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## Cost control for business sustainability

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### Abstract

A good reputation regarding social and environmental responsibility has benefits such as attracting and retaining high-quality employees, reducing environmental incidents and improving employee safety. Health improves productivity and lowers operating costs, enhancing the employee's image with customers and with socially-conscious investors with direct implication on market value and incomes (Atkinson, Kaplan, Matsumura, Young, 2012, pp: 33). As a result, cost accounting and cost control literature increasingly discusses and debates upon business sustainability.

The value contribution of this paper comes from a critical review of cost control functions, showing the need and opportunity to step up as a business sustainability tool. Also, the paper is describing the link between cost control and business sustainability.

The article stops at the conceptual level. Describing a successful tool for business sustainability, it needs an empirical research in order to identify all of its systemic aspects. Also, this paper is opening up a field of empirical research in management.

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### 1. Introduction

Sustainability is gaining increasing public attention and attracting greater debate. Also, during the last decade, and especially in the last few years, company stakeholders' expectations are including more and more social and environmental aspects, while the primary company target remains financial performance, which is increasingly affected by social and environmental performance. A number of studies have been carried on in this direction, measuring the impact of business sustainability over financial performances (Eccles, Ioannou, & Serafeim, 2012; Lee, Pati, & Roh, 2011).

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A good reputation regarding social and environmental responsibility has many benefits, such as attracting and retaining high-quality employees, reducing environmental incidents and improving employee safety and health, improving productivity and lowering operating costs, enhancing a company's image for its customers and its socially conscious investors, with direct implication on market value and incomes (Atkinson, Kaplan, Matsumura, Young, 2012, pp: 33). As a result, cost accounting and cost control literature is increasingly incorporating business sustainability within its content.

Sustainability in terms of business is a business strategy that drives long-term corporate growth and profitability by mandating the inclusion of environmental and social issues in the business model (Berns, Townend, Khayat, Balagopal, Reeves, Hopkins et al., 2009). Business sustainability performance should not take away from the financial one. They should go along together, because business sustainability does not necessarily mean more costs, or less income. Rather, it means that, in addition to setting certain financial goals to be reached, companies should set social and environmental ones as well. However, there are situations where business sustainability and financial performance interfere with each other, in which case a company has to choose between a non-sustainable process or resource, and an ineffective one.

Business sustainability can be reached by integrating social and environmental goals to an existing business strategy. In addition, we maintain that some specific tools are indispensable to achieving business sustainability.

The main objective of this research is to reveal, at a conceptual level, the link between cost control and business sustainability, and also, to show how the tool of cost control can be used for business sustainability through the alignment of company and community goals.

## **2. Cost control particularities**

The main function of cost control is to identify and explain variances in terms of costs and revenues. Horngren (Horngren, Datar, Rajan, 2011) created this diagnostic control system with the purpose of measuring whether and how well a company is performing compared to its expectations. However, cost control has more functions than this. Existing literature describes a series of particularities of cost control (Atkinson, Kaplan, Matsumura, Young, 2012; Horngren, Datar, Rajan, 2011), such as employee motivation and goal congruence, respectively strategy evaluation.

### *2.1. Waste reduction*

We use the term 'waste reduction' referring to the decrease in unnecessary consumption and to the improvement in efficiency of the business processes. As it was shown earlier, the main function of cost control is to identify and explain variances in terms of costs and revenues, with the goal of maintaining consumption within planned values. This has implications in waste reduction. Furthermore, it shows how well resources are used during the production processes, respectively if consumption is within the projected values, but also encourages employees to find ways to improve efficiency.

In the same manner, cost control can show to the management how good the company technologies are, comparing with best ones on the market. Showing, on the same time, the benefits of improving processes and, or renewing technologies.

### *2.2. Motivation and goal congruence*

Trough cost control, companies motivate managers to achieve goals by holding them accountable and rewarding them for meeting these goals (Horngren, Datar, Rajan, 2011). It is typical for managers to give more attention to the aspects they are monitored for, and which determine their remuneration. Thus, an important function of cost control is driving managers' motivation.

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