found to have significance. This indicated that the performance of an enterprise through appropriate cost management was one of the variables for success.
3) Focusing on different cost elements for an effective managerial performance of successful entrepreneurs representing 22.86 per cent gave the highest weightage to materials as a source of cost management as against 44 unsuccessful entrepreneurs representing 25.14 per cent and giving least weightage to materials.
4) Similarly, successful entrepreneurs were found to give more weightage to labour and overheads in cost management than UUs. There was a high significance level.
5) The scope for cost control and reduction in the areas of materials, labour and overheads was perceived at a higher level with the mean value of 2.98 by SUs and the perception by UUs in this regard was very low at 1.81.
6) The scope for cost control and reduction was found to have high significance in all the components of cost.

CONCLUDING REMARKS

The significance of small scale industries continues to be a predominant policy directive in future also, because they act as conduits for equitable distribution and significantly contribute towards development in terms of production and employment. Further, this sector is endowed with a potential of competitive edge caused by cheap labor and locational advantages. At present, it is conceived to be a policy oriented towards the reduction of unemployment and equitable distribution of economic gains. The result has been mushrooming of small scale industries. This explosion of small scale industries on massive scale has ended up with large number of these units becoming unsuccessful. The major problem of unsuccessful units was found to be inefficient cost management. On the whole, cost management was found to be more efficient in SUs than in UUs. Further, the scope for cost control and reduction was perceived positively by SUs and negatively by UUs.

REFERENCES