EFFECT OF COST CONTROL AND COST REDUCTION TECHNIQUES IN ORGANIZATIONAL PERFORMANCE

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ABSTRACT: The major purpose of any corporation is to increase profits; nevertheless, the primary issue they face is rising operational costs. As a result, rising production costs may necessitate the development of cost management and reduction measures, making it difficult for businesses to operate efficiently within their allocated budgets. The study attempts to extensively investigate and evaluate the application of cost control and cost reduction to organizational performance, while also recognizing the budget as a useful tool for this purpose. As the study approach, a descriptive survey was employed. The data analysis necessitated the application of competent statistical methodologies. SPSS regression analysis was used to evaluate the hypothesis. Both cost control and management style, according to the research, have a positive impact on organizational success.

Key words: Organization; Cost control; Cost reduction; Performance; Profit; Budget

1. INTRODUCTION

The current business landscape, which affects businesses of all sizes, is very competitive. In the current situation, an initial reaction would be to cut costs as much as possible. It is critical to completely investigate every component of the cost framework in order to eliminate redundant and non-value-added expenses without jeopardizing an organization's competitive position (ACCA Study Text, n.d.). The majority of organizations inside a commercial organization strive to maximize their earnings. The need for increased sales will come as a result of management's emphasis on profitability, which is a major measure of business performance, particularly in a manufacturing company. This will eventually result in an increase in production capacity, which will raise costs. In a market where pricing for goods and services directly influence demand, cost control and cost reduction are critical.

According to Asaolu and Nassar in 2007, cost reduction is a deliberate and proactive technique aimed at increasing efficiency. It can be viewed from numerous angles, such as a strategy to reduce waste and increase productivity. According to Lucey (1996), cost reduction is the process of reducing expenses from a predefined benchmark or norm without sacrificing the effectiveness or quality of the project's services.

Dury (1985) defines control as the systematic process of ensuring that an organization's operations adhere to its set plan and that its desired goals are met. According to Sikka

(2003), a cost control system consists of many methods and instruments used to monitor a project's operating expenses and guarantee they do not exceed a pre-determined limit. Cost control is the methodical management of an organization's operational expenditures to keep them within allowable bounds. These constraints are sometimes referred to as standard cost or target cost limits within a formal operational plan or budget. Cost control comprises the prevention of wasteful use of precious resources as well as the promotion of efficiency and expenditure awareness.

Cost cutting is an intentional and proactive method to lowering expenses. According to ACCA Study Text (n.d.), cost reduction refers to lowering the cost per unit of goods or services without sacrificing their suitability for the intended purpose.

In a highly competitive sector, it is critical to spend fair amounts of money, and management must guarantee that resources are allocated meticulously and efficiently in order to meet the given standards. Cost control entails creating and adhering to a standard as well as assuring consistent performance in accordance with that standard. As a result, good cost management and reduction are critical in a business to properly handle and remove unnecessary expenditures. Furthermore, it promotes market demand growth in a highly competitive sector.

Cost control and reduction are critical since they contribute to profit maximization. Companies that successfully use cost-cutting techniques can sell their products at a lower price than competitors while maintaining a greater level of quality.

According to Lockey (2002), a company with a pricing competitive advantage has the ability to increase its market share and emerge as the industry leader. Cost-cutting and control measures are put in place to make other forms of competition possible. The importance of cost-cutting methods inside an organization cannot be emphasized, especially when the company is battling to maintain profitability.

Organizations that are experiencing financial losses must increase their revenue or broaden their engagement by cutting expenses. By regularly reviewing its expenditures, a company can reduce surplus and, eventually, eliminate expenses. The need of cost control and reduction methods remains consistent regardless of whether a time is favorable or unfavorable (Lockey, 2002).

The most significant challenge that enterprises are currently facing is an increase in operating costs, which may eventually lead to the installation of cost control and reduction initiatives, making it impossible for most organizations to function with optimal cost efficiency. Any company must seek to enhance their product or service in order to sustain their operations and keep their customer base. As a result, enterprises must successfully regulate their expenditure and cut costs in order to stick to their budget, avoid financial deficits, and maintain the quality of their output. The study looks into how much cost management and cost-cutting strategies are used and how they affect an organization's operational efficiency.

2. LITERATURE REVIEW

According to Reeve and Philpot (1988), statistical process control is a particularly efficient technique for cost management and cost reduction. According to his statement, the first phase of Statistical Process Control (SPC) is outlining the process from the perspective of the finance manager. The process's characteristics are gradually quantified and monitored over time. Control charting is a technique for analyzing deviations from the mean. This successfully reveals any significant discrepancies that require further investigation if they appear during the process. SPC has the potential to greatly improve organizational effectiveness, product quality, and process efficiency in businesses.

Budgets and variance evaluations are two important financial management approaches, according to Wing (2000). Managers, on the other hand, may not always value deviation reports. The issue of whether costs should be classified as variable or fixed costs is a significant impediment to completing variance studies. Many costs do not behave in this manner in practice. This results in report restrictions and poor managerial performance. The author underlines the need of finance managers developing exact models that accurately portray cost behavior and disclosing any inconsistencies utilizing current cost models. The suitability of a system's underlying model determines whether it is used or abandoned. Nonetheless, its execution results in managers making poor decisions.

According to Lucey (1996), management by objective is a critical component of modern cost-cutting strategies. It would be beneficial and useful to establish a cost system that is related to cost performance evaluation and cost progression analysis. As a result, all cost-cutting strategies must be developed and implemented in a way that complements employee behavior. Cost-cutting measures will not improve performance or attain organizational effectiveness until later. According to Cokins (2002), firms must use a precise cost modeling technique in order to efficiently control their expenses and achieve a reasonable profit margin. Nonetheless, as competition grows, the rate at which new items are created must outpace the rate at which old ones become outmoded or obsolete. To offset cost differences from the product's regular cost, innovative procedures and cost management techniques might be used to create a previously manufactured product.

3. COST

Any organization must distribute and release resources in order to fulfill its goals. An accountant defines a cost as a resource that is given up or sacrificed in order to achieve a specific aim. This is the monetary amount required to purchase goods and services. ACCA Study Text (n.d.) defines cost as the monetary amount spent on or linked with a specific object or activity. In general, cost refers to the total amount of money spent on getting the specific item.

Types of Cost

Fixed Cost:

These fees are not based on the amount of exercise performed. They maintain consistency within a certain range of activities. Fixed expenses rise as the upper limit of a specific spectrum of activities is reached. It is also defined as expenses that remain constant despite changes in activity, such as an increase in output. They are an extreme form of cost behavior since they remain constant across time.

A fixed cost, as defined by Asaolu and Nassar in 2007, is a cost that remains constant independent of changes in production volume.

Example of fixed cost:

- The salary of the managing director, whether paid monthly or annually.
- The monthly or annual cost of leasing a specific structure.
- Depreciation for a single machine calculated using the straight-line approach, either monthly or annually.

Variable Costs :

Variable expenditures vary according on the amount of activity. The cost is directly proportionate to the level of activity. The number of units manufactured is used to determine the level of activity. Variable cost, as defined by Asaolu and Nassar (2007), is a cost that varies in relation to the amount of output. The variable cost per unit remains constant for each unit of output, showing that the amount and cost of resources remain constant for each additional unit of output.

Direct Cost:

A cost item is deemed directly related with a product or service unit if it can be immediately attributable to that item. This money should go toward that specific product or service unit. Betts (1994) defines a product's direct cost as any expense that can be directly attributable to it. A direct cost, according to Dury (1985), is one that can be clearly linked to a specified cost objective, such as a unit of inventory.

Indirect Cost:

Direct expense is the polar opposite of this. This cost cannot be attributed to a specific product or service unit. Overhead is the total of all indirect expenses.

Marginal Cost :

The marginal cost is the additional expense necessary to complete additional jobs. All supplemental fixed costs are incorporated in order to generate incremental cost.

4. CONTROL

Efficient control demands the assignment of responsibility for each activity or function to competent managers and supervisors, as well as the rapid presentation of operational statements comprising data on the standard, actual spending, and other important information, as well as recommendations.

Cost Control

Cost control is concerned with managing the marginal cost component, which entails calculating unit cost, monitoring performance, and correcting subordinate actions in order to effectively and efficiently fulfill the enterprise's goals (Lockey, 2002). Cost control is a method that seeks to manage a company's expenses by keeping them within reasonable boundaries. These are sometimes itemized as standard expenses or restrictions on cost objectives in a formal operational plan.

Cost Control Techniques

Cost control refers to a variety of approaches used by various businesses to manage expenses. The account department is responsible for developing the methodology, while the cost and management division is in charge of execution. Material management, standard cost utilization, and budgetary control are all part of the process.

Budgetary Control

A business budget is a formal document that outlines the predicted revenue and costs for a specific time period in the future. A budget, according to Lucey (1996), is a financial depiction of a company's future objectives for a specific time period. According to the Institute of Cost and Management Accountants, a budget is a prior financial and/or quantitative plan defining the specific activities to be taken over a specified time period in order to achieve a specific goal. The appropriate allocation and utilization of resources to meet specified objectives or a range of objectives outlined in a plan is referred to as budgetary control (Lucey, 1996).

Budgets are used within the framework of "budgetary control" to allocate funds strategically and preserve fiscal discipline. Budgeting specifies the goals and means for achieving them, whereas control ensures that the goals are reached and that actual results do not depart dramatically from the intended course. A budgetary control system is a mechanism that compares a company's actual performance to its budgeted performance and then takes necessary action based on the results to maximize profitability. Budgeting, coordinating departmental operations and allocating duties, and reviewing actual performance versus planned targets are all part of the process. According to ACCA Study Text (n.d.), budgetary control is the process of developing budgets that correspond with executive policies and regularly comparing actual results to budgeted results. This comparison has two purposes: it ensures that the policy's objectives are accomplished through individual acts, or it serves as a framework for policy modifications. This term refers to the use of numerous budgets for the aim of implementing budgetary control.

Standard Costing

The standard costing approach is used to address the numerous constraints of historical costing. A report is supplied to management using historical costing, which entails determining expenses after they have been incurred. The standard costing technique entails developing and implementing standard costs, comparing them to real costs, and analyzing deviations to determine their underlying causes in order to facilitate remedial actions (Sikka, 2003).

Standard costing is a cost accounting method that compares the standard cost of each product or service to the actual cost to determine the efficiency of an operation. According to Lucey (1996), this analysis helps uncover any deviations and allows for early corrective steps. According to the ACCA Study Text (n.d.), standard costing is the process of generating and applying predetermined costs, comparing them to actual expenses, and assessing deviations to determine their causes and locations.

Standard costing is a cost-control strategy that involves calculating the cost of an activity in advance based on usual levels of operation. Actual performance efficiency and costs are compared to pre-established criteria, and any deviation or variance is detected. Following that, the disparities are examined, taking into account the causes of the inconsistency, with the goal of determining the precise responsibility of the executive in question. A report on this study is presented to management in order to support the execution of corrective measures, ensuring that future real costs coincide with standard costs.

Material Control

An effective material control system is critical for sustaining production efficiency, as material costs often account for a significant amount of overall product cost in a typical manufacturing organization. Material control is a system that ensures that the appropriate amount and quality of materials are available on time while minimizing capital cost (Sikka, 2003).

Cost Control Application

A complex organization requires regular information on its operations in order to successfully plan for the future, manage current activities, and evaluate the manager's, employees', and linked business segment's historical success (Cooper et al., 2000). To do this, management directs and supervises staff activities in the execution of firm operations, ensuring that they are aligned with stated goals and objectives. Behavioral management, as described by Cooper et al. (2000), focuses on employees' mindsets and behaviours, which ultimately affect their performance. Some specific concerns and assumptions about behavioral management do not apply to the accounting control function. Performance assessments, on the other hand, compare the actual results of a company's performance to a set criterion of success in order to analyze the influence of an employee's actions. As a result, management can choose which assets to optimize and which flaws to address.

5. BENEFITS OF COST CONTROL

The goal of cost-cutting activities should be to improve managerial efficacy and, if necessary, result in cost reductions for financial gain, fraud prevention, and enhanced efficiency (Dury, 1985). Here are some of the advantages:

- All acts, from purchasing items to documenting sales, can be expressed in terms of direct control.
- Efficient cost management will identify potential cost-cutting possibilities and encourage the smart use of resources such as labor and materials.
- Cost management improves management decision-making by offering policy formulation guidance.
- It ensures accurate output while avoiding superfluous inventory.

Cost Reduction

Cost reduction attempts to reduce the stated targets, whereas cost control attempts to reduce the actual expenses to match the targets. Simply said, the goal of cost reduction is to determine whether it is possible to reduce expenses linked to labor, materials, overhead, and other elements. The Institute of Cost and Management Accountants London defines cost reduction as "achieving a genuine and consistent decrease in the per-unit costs of manufactured goods while ensuring their fitness for the intended purpose." The word "cost reduction" refers to the concrete and true savings realized by removing unnecessary and inefficient components from product design, as well as associated processes and procedures, resulting in lower production, administration, selling, and sharing costs. When the profit margin must be increased without a matching increase in sales turnover, or when costs must be decreased while maintaining the same level of sales, cost-cutting methods must be implemented.

Value Analysis as a Tool or Techniques in Cost Reduction

Value analysis is a methodical way to lowering costs by enhancing the value of the final product. Value analysis, also known as value engineering, is a systematic method of reviewing and evaluating an organization's procedures and operations in order to uncover chances for enhancing performance and raising the value of a certain product or service. This allows you to get the most out of your investment. Sikka (2003) defines value analysis as "a systematic approach used to evaluate every aspect of a product or service in order to determine the minimum cost required to meet a specific functional requirement."

Importance of Cost Control in Business

Lockey evaluated the impact of cost savings on company operations in 2002. The control function is critical in providing corporate management with support and help in a variety of ways. It directs management in accomplishing predetermined goals. The control process evaluates the competence of several functions. Limitations in a variety of areas are also highlighted in order to assist corrective actions and give a framework for future activities. Long-term planning is kept on track by the constant flow of project-related information. Furthermore, it enables management to avoid repeating earlier errors. When there is a discrepancy between expected and actual performance, control aids in determining the best course of action for the future.

Control makes it easier to coordinate workouts by establishing coordinated efforts. Managers will make an effort to coordinate their employees' physical efforts in order to achieve departmental goals. The control system has the potential to improve organizational capability. Clearly, the manager's performance is scrutinized on a regular basis, resulting in better results than in past periods. The advantages and disadvantages are dependent on the manager's performance. Employees will be under constant pressure to improve their task performance. Lockey (2002) highlights performance measurement as a management strategy that strives to maximize individual contributions.

Differences Between Cost Reduction and Cost Control

Cost containment means keeping spending at the current level. The emphasis should be on strictly adhering to the established criterion and ensuring that expenses do not exceed the budget limit. Cost reduction is a systematic and purposeful endeavor to reduce costs, regardless of their magnitude. Every process is meticulously scrutinized, with careful observation of the cost of each component and a complete evaluation of each technique to highlight cost-cutting solutions.

The approaches and methods used for cost control and cost reduction differ. Prior to the budget planning process, expenses are assessed for each cost center individually to avoid the potential bias toward favorable differences over negative ones. This improves cost management efficiency. Cost reduction, on the other hand, is effective when expenses are minimized and evaluated holistically for the entire firm.

When pooled at the corporate level, it can add up to a large sum until the point of reduction is reached. Cost reduction does not also imply a single, isolated method. It includes cognitive habits, behavioral dispositions, and philosophical viewpoints. Cost minimization stems mostly from participants' awareness of their own spending. As a result, introducing cost-cutting measures at all organizational levels and emphasizing each employee's role and duties in all sectors of the company are the major techniques for cultivating a cost-conscious culture.

6. CONCLUSION

This study investigates the impact of cost control and cost-cutting methods on organizational performance in a highly competitive environment. A corporation must efficiently manage and eliminate expenses in order to generate higher profit growth by managing and minimizing wastage and loss. This can be accomplished by exploiting current resources to create high-quality goods and services. It was revealed throughout this study that applying cost control and cost reduction methods is regarded critical for the growth and sustainability of any organization in a fiercely competitive climate. These strategies include a number of approaches, such as practical planning and standardization, as well as strategically minimizing business-related expenses. Taking all of these elements into account, it clearly demonstrates the critical importance of cost management and cost reduction for a firm's success in a fiercely competitive market.

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