COST CONSCIOUSNESS-

PRELUDE FOR ORGANIZATIONAL EFFICIENCY

The Institute of Cost Accountants of India

(Statutory body under an Act of Parliament)

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Preface

Cost consciousness being prelude for bringing about organisational efficiency is an effective approach to cost management. Everybody in an organisation needs to be aware of the importance of cost and implications thereof in deriving organisational efficiency. Only a cost-efficient organisation can sustain the shock of competition. The costing system provides managers with the information for determining the cost of products or service, processes or operation and for exercising cost control in the firm under reference. The cost accounting system is embodiment of general accounting for supplying information to all the levels of management for effecting improvement and effectiveness is planning, control and decision making. 'Cost Consciousness -Prelude for Organisational Efficiency' is an effort to sketch the outline of roles and functions of cost culture which entails ascertainment of cost, responsibility accounting, product pricing, profit planning and determination thereof , budgeting, cost control and cost information reporting. The whole exercise on "Cost Consciousness – Prelude for Organisational Efficiency" has been reflected on six sub-themes representing the meaning, significance and relevance of cost in a modern business organisation. The constituents of 'Cost Consciousness-Prelude for Organizational Efficiency ' includes Cost Accounting-An Evolutionary Overview, Cost Consciousness Vs. Organizational Efficiency, Methodology for Creating Cost Conscious Environment in an Organization, Sustainability of Business through Cost Consciousness, Cost Efficiency for Strategic Capability of Indian Economy through Cost Consciousness and finally a Case Study on Cost inefficiency and implications of cost consciousness. It is the sincere hope that this work would help the policy makers to make policy decisions towards cost management in general and on the role of Cost & Management Accountancy Profession and contribution of Cost & Management Accountants (CMAs) in economy management.

Arjun Ram Meghwal
Hon'ble Minister
Minister of State for Finance and Corporate Affairs
Government of India

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Arjun Ram Meghwal, IAS (Retd.)

सत्यमेव जयते

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राज्य मंत्री
भारत सरकार
नई दिल्ली–110001
MINISTER OF STATE FOR FINANCE
&
CORPORATE AFFAIRS
GOVERNMENT OF INDIA
NEW DELHI-110001

MESSAGE

It is heartening to know that The Institute of Cost Accountants of India is releasing their Knowledge Study on **"Cost Consciousness- Prelude for Organizational Efficiency"** on December 1, 2016 as part of their observance of 'Cost Consciousness Week'.

Our Government's vision is to make every citizen aware about their own spending and accordingly they may plan their investment. Unless every citizen becomes properly aware about the actual cost involvement in a particular product, they may not be able to decide about purchasing the product and also not be able to decide about the savings. 'Cost Consciousness' is required by everybody.

To make the Industry conscious about the proper assessment of the involved 'cost' in making their product, this study will provide the needed insight and ultimately the Society at large will be benefitted.

I compliment The Institute of Cost Accountants of India for their honest endeavour for coming out with this timely issue.

I wish the initiative all the success.

(Arjun Ram Meghwal)

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MESSAGE

It gives me an immense pleasure to publish this Study on **"Cost Consciousness- Prelude for Organizational Efficiency".**

We are observing our 'Cost Consciousness Week' and on behalf of my Institute I sincerely pay my heartfelt thanks to the **Hon'ble Minister, Shri Arjun Ram Meghwal, Minister of State for Finance and Corporate Affairs** for helping us by releasing this Knowledge Study.

As a premier professional body the Institute and its members rededicate themselves to convert the paradigm shift brought in under the dynamic leadership of India's beloved Prime Minister, for developing the economy for which this step has been taken. The CMAs take pledge to walk shoulder to shoulder with Government of India and extend the professional expertise for reshaping the economy in order to make India a perfect destination for Industry, Economy & Society as a whole and also to build a perfect environment for the future generations.

The Institute of Cost Accountants of India, supporting the demonetization will subsequently come out with a Cost-benefit Analysis, which may help the Government in taking their future endeavours.

I must congratulate CMA (Dr.) D. Mukhopadhyay, Professor of Management & Former Dean-Faculty of Management, Shri Mata Vaishno Devi University, Katra, J &K, who has helped to come out with this study.

Cost & Management Accountants plays a pivotal role in reviving economic growth in the country and we are proud to be associated with the dream of Government of India by providing our views by this study; which, I firmly believe will be an awareness tool which will help the Government to enhance overall awareness amongst the Industry, Economy and Society and also will help the Nation to make competitive.

CMA Manas kumar Thakur

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CHAPTER – I

COST ACCOUNTING – AN EVOLUTIONARY OVERVIEW

Introduction

In order to trace the evolutionary development of Cost Accounting, we need to understand the philosophy of the first Book on accounting titled “Smma De Aithnatica, Geometrieca Proportionilita” or simply “Summa” authored by Fra Luca Pacioli in 1494 which contains a chapter on double entry system of Book keeping and some discussions on certain aspects of cost analysis. Today cost accounting is known as either Cost & Management Accounting or simply Management Accounting because of significant metamorphosis it has gone through over the past six countries. Cost Accounting deals with ascertainment and determination of cost of production and distribution of wants removing goods and services and transmitting relevant, significant and meaningful cost information to the management for the purpose of decision making under different socio-economic situations. Cost consciousness is the **pivotal** force that necessitates emergence of Cost Accounting or Cost & Management Accounting as a distinct discipline and the same has been recognised to be a noble Profession for guiding different levels of Management in an Organisation which may include commercial, bureaucratic or entities not for profits.

Evolutionary Sketch

The history and development of Cost & Management Accounting can be presented in the following way which took place in different parts of the world and more specifically in the UK, USA, Canada etc. It has been mentioned earlier that the terms Cost Accounting, Cost & Management Accounting, Management Accounting & Cost Management are used synonymously and interchangeably in the literature of Management Accountancy.

Cost Accounting Prior to the 19th Century

According to Carolyn Perry (1996), collecting and recording information about economic activities has been found to be in place since man first started to write. The necessity to record cost information leads not only to the development of scientific accounting system but such system even existed around 1400 B.C. In Italy, by the 15th Century Accounting had developed into the basics of Double Entry Book Keeping System by Pacioli as we have mentioned elsewhere.

During mid 1990's onwards there was intense competition in the global market as a consequence of globalisation and emergence of market economy which led to the emergence of Cost Management era that occupied a room significantly in the domain of Management Accounting.

Cost Analysis – 19th Century

Cost Analysis era emerged during this period and found to be in practice out of the consequence of rapid industrialization during 18th & 19th Century. Cost Analysis being the nucleus of Management Accounting began to develop when individuals and business houses felt the need to attach cost to economic activities and products. In 1740's the Accountant of Melinicryddan Smelting Works provided information to the management to asses which of the two possible locations would be profitable. Similarly in by 1775, in the UK, Josiah Wedgwood was using much more sophisticated cost management system in his pottery works, In the same way Lyman Mills, USA, developed efficiency reports which emphasized labour time and pounds of Colton converted in each process. Cost Records were maintained to account for efficiency of the manufacturing processes and purpose of Cost Control.

Between 1880 & 1914 an approach brown as Scientific Management was developed by F.W. Taylor who is brown as the Fatter of Scientific Management, F.W. Taylor developed a method for analysing productivity of the factors of production in a number of industries. Time and motion study is the contribution of Taylor who applied Standard Costing System as a management accounting tool for cost control purpose.

Cost Accounting – 1st half of the 20th Century

The rise of Du Pont in the USA at the beginning of the 20th Century emerged to be a landmark in the development of Cost Accounting System, During this period many new businesses come into bring which were vertically integrated ones that required good cost accounting information. Secondly F.

Donaldson Brown devised a system for relating costs, net profit and return on **investment** to short run output variations. Flexible Budget mechanism is the contribution of Donaldson and this is an effective tool for planning and control.

Management Accounting Between 1950's and 1980'

Cost Accounting was elevated to the status of Management Accounting during post World War Era. Upto 1930's Cost Accounting was found to be relevant to be guide of management but Ronald Coase, of London School of Economics expressed his unhappiness on the role of Cost Accounting and suggested a new system which measured cost relative to alternative activities forgone and this was known as opportunity costing system. During 1940's William Vatter from the University of Chicago suggested that Management Accounting should provide relevant information for the purpose of managerial decision making. He categorically opined that same cost are sunk that is irrecoverable, while others may be escaped, curtailed or adjusted by management action. Costs may be controllable or uncontrollable, avoidable or unavoidable, linear or non linear in statistical behaviour. In simplicity, William Vatter emphasized that different costs were needed for different purposes and cost and financial being two different Accounting Systems were needed with different degrees of accuracy and timeliness and thus management accounting as on effective tool for guiding the managers come into being formally at this point of time. Management Accounting and Financial Accounting become district prominently from each other and emerged to be recognized as two distinct branches of Accountancy attributed with distinct purpose. Management Accounting came into place as an internal reporting system and as guide to management in planning, control and decision making whereas Financial Accounting was recognized as a system of external reporting and to serve the need of information for the people outside the business organization. Management Accounting is thus defined as the presentation of accounting information in such a way as to assist the management of a firm in the formulation of policy, decision making and controlling and monitoring the day to day commercial operation of an undertaking. There was considerable development of different management accounting tools and techniques including learning curve, simulation, linear programming, , PERT/CPM, Game Theory etc besides traditional management accounting tools like Standard Costing, Break-even Analysis, Budgeting, Responsibility Accounting were started to be in practice at random.

Strategic Management Accounting: 1980's to mid 1990's

Strategic Management Accounting was first coined by Prof Ken Simmonds of London Business School in order to give Management Accounting a new direction such as "Put your effort where it matters, give your Management Accountant a camera not a PC(Management Accounting Research Group Newsletter 1992). Prof Simmonds emphasized that Management Accounting shall be used to guide the management of an organisation in formulating and framing strategies and formulating policies with reference to competitors, customers, cost leadership, product differentiation, merger and acquisition, price fixation etc. under different market conditions. During this period development of Activity Based Costing (ABC) and Activity based Management (ABM) are the landmark contributions of Johnson & Kaplan. Development of Balanced Scorecard (BSC) as a strategic planning tool is an important contribution in the field of Management Accounting.

Balanced Scorecard as a strategic performance management tool uses both Financial & Non-Financial measures and the same is found to be in wider practice across the globe.

Cost management – Mid 1990's onwards.

During mid 1990's onwards there was intense competition in the global market as a consequence of globalisation and emergence of market economy which led to the emergence of cost management era that occupied a room significantly in the domain of Management Accounting. During this period and onwards the role of management accountant has undergone a remarkable sea change from numbers crunching preparer of financial statement to a high level decision support specialist. Management Accountants assumed the role of business partners, business strategist, internal consultants and a professional of high order of wisdom. Cost Management arises at optimising profitability through Cost efficiency. It not only ascertains cost of doing but cost of not doing simultaneously.

Conclusion:

In Order to understand the role of Cost Consciousness in bringing about organisational efficiency it is an imperative to shade some lights on the evolutionary development of erstwhile Cost Accounting and today's Management Accounting Management through which Cost Consciousness is practiced and it generates desired result of the organisation. Philosophically speaking, an organisation should not spend more than actual requirement and should spent judiciously which forms part of cost. The gulf between sales and cost is profit and profit is the measure of effective performance of the management, Cost Management ensures cost control and measures the performance of the factors production in an economy. The ongoing era is the era of cost management. The evolutionary development of the discipline of Cost & Management Accounting is presented below.

Cost Recording – Prior to the 19th Century

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Cost Analysis – 19th Century

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Cost Accounting – 1st half of 20th Century

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Management Accounting – 1950's to 1980's

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Strategic Management Accounting – 1980's to 1990's

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Cost Management – 1990's Onward

CHAPTER – II

COST CONSCIOUSNESS VS ORGANISATIONAL EFFICIENCY

Introduction

Cost is the common denominator and the principal guide for achieving organisational efficiency under the environment of competition. Under competitive business environment, price of a product or service is determined by the interactive forces of demand and supply. In other words, price is determined by the market and a business has to sell its products or service at the price determined by the market when market is under the influence of competition. Price is the contribution and consideration that contains cost and profit. Under competitive market environment, a business can make only normal profit and there is hardly any scope for earning extraordinary profit. What a business can do is to manage the cost of production and distribution of the product or service and here lies the role of cost consciousness which contributes to bringing about organisational efficiency, growth and development. Cost Management at the various phases of production and distribution cycle is the sustainable and surviving strategy for a business at micro level and the economy as a whole at macro level that face the heat of cut throat competition under the business environment of market driven economy. The efficiency of a business is measured by the degree of efficiency it controls and manages the cost.Cost consciousness and cost culture play a pivotal role in the practice of cost management in order to accrue organisational efficiency.

Importance of cost management as a contribution to Organisational Efficiency:

The contemporary era in the evolutionary development of cost and management accountancy profession has been attributed to cost management era. Cost management is given prime importance from the angle of supply chain in the process of procurement of inputs to transfer the ownership in the products or service in favourer of the customers. Supply chain management takes care of management of cost of supply of inputs and it continues its effort till the output is finally handed over to the ultimate customers. There are various techniques used in cost management and some of them are value analysis, ABC, ABM, ABB, Target Costing, Lifecycle Costing, Theory of Constraints etc, and CMA(Cost & Management Accountant) is the architect of cost management methodology,

In raw materials procurement, there involves transaction-processing cost, input purchase cost and input holding or carrying cost. It is an imperative to mention that CMAs guide the business with regard to the methodology and scope of cost reduction and control of cost in each and every stage of product planning and design. The business must know at what stage of its operation it would be able achieve its breakeven and when it would be able to start earning profit. It is to make industry analysis and make a thorough SWOT analysis in order to identify the avenues when it can enjoy competitive advantage over others. The profession of cost and management accountancy has reached over such a stage during last two hundred years where it became an indispensable discipline that guides the business under different situations. It plays its effective and pivotal role under different phases of business cycle in appropriate manner.

Issues concerning Cost Competitiveness that leads to Organisational Efficiency.

Porter's five forces model plays the significant role in framing business strategy. Five forces identified by Porter are threat of new competition, threat of substitute of products or services, bargaining power of the customers or buyers, bargaining power of suppliers and degree of intensity of the completive rivalry. Threat of new competition is assessed from the angle of cost and quality perspectives of the product and service. New competitors normally follow penetrating pricing policy for gaining entry in a particular market. The competitive advantage of the competitors is analysed in objective manner and a recommendation is transmitted by the CMAs. Secondly threat of the substitute products is analysed. Substitute is the alternative. For instance, Journey by bus is substitute of journey by train. When service from both of these elements is compared, the service quality, time factor, comforts and cost of obtaining the required service is to be taken into consideration. Thirdly, bargaining power of customer is examined and taken into consideration while adopting a particular pricing policy. Customers bargain on the basis of the criteria of price of the substitute, quality, post sale service and quality. It is to ascertain the cost of replacement, post sale service cost and other relevant factors that drives cost. Similarly the bargaining power of the suppliers is examined.

The issues concerning Cost Competitiveness as a sustainable business strategy are dealt with hereunder:

Competitive Advantage

Why do customers buy one product in preference to other is nothing but the competitive advantage between the two is compared and it is again cost and quality aspects that matter and help in taking a decision. Competitive advantage is a set of unique features of a company expressed and translated in terms of quality and cost per unit. It also takes into consideration its products that are perceived by the target market as Significant and superior to the competition. The firms to are focus on the issues relating to cost, product differentiation and niche strategies. These aspects together constitute the foundation stone of competitive advantage. When a firm is able utilize skilled workforce, judicious purchase of raw materials and efficient commercial operations, it is said to be working with competitive advantage. The example of Bata India Ltd. Can be cited in this context. Bata India Ltd manufactures different kinds of Shoes and sandals and the customers enjoy competitive advantage of Bata products over other shoe manufacturing companies both in terms of cost and quality. This is from customers point of view. From the side of the firm, the firm enjoys competitive advantage in the shoe market as it does have customers' support since it is able to offer the wider range of products at reasonable cost with desired quality. Similarly, we may cite the example of Maruti Suzuki, an Indo- Japanese car manufacturing firm, does have competitive advantage over other car manufacturing companies in term of cost and quality. Cost is the only mantra for survival and sustainability under the context of competitive business environment. Cost management is exercised at product design and development stage and technology with cost efficiency prescribed by the cost manager is one of the ways of cost minimization.

Product Differentiation

Product differentiation is another mantra for survival under competitive environment. The mechanism of product differentiation keeping cost at minimum level with requisite quality conformity allows a firm to compete with others. The gulf between sales and cost is the profit. The firm cannot influence price under competitive environment but cost control and cost reduction are under its workable domain. Branding helps in product differentiation and branding has also a cost and it has to decide that whether a firm should go for branding or not and comparative analysis for cost with or without branding is made and conclusively an appropriate decision is taken.

Marketing Mix

A marketing mix is nothing but a planned mix of the four Ps within a marketing plan. The four Ps of marketing mix consist of product. price. place and promotion. A successful marketing mix must have all four elements created to reach the target market effectively in order to have an efficient and desired market share for a product likely to be launched. Each element of marketing mix is analysed and the cost perspective and implication of the same are examined. As far as first 'P' i.e. product is concerned. the first question arises whether the product likely to be marketed in near future is cost competitive and it takes care of analysis of cost with reference to physical shape. packaging and brand etc. When we talk of product. we mean the relevance of customer-value. physical appearance and associated services are taken into consideration in the definition of the product. Physical distribution or place comes into the next purview of analysis. Place is the location where the product or service is available for the purpose of purchase by the customers. It is to ensure that the product or service is available whenever the customers want to buy it. Sometimes product may be available on a particular location and here the distribution cost is of prime concern and the same is taken into consideration while the decision with reference to place is taken into consideration. The prime location or location on posh locality is involved with greater bracket of distribution cost. The third 'P' i.e. promotion which communicates the product value through advertisement and it has to be a cost effective media otherwise it would overburden product. As far as product promotion is concerned. Advertising, public relations, personal selling and distribution of samples are the cost drivers when the product or service concerned is the cost object. Finally fourth 'P' i.e. price that represents the monetary benefit a customer is willing to sacrifice for acquiring the product or a particular service. Price is the consideration that includes the financial term along with time and effort of the customer and they same defined in term of cost of procurement by a customer. In the literature of marketing management, however, product, price, place and promotion is given the importance of this order and discussed accordingly.

Market Penetration and Development

Market penetration is a strategy for gaining market share for a new product or service. It is an earnest effort of a firm to increase its sales with the existing and prospective customers. Market development is the process of expanding the market for product and samples of the product are freely sent to the prospects with a hope that soon the prospects shall be converted into loyal customers. Now the samples etc, which are freely distributed among the prospects, are definitely are not free from cost implication. It is to cover in the price of the products that would be coming to the market for regular commercial transaction. The cost manager is to advise the marketing manager how to cover up the product development cost for the new product.

Diversification

This is a strategy for increasing sales by creating new market for the new products. Diversification is prone to higher risk but generates healthy profit too. While taking a decision with regard to diversification, it is imperative to scan the cost structure of the products or services. For taking any decision for a new project, it is essentially to evaluate the project in terms of cost and benefit. Benefit is the cash flow generated over the life of the project and its economic viability is judged before it is recommended for acceptance or rejection of a particular

Cost is the only mantra for survival and sustainability under the context of competitive business environment. Cost Management is exercised at product design and development stage and technology with cost efficiency prescribed by the cost manager is one of the ways of Cost Minimization

project. It also uses modular contribution approach for marketing cost analysis. The whole market is divided into certain number of segments and it ascertains contribution of each segment to profit besides indirect fixed cost that is associated with the segment. The modular contribution approach assesses the profitability of specific marketing mix in a specific zone and evaluates and examines the feasibility for making change in the marketing strategy in the concerned zone. The fundamental objective of a business is to maximize its revenue and profit. In order to achieve this objective, it is important to keep in view that quality and cost aspects of a product are to given necessary weightage at the time of product planning, product design, manufacturing and use. Product planning involves taking decision about which products and services a firm is contemplating for marketing. The management is to take a decision with regard to market segment, product features, quantity level, price and expected volume of sales. The manufacturer must take into consideration the design of the product by product designer and it must take care of abnormal spoilage and waste of inputs otherwise it tell upon the financial health of the product. Finally, it must ensure that cost for post selling period is minimum and the cost implication aspects from product planning to product reaching the final users is analysed for the new product and before diversification these issues are critically analysed by the cost manager and places the same before the management for their appropriate action.

Conclusion

It may be relevant to assert that a product failing the test of cost competitiveness cannot sustain and survive in market other than monopoly. In monopoly, the firm is the price maker whereas under competition, it is price taker since price is determined in competitive market by demand-supply forces prevailing in the market. In the same way, it can be stated that product differentiation ensures how a firm's product or services differ from other competitors in terms of quality and cost. Product development strategy is adopted by a firm when its existing market is saturated and it tries to leverage its market related experience and effective customer relations management with the existing customers to push the new products after designing the same in terms of customers preference. Product development strategy is practiced to move away from hard degree cut throat competition and creating uncontested

.....diversification strategy enables a firm entering into new markets with completely new product and here lies the risk and risk assessment.

market which may be called 'Blue Ocean Strategy'. Here it is to ascertain the impact of research and development cost and advertisement focus over the concerned product or service. Finally, diversification strategy enables a firm entering into new markets with completely new product and here lies the risk and risk assessment. It may not be irrelevant to mention that to cite the example of Honda that leveraged upon the core competency of engines to enter into the business of generators and lawn mowers as has been dealt with by Gary Hamel and C. K. Prahlad in their famous book 'Competing for the Future' and here also the role of cost management is well accepted and thus cost is the principal guide in framing the sustainable business strategy and cost competitiveness is the test that needs to be passed by any product or service for survival and sustaining in the competitive business environment particularly when it is the buyers' market. Moreover for the purpose of generating maximum customer value, cost competitiveness is a must for the product or service in order to create a niche of its own.

CHAPTER – III

METHODOLOGY FOR CREATING COST CONSCIOUS ENVIRONMENT IN AN ORGANISATION

Introduction

Cost consciousness leads to cost saving. Saving in cost analyse leads to greater profitability and profit is a prerequisite for existence for any economic entity. Costs of closing business and costs of staying in business, cost of factors of production etc, are the constituents of outlay forming the part of cost an organisation incurs during its day to day operation. There are three situations in connection with profitability analysis of a firm and one of them is likely to happen at a time and they are (i) Sales > cost leads to profit, (ii) Sales< cost leads to loss and (iii) Sales = cost leads to a situation of neither profit nor loss. Situation (i) i.e. sales> cost in the primary objective or target of a business and situation, (iii) i.e. Sales=cost is better than situation, (II) and cost consciousness and cost conscious culture only can make a business navigate in situation (i) or Situation, (iii) Situation (iii) is acceptable as a temporal phase of commercial operations and ideal target is Situation (i) Thus cost consciousness and cost conscious culture do have a positive role is making an economic entity economically stable and financially solvent.

How to create cost Conscious Environment

Following are the steps normally adopted to create a cost conscious environment:

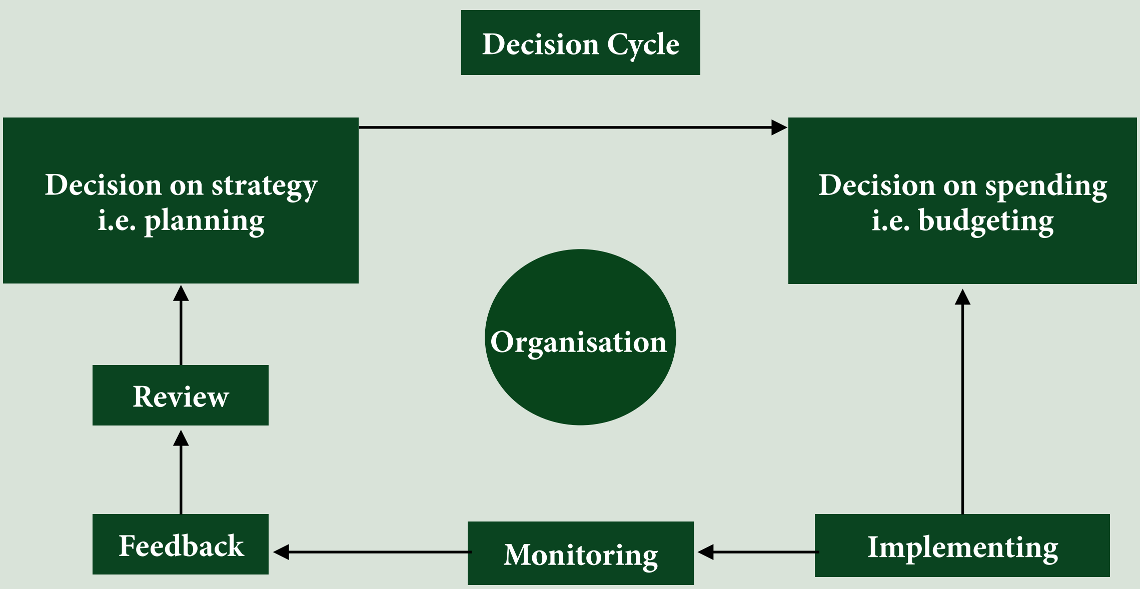
- Educating people about meaning, significance and importance of costs. Fixing responsibilities and roles of the rank and file in managing and saving to Costs.
- Bridging the behavioural and professional gulf between Finance & Accounts and Other wings processionals.
- Ensuring that everybody favours decision-making on costing information.
- Obtaining Support of top management to sensitive the areole organisation about Cost consciousness and its workability.

Relevant costing information for Decision Making

Managers are to take different decisions under different situations comprising of risk, uncertainty, risk and uncertainty etc. and for this purpose they need to understand the implications of cost for the following purposes.

Planning

- Accepting or rejecting investment in Project.
- On expansion or contraction of activities
- Monitoring day to day operation
- Selecting the best alternative
- Deciding optimum Product mix
- Deciding the most profitable activity level
- Plan to meet the challenges of unexpected and contingent events.

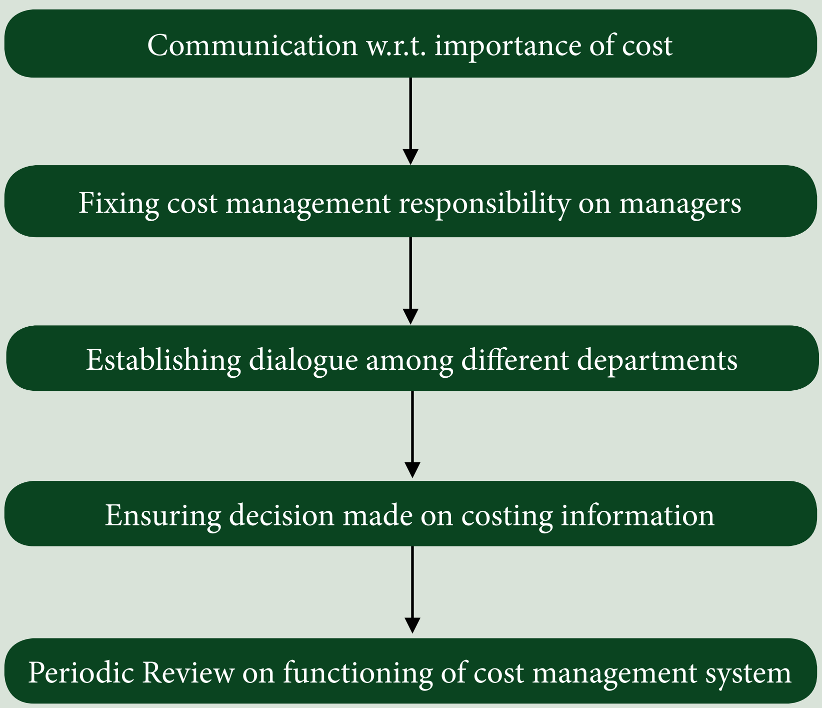


Cost information for different types of decision

For different levels of management, requirement of information is also different. Normally, there are three levels of management and they are strategic level, tactical level and operational level and they also otherwise known on top level, middle level and lower levels management respectively. Strategic decision are taken by top management which remains engrossed in priority settings, commitment of fund in capital asset procurement and alternative courses action etc. Tactical level Managers are responsible for smooth implementation of the policies formulated by top management and lower level management is responsible for execution. Strategically speaking, managers must be clear and certain to know what decision they are to take, accordingly identity the relevant and right cost information, which leads to making cost analysis, information generation and dissemination of the same through efficient reporting.

Steps for creating cost conscious culture:

It may be presented in the following flow diagram:



Cost saving acts as panacea for survival growth and development of an organisation. The objective of non-profit organisations is to generate surplus whereas profit motive organisation's main purpose is to earn profit in order to ensure perpetuity of existence in the business. Managing financial aspects of an organisation is nothing but similar to personal finance management through prudence and ultimate objective is to ensure that it is subject to profitability and for this purpose, it is to create cost consciousness to manage the commercial operation carefully.

Driving sustainable cost Efficiency and removing cost Inefficiency

Driving sustainable cost efficiency is a mandatory action on the part of management and it is of more significance when a business passes through recession and under such a situation a clear cut understanding of cost implications is a must. Eliminating unsustainable cost enables removal of inefficient cost and this is efficiency. If projects are kept untaken off, tour and travel costs are slashed, training and HRD budget is cut short, and finally reductions in manpower is initiated.

Barriers to Cost Consciousness

Reluctance of a firm whether belonging to private sector set up or public sector set up to take part in cost management is the major barrier to the cause of development of cost conscious culture in such organisation in order to remove the barriers, it is to initiate dialogue among the people, equip the cost management team, examining performances management targets are to be made in place.

Conclusion

Organisational well being depends upon the principles of there ‘Es` and E-1 Stands for Economy. Efficiency means to do the thing right, E-2 stands for Effectiveness which means to do the right thing and finally E-3 means Economy which refers to the philosophy – ‘ waste not, want not’ and the third ‘E’ is the foundation of cost consciousness.

Workability of Three Es

Cost management is the managerial action built on the foundation of cost consciousness and cost culture and no organisation including government establishment cannot sustain and survive in absence of cost culture.

CHAPTER – IV

SUSTAINABILITY OF BUSINESS THROUGH COST CONSCIOUSNESS

Introduction

The question of sustainability of business is central to business strategy. A business can sustain only when it sets its priority to meet the interest of the stakeholders. The key issue of strategic management is that of how an organization uses its resources and capabilities to develop a sustainable competitive advantage in its favour. The long term success of a firm depends upon the ability to create and sustain a competitive advantage over the rivals that operate parallel in the market. A sustainable business is required to understand the dynamics of economic environment whose essentials constituents are the internal and external stakeholders that include investors, customers, suppliers, employees and regulators. Investors provide capital, customers are the source of profitability, suppliers supply credit, employees are the cause of productivity and regulators i.e. government ensures environment for fair and healthy competition and social justice in the business environment. The business in turn is to prioritize the responsibility for capital appreciations as return and dividend as reward for the investors, timely delivery of high quality products and services at reasonable price for the customers, profit for the suppliers of funds in order to sustain in the business, support, respect, fair treatment, training for upgrading of skill and competence and sustainable with comfort a remuneration for the employees and finally, regulators want a business complies with rules and law of the land, honesty and fairness in the day to day dealings of the firms besides payment of tax in time. The essence of sustainability should be considered as a strategic issue for every business and a business cannot sustain without securing the Interest of the stakeholders.

Profit-Indicator of Performance

An organization generally targets at attaining economic prosperity and environmental quality. No business can sustain without profit-and according the Michael E. Porter, new entrants to business, power of buyers, power of suppliers, substitutes and rivalry among the competitors directly or indirectly influence the degree of profitability of a business. New entrants into the market brings extra capacity and intensify competition, existing competition and its intensity and powerful buyers can enforce price cutting, suppliers attributed with bargaining power charge higher prices, substitutes threat across industries and in order to have harmonious balance of these five forces, the business has to gain strength from the stakeholders. No business can rise to the zenith of its success by ignoring the interest of the stakeholders. The theory of stakeholders has become a prominent subject and occupied an important room in the literature of management since publication of the book' Strategic Management; A Stakeholder Approach' authored by R. Freeman in year of 1984. Freeman says, "Current approaches to understanding the business environment fail to take account of a wide range of groups who can affect or are affected by the corporation, its stakeholders". Modern businesses in developed countries are seen to be more serious in protecting the interests of the stakeholders than that of business organizations operating in developing countries like India. Overall commercial success of a business depends on successful management of relationships that a firm does have with the stakeholders. Again, in the version of Freeman, a firm ceases to exist without the support of the stakeholders. The stakeholders do have direct and indirect influence on the long term strategic decision of the firms and without spontaneous support of the stakeholders, it is difficult maintain its continued success in the economic environment. Employees and investors are the internal stakeholders and customers, suppliers and government are the external stakeholders of the firms. It is to take into consideration the fundamental interest of the stakeholders in the process of architecting planning and formulating policy of a company. In India, business management policies are formulated without taking into consideration the views of the stakeholders in many cases. Employees are exploited to the possible extent and in private sectors, organizations barring few private sector multinational companies who adopt the standard practice in treatment of the people with respect , customers is provided with adulterated products , promoters vanish from the market with investors money, suppliers claim are dishonoured, and regulatory bodies i.e. governments is deprived of due tax through the mechanism of tax evasion and tax avoidance process.

Value Maximization through Cost Consciousness

Stakeholder Theory being an important theory and guide to modern management believes in professionalism and only professional practice and procedure can create value for the society. Indian business tycoons like Sahara, Kingfisher, Satyam etc exploited the stakeholders to an unimaginative extent and government is struggling for recovery of misappropriated assets of these so called blue-chip companies. The basic objective of the firm is to maximize value for the society by exploiting the available resources whose ownership belongs to the society. According to the neoclassical theory of Economics, economic value is the sum of the consumer surplus and producer surplus. Consumers' surplus represents the gulf between the maximum price the consumers are ready to pay for the goods and services in order to satisfy their wants and the price they actually pay. On the other hand, producer surplus is referred to be the difference between the selling price of the product or service and the cost of resources used for generating revenue which is technically called cost. A business cannot survive and sustain if the customers shun the business. Peter F. Drucker, the renowned management thinker of the twentieth century says that customer is the business and sales is the only window through which revenue enters into the business.

Cost Assessment-Result of Cost Consciousness

A business cannot afford to lose the customers and ignore the interest of customers. In the same way, all the stakeholders play distinct roles in bringing about overall economic success of a firm. The opportunity cost of the factors of production is to be ascertained correctly otherwise it will be difficult to work out the magnitude of value. Here, the business has to hire the professional service of the Cost & Management Accountants (CMAs) who are the experts in cost assessment and cost ascertainment. Moreover, the surplus value so created need to be appropriated in logical manner among the stakeholders in order to have command over their confidence in the governance of day to day as well as strategic affairs of the firms. A customer becomes willing to pay higher price for the bundle of benefits and not for the features of the products and when it is so, then only higher magnitude of value is said to be created. Sustainable strategy and strategic planning can only take care of the interest of the stakeholders. Strategy is all about competitive advantage, future, direction, resource allocation and utilization, direction and course of action in order to achieve the objectives of value creation and the contribution of all the stakeholders is Significant and meaningful for attaining the mission of the business. Cost consciousness leads to influence the understanding of cost implications and efficiency of management in value creation.

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Sustainable Strategy

Business strategies should be formulated within the framework of overall objectives of a firm with a view to meet the needs of the stakeholders. If someone sees from micro point of view, it can be understood that strategy comprises of how and where to compete, how management uses the financial resources and how it maintains its relationship with that of suppliers of capital. The mission of an economic entity normally is embodiment of three questions and they are as to why does a business exist, what does it provide and for whom does it exist? If someone thinks deeply, strategy is nothing but mechanism for meeting the needs of the stakeholders. In this context of generating value for the stakeholders, perhaps it will be pertinent to refer the McKinsey 7-S Model where strategy has been given an important room. While dealing with the needs of the stakeholders, it is to keep in view the transparent corporate governance which is embodiment of governance, ethics and social responsibility and fair dealings with the stakeholders is possible under the spirit of these aspects of modern management principles. Stakeholders' support is unconditionally available when an organization practices in transparency, accountability and commits to social responsibility since these are essential ingredients of sustainable strategic management. R. Freeman says that it is the business of the business to honour the due claims of the stakeholders having direct and indirect contribution to the growth, development, survival and sustainability of business and therefore entrepreneurs should have broad view as to how to generate confidence of the stakeholders in the economic affairs of the business. It is therefore worthwhile to mention that in order to maintain the reasonable degree of flow of sustainability of a business, it is a compulsion and not just an imperative to take care of the interests of the stakeholders and cost consciousness is a productive strategy to generate necessary surplus for the business in general and the investors in particular. Cost is the measure of the sacrifices of the resources that transform into consumable goods and services. The fundamental theory of cost consciousness is bared on the premise that 'waste not, want not'. Costs can be reduced through innovation. Enhancing efficiency of the inputs would enable cost reduction. Under competitive business environment, price is fixed by interaction of market forces and the producer can hardly influence over price. It is the cost that remains within the Control of the producers. Cost leadership Strategy can only ensure survival and sustainability of a business under competitive environment. Thus, cost consciousness and cost competitiveness have no substitutes.

Conclusion

Cost management culture develops only through cost consciousness at individual as well as business level. It is the religious responsibility of the business organisations to derive the result of being cost consciousness at no cost. It is possible through positive behavioural actions.

CHAPTER – V

COST EFFICIENCY FOR STRATEGIC CAPABILITY OF INDIAN ECONOMY THROUGH COST CONSCIOUSNESS

Introduction

India is attributed with a vast economy comprising of public sector and private sector manufacturing hubs. A commercial organisation's ability to grow, survive and develop depends upon its strategic capability and cost efficiency is the pivot which ensures strategic capability to the concerned business organisation in particular and the whole economy in general. Cost management is the nucleus of cost efficiency philosophy. Cost efficiency is practiced on the foundation of efficient and judicious uses of factors of production which essentially includes land, labour, capital and entrepreneurial ability and it is the outcome of efficient management of the rewards payable to the contributors of the factors of production. The degree of cost efficiency depends on how effectively costs are managed or the ability of a firm to manage cost. The need and requirement of achieving cost efficiency is equally applicable to both the public sector and private sector organizations though the objectives of public sector organizations are different to certain extent from that of private sector organizations. Government of India is very serious in using cost and management accounting theory and philosophy of cost management and promoting cost culture in the country. In this context, the role played by the Institute of Cost Accountants of India (ICAI) formerly the Institute of Cost and Works Accountants of India (lCWAI) is vital. The name of ICWAI has been changed to ICAI by dint of the Cost and Works Accountants (Amendment) Act, 2011 (Act No. 10 of 2012) and the professional designation of the Members of the ICAI have been changed to ACMA(Associate

Cost & Management Accountant) and FCMA (Fellow Cost & Management Accountant) from AICWA (Associate Incorporated Cost & Works Accountant) and FICWA(Fellow Incorporated Cost & Works Accountant) respectively by the same Act of Parliament.

Cost Efficiency – Need of the Hour

The seed of cost efficiency and cost management as a corporate managerial culture was sowed seventy two years ago by a group of Management Accountants by promoting the ICWAI in 1944 and the same emerged as a Body Corporate through enactment of the Cost and Works Accountants Act, 1959 by the Indian Parliament. Government of India is happy to acknowledge

the role being played by ICAI in promotion of cost culture in the country. Any organization can hardly sustain the shock of intense competition in the globalised economy unless they practice cost management in order to achieve cost efficiency. Cost efficiency is the function of efficient utilisation of resources and ability to manage cost. The gulf between price and cost is the profit. Price of a product is determined by the market forces in competitive business environment and cost management is left in the hands of the producers of goods and services. It is to state that public sector organisations and private sector organisations are the twin constituents of the national economy. In public sector, cost efficiency is the political imperative in order to provide improved and affordable level of service while keeping the cost within the circumference of public finance. On the other end, i.e. at the end of the private sector organizations, cost efficiency enables the firm to offer the economic benefits at managed cost. Cost efficiency aims at building core competence of both the public and private sector firms. Profit earning capability of an economic entity is the litmus test of survival. Without cost efficiency through effective cost management, it is perhaps impossible to ensure perpetuity of a business under the business environment of competition. Customers are price sensitive and they as usual intend to trade off between the desirability of features of the products and consideration for purchase they are to sacrifice. In simplicity, the suppliers are to provide requisite value for money for the features of a particular product and customers would go elsewhere if the firms fail to do so. Every firm operating in competitive business environment is required to drive down the cost of products in order to offer value for sacrifice of the customers measured in monetary term through judicious practice of cost management. Cost and Management Accountants (CMAs) are the expert professionals who are rigorously educated and trained to manage cost of the products or services strategically. Cost management is an art of strategic business management and CMAs are business strategists who monitor commercial performance of the firms remaining engaged in production of economic goods and services. Cost and Management Accountancy Profession's heart is cost management and generating cost efficiency which helps the business sustain the shock of intense competition that prevail under the influence of market economy by and large. The constituents of cost efficiency include economies of scale, design of products and processes, supply cost and experience. The effect of economies of scale reduces cost per unit as the scale of operation increases. The prices paid for factors of production do have linear effect on cost structure. Thirdly, business process and product design jointly becomes the source of cost efficiency. Productivity of labour, material yields and management of working capital are of prime importance in generating cost efficiency through cost management. Finally, experience i.e. learning curve helps in generating cost advantage mainly in repetitive processes. Michael Porter's value chain on the other end does have a positive role in accruing cost efficiency. The CMAs analyse costs involving inbound logistics, operation, outbound logistics, marketing and sales and rendering services and measure earnings in terms of margin. The margin represents excess of consideration over cost paid to the firms for obtaining bundle of values added to the inputs through manufacturing operations. Cost incurred through various primary and secondary activities need proper monitoring and reporting to the strategic level management for appropriate action.

Cost – Prime influential factor

Costs have greater influence on procurement, technology adoption, human resource management practices and infrastructure development. Value chain management by the CMAs ensures achieving cost efficiency and consequently developing strategic capability of a firm. It helps the firms in establishing those economic activities which provide the customers monetary value they want and this is possible with the managerial action advised by the CMAs. Moreover, the areas of weakness in the entire value chain are identified and placed before the management for appropriate action in order to take the firm to the desired level of prosperity. The purpose of value chain analysis is to ascertain how a firm creates value. A firm has to outperform its rivals in order to lengthen its stay in the market. The theory of Product Life Cycle (PLC) helps a lot in generating cost efficiency. PLC comprises of four stages and they are introduction, growth, maturity and decline. A product is attributed with different characteristics of revenue, cost profit and investment at each stage of its life cycle. Sales-revenue and profitability of a product are subject to change in each of the four stages of life cycle and cost management thorough cost analysis ensures cost efficiency for the concerned product. A product failing to be in the bracket of cost efficiency cannot sustain in the long run and more specifically it meets untimely death. During introduction stage, unit cost of a product is high because of low output and high promotional expenses. At the growth stage, high capital investment is felt to be necessary in order to meet the market demand which leads to low cash flow and it is even lower than profit and even sometimes a negative cash flow becomes a reality. During maturity stage, profit becomes healthier, investment becomes low and cash flow becomes certainly positive. Moreover, prices of the products start to decline since the firms face stiff competition. Decline stage in the PLC becomes very dangerous to any firm. At this stage, sales decline considerably at high rate and there remains over capacity of production in the industry. Degree of competition is severe, profit falls and it compels some producers to leave the market. Therefore, cost management, profitability analysis and securing cost efficiency is the prerequisite at each and every stage of PLC and it is part and parcel of strategic management. The business undertakings should take into cognisance the importance of cost management as a tool for securing, survival, sustainability, growth and perpetuity of existence in the market. Cost management is strategic management tool and it is the cause whereas cost efficiency is the effect and it is difficult to think of one without the other and therefore cost management and cost efficiency can be used interchangeably. Cost management is the core function of CMAs in particular and it is the most valuable gift of Cost and Management Accountancy Profession in general. Strategy in simplicity stands for plan of action under different situations that prevail in dynamic economy. A business devoid of practice of cost efficiency philosophy can hardly reach its target and cost ineffective economy can hardly succeed in promoting wellbeing of the society. Therefore, every business should into consideration the role of cost management in achieving cost efficiency in order to minimise the risk of low profitability and consequently low return on investment. Cost management is science and it can deliver panacea for sustainability, growth and economic prosperity of the business. Cost efficient products can only rule the market thus it should be used as strategic management weapon in the hands of the management. Cost efficiency is a must to have new customers whose presence and absence determine the rise and fall of a business.

Conclusion

Cost competitiveness is the panacea for survival and sustainability of an economic entity under competitive economic environment. Cost Audit is a mechanism for developing cost consciousness among the industrial organisations both in private sector as well as private sector. Cost Audit was initiated under section 233B of the Companies Act 1956 in the year of 1968 and the same has been carried forward to section 148 of the Companies Act 2013. The industries belonging to strategic, constructions, chemicals, health care and sanitation etc are covered by the canvas of Cost Audit. But it is the need of the hour in order to make the nation Cost competitive that cost audit should be extended to other sectors including medium size organisations as well as small scale industries. In order to reap the benefit of cost competitiveness, cost consciousness, development of cost culture is an essential measure that needs to be adopted throughout the length and breadth of the country. Cost efficiency through cost audit is possible since cost audit has been emerged as on effective tool of cost management. It helps in bringing about industrial efficiency, effective business decisions with the help of attentive cost information and over and above all it enables the economy to cause faster economic development by optimum utilisation of economic resources.

Government of India is very serious in using Cost and Management Accounting theory and philosophy of cost management and promoting cost culture in the country. In this context, the role played by the Institute of Cost Accountants of India (ICAI) formerly the Institute of Cost and Works Accountants of India (lCWAI) is vital.

CHAPTER – VI

COST OF INEFFICIENCY: A CASE STUDY

Introduction

Modern India Limited (MIL), a multinational firm engaged in manufacturing of alternator parts (P1, P2, P3 and P4) of generator for last fifty years. The product of the company has international market and it leads in term of cost efficiency and quality management. The company has manufacturing units in UK, USA, Japan, South Africa and Australia besides India. The company's financial performance during last five years is sluggish and depressive. All the manufacturing Units across the globe are functioning as individual Strategic Business Units (SBUs) and they compete with one another. However, they work on the principles of goal congruence. Each SBU is headed by a General Manager (Operations) and the organization structure of the company is of pyramidal and traditional headed by CEO Cum Managing Director. There is intra- SBU competition and one SBU can exercise option to buy input from another SBU or open market. Transfer Pricing Mechanism is in place. The company has four directorates and they are Marketing, operations, Finance and Human Resource and all the board members and their immediate subordinates sit in the Headquarters of the company. The leaders of the SBUs function as an individual decision making entity and report to the CEO thorough the concerned directorates. The company works on the strong guiding principles of focus, cost leadership and product differentiation. The firm has a full -fledged Total Quality Management (TQM) cell and the total quality management cell of the company was very active and efficient at the initial years of operations and it did never make any compromise in quality control and quality management of the product keeping in view the international standards and parameters. This was the inherent strength of the company. The company was always watchful on market standing, productivity, management of financial resources, performance of the managers, attitude of the staff, professionalism, surplus creation and honouring corporate social responsibilities. These are the preambles of the company on which it is founded. But the company is not in a position to make its way in the roads of globalisation. The case of the company's performance in totality can be understood, from the foregoing account as is made hereunder.

Marketing Function

The Marketing Directorate is headed by Director (Marketing) assisted by GM (Marketing) at the corporate level. The company is having a downward trend in sales over the years. The budgeted sales for each SBU is 12,000 (in P1:P2:P3:P4: 1:1:1:1 Ratio). Order received for sales during last five years are as in year1, it was 14,000 units, year2 it was 12, 000 units, year3 it was 10,000 units, year4 it was 9, 000 units and year 5 the order received was for 7, 000 units. Actual orders received were almost in the above ratio in last five years for the products of the company. The marketing directorate placed its arguments in favour of downward order that both quality and cost in particular and selling price in general are having adverse impact on fulfilling sales target. Earlier, the company was the market leader for the products mentioned above. Now market is very competitive (and practically it became a 'red ocean now) and after sales service are offered free for three years to five years by the competitors whereas MIL offers only one year after sales free service. The pricing policy is not reviewed for last two years. Market Research (MR) cell is not in a position to work in proper direction keeping pace with at least for the purpose it was created. The marketing information reports generated by the marketing wing of the company both at SBU levels as well as corporate levels reach late to the board for taking appropriate measures and decision. Director (Marketing) does not have sufficient information for reviewing the performance of the sales force periodically. Sales are the part and parcel of the marketing directorate. Advertising and Sales Promotion Budget, according to the CMA of the company. is devoid of justification in terms of result. The incentive for ...sales force is hardly linked with target achieved by the sales and marketing people. Sometimes, marketing people blames production people for untimely delivery to the customers. There is continuous complaint concerning production of sub-standard product which does not conform to the true The Operations Directorate of the company is headed by Director (Operations) and assisted by GM (Operations) at corporate level and all the SBUs are headed by GM (Operations) as already mentioned elsewhere. The engineering works of each SBU has 585 uniformly employees under different hierarchies starting from Operational Managers. It follows a scalar chain of 1:8 and it is maintained that 1-8-64-512 i.e. one GM(Operations), eight Dy. GMs, sixty four Managers and five hundred and twelve Operational Managers are approximately there in the payroll of a SBU. Operations Directorate is also controlling authority of Purchase functions and Research and Development and Research and Development Cell is responsible for value analysis and value engineering including product designing. Cost of product is alarmingly high and cost reduction and cost control policy and mechanism is in place in paper only. This is the age of automation and this hardly receives any priority in the Operations Directorate.

Employee cost is almost entirely fixed and nothing other than material cost is variable. Overhead is semi-variable and it may be within a range of 2:0% as variable and remaining 80 % is fixed. The Cost & Management Accountant (CMA) is of the view that activity based costing can bring about correct product costing and hence in product pricing. Each product should be burdened with its own cost and not that of others. It is the general tendency of GM (Operations), SBU-In-charge, to overrule the recommendations and suggestions of the CMA posted at the SBUs. The material cost variance, labour cost variance and overhead variance in most of the times are adverse and the principles of management by exception are the allergy of SBU-In-charge. Purchase manager is to work in conjunction with stores manager, production managers and finance managers and production managers are required to work in conjunction with marketing managers. Scientific inventory management techniques can help in managing inventory carrying cost and inventory ordering cost according to the CMA. Purchase manager can help in getting reasonable discount in following effective purchase policy. Work study was undertaken by the SBUs five years back and the recommendations of work study group are under the cover of dust.

Finance Functions

The Finance Directorate is headed by Director (Finance) and CFO and is assisted by GM (Finance) at corporate level and Finance Function at SBU level is headed by Dy. GM (Finance) who is essentially a qualified CMA as per the policy of the company. According to the periodical report generated by Finance Wing, cash flow is very weak and there is irregular flow of revenue to the coffer of the company. Collection cell is under the administrative control of Marketing Directorate and functionally responsible to the Finance Directorate. It violates the principles of unity of command and as result it causes an administrative problem for securing accountability and this has been brought to notice of the HR Directorate over time and again but no workable solution is generated so far. Financing working capital is dependent of the strength of cash flow. Purchase Department fails to secure more credit period from the sundry creditors than the collection period allowed to sundry debtors and the same is being practiced by the collection department without any review. The company is contemplating for diversification of its business from manufacturing alternator parts of generator to manufacturing of industrial cranes and for this purpose it needs injecting both debt and equity in terms of RS.1000 crores. But it is afraid as to whether people would subscribe to the equity since for last five years rate of dividend payment is marginal even less than that of savings bank interest rate. Currently the company has a capital base of Rs. 2,000 crores out of which 40% is invested in working capital and remaining 60% is locked up in physical and infrastructural assets. The CFO of the firm is worried that operational cost is with upward trend and revenue earning is with downward trend and it is a very difficult situation to match revenue with escalating expenses. An Earning per share is abruptly low and it is difficult to earn the confidence of the investors under such circumstances. There is accumulation of book debts and inventory and stores and this disturbs the short term liquidity of the business. The cost structure in terms of the cost of sales of the product comprises of 50% material, 30% employee costs, 20% overhead and 5% of the cost of sales hardly contributes to profit. CFO feels that abnormal loss in material handling and overhead needs to be controlled and the performance based incentive scheme for the employees should be adopted in order to make the firm financially solvent.

Human Resource Functions

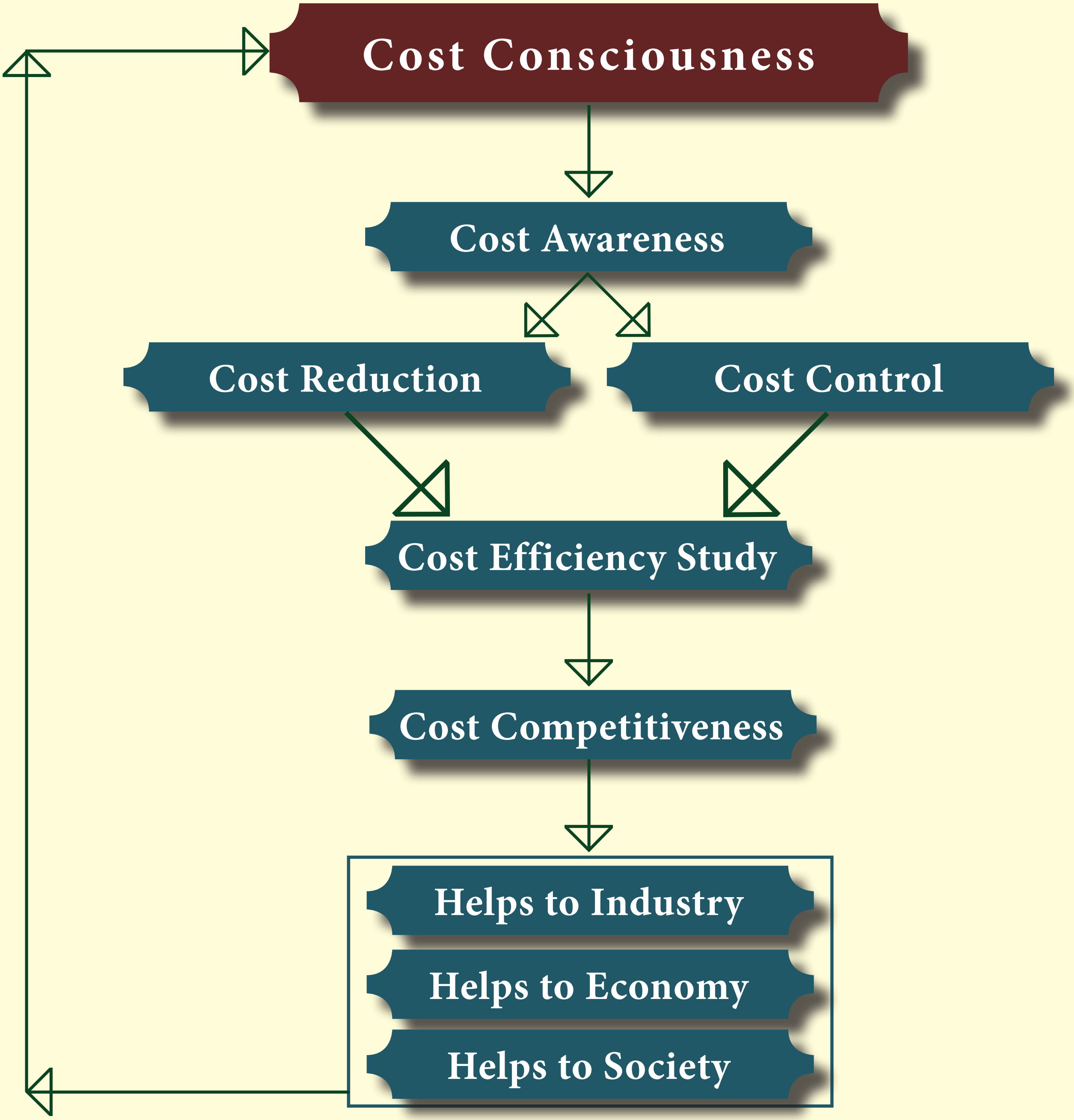
The HR Directorate is headed by Director (HR). The Company has a full-fledged Human Resource Directorate and it deals with recruitment, training and development and promotions of the people of the organizations in general. The HR Directorate functions and monitors the HR Budget as is framed by the company. There is centralization of HR Policy. It is the responsibility of the GM (HR) at corporate level to act as the chief coordinator among the SBU level HR Managers. The SBU HR Managers prepare HR Budgets annually and the same is incorporated in the Master Budget of the Company. It is has been observed that a substantial portion of the HR budget remained unutilised during the panned period and the GM (HR) could not justify the non-utilization of the HR Budget. Budget proposal is placed by SBU HR Managers and the same is forwarded by the GM (Operations) .to Headquarters of the company located at Mumbai, India for adoption. Moreover GM (HR) takes lot of time to communicate the approved HR budget to the SBU HR Managers and SBU In-charges.

The world is changing very fast keeping pace with advancement of science and technology. Staff cost is 30% of the cost of sales in general and every employee has to contribute positively to growth and prosperity of the company. The people of the organization have to work keeping in view of importance and Significance of economy, efficiency and effectiveness. Non performers have to be identified and the company does not have a time-honoured mechanism and parameters for measuring the efficiency of the people. The company HR Policy is back dated. It is observed that a person who joined as Foreman/ supervisor remained in the same position during last twenty or more years. The employees at all levels are found demoralized and de- motivated. The Cost of inefficiency burdens the pricing of the product in particular and the firm in general. The people of the organization are concerned with mission, vision, objectives and goal of the company only in paper and it lacks initiative in translating vision into action and action into result. The leadership of the company is found to bureaucratic and sometimes it is autocratic. Chain of command and control is centralized at corporate level. There is mounting court cases between the unhappy workforce and the firm. The company is functioning in a closed ended system.

Conclusion

It is evident from the above that the firm in our Case is ambitious for expansion of the business in one hand and on the other hand it is not in a position to manage the existing business in cost effective manner. It fails to generate reasonable rate of return on capital employed, could not pay good dividend, working capital financing is weak as a result of feeble cash flow, burdened with inefficient workforce and attributed with alarming rise in cost of production and attributed with declining trend of earning revenue. The cost of inefficiency is yet to be worked out. The Total Quality Management (TQM) hardly works. Internal failure cost, external failure cost, appraisal cost and correcting costs are major components of TQM but they remain unreported in most of the time. There is huge gap between contemplation and action. An organization means people and it fails to deal with its people in time-honoured conducive manner that can inspire and motivate the workforce of the company. The CMA was giving continuously alarming bell but the management did not give due attention to it. It is now high time to draw the existing balanced scorecard and the budgeted one for the given firm. Both the principles of management by objectives and management by exception need to be made workable in cohesive manner. The sustainability and survival of the company under fierce competitive environment needs to be ensured. The CEO & Managing Director is not getting relevant information for the purpose of formulating appropriate strategy. Management Information System (MIS) is inactive, inefficient and ineffective. The whole organization is plagued by inefficiency and they ultimately have failed to deliver the result. Under the circumstances, the CEO & Managing Director requested the CMA as the business strategist to submit its report on the overall functioning of the firm incorporating its recommendations for revamping, sustainability under competitive is environment, honouring the claims of various stakeholders and complying with the requirement of corporate social responsibility of multi-product-multinational firm as the present one. It also should suggest an efficient transfer pricing mechanism that would promote goal congruency in the organization on overall count.

Generating Cost Consciousness which helps us in the following ways



NOTES

The Institute of Cost Accountants of India

(Statutory body under an Act of Parliament)

The Institute of Cost Accountants of India is a statutory body set up under an Act of Parliament in the year 1959. The Institute, as a part of its obligations, regulates the profession of Cost and Management Accountancy, enrols students for its courses, provides coaching facilities to students, organises professional development programmes for members and undertakes research in the field of Cost and Management Accountancy. The Institute pursues the vision of cost competitiveness, cost management, efficient use of resources and a structured approach to cost accounting as the key drivers of the profession. In today's world, the profession of conventional accounting and auditing has taken a back seat and cost and management accountants are increasingly contributing to the management of scarce resources like funds and land and take decisions that are strategic in nature. This has given cost accountants in India and abroad further scope and tremendous opportunities.

After an amendment passed by Indian Parliament, the institute was renamed as 'The Institute of Cost Accountants of India' from 'The Institute of Cost and Works Accountants of India'. This was aimed at synergising with global management accounting bodies and sharing best practices. It was also useful to a large number of transnational Indian companies operating from India and abroad to remain competitive. With the current emphasis on management of resources coupled with the specialized knowledge of evaluating operating efficiency and strategic management, Cost Accountant professionals are now known as 'Cost and Management Accountants (CMAs)'. The institution operates through four regional councils in Kolkata, Delhi, Mumbai and Chennai and 95 Chapters situated in important cities in the country as well as 9 Overseas Centres. The Institute is head-quartered in Kolkata. It is under the administrative control of the Ministry of Corporate Affairs, Government of India.

The Institute, apart from being a member of the International Federation of Accountants (IFAC), South-Asian Federation of Accountants (SAFA), Confederation of Asian & Pacific Accountants (CAPA), National Advisory Committee on Accounting Standards (NACAS), and National Foundation for Corporate Governance (NFCG) is also a member of the Government Accounting Standards Advisory Board (GASAB)

Vision Statement

"The Institute of Cost Accountants of India would be the preferred source of resources and professionals for the financial leadership of enterprises globally."

Mission Statement

"The CMA professionals would ethically drive enterprises globally by creating value to stakeholders in the socio-economic context through competencies drawn from the integration of strategy, management and accounting.

About ICAI-CMA

√ Four Regional Councils, 93 Chapters all over India, nine Overseas Centres
√ About 50,000 qualified members
√ Over 5 lakh students enrolled
√ Consistent record of campus placements
√ About ICAI-CMA Course
√ Full-time course for students
√ Ideally suits working executives too
√ Choice of classroom learning, or through distance learn-ing from anywhere in India Can be pursued along with other full-time courses

Role of a CMA

√ Improving cost competencies
√ Resource Management
√ Performance Management
√ Financial Reporting and Strategy
√ Cost Audit and Assurance
√ Cost control and Cost Reduction
√ Risk management and Mitigation
√ Direct and Indirect Taxation
√ Valuations
√ Internal Audit

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THE INSTITUTE OF COST ACCOUNTANTS OF INDIA
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