

CMA e-Magazine



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“Cost Competitiveness”



THE INSTITUTE OF COST ACCOUNTANTS OF INDIA

(Statutory body under an Act of Parliament)

“My father taught us that to thrive, excellence in technology, quality, and customer service along with cost competitiveness is a prerequisite. His contribution to business, the economy, and society at large can never be underscored enough.”

- Shri Kumar Mangalam Birla

Organizations need to control costs to improve competitiveness. This helps companies to drive and sustain continuous innovation. Today's business world is relentlessly evolving and companies are always striving to get to the zenith. Companies can attain cost competitiveness by lowering fixed costs through strategic cost reduction and permanently eliminating waste to deliver new products faster, cheaper and better. They must create an ownership mindset and a culture of sustainable cost management. Companies should develop innovation capabilities that enable them to rapidly develop and market new products and services that meet customer demands.

The challenge of moving ahead to increase competitiveness is turning cost reduction into cost optimization, which

in turn, enables the organization to be cost competitive. Cost management should be a tool to drive business development and overall growth. Our Institute also pursues the vision of cost competitiveness, cost management, efficient use of resources and structured approach to cost accounting as the key drivers of the profession.

I believe CMA E-magazine of the Institute on “Cost Competitiveness”, Vol. III, No. I & II, July & October, 2016 issue will definitely enrich the knowledge base of the readers.

Wish the readers, Happy Reading!!!

FOREWORD

CMA Manas Kumar Thakur
President
The Institute of Cost Accountants of India

It gives me an immense pleasure to announce the publication of the current edition of CMA e-Magazine of the Institute on “Cost Competitiveness”, Vol. III, No. I & II, July & October, 2016 issue.

Competition is imperative to enhance cost consciousness. Hence, both the terms – “Competitiveness” and “Cost” are inter-reliant. Competitiveness is considered as a key decisive factor for assessing the success of countries, industries and organizations. Moreover, competitiveness means acquisition of more market share, greater profitability and long-term stability and growth of these indicators thereby improving the welfare and living standards of people. Putting it in perspective, companies and industries must be well competitive in domestic and international markets in order to sustain.

In recent competitive and dynamic environment, if companies want to be successful, they must have competitive advantage which means creating and sustaining superior performance. The vigour of competition depends on both the conduct of firms and the external business environment in which they compete.

Thus, my sincere gratitude for the commendable effort of my fellow members of the Directorate of Research & Journal of the Institute and all the eminent contributors to publish such an e-Magazine in time.

COMMUNIQUÉ

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Dear Readers,

Greetings!!!

I am immensely delighted to present before you the edition of CMA e-Magazine of the Institute on “Cost Competitiveness”, Vol. III, No. I & II, July and October 2016 issue, an offering of the Directorate of Research & Journal of the Institute. It mainly consists of case study, interview on cost management and innovative ideas on Cost Competitiveness and Sustainability. This e-Magazine generates a positive image concerning cost control and cost competitiveness.

Nowadays, if companies want to stay competitive, they are advised to link their strategies with effective resource mapping and performance measurement techniques. Thus, budgeting, controlling and reducing cost represent essential activities to be performed and monitored by organizations as they implement their key processes, activities and operations. In addressing these issues, this e-Magazine is quite pertinent for those professionals & analysts facing the challenges of improving performance while reducing costs of those processes for which they are accountable.

We look forward to queries and suggestions from our readers for the improvement of this CMA e-Magazine “Cost Competitiveness”. Please send your mails at *research@icmai.in*. We appreciate the earnest efforts of all the contributors of this important issue and hope our readers are contented with it.

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STARTUPS IN

INDIA:

**PROSPECTS &
CHALLENGES**

*Shri Saumyajit Guha
Co-Principal at Jaarvis
Accelerator
Former COO,
Calcutta Angels Network*

1. In what ways would you apply Cost Competitiveness to enhance Performance Management of Startups in India?

Being Frugal and bootstrapping are the words that are lifelong partners of any startup. It is very important for a startup to have co-founders whose skills will complement each other. This helps in reduction of cost and lesser dependency on others resulting in efficient management of cost. One has to go with their needs rather than their wants when it comes to investing on infrastructure and resource.

2. How would you analyze and benchmark Startups scenario in India with that of advanced countries?

It is very difficult to do so. Every country is diverse from other and India is the country of unity in diversity so it is very difficult to compare it with any other countries. The challenges that a startup face in India are unique to India only. Because of its young population it holds an edge over many others in terms of creating startups. However, having said that there is a huge dearth of good startups in India. One of the major challenges is that here success is measured on the basis of raising fund and not gaining market share. There is a predominant me too attitude and people need to still focus a lot on solving a real problem worth solving.

3. What are your views on Socio-Economic impact of a Startup in India?

Startups have created and will

be continuing to create a huge Socio-Economic impact in India. The impact is much beyond creating jobs. It is shaping the socio-economic demography of the country and also contributing immensely in wealth creation. More importantly startup has become a career choice for the young India.

4. How is a start up different from small business?

This question is a bit confusing. Entrepreneurial startups are different from traditional small business as they are not they are innovative startups. But all startups do fall under the small business category.

5. What are the key areas do you consider to facilitate a Startup/ Budding entrepreneur to gain access to funds?

Following are the appealing factors for a startup to draw investors' interest

- a. A good idea is never enough. Proof of concept is essential.
- b. The quality, passion, commitment, and integrity of the founders.
- c. The market opportunity being addressed and the potential for the company to become very big.
- d. A clearly thought out business plan, and any early evidence of obtaining traction toward the plan.
- e. Interesting technology or intellectual property.
- f. An appropriate valuation with reasonable terms.
- g. Owners Contribution (not money raised from family and friends-it's considered as a grant).

6. When would it be appropriate for a Startup to

seek investment from you?

An investor, generally prefers to invest in a startup when some of the following criteria are met

- a. Preferred domain.
- b. Business model fit.
- c. Prototype ready.
- d. Customer traction.
- e. Paying customer

7. State some challenges Startups has to face in this competitive era.

Some of the generic problems that a start up face while starting up are as below:

- a. Finding the right team.
- b. Avoiding me too attitude.
- c. Understanding the market size.
- d. Working out the feasibility.
- e. To understand your customer behavior.
- f. To find the gap and work on the Key Differentiating Factor.
- g. How else the problem can be/is being solved?
- h. Regulations
- i. Culture
- j. Channel Partners
- k. Technology Evolution
- l. Socio-eco & Political Scenario of the place.

8. Is it worthy for a Startup to go for Self-funding or Bootstrapping? Your views in this regard.

A startup has to bootstrap during its early days. No one will invest on a ppt. They need to raise their seeding capital from the 4 Fs: Friends, Family, Foes & Fools. They should raise their first round for scaling up and not starting. One should not start a business to get funded. If they start a business to do the business funding will happen naturally in due course.

9. “Startup scenario in India 5years down the line”. Seeking your comment.

The word startup has almost become a fashion statement now-a-days. Every other person is now starting up and everyone wants to become the next Flipkart or Ola. In the long run, however most of these types of startups will either shut shop or will pivot drastically. Five years down the line I feel only those startups will survive who would be solving a real problem worth solving and that number will be quite a few. Five years down the line startups will be the major influencer in the country's economic growth.

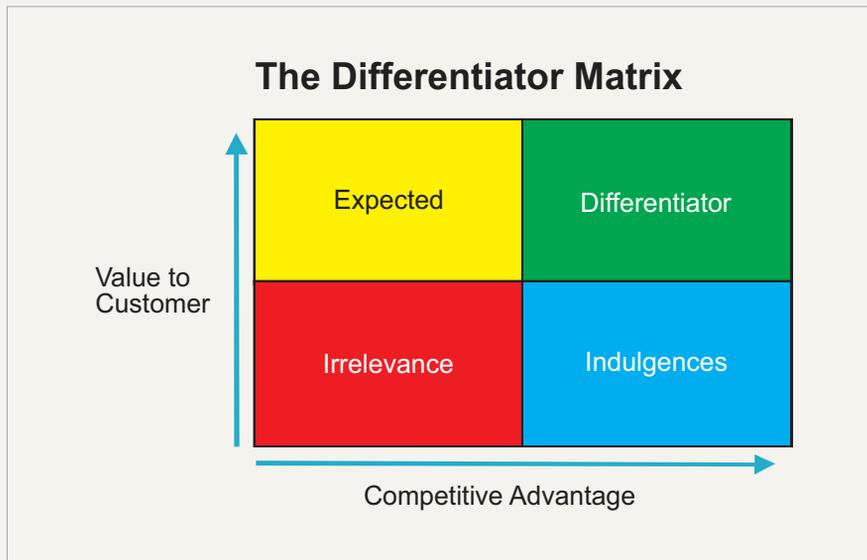
10. Please suggest some measures for budding entrepreneurs to attain success and sustainability.

While working on an idea a person should consider the following

- a. The Pain Point: Is the problem worth solving?
- b. Paint a Picture of Your Customer
- c. What is the Value Proposition
- d. Market Size & Demography
- e. Your Core Competence
- f. Similar or closely similar existing offerings in the market.
- g. Beta Test in a Friendly and Forgiving Group.
- h. How else the problem can be/is being solved?
- i. Research your business idea

- i. Primary Data
- ii. Competitor Analysis
- iii. Assessing the competitive advantage of your idea
- iv. Assessing the market size
- j. Obtaining independent endorsement of the idea
- k. Your core competence in the domain
- l. Look for partner(s)
- m. Assessing capital requirements
- n. How many have failed - why?
- o. A better planned road map is more important than a better plan
- p. Value Proposition

The following diagram will help to understand how to determine the value proposition



Lastly but definitely not the least: Do not start a business to get funded. Start a business to do the business funding will come to you.

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S

mall Enterprises: ISSUES IN DEFINITION, COMPARATIVE DATA AND EFFICIENCY MEASUREMENT

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INTRODUCTION

The small scale sector plays an important role in the Indian economy in terms of its contribution to the nation's production, employment, exports and creation of an entrepreneurial base. It is estimated that in terms of value, small scale sector accounts for about 37 per cent of the manufacturing, employing about 11 million persons in over 48 million units throughout the country (MSME - Annual Report 2014-15). In a developing country like India, where agriculture is the major occupation of the people who are primarily dependent on nature, poverty and unemployment are major challenges. The small business sector, with a potential for addressing development agenda, is of interest to both academics and policy makers, alike.

This paper highlights some issues that challenge researchers in the field of small enterprises in India¹ and includes academic discourse on addressing the issue of

capturing small sector performance through proxy measures. The primary area that may intrigue scholars is the challenges arising in doing a time line study of small enterprises in India. Due to the evolution of definitions, and the changes that have influenced policy and available data, the official empirical records on small business may create ambiguity.

Additionally in search of an efficient small sector, be it state wise or industry group wise, a uniform an acceptable measure of efficiency is difficult to come to a consensus, given the fact that cost accounting measures are not easy to obtain in the present milieu of the small sector. The challenge lies in the identification of cost of production or service of the small businesses. Given the fact the 99 per cent of the small enterprises belong to the unincorporated sector, that have no mandatory cost reporting systems. Thus commonly accepted measures of productivity using cost data are not possible.

DEFINITIONAL CHALLENGES

The definition of small business has undergone various changes over the last 60 years, and the documentation of the country's small sector has not followed any decided pattern. This problem gets augmented by the fact that only four Census has been conducted in the seventy years of independent India. The issue of changing scope of the Census due to the change in the definition is discussed in the next section.

It may be observed that small enterprises are not easily defined on the basis of the nature of the work that workers in the sector are engaged in, because the sector has different types of workers like tribal forest workers, home-based, info-tech, software workers etc. It can also not be based on the number of employees engaged because it covers workers from various fields such as agricultural workers, home-based workers, self-employed workers, craftsmen, workers in weavers' cooperatives.

¹ The small enterprise sector is used in a broad sense in this paper, to include micro, small and medium enterprises as covered by MSMED Act 2006.

In the year 1950 the official definition of SSI was first framed. The primary criterion for identifying a small scale business was in terms of the size of gross investment in fixed assets (i.e. plant and machinery, building, land, etc.) along with labour employed. However the 'historical' value of the investment in plant and machinery as a criterion was severely criticized. One of the reasons is that, often the valuation is based on unverifiable data; and, the other reason is: even when an already registered SSI unit has crossed the prescribed limit of investment in P&M there is no need/intent to re-register it as a medium-or large-scale unit. Nevertheless, not only has the investment criterion continued, but there have been significant leaps in its upper limit, certainly since 1980. (Das, 2008).

The challenge is the issue that draws attention of policy makers and academicians is identifying single or primary and uniform characteristic by which this sector could be defined. But why is it necessary to define small sector? A comprehensive definition of the small scale sector is aimed at making sure that the factors that determine eligibility to be 'small' are aligned with current economic and industry indicators. Standardized definitions are also necessary to avoid divergent statistical figures at the national level for documentation purpose.

The definition of small industries following the investment in fixed assets and labour employment criteria was replaced by the definition based on investments. In 1966, the one and only criteria for such definition was decided to

be investment in plant and machinery. This criterion underwent several changes with the passage of time.

This definition, as offered by the Government of India has evolved from initial investment limit which was: fixed assets of Rs. 5 lakhs in 1950 to its present form as per the MSMED Act, 2006. The term ancillary was introduced in the year 1960 followed by the addition of the term tiny in the SME vocabulary in 1977. In order to give importance to the growing service sector, it was felt imperative to introduce the term SSSE (Small Scale Service Establishment) in 1985. This was revised in 1991 to SSSBES [Small Scale Service and Business (industry related) Enterprise]. There were frequent changes in the maximum limit made in plant and machinery by an enterprise to be qualified as 'small'. These are tabulated in Table 1.

Post 1981, this limit increased to as high as Rs. 30 million in 1997 (with corresponding rise in the investment limit for 'ancillary' units as well). The hiking of the investment limit to Rs. 30 million was suggested by the Abid Hussain Committee Report (Government of India, 1997). But later, this figure had to be lowered to Rs. 10 million. In 1991, Export Oriented Units (EOUs) was introduced under the umbrella of small.

The small scale sector currently as defined by the Micro Small and Medium Enterprises Act 2006 uses investment limits in plant and machinery and equipments as the criteria for defining the small. As per this Act, Micro, Small and Medium

Enterprises, relate to all enterprises engaged in production and rendering of services subject to a higher limit on the investment in plant & machinery (for manufacturing) and equipment (for services).

For manufacturing sector, an enterprise is classified as:

- a. Micro enterprise, if investment in plant and machinery does not exceed Rs 25 lakhs
- b. Small enterprise, if investment in plant and machinery is more than 25 lakhs but does not exceed 5 crore Rs;
- c. Medium enterprise, if investment in plant and machinery is more than 5 Crore Rs but does not exceed 10 crore Rs;

In case, enterprise is engaged in providing or rendering services, it is classified as:

- a. Micro enterprise, if investment in equipment does not exceed Rs 10 lakh
- b. Small enterprise, if investment in equipment is more than 10 lakh rupees but does not exceed 2 crore Rs; or
- c. Medium enterprise, if investment in equipment is more than 2 crore but does not exceed 5 crore rupees.

Table 1: Definitional traversal of the small scale sector (1950 to 2006)

YEAR	CRITERIA: MAX CEILING IN INVESTMENT (RS LAKHS)	ADDITIONAL CONDITION/ CATEGORY (RS LAKHS)
1950	5 (IN FIXED ASSETS)	50/100 PERSONS EMPLOYED WITH/ WITHOUT POWER
1960	5 (IN FIXED ASSETS)	NO CONDITION
1966	7.5 (IN PLANT & MACHINERY)	NO CONDITION
1971	7.5 (IN PLANT & MACHINERY) Ancillary 10	NO CONDITION
1977	10 (IN PLANT & MACHINERY)	TINY UNITS (1 IN P&M)
1980	20 (IN PLANT & MACHINERY)	ANCILLARY UNITS (25 IN P & M) TINY UNITS (2 IN P & M)
1985	35 (IN PLANT & MACHINERY)	ANCILLARY UNITS (45 IN P & M) TINY UNITS (2 IN P & M) SERVICE UNITS (2 IN P & M)
1991	60 (IN PLANT & MACHINERY)	ANCILLARY UNITS (75 IN P & M) TINY UNITS (5 IN P & M) SERVICE UNITS (5 IN P & M)
1997	300 (IN PLANT & MACHINERY)	ANCILLARY UNITS (300 IN P & M) TINY UNITS (25 IN P & M) SERVICE UNITS (5 IN P & M)
1999	100 (IN PLANT & MACHINERY)	ANCILLARY UNITS (100 IN P & M) TINY UNITS (25 IN P & M) SERVICE UNITS (5 IN P & M)
2001	100 (IN PLANT & MACHINERY)	ANCILLARY UNITS (100 IN P & M) TINY UNITS (25 IN P & M) SERVICE UNITS (10 IN P & M)
2006	MANUFACTURING: MICRO: 5 lakh SMALL: 10 CRORE MEDIUM: 25 CRORE	SERVICE: MICRO: 10 lakh SMALL: 5 CRORE MEDIUM: 10 CRORE

Source (1950-1977): SIDBI Report on Small Scale Industries Sector 2000, Small Industries Development Bank of India.
Source (1980-1999): Report on Small-Scale Industries Sector 2000, Small Industries Development Bank of India (SIDBI), Lucknow
Source (2006): Ministry of Micro, Small & Medium Enterprises, 2007

CHALLENGES OF OFFICIAL DATA

The Annual Survey of Industries (ASI) introduced in 1959 under the Collection of statistics Act 1953 had been the main source of data relating to the small scale sector.

Periodical Census is conducted to collect data on units

registered with District Industries Centers. The first two censuses did not include the unregistered units. Unregistered units were brought under the coverage of the census from the Third SSI Census. The First and Second SSI Censuses had enumerated only the registered units. The first one in the year 1973-74 with 1972 as reference years. Thereafter, during 1990-1992 2nd census was conducted with reference year being the

financial year 1987-88, a more focussed picture was seen in the 3rd census which was conducted during 2001-02 which reflect the post globalisation period followed by 4th census in 2006-2007.

In 1973-74 the first census was published on 14 June 1976 with 1972 as the base year. It was reported that only 1.4 lakh units (registered up to 30 Nov 1973) were operational in India this was the first time

through the data collection exercise that the small units were requested to voluntarily supply some data about their business. The coverage of the census was restricted to small units registered with the Small Industries Development Organisation (SIDO) and availing assistance and facilities made available to them. The definition of small scale units in operation during the census was in terms of Capital of Rs 7.5 lakhs or less in original value of plant and machinery and Rs 10 lakhs or less in terms of Ancillary Small scale units. The most important problem as noted in the relation to the Census was the units were registered from the Directorate of Industries which revealed that in many cases these were cumulative totals and did not necessarily reflect working units. The idea of deregistering which were found to be closed and not traceable or non-responding was thus implemented. However another important lacuna was pointed out in the first census which did not cover units that were not under the preview of any statutory Board or committee, namely the handloom and powerloom board, Khadi and village industries, sericulture, coir products, and many others (First Census, Table 2.1, 1976). However it is worthy of mention that one of the important items on which information was collected on the census proforma related to capacity - the maximum output attainable per shift by the unit in manufacture of a product with the machinery installed and average employment provided.

During 1990-92 the second census was conducted with 1987-88 as the reference year. The Second Census included

the small scale industrial undertaking, Ancillary industrial undertaking and tiny enterprises (the term was coined in 1977) and SSSBE Small scale service and Business (Industry related) enterprises. Its importance was accounted for by the fact that this Census was taken up after 15 years of the first and two new terminologies with distinctly separate definitions from the ones covered by the first census. Major strength of the Census has been the GOI objective of creating a planned and scientifically accepted database. The decentralization of the census data base at the district level was operationalised with the engagement of District Industries Centre, State Directorate of Industries and National informatics Centre. The report took into consideration a broad spectrum of industries from the organized large and medium industries to modern SSI to unorganized sector. The Village and Small industries included the modern SSI and the unorganized sector. In addition to SSI, Ancillary units, SSSBE, tiny units this Census included another category EOSSI (export Oriented SSI).

In the 3rd census small scale industrial unit was defined as any undertaking in which investment in fixed assets i.e. in plant and machinery does not exceed Rs. 100 lakhs as on 31st of March 2001. Here investment does not only mean held on ownership terms but also on lease or by hire purchase. Third census was conducted with three main objectives i.e. to update the frame of registered SSI units, identification of sick as well as incipiently sick units and third objective was to cover the

unregistered units through a sample survey.

Besides complete enumeration of registered units and a sample survey conducted of the unregistered units. The most significant contribution of the Third Census in the field of Small scale data generation was the manner in which the sample survey was constructed to study the so far uncaptured area, the Unregistered SSI Sector, simultaneously with the complete enumeration of registered SSI units in such a way that the two data sets become additive and were able to portray an overview of the SSI sector.

Unregistered SSI sector was not surveyed in the first two Censuses. The Unregistered SSI sector comprises all those units which are eligible to be registered, but are not registered because the registration is voluntary. No database is available at present on this sector.

Thus a new dimension was added to the broad spectrum of enterprises termed under the category 'small'.

The Fourth All India MSME Census with reference year 2006-07 documented the registered and unregistered units in the small scale sector on the basis of the definition provided in the MSMED Act, 2006. By registered units this Census includes units registered with the State Directorate or Commissioner of Industries or District Industries Centres (DIC's). The unregistered units are those which fall within the purview of the MSMED Act 2008 but have not been registered.

As a result this sector is now heterogeneous and covers entire non-agriculture segment of National Economy. Implementation of MSMED Act, 2006 brought different components, like the SSI, SSSBE, Village industries,

Coir Units, Cottage industries, ancillary units which were on and off included under various definitions of the small sector under one umbrella of the economy. The unorganized sector was recorded by way of a sample survey. In addition

data from the Economic Census 2005 which was not included in sample survey of the unorganized sector was documented in the fourth census.

Table 2: Coverage of SSI/MSME Censuses

CENSUS	REF YEAR	SCOPE	Applicable Criteria Investment in P&M (Rs lakhs)			
1ST SSI CENSUS	1973-74	REGISTERED UNITS: SSI and Ancilliary	SSI 7.5		ANC 10	
2ND SSI CENSUS	1987-88	REGISTERED UNITS: SSI and Ancilliary	SSI 60	ANC 75	Tiny 5	Service 5
3RD SSI CENSUS	2001-02	REGISTERED & UNREGISTERED UNITS & SSSBE	SSI 100	ANC 100	Tiny 25	Service 10
4TH SSI CENSUS	2006-07	REGISTERED & UNREGISTERED UNITS	Manufacturing Micro: 25 lakh Small: 10 crore Medium: 25 crore		Service Micro: 10lakh Small: 2 crore Medium: 5crore	

Therefore the data available from the four censuses suffer from the several limitations. The units, which satisfied the criteria laid down by the Central Government from time to time in terms of upper ceiling, in original value of plant & machinery (in case of SSIs and ancillary units) and in value of fixed assets (in case of SSSBEs) and chose to be registered at district level were included in the first and second census only. These upper ceiling limits were policy driven and were always made applicable prospectively to new units seeking registration. The new units might not necessarily be newly established units. Some of the already established units might also have sought registration whenever the upper ceiling was enhanced, as they were not eligible earlier. Hence, it is not possible to state that the list of registered SSI units as on any date in the past bore the

same classification in terms of the upper ceilings mentioned above. This posed difficulties in documenting the registered as well as the unregistered SSI sector. Obviously, the definition changed with time. Hence, it may be felt that it has become necessary to fix a reference in terms of time and then prescribe a definition of unregistered SSI sector.

The Unregistered SSI sector was not surveyed earlier than the Third Census. The First and the Second Census of SSI units covered only the registered SSI units. The impact of these structural changes may be reflected in the lack of uniformity in comparative analysis of Fourth with the Third Census in terms of size, employment, exports and gross output.

This detail discussion on the contents of the four census was undertaken to bring out

the challenge before a researcher engaging in a time line study. Not only has definitional changes taken place, but the more alarming situation is the scope of coverage in each of the Census. Even a simplistic study which may consider the disaggregation of the concerned enterprises into SSI and ancillary in the first and second semester seems to be swallowed up and an entirely different category like SSSBE evolved. Then again this SSSBE category remains operational in Second and third census to disappear again in the fourth census. Consequently, the question that poses a challenge to research is that: is the SSSEB same as the MSME in the service division? Similarly a comparative study between SSI and ancillary remains incomplete because in the first and second census the investment in P&M of

ancillary units is greater than the SSI, but it is the same in the third census and does not remain a separate category in the fourth census.

CHALLENGES IN IDENTIFYING EFFICIENT UNITS

As observed the challenge therefore lies in a time line study of small sector. Any inter year or inter category comparative study cannot be meaningfully conducted. Given this backdrop, this paper highlights another challenge that researchers may face. One of the most important areas of study is identification of the efficient sub-part of the small sector. Various studies document that the efficiency of the small sector and its significant contribution to the GDP of the country is accountable to a few regions of the country and a few industrial categories of small units. Which then is the most efficient among an intra sector study in the field of small? How can these efficient units categories/regions be captured? Obviously there are enterprises within the small sector which are more efficient than others. These efficient firms, possibly are the key contributors of the small sector in the economy. Identification of these efficient sections are imperative in improving the small sector and increasing its contribution to the overall progress of the country. Additionally it may be useful to research in-depth into the causal variations that impact efficiency. As received wisdom would substantiate the causal relationships of efficient small units and socio-cultural and geo-political factors is a unique character of

small units. It may not be possible to capture such firm level qualitative factors through large census surveys.

Though using secondary records provided by the census it is possible to calculate, fixed capital and labour productivity, as also total factor productivity by a simplistic measure of output/input. But the official country level or state level data do not provide enough parameters that allow analysis of causal variations in productivity of the small units. It is not surprising because official large scale surveys do not take into account the factors, some economic and some others socio-political that may explain variations in productivity of the small sector among industry groups or even within an industry group, spread over the different states.

One way in which such causal variation in productivity may be diagnosed is with the help of smaller more in-depth studies on sampled small enterprises. It would be possible to identify efficient firms in a region/industry group in a smaller survey. But then again the question that arises is that: are the small enterprises in India equipped to provide the researcher with data on cost and financial accounting? The very small portion of small sector being incorporated units; almost 90 per cent of the units do not have mandatory requirements of maintain accounts. It would have been possible to identify efficient firms in the survey if the net operating loss or profit figures and the capital invested would be obtainable. But most of these unincorporated small units do not find maintenance of accounts viable in their cost

benefit exercise.

In an attempt to locate efficient units, a study of productivity with simplistic measures may be suggested. On the basis of available information one can perform an exercise on productivity of an enterprise by defining productivity as output per unit of input, which in fact is average production. Given that productivity is generally defined as a measure of outputs divided by inputs where as effectiveness is measurement of productivity with lower wastage, lesser use of time and doing right things. A production function, by definition, gives the maximum possible output that can be produced from given combination of inputs with a given level of technology. Production is said to be efficient if there is no way to produce more output with the same inputs or to produce the same output with less inputs.

With an idea that higher the level of average productivity, lower is the level of cost. The measure of productivity may serve as a good proxy to cost, especially in cases where the small units are unable to provide sound cost data. We argue that a proxy indicator to efficiency could be utilization of installed capacity. A firm which is better placed in the market will use a higher percentage of its installed capacity than any other average performing firm. As a firm uses higher percentage of installed capacity it gets an advantage in terms of cost. When installed capacity is utilized to its fullest the fixed costs are distributed to the largest number of possible units that can be produced and fixed cost per unit will be lowest.

The index of capacity utilization can therefore serve as good proxy to the efficiency of a firm.

One limitation of this logic may be based on the text book assumption that with a higher level of capacity utilization the variable cost component may increase, following the law of variable proportions. In such a case though fixed cost per unit decreases the total cost per unit rises. In support of the argument that utilization of installed capacity is an acceptable proxy to cost efficiency, it may be said that a firm which attempts to maximize its sales may also try to utilize its maximum possible production and hence sale, even if it does not mean staying at the lowest point in the total cost curve. A rational firm will utilize its capacity to the highest possible level so that it matches the sales maximization behaviour, or satisfying behaviour. Therefore it may be inferred that capacity utilization may be a very important parameter to be gathered from a survey of small firms that will enable researchers to identify cost efficient unit, in spite of the fact that the small units are mostly non reporters of their cost figures. Capacity utilization is another important parameter. As more and more of the installed capacity are used the fixed cost per unit of production is reduced. Variable cost, total cost and average cost declines and reaches an optimum, which is the level of optimum efficiency of a firm. Capacity utilization has been considered as the proxy to the measure of efficiency of a firm.

We suggest that percentage of capacity utilization can be an important indicator of

efficiency. Nonetheless, none of the census has given much emphasis on capacity utilization. Only the first census makes a brief mention of this measure.

SUMMARY

This paper throws light on the issue of definition of small scale businesses in India. The evolution of the definition has been traced to note that the current definitions prescribed by the MSMED Act 2006 is a comprehensive approach and captures the essence of the heterogeneity in the small scale sector. The definitional changes have been so pointed out that a researcher who may address these issues will be more certain of a timeline study without misleading inferences.

At the same time, the census conducted on small scale sector in India has not been at regular intervals as the general census. Also the scope and coverage of the census has changed dramatically. Therefore this paper identifies these limitations that may enable a scholar in this field to diagnose the small sector in this backdrop.

Alongside, one of the major challenges in the study of performance of the small sector units is the unavailability of regular, uniform and comparable data. To compound this problem, another factor plays a constraint in performance assessment of the small sector: absence of regular and mandatory input-output data in acceptable nomenclature and format. Given that most of the small units are unincorporated firms, the accounting or cost

data are almost unavailable. So this paper suggests that in such circumstances the performance efficiency of the small firms may be measured using a proxy 'capacity utilization'. The paper provides the economic logic of the firm being most efficient when it uses its capacity to its fullest. This understanding may be used by researchers for further studies in identification of efficient small units inter sector and/or intra sector. This may go a long way in intervention design and policy prescription that may induce the GOI policy to gather data on capacity utilization. While the planning for the field based survey for the fifth census is ongoing, it may be felt timely and appropriate to advocate for the collection of data on capacity utilized by an enterprise as an item in the fifth census.

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BE INNOVATIVE BE COST COMPETITIVE

COST-COMPETITIVE CLEAN ENERGY THROUGH GLOBAL COLLABORATION

Objectives:

- Cost-competitive clean energy
- Huge economic opportunity for countries enthusiastic to work together strategically on developing new innovations and deploying existing low carbon technologies
- Reduce Global Warming
- Mitigation of global risk

Backdrop:

The world can save an estimated US\$550 billion on the cost of deploying clean energy technologies over the next decade, putting them on a path to cost competitiveness, if countries work together to accelerate innovation by unlocking global collaboration. This is one of the key findings of the report: *United Innovations: cost-competitive clean energy through global collaboration, published by the Carbon Trust, with funding from the UK Foreign and Commonwealth Office Prosperity Fund*. While most of the technologies needed to complete the transition to a low carbon energy system already exist, their costs need to be reduced further and their deployment accelerated to have any chance of meeting 2050 climate change targets. Global collaboration can help on both fronts, but it has proven extremely difficult to generate real momentum for action. The right stakeholders need to be around the table and align priorities and incentives in a way that maximizes mutual benefits and minimizes risks.

Suggestive propositions by CMAs:

- *To surmount the infrastructural bottlenecks, the CMAs can instigate apt strategies to systematize the infrastructure more effectively, balance the public-private interest, benchmark governance methodologies, technology, check allocation and apportionment of funds, carry out Risk Mapping and proper designing of the projects to extract maximum benefit from collaboration.*
- *CMAs can facilitate the management by applying Social Cost Benefit Analysis for apposite planning, decision-making, evaluation and control project costing to determine the profitability in addition to the feasibility of the project.*
- *The CMAs can apply cost management techniques and measures for informed decision making. They can apply strategic cost accounting systems to evaluate the 'whole-of-life' costs in terms of carbon emissions relating to products and services.*
- *Sustainability accounting provides a significant tool to identify, evaluate and deal with social and environmental risks by identifying resource efficiency and cost savings and link improvement in social and environmental issues with financial opportunities. It also allows comparison and benchmarking of performance as well as identification of best practices. Thus, professionals like CMAs have huge practical opportunities in this domain to enhance socio-economic sustainability of the nation.*
- *Green Auditing and Reporting also widely used across nations for disclosure of environment related data, audited or not, on environmental risks, environmental impacts policies, costs and liabilities. The Cost & Management Accountants (CMAs) can apply certain tools and techniques for quantification and monetization of externalities and full environmental cost accounting for effective and fair reporting like Life-Cycle Assessment, Hierarchical Cost Analysis, Activity-Based Costing, Balanced Score Card, etc.*

BE INNOVATIVE BE COST COMPETITIVE

ACHIEVING COMPETITIVENESS IN MEDICAL AND WELLNESS TOURISM OF INDIA

Backdrop:

The Indian tourism and hospitality industry has emerged as one of the key drivers of growth among the services sector in India. Tourism in India has significant potential considering the rich cultural and historical heritage, variety in ecology, terrains and places of natural beauty spread across the country. Tourism is also a potentially large employment generator besides being a significant source of foreign exchange for the country. Over the years, India has grown to become a top-notch destination for medical value travel because it scores high over a range of factors that determines the overall quality of care. From quality of therapy, range of procedural and treatment options, infrastructure and skilled manpower to perform any medical procedure with zero waiting time, the list of benefits of travelling for medical treatment in India are many.

Suggestive propositions by CMAs:

- *CMAs can apply Product Lifecycle Management (PLM) approach, which is a business transformation approach to manage products and related information across the enterprise. It can help to enable Indian Health sector to play a leading role in the global market and to ensure abundant availability of quality goods at reasonable prices within the country.*
- *The manufacturing and use of a drug product, including its components, necessarily entail some degree of risk. Thus, CMAs can apply Business Process Management (BPM) technique to assist the management of pharmaceutical companies to reduce market risks, compliance risks, risks associated with R&D activities, simplifying clinical trials processes, minimizing errors, improving communication and helping to facilitate a collaborative research environment.*
- *CMAs can apply Balanced Scorecard approach to identify the key performance indicators in different perspectives of the performance scorecard and support the management to assess the performance. The balanced scorecard facilitates organizations to elucidate their vision and strategy and translate them into action. It provides feedback around both the internal business processes and external outcomes in order to continuously improve strategic performance and results.*
- *In this increasingly complex global marketplace, manufacturers must use segmentation analysis, health outcomes research, parallel trade evaluation and demand analysis to frame a consistent pricing strategy for pharmaceutical companies. Thus CMAs by applying Benchmarking method in this regard can assist management to frame suitable pricing strategy by analyzing and comparing with other market leaders. Benchmarking helps to determine whether the company is performing particular functions and activities efficiently, whether its costs are in line with those of competitors, and whether its internal activities and business processes need improvement or not.*

Objectives:

- Provide service at reasonable cost
- Advanced global healthcare services
- Quality service

BE INNOVATIVE BE COST COMPETITIVE

COST MANAGEMENT TECHNIQUES TO MAKE FOOD & BEVERAGES INDUSTRY MORE COMPETITIVE

Objectives:

- Cost Competitiveness
- Market Differentiation
- Long-term Growth
- Business Sustainability

Backdrop:

The food and beverages industry is increasingly discovering multimillion dollar opportunities in growth markets in Asia Pacific and Latin America. Manufacturers in the food and beverages industry typically operate on low profit margins and high volume sales are thus an imperative to profitability. This is where the role of densely-populated emerging economies such as India, Brazil, Russia, and China comes into play. Low profit margins continue to remain a challenge for companies in the food and beverages industry but a stringent regulatory environment will also induce companies to realign their operations to some extent. The food and beverages industry is also increasingly feeling the need to be more responsive to food security concerns.

Suggestive propositions by CMAs:

- *The CMAs can apply Total Quality Management (TQM) program to eliminate defects and waste, which reduces production costs in a business. As teams gather to identify and eliminate weaknesses in the business, the company continues to enjoy reduced costs and higher profit. Quality improvement teams can eliminate defects, reduce lead time and identify redundancies in the production process that can significantly add to the profit the company earns. TQM also brings Customer satisfaction. It increases organizational performance and is focused on building a culture where all staff feels comfortable in identifying failings and suggesting opportunities.*
- *The CMAs can apply the balanced scorecard method technique for effective Performance management. Using balanced scorecards, allows stakeholders to determine the of short, medium, and long term objectives at a glance.*
- *The CMAs are competent enough to implement Performance benchmarking to analyze a company's efficiency in comparison to its competitors by identifying the most efficient companies and ranking the remaining companies referring to the efficient ones. This is indispensable technique for companies to promote their improvement and stay competitive.*
- *The CMAs can frame effective Supply Chain Management Strategy to ensure increased efficiency and productivity and also improve the company's competitive advantage and customer satisfaction. Maintaining a strategic supply chain management will also ascertain collection of market intelligence and cost reduction.*
- *For enhanced food security, CMAs can also apply Six Sigma approach. Six Sigma quality assurance approach and methods have definitely set a benchmark for excellence. It is done by simply raising the standards of quality through implementation of a methodical quality management approach.*

BE INNOVATIVE BE COST COMPETITIVE

PROMOTING BIO-FERTILIZER MARKET THROUGH COST COMPETITIVENESS

Backdrop:

In the present era of globalization, when on one side life style related diseases are growing, demand for organic food is also gaining importance. This has encouraged the farmers to use an organic fertilizer which is one of the main reasons for the rapid growth of bio-fertilizer market recently. As the demand for the organic food is increasing, the global bio-fertilizer market is also expected to grow at an impressive compounded annual growth rate. Prolonged negative effects of chemical fertilizers are also one of the primary reasons behind the growth and demand for bio-fertilizers. Nitrogen-fixing bio-fertilizer is acquiring the largest segment of the market, which, however, is small as compared to chemical bio-fertilizers market but with the growing acceptance and demand, this is expected to improve its market share and market growth soon.

Suggestive propositions by CMAs:

- *Cost and Management Accounting furnishes all the costs related to production of fertilizer such as the cost of converting, the raw materials, the manufacturing overhead, the manufacturing cost in bulk, the factory cost of the product packed or otherwise prepared for shipment, and the selling cost. Therefore, Cost and Management Accounting can be used to the benefit of management, Board, consumers and shareholders by:*
 - ⊙ *Helping to drive down costs by detecting wastage and inefficiencies.*
 - ⊙ *Helping the company management to improve its performance, productivity, competitiveness and governance mechanism.*
 - ⊙ *Helping in maximum utilization of resources.*
- *CMAs in these regard can frame suitable strategies and help in Resource Mapping for efficient utilization of resources and can keep track of allocation and apportionment of resources.*
- *To maintain fair and transparency, timely disclosure of all details that may hold relevance to stakeholders are mandatory. As an internal auditor, CMAs also play a crucial role in sustainability reporting by assisting the management to prepare an effective sustainability report that gives information about economic, environmental, social and governance performance.*
- *Government has introduced to offer benefits to the industries based on value addition and only the Cost Accounting Record Rules can provide proper information regarding value addition. Therefore, by using this information government can easily calculate the value addition in deciding the subsidy to the organic chemical and fertilizer industries.*

Objectives:

- Cost control & cost reduction
- Improve market share and market growth
- Reduce environmental degradation



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