Effect of Cost Control Systems on Performance of Medium Scale Enterprises in Kericho Town

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Abstract: Costing control systems is not only crucial but also specific in any production and services rendered in any business irrespective of the enterprise. This is because it is an important instrument for business operation used by management in undertaking crucial decisions, helps to facilitate and manage information to improve management. It is therefore a significant insight in the determination of earnings, boom, growth, and development of organizations and business enterprises. Despite the role of Costing control systems, its effectiveness in MSEs is not clear thus the need to carry out the study. The purpose of the study is to investigate the effect of cost control systems on performance of medium scale enterprises. The understanding of the relationship between the two components of costing control system will enable the medium-scale evaluate their performance and instruct their employees to work according to the plan and provide a basis of control as well as help the government to design the best strategies for the sector. The research design was a cross-sectional study and adopted a survey research design. The target population was the 313 medium scale enterprises within Kericho town. Using Kothari's (2004) formula of the finite population the sample of 173 medium scale enterprises were selected. Questionnaires and data extraction forms was the main research tools of data collection. The key informants included the business’ finance, operation, and accounts manager/director. The questionnaires were tested and retested using Cronbach's Alpha for reliability and experts' opinions was sought to ensure instrument validity. The data obtained were analysed using Ordinary Least Squares Regression Analysis at a 5% significance level. Based on the results from the regression analysis, it was established that the selected costing control systems classified as independent variables accounts to 99.9% of the variance in the business performance. It can be deduced that costing control systems have an impact on medium scale enterprises performance therefore crucial for the implementation of the systems for effective performance. Costing control systems has a positive impact on performance (p = .000, p<0.05), this means that increased use of costing systems will improve performance of medium scale enterprise. Conclusions were made that the costing control system has significant effect on the performance of medium scale enterprise. The study recommended for implementation of these costing control systems for effective performance in the enterprises.

Keywords: Costing control systems, Performance, Medium Scale Enterprises.

Introduction

According to Shields and Shelleman (2016), the nature of the current dynamic business environment characterized by scarce resources and uncertainty, the market requires effectiveness and efficiency standards and any business that fails to meet these conditions are easily marginalized. In order to survive, firms require optimization of its internal resources and continuous improvement of internal process and routines so as to maintain its competitiveness (Lopez-Valeiras, Gomez-Conde and Naranjo-Gil, 2015). To accomplish this goal firms, strive to achieve operations efficiency through implementation of costing control systems. Operations management is a function that is responsible for planning, control and coordination of firm’s resources. Azudin and Mansor (2018), defined operation management as a management function that encompasses costing control systems responsible for designing, planning and controlling of the firm’s scarce resources. Continuous existence of all business concerns in a highly competitive environment requires effective and efficient operations managements (Lavia Lopez and Hiebl, 2015).

Shields and Shelleman, (2016) noted that costing control is one of the major and crucial survival techniques used in operation management with its main objective being to provide valuable information useful in costing, pricing, control, strategic planning, budgeting and decision making. Cosenz and Noto (2015), noted that costing control systems has gained importance over decades as industries set up cost and costing controlsections in accounting departments. This is because effective costing control system is
one of means used to gather and analyze data for decision making. According to Kalkhouran, Rasid, Sofian and Nedaei (2015) effectiveness of a control system results from valuable management information to enhance strategic and tactical management for operations excellence thus making the organization competitive. However, it is noted from research by Andersen and Samuelson (2016), that there is no conventional approach of costing control put forward to be followed by businesses which include small, medium and large enterprises. Therefore, the business enterprises have established some basic standards which are followed in cost estimation, price determination and decision making (Duréndez, Ruiz-Palomo, García-Pérez-de-Lema, and Diéguez-Soto 2016).

Cosenz and Noto (2015) pointed to the critical role of medium scale enterprises in developing and developed countries has remained significant and popular in many ways. Notably this sector arguably has been linked to have capacity not only for grassroots' economic growth but significant for creation of equitable sustainable development from all dimension. However, Aureli, Cardoni, Del Baldo, and Lombardi (2019), noted that the sector has been characterized by poor working conditions, underemployment job insecurity and low earning having the majority of the labor living with high level of income insecurity. Costing control system being a necessity for the growth, efficiency and development of any business has been noted to be a major obstacle to their business operations (Pešalj, Pavlov and Micheli, 2018). Samuelsson, Andersén, Ljungkvist, and Jansson (2016) in their study examined the reasons for inefficiencies in medium scale enterprises in Nigeria and found that insufficient capital, poor market choice and dynamic global market environment to be associated with their failures. However, Hosoda (2018) noted that although the above causes have been addressed by developing many nations in attempt to grow their economies, medium scale enterprises still experience inefficiencies in their operations and growth.

Currently, medium scale enterprises operate in an environment which is becoming more complex, dynamic and full of risks and rapid technological change (Cosenz and Noto, 2015). This compels a need to ensure efficiency in the management of its limited resources, better appraisal systems and decision making. An integration of these factors will with no doubt strengthen its competitive advantage thus maintain the market share. According to Armitage, Webb, and Glynn (2016), qualitative research found in the country on accounting information of medium scale Enterprise tend to focus more on financial accounting, financial management, access to credit and of use information technology with no significant research done on application of costing control systems as an operations management tool (Ahmad and Zabri, 2015). Armitage et al., (2015) pointed the role of Costing control systems in planning, budgeting controlling, pricing, management reporting and decision making which are very core in achieving an effective and efficient operations management. According to Kalkhouran et al., (2017), lack of management accounting knowledge leads to poor utilization of accounting information.

According to Carey, (2015) the role of costing control systems in promoting operations excellence raised the curiosity to understand whether the inefficiencies in operations of medium enterprises can also be linked to lack of enough literature on management accounting application and skills apart from the other known factors such as financial problems, non-access to funds and level of management. Therefore, there is need to understand the efficacy of costing control systems of medium scale enterprises in Kenya and Kericho town in particularly in relation to planning, quality control, the overall oversight function and decision making in attempt to enhance the success of the businesses.

In Kericho town, Kenya, the MSE’s is a notable sector linked to have capacity not only for grassroots' economic growth but significant for creation of equitable sustainable development from all dimension. However, costing control system being a necessity for the growth, efficiency and development of any business has been noted to be a major obstacle to their business operations (Pesali et al., 2018). Further, MSE’s information costing control system in the town seems fragmented due to the reactive nature of the sector. There is need to research and understand the relationship between costing control systems and the performance of medium scale Enterprises in Kericho town.

Statement of the Problem

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Costing control system is a growing concern to the development of small and medium scale enterprises. To effectively compete in the current environment and gain competitive advantage, it is crucial that SMEs establish ways to monitor their performance through management control system tools which include: effective costing, budgeting and implementation of effective performance measures. However, information about costing control system tools in SMEs seems fragmented due to the reactive nature of the sector. This makes relationship between their costing control systems and performance of medium scale enterprises unclear for appraisal of business profitability, growth and development. Rather than trying to reinvent in the sector, value will be added to the sector if the existing costing controltools applied by large enterprises is assessed among the SMEs. In this paper, costing control systems was investigated for sustainable development of the sector. It is on this basis that the research sought to understand the relationship between costing control systems and the performance of medium scale Enterprises in Kericho town, Kenya.

Knowledge-Based View of the Firms Theory

According to Nonaka and Toyama (2015), Knowledge Based theory suggest that an organizational management concept that provides the organization with strategies that aims competitive advantage generation. Voltakoski (2017), noted that based on the theory, employees in the organization should utilize their performance capacity to generate a value through two ways; the transfer of knowledge to the internal and external organizational perspective. Martin-de Castro (2015), further noted that the value created will grow overtime as necessitated by the changes in factors within the organization. He pointed that the approach is crucial in understanding the role of management of human and the involvement of human capital in the structural and the routine activities in the organization. Shileds (2015), in his research noted that having a costing controlsystem as a resource based on knowledge ensure that difficult transmission in the organization and protect the organization from possible imitations and social complexities. Hitt et al (2016), noted that knowledge-based theory of management accounting draws it fundamental assumptions from the resource-based theory of the firm. According to the authors, the resource-based theory of the firm is not adequate enough for effective costing control system need by the organization. This is because resource-based view of the firm theory does not ignore knowledge as an important resource in the organization, further the theory categorizes it as a simple generic and as any other simple resource in the organization. Shields (2015), noted that KBV theory fills the short falls in RBV as it expounds on the knowledge and its strategic significance and thus displays the distinctive characteristics that knowledge portend for the firm’s competitive advantage in the organization. According to Hitt et al., (2016) KBV theory portrays knowledge as a resource that adds value to the organization through value addition in costing controlsystem. Knowledge therefore is a tool that managers can utilize in responding to management control issues.

According to Caner Cohen and Pil (2017), Knowledge based theory categorizes knowledge in two forms; explicit and tactical knowledge and which are required for competitive advantage in the organization. Defined explicit knowledge as generalized knowledge which can be identified in the organizational daily operations and within all management information systems. According to Nonaka and Toyama (2015), Explicit knowledge help the organization understand the practical trends in the markets and firm’s competitiveness making it easy for the firm to respond strategically to the market demands. Further they noted that tacit knowledge to attain competitive advantage achieved from the firm’s specific capabilities through the utilization of employee’s unique abilities that are usually difficult to be imitated by other organizations. According to Voltakoski (2017), an effective costing controlsystem in the organization depends on the firm’s ability to share skills and the organizational dependency on its unique capabilities.

Conceptual Framework

<table>
<thead>
<tr>
<th>Independent Variable</th>
<th>Dependent Variable</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Cost Control</strong></td>
<td><strong>Firm Performance</strong></td>
</tr>
<tr>
<td>• Budget Planning</td>
<td>• Operations Performance</td>
</tr>
<tr>
<td>• Standard costing</td>
<td>• Financial Performance</td>
</tr>
<tr>
<td>• Variance Analysis</td>
<td></td>
</tr>
<tr>
<td>• Ratio Analysis</td>
<td></td>
</tr>
<tr>
<td>• Value Analysis</td>
<td></td>
</tr>
</tbody>
</table>
Research Design

The research design was a cross-sectional survey study conducted among medium scale enterprises in Kericho town. The survey research design was adopted by the research in identifying those medium scale enterprises that fall under the priority sector of construction, manufacturing service and agriculture industry. According to Kothari (2014), cross sectional survey is formalized and typically structured to explain the hypothesis investigated. Using the research design, the researcher collected information from the target population. Accounting and Financial Managers constituted the sample for study. A representative sample from the population were selected.

Validity and Reliability

The data collection tools were pre-tested by use of factor analysis to ensure that the data required was sufficient collected. Factor analysis was used to establish the underlying correlation of large number of items and thus examine if it can be possible to reduce to smaller set of items. The factor analyses was be done independently on the set representing a scale. Panel of experts in accounting and entrepreneurship were also used to check the instruments. The data collected were analyzed to establish omission or commissions in the instruments which then was corrected for the actual field data collection exercise. The reliability of the measurements was further evaluated by Cronbach’s alpha coefficients.

Results and Discussions

Costing systems and Performance of Medium Scale Enterprise

The regression analysis shows the relationship between costing system and performance of the medium scale

Model Summary of Relationships between Costing Systems and Performance

<table>
<thead>
<tr>
<th>Model</th>
<th>R</th>
<th>R²</th>
<th>Adjusted R²</th>
<th>Std. Error of the Estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>.918*</td>
<td>.843</td>
<td>.834</td>
<td>1.743</td>
</tr>
<tr>
<td></td>
<td>a. Predictors: (Constant), Costing</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Author, (2021)

The model summary table shows are the regression model summary used to establish the extent to which costing system affect performance among medium scale enterprises. According to the results, R² value is 0.843 indicating that costing explains 84.3% of the variation in performance and only 15.7% of the variation is explained by other factors rather than costing systems. The model also reveals a strong positive relationship between the costing systems and performance of medium scale enterprise (R= 0.918)

Model Coefficients of Relationships between Costing Systems and Performance

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>T</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>Std. Error</td>
<td>Beta</td>
<td></td>
</tr>
<tr>
<td>1</td>
<td>(Constant)</td>
<td>1.001</td>
<td>.301</td>
<td>.000</td>
</tr>
<tr>
<td></td>
<td>Costing</td>
<td>.510</td>
<td>.149</td>
<td>.691</td>
</tr>
</tbody>
</table>

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Dependent Variable: Performance

Source: Author, (2021)

Based on the regression results, costing affect performance of medium scale enterprises positively (beta= 0.691, and t= 2.041) the p value =0.000 is less than 0.05 and therefore we conclude that costing has a significant effect on performance of the medium scale enterprise. The implication is that a highly involvement of costing system by the enterprises will help improve performance in the organization.

The results are consistent with Liu (2015), which pointed that costing system improves the performance of an organization. According to study by Luo et al., (2015), an effective implementation of costing control system is crucial to the gradual improvement of the business interest. The study pointed that costing control systems provided a base where medium scale enterprises can control their sales and thus prevention of wastage and effective maintenance of economic processes for the interest of the enterprises. Ostaev et al., (2019), noted that medium scale enterprises operate in a competitive environment and thus costing control system affect performance since through costing, the enterprise can effectively focus on the actual business operations and effectively control its costs and thus gradual increase of its profits. The study established that cost control systems vary across the medium scale enterprises, the finding was associated with the difference in the costing control results and the extent of influence on the results. Luo et al., (2015), pointed that medium scale enterprises should actively be involved in establishment of a sound cost control system based on the actual and specific situation of the enterprises for improved performance.

Findings by Iliemena and Amedu (2019), pointed that for effective performance in the organization, medium scale enterprise should pay more attention to its control system while paying attention to the various aspects of cost control. The study pointed costing control systems as an effective tool in providing the enterprise with sufficient foresight and therefore a guarantee to stability of the enterprise. The study established that the medium scale enterprises in Kericho town attach great importance to costing control systems. This was consistent with findings by Ostaev et al., (2019), who noted that currently, medium scale enterprises attach importance to costing control systems when carrying out its management as it provides the conditions required for continuous improvement of performance in the organization.

Conclusion

Conclusions was made that cost control systems have a significant effect on performance of medium scale enterprises. The findings that cost control system has a positive relationship with performance of medium scale enterprises led to the conclusions that medium scales enterprises through costing systems can control its costs and decide on how to adjust it to improve the organizations performance position. Effective use cost control systems by medium scale enterprises will improve performance of medium scale enterprise.

Recommendation

It was recommended for medium scale enterprises to ensure costing system in their enterprises to improve performance in the organization. Medium scale enterprises should become more cost conscious through constant search for more effective costings systems relevant to the business. The study further recommended that control mechanisms in the small and medium sized enterprises, small and medium enterprises should work out costs and presenting them to them on a regular basis as well as controlling such costing in case of fluctuations on business operations.

Reference


