

# An analysis of the state of cost management in India, with an emphasis on the role that supply chain applications play

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**Abstract-** This study encompasses fieldwork and academic considerations, including the comparison of research methodologies, identification of research gaps, and selection of optimal research studies within the chosen topic. The literature review was conducted by analysing pertinent literature. The researcher employed various academic databases including Ebsco, Google Scholar, Science Direct, ProQuest, and OATD. A comprehensive search was conducted on the topics of "strategic cost management," "modern costing techniques," "balanced scorecard," and "small and medium-sized enterprises." In this study, an extensive examination was conducted on various sources including books, research papers, theses, and government reports. The objective of this study is to analyse research conducted in India as well as research conducted globally. Strategic cost management for small and medium-sized enterprises (SMEs) is a crucial aspect of business operations. By implementing effective cost management strategies, SMEs can optimise their financial resources and enhance their overall profitability. This The process of cost accounting involves the allocation of expenses to the various operations of ABC. The method described herein enhances decision-making and resource allocation by improving the accuracy of activity cost estimation. The Balanced Scorecard (BSC) is a performance measurement framework that assesses the effectiveness of strategic management. Benchmarking is a method used to assess systems, processes, and products by comparing them to established industry standards. The request is for Key Performance Indicators (KPIs) and statistical data. Cost-controlling;The implementation of Kaizen methodologies results in a reduction in costs, leading to a decrease in prices. The LCC (Life Cycle Cost) methodology is utilised to estimate the costs associated with a product or system throughout its entire life cycle. The three key stages in the life cycle of an asset are acquisition, maintenance, and disposal. Target Corporation is a multinational retail corporation that engages in the sale and manufacturing of various products.

**Keywords - cost management, emphasis**

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## INTRODUCTION

In a study that was carried out by Armitage and colleagues (2016) [1], the investigation of "Small and medium enterprises" (SMEs) was the primary focus of the research. The authors emphasised that these businesses make up a significant amount of the business ecosystem that exists inside any given economy, and that they also play an important role in economies that have already been created. On the other hand, it was said that there is a dearth of information about the degree to which small and medium-sized businesses make use of modern pricing strategies. Armitage et al. (2016) conducted a study in which they assessed 19 different management

accounting procedures [1]. They discovered that only a select few of the methodologies were being employed by the companies that were surveyed to a moderate or modest amount. Additionally, it was shown that businesses involved in the manufacturing of products were more likely to implement a wide collection of costing systems such as "Budgets and Variance analysis." On the other hand, early-stage SMEs were typically less likely to make use of management accounting tools.

According to the findings of a research that was carried out by Armitage et al. (2016), there are three elements that have an effect on the degree to which

small and medium-sized businesses (SMEs) embrace current strategic costing approaches.

The degree to which the companies believe the technique may be valuable to them. The level of difficulty present in the working environment should be taken into serious consideration. Ageing is a natural process that occurs in small and medium-sized businesses (SMEs).

Cuzdriorean (2017) performed an analysis of the Marketing Action Plan (MAP) that was put into action by small and medium-sized businesses (SMEs) in Romania for the purpose of writing his paper [2]. The research looked at 37 replies from different small and medium-sized businesses (SMEs) located in one of the most developed districts in Romania. The study that was carried out by Cuzdriorean in 2017 had the purpose of identifying the various costing strategies or instruments that were used by the small and medium-sized businesses (SMEs) in Romania. In addition, the purpose of the research was to determine the elements that contribute to the non-adoption of other management accounting practises (MAP) and the reasons behind the selective utilisation of particular management accounting practises (MAP). The findings of the research were consistent with the procedures that are typically carried out by a wide variety of small and medium-sized businesses (SMEs). In the subject of management accounting, it was found that a large number of businesses depended on conventional approaches, while only a small number of firms used a subset of the available current techniques. This was one of the observations that was made. Within the realm of management accounting, budgeting is a time-honored activity that sees widespread application. It helps keep expenses under control and allows for better cash flow planning. "Benchmarking and Reporting" were the key approaches used in the area of current techniques. The purpose of these methods was to assess performance in accordance with predetermined criteria. The high expenses involved with implementation, insufficient financial resources, and inadequate commitment from management were the key problems that hindered the adoption of both old and new procedures. In addition, the most of the studies that have been undertaken on this subject have been carried out in developed countries, whereas only a small number of studies have been carried out in developing nations (Haldma&Laats, 2002) [3].

### A Review Of Strategic Cost Management Practises

Professor Manoj Anand addresses the current corpus of research on the topic in the article titled "A Review of Research on the Theory and Practise of Cost," in which he explores the topic.

A study was done in India with 53 different companies, and the results showed that 26 of those businesses use Activity Based Costing (ABC) as a modern method for pricing their products and receiving customer

feedback. The second objective of the research was to analyse the status of Cost Management theory and corporate practises in our nation at the time of the study. The primary purpose of this essay was to address the difficulties connected with putting "Activity Based Costing" into practise. Within the scope of this study, a thorough framework for cost management is presented. In addition, the author offers pointers for more study in this field to be conducted in the future.

One of the findings of the research was the observation that businesses who used 'Activity Based Costing' were able to effectively collect both expenses and information. This was one of the study's key takeaways. The author hypothesised that if the company were to find a variety of activities, some of which added value while others did not, the company would be able to quickly reach a competitive position. This position has a chance of being maintained in the long run. According to the findings of the survey, the firm has also seen improvements in terms of price, quality, and overall performance. The purpose of this study paper is to investigate the connection between the use of modern strategic cost practises and the influence such practises have on the profitability and decision-making procedures of an organisation. The results show proof that the application of "Strategic Cost Management" has a major influence on both the profitability and total value of a company. This is demonstrated by the fact that the findings are consistent with the hypothesis. The decisions that are made at the managerial level are also influenced by the factors that are associated with supply chain management (SCM). In this article, a conceptual framework of cost management is presented; more specifically, the study focuses on cost management from the standpoint of strategic cost management.

In a second research that was carried out by Anand et al. (2003) and given the title "Cost Management Practises in India: An empirical study," an examination was carried out on a sample size of 53 Chief Financial Officers (CFOs) from Indian enterprises [4]. An examination of the historical developments that have taken place in cost management practises is provided in this article. The effective use of Activity-Based Costing (ABC) by businesses in order to get accurate information on "Cost and Profit" was one of the most important findings from the study. The results also showed that firms who used Activity-Based Costing (ABC) saw increased insights and improvements in the areas of budgeting and benchmarking. This was shown by the fact that ABC brought about these outcomes. On the other hand, when compared to companies that use conventional methods, it was found that their prioritising of budgetary objectives lacked the consistency expected of it. In the final analysis of the study, the authors came to the conclusion that both contemporary and traditional systems had a high degree of clarity in terms of how they were put into practise. This was the consensus of the researchers. It was discovered that users of ancient systems and

users of current systems both use "Standard Costing" in a manner that is equivalent to one another. According to the findings of the research, considerable improvements in the acceptance and utilisation of contemporary costing procedures have been brought about as a result of breakthroughs in modern approaches. The results of the study on the implementation of current cost management systems and the influence they had are not easily generalizable owing to the possible problems associated with the accuracy of data collecting, the measurement of costs, and the managerial decision-making process. As a result of the fact that advocates of conventional method and contemporary costing systems each had their own motivations for adopting these systems in their own distinctive ways, the effects of using either strategy differed from situation to circumstance.

According to Anderson (2005), who is a professor at Rice University in Houston, Texas, the research paper is titled "Managing Cost and Cost Structure throughout the Value Chain: Research on Strategic Cost Management." [5] The practise of "Strategic Cost Management," as stated by the individual, is what allows for the alignment of a company's strategy with its cost structure. According to Anderson (2005), it is very necessary to make certain that alignment and optimism are included across the whole of the value chain and among all of the stakeholders. This is very necessary in order to maintain profitable operations over time.

It has been established that an understanding has been gained of the notion of "Strategic Cost Management" frameworks, which seek to accomplish long-term objectives while simultaneously having an immediate influence on profitability. It has been clear through the review of the articles that "Strategic Cost Management" may be broken down into two separate subcategories, which are as follows:

The term "Structural Cost Management" refers to the practise of employing a variety of tools that are connected to the design of the company, the design of the product, and the design of the process. These methods are used to construct a price structure that is in line with the chosen strategy, and this alignment is the end goal.

The term "Executorial Cost Management" refers to the technique of monitoring and assessing a number of different elements, such as variance analysis and cost-driver analysis, in order to evaluate the cost performance of a company. The evaluation of the financial elements of a company's operations is the primary emphasis of this strategy.

This study will propose a model with the purpose of demonstrating the relationship that exists between "Strategic Cost Management" and "Strategy Development and Performance Evaluation." The author noted that there is a disparity between how businesses and their costing functions view "structural cost management" and how they view "executorial

cost management." The author posited that extensive research has been conducted to comprehensively comprehend and proficiently implement the concept of "executorial cost management." The author also noted that there is a disparity between how firms and their costing functions view "executorial cost management."

Researchers in the field report that their conceptual grasp of 'Strategic Cost Management' has improved as a result.

### **Applications of Supply Chain Management (SCM) in India's Small and Medium-Sized Businesses (SMEs) in India**

According to the findings of a research project that was published in the May 2010 issue of "The Management Accountant" magazine by Dr. Arindam Ghosh and AsitGupte, there is a substantial amount of untapped potential for the implementation of Supply Chain Management (SCM) in Indian businesses. To this far, businesses have only made a few feeble efforts. The following part provides an overview of the possible uses of Strategic Costing, which may ultimately result in significant advantages for the company.

**Product Pricing:** "The current state of cost systems in many enterprises results in insufficient product pricing information." In order to determine whether or not the pricing and other policies implemented by the organisation are suitable, it is essential to collect the actions that can be ascribed to each individual product or to the key product categories as a whole. It was discovered that the product costs were erroneous in each and every one of the cases that the author investigated.

**Make-or-buy:** It is essential to take into account strategic considerations whenever one is deliberating over whether a product or service should be manufactured or purchased. However, it is essential to take into account the financial implications of this decision. The choice to outsource a part of the operation would need a number of operations, all of which would result in a rise in overhead. If managers had a thorough understanding of the expenses involved, they would be in a better position to choose outsource components that had any strategic value or that could be readily produced by third parties.

There is a possibility that enhancing marketing channel selections with the adoption of the Supply Chain Management (SCM) strategy will be possible. Selling to specific clients via predetermined avenues is one of the several courses of action that may be taken.

Many studies have shown that the bulk of a product's expenses get fixed during the design phase of the product. This phenomenon has been seen in product design. It is important to highlight that designers often do not have access to information on costs,



which might lead to the development of designs that are not necessarily optimal for cost efficiency. In an effort to improve their capabilities in the area of new product creation, a number of businesses have lately formed cross-functional teams that are comprised of marketing managers, cost accountants, production engineers, and designers. However, the vast majority of businesses have a propensity to ignore the significance of product design, which results in increased product prices and the have to make frequent revisions to the design.

Activity analysis is a method that entails dissecting a particular job or activity into its component parts in order to get a more in-depth comprehension of the needs that are associated with it. There is an increasing relevance in the modern era in the identification of activities that add to expenses without giving equal value to the customer. These activities may be found in a variety of contexts. It is essential to get rid of these operations, which are referred to as "non-value-added activities" in common parlance, in order to keep the company's competitiveness at its current level. Activities that do not contribute value to the final product include a variety of different duties, such as inspection, internal movement, and waiting for the next operation. Activities that do not add value to the final product result in expenses that might have been avoided and lengthen the time it takes to produce or provide a service. A company that engages in a considerable quantity of activities that do not add value would have difficulty releasing new goods in a timely manner that is both efficient and cost-effective, given the amount of non-value added activities it engages in. According to the author's calculations, it is very unlikely that Indian businesses would be able to achieve a value added time of more than 10 percent. This case study looks at a well-known Indian corporation to illustrate the ideas of value-added and non-value-added activities through the lens of the organisation.

The latter part of this article will talk about the many different ways Supply Chain Management (SCM) may be used. According to a paper that was released on March 9, 2006 and titled "Strategic Cost Management - A Bird's Eye View," there are three main business sectors in which strategic cost management may be applied.

Definition: A strategy may be described as a complete plan of action that directs and impacts the trajectory of an organization's successes and overall success when it comes to the management of an organisation. This definition applies to the context of organisational management. Companies have recently learned to appreciate the value of properly communicating their plan and successfully implementing it. This development occurred very recently. Before formulating any strategic plans, it is vital that management thoroughly analyse the current relevance of the business model and decide whether any alterations are required. This must be done in order to determine whether or not any changes are necessary.

determining whether or not the company goals will be met via the use of the strategy that has been established.

Establishing priorities according to the relevance of various factors enables operations to be carried out in an effective and efficient manner.

The distribution of limited resources within an organisation should be evaluated on a regular basis to ensure that the organisation is giving priority to those companies that provide the most value for the company as a whole. The availability of resources is essential to the successful operation of any company. As a result, it is essential for a firm to place a high priority on the structure of its operations and to arrive at well-informed conclusions on the ownership of its resources.

### Supply Chain Management Instruments Activity-Based Costing (ABC).

Professor Cooper was reportedly one of the first people to use the "ABC" technique, as stated in the work of Cooper and Slagmulder (1999). [6] A framework known as "Strategic Cost Management" was established by the aforementioned person, along with co-author Slagmulder, over the course of a decade beginning in 1988. This advancement was made possible thanks to the composition of a number of publications that were centred on the subject of "Management Accounting." The use of the ABC technique in order to improve Strategic Management was the major purpose of the framework. The writers were of the opinion that the use of activity-based costing (ABC) in businesses is absolutely vital in order to establish the most effective strategy possible and make it easier to provide the key services that are required for the successful execution of strategic programmes inside these businesses. The proponents said that Supply Chain Management (SCM) is an application of costing technique that aims to improve the cost efficiency of businesses who adopt it in addition to strengthening the strategic position of those businesses that do embrace it. The study that was carried out intended to determine whether or not there is a connection between the strategy of a firm and its cost structure. Additionally, it aimed to determine the causal link between the degree of activity of the organisation and the resources it used, a relationship that is frequently referred to as the "Cost Drivers." The authors undertook a more in-depth investigation of the notion of "Strategic cost management" and expanded its application beyond the limitations of a single business to include inter-firm connections. They also extended its use beyond the boundaries of a single industry. The researchers found that the application of "Strategic cost management" successfully crossed organisational barriers in order to accomplish cost reduction targets by promoting cooperation with suppliers. This was

done in order to meet the objectives set for reducing costs.

In their study, Maher and Marais (1998) did a detailed analysis to determine the limits of Activity-Based Costing [7]. They also assessed the effect of conventional costing techniques in comparison to ABC. Both of these analyses were undertaken as part of their investigation. According to the findings of the research that was carried out, the use of activity-based costing (ABC) in a hospital environment led to reduced expenses when compared to the utilisation of conventional costing techniques. The accurate identification of cost drivers was the primary factor in the overall cost reduction that was accomplished.

According to Grundy (1996), the subject of "Cost management" was mainly disregarded or ignored by strategy [8]. The implementation of revenue and cost systems has acquired strategic relevance in organisational transformation, as well as in the development of firm skills and the exploitation of business environment chances. This is due to the fact that these systems are essential in determining a company's financial standing. Supply Chain Management (SCM) offers an enhanced and more reasonable technique for efficiently controlling expenses, which is beneficial to the organisation in terms of both its financial aspects and its competitive edge. The practise of supply chain management, often known as SCM, has been shown to significantly contribute to the successful management of shareholders' value, the reduction of internal business politics, and the facilitation of cultural change inside firms.

The following is a summary of the developmental path that the ABC system has taken throughout time.

When it comes to cost overruns, Cooper (1988a) highlighted the inadequacies of standard pricing schemes in his research. These limits include the variable nature of the product, the amount of production, and the complexity of the manufacturing process. As a consequence of this, Cooper advocated for the establishment of a cost-based pricing system as a means of overcoming these limitations. [9]

According to Cooper (1988b), running a firm in an environment where there is a great deal of competition and providing a wide variety of items may considerably benefit from the adoption of Activity-Based Costing (ABC) methodology as well as from having reliable cost information [10]. The implementation project need to have a very favourable cost-benefit ratio. According to Kaplan's research from 1988, multiple businesses use a unified call system to satisfy a variety of criteria. These requirements include accounting and financial reporting, brand-by-product analysis, and daily performance reviews for the organization's key staff. During a time when businesses were placing an increased emphasis on productivity, Kaplan voiced his concerns. However, because of the intricate nature of the manufacturing process and the diverse nature of

the goods, it was discovered that depending on a single system to fulfil all of these prerequisites would not be adequate.

According to Cooper, the managerial goals and product variety of manufacturing companies like Nokia Electric Motor Works and John Deere Component Works are two factors that contribute to the complexity of the cost systems used by such companies. The specific locations where the company's operations were carried out determined whether or not the implementation of ABC was essential.

### **Optimal Adoption Expenditures**

According to Hamood et al. (2011), the Target Costing (TC) technique has garnered a lot of attention in recent years [11]. According to the findings of study conducted by Kato (1993), a sizeable majority of big Japanese firms, roughly 80 percent, used a business strategy that was referred to as "Target Costing." [12] According to the results of Tani et al. (1994), it was found that at that point in time, 60.6% of Japanese manufacturing businesses that were listed on the Tokyo Stock Exchange had already employed Target costing [13]. Joshi's (2001) research on Indian companies indicated that 35 percent of industrial organisations have effectively adopted TC operations. This information was gleaned from the study that Joshi conducted [14]. In a similar vein, Chenhall and Langfield-Smith (1998) found that 38% of manufacturing businesses in Australia have also utilised TC operations. According to the conclusions of a research that was carried out in 2003 by Dekker and Smidt, it was discovered that 59.4 percent of Dutch companies had already begun using TC, which coincides with the findings of Joshi [15]. The results of the study by Rattray et al. (2007) were validated by the research that was carried out in the Indian environment in the year 2001 [16]. The most recent survey found that 38.71 percent of industrial companies were using TC in their operations.

According to the findings of Kocsoy et al. (2008)'s research, thirty percent of the ninety businesses that were analysed have participated in educational programmes [17]. Based on this data, it seems that the implementation of Total Quality Control (TC) in Turkish enterprises is a relatively new phenomenon when compared to its prevalence in Japanese, American, and other European companies. It was determined via a survey that was carried out by Juhmani in 2010 that 61% of industrial facilities in Bahrain had effectively integrated these standards into their operations. In addition, it was discovered that the execution of these standards was constant across the whole of the production process, which included the manufacturing process as well as the product assembly. According to the results, "Target Costing" provides firms with helpful support in efficiently managing the tradeoff between cost, quality, and efficiency. In addition to this, it helps with quality control, the creation of products, the happiness of customers, and rapid design changes.

Tani et al. (1994) [13] and Dekker & Smith (2003) [18] did research in the past, and the advantages that were seen in this study strongly agree with the conclusions of that research. In 1999, the Consortium for Advanced Production-International (CAM-I) performed a research on US firms with the purpose of determining the most effective ways for adopting "Target Costing." According to Swenson et al. (2005), it was noted that American firms adopt techniques for technology commercialization (TC) that are different from those that are often employed in Japan [19]. According to the findings of study, American businesses have exhibited varied viewpoints on the Expensive Design and Style of the product as well as the durability requirements linked with the implementation of "Target Costing." According to the findings of a research project that was carried out by Rattray et al. (2007) [16], a survey was carried out among 80 different firms in New Zealand. The results of the research showed that 38.71% of respondents said that only a tiny number of new enterprises in New Zealand make use of the TC system. This conclusion was consistent with the findings of the survey.

## CONCLUSION

In conclusion, numerous key aspects of cost management in India have been illuminated by our investigation, which has focused primarily on the role of supply chain applications. In order to achieve long-term development and keep a competitive edge in today's Indian market, businesses must place a larger focus on effective cost management practises. The results of this study highlight the significant impact supply chain applications have had on the evolution of cost control techniques across several sectors. The aforementioned software has been essential in facilitating supply chain optimisation and streamlining for enterprises. They were able to do this by easing coordination, giving people access to data in real time, and improving their ability to make decisions. Organisations may save money, reduce waste, and boost value chain efficiency in this way. In addition, it can't be denied that better cost management practises have resulted from the widespread use of technology and the digitization process. The use of cutting-edge analytics, AI-powered algorithms, and IoT technologies has facilitated the gathering of actionable information. This has allowed organisations to effectively spot cost-cutting possibilities and put data-driven initiatives into action. However, the landscape of cost management in India continues to face persistent problems. It might be difficult for certain organisations, particularly those of a smaller size, to take advantage of cutting-edge supply chain software. The inability to do so may result from factors such as a lack of resources or information. Additionally, there may be obstacles to the project's effective execution owing to variables such as limited infrastructure, complicated regulatory requirements, and a lack of skilled labourers. Fostering cooperation among different stakeholders, such as government organisations, industry players, and technology suppliers, is essential for efficiently addressing these difficulties and optimising the use of

supply chain applications for cost control. A conducive atmosphere for innovation and growth may be fostered through promoting projects, giving financial support for the adoption of technology, and conducting skill development programmes.

To sum up, supply chain applications have emerged as a critical component in the dramatic change now under way in India's cost management environment. Consistently campaigning for digitization, promoting cooperation, and confronting present impediments will help Indian firms find new ways to optimise costs, ensure long-term viability, and ensure continued prosperity in a world that is becoming more competitive.

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