



Problems and Solutions to the Cost Control of Small and Medium-Sized Enterprises

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Abstract

Recent years, many small and medium-sized enterprises has been growing rapidly. They are playing a more and more important role during the process of economic development. China's small and medium-sized enterprises with diversified products and flexible market response effectively promoted the development of social economy. Though the characteristics of small and medium-sized enterprises have brought opportunities for its development, they also have defects. On the one hand, they are inferior to those large enterprises in many aspects such as :human resources, financial resources and material resources. On the other hand, small and medium-sized enterprises exist many problems in the cost control field too. In this article, we take the cost control of small and medium-sized enterprises as the research object and try our best to clarify the causes of the problems of cost control in small and medium-sized enterprises with some cost management methods. We will try to find some solutions in order to provide effective help for small and medium sized enterprises in china.

Keywords: small and medium-sized enterprises; cost control; solutions

1. Introduction

In recent years, Chinese domestic industry is faced with adjustment and upgrading of industrial structure. Small and medium-sized enterprises, which account for a large number of Chinese enterprises, play a vital role in promoting the steady and healthy development of national economy. It is an indispensable force for Chinese economic development. But for a long time, the rapid development of small and medium-sized enterprises in China is at the cost of consuming a lot of resources. This results in high cost and low profit of production. It shows that there are many problems in the cost management and cost control of small and medium-sized enterprises in China.

The exploration of the cost control of small and medium-sized enterprises and the formulation of countermeasures are in line with the characteristics of the present time. The world economy has entered the era of globalization. Global competition is becoming increasingly fierce. Social resources become less and less. The cost of raw materials is also rising. Cost plays a more and more important role in the small and medium-sized enterprises' survival of the fittest market rule and has become an important weapon to obtain competitive advantages. Small and medium-sized enterprises must pay attention to the cost control and find out the existed problems, then they should seek countermeasures actively, so that they can develop well in the fierce market competition.

At the same time, during the process of solving the problems about cost control, the small and medium-sized

enterprises are bound to carry out the improvement of cost management. On the one hand, it can meet the needs of the normal operation of small and medium-sized enterprises and decrease resources consumption, so that the production and business operation activities can be carried out normally; meantime, it can also increase the profits of enterprises, improve the economic efficiency of enterprises while it curbs the waste of resources; on the other hand, through the innovation of cost management, the level of cost of enterprises' product or service can be reduced. This will contribute to getting more price advantage than similar products or services, and improve the market competitiveness of enterprises, so small and medium-sized enterprises will take the lasting competitive advantage.

2.The status and problems of cost control in small and medium-sized enterprises

2.1. The concept of cost control for small and medium-sized enterprises

Cost control is a kind of management behavior that the cost control subjects within their powers and before production consumption and in the process of cost control take a series of prevention and control measures to ensure the implementation of cost management objectives in accordance with established target cost management in accordance with established enterprises' target cost management. It includes a series of department activities such as cost accounting, cost analysis, cost decision and so on, so as to control the cost level better. It is a kind of activity that fully mobilizes and organizes all the personnel of a company to ensure the quality of products, and scientifically and rationally manage all aspects of the production and operation process, and strive to achieve maximum production results with the least production cost.

Cost control is an important aspect of enterprise production and management under the modern enterprise system. From the point of enterprise's overall situation and according to the enterprise's overall development strategy, it runs through the cost information throughout the whole cycle of strategic management. This measure that combines the internal structure and external environment of enterprises can contribute to a comprehensive understanding of the cost structure and cost behavior of the company, so that it can acquire a long-term competitive advantage.

2.2. The current situation of cost control in small and medium-sized enterprises

Nowadays, the external environment of small and medium-sized enterprises in China becomes increasingly relaxed, and the government's support for small and medium-sized enterprises also increases. However, small and medium-sized enterprises need to actively develop cost management activities if they want to improve their economic performance. But the truth is that the current situation of cost control and management of many small and medium-sized enterprises is worrying, and many problems exist. At the same time, the manager also has many misunderstandings on how to control the cost. Compared with large-sized enterprises, the level of cost control and management of small and medium-sized enterprises in China is still quite backward. The most obvious manifestation is that many such enterprises still adopt the traditional cost management mode. At present, the problem of Chinese small and medium-sized enterprises' cost management is the narrow scope of cost management, the unsound management system, the loose cost management system, the backward cost management methods, insufficient investment in technological innovation, the weak market, one-sided pursuit of scale effect, wrong cost driver judgement, the lack of cost management personnel, low internal staff enthusiasm and so on.

2.3. The problems of cost control in small and medium-sized enterprises

At present, Chinese small and medium-sized enterprises are very weak in cost management and control. There are many problems in the process of cost management. These problems will have a negative impact on the survival and development of such kind of enterprises.

2.3.1.The concept of cost control and management is backward and lack the correlative innovation.

At present, most small and medium-sized enterprises still remain in the traditional cost control concept. They only focus on the cost control that is in the production process by reducing labor costs and material costs, and ignore the cost

control of research, development, supply and marketing that before production. In addition, many small and medium-sized enterprises consider the cost problems that are limited to an isolated accounting period. At the same time, because the short-term benefits are effective, managers often neglect the long-term interests which makes the concept of cost control difficult to update and progress. What's more, most small and medium-sized enterprises in China do not pay much attention to technological innovation to promote enterprise development due to their scale. Instead, they save costs through cheap labor force which has been more and more difficult to achieve the goal of decreasing costs in today's China. According to relative data, if the enterprise's research investment is less than 1% of the enterprise's turnover, it will be difficult for the enterprise to survive. Only more than 5%, the total business will be able to get strong competitiveness. It can be seen that technological innovation plays a vital role for an enterprise to gain market competitiveness and maintain the healthy development of the enterprise.

2.3.2.The cost control system is loose and not sound.

Although many small and medium-sized enterprises have set some simple framework of cost control, but still lack the corresponding system to assist, the actual effect is not obvious. At the same time, some small and medium-sized enterprises have not yet established a strict management system which makes the enterprises' cost management out of control and leads to the continuous expansion of the enterprises' cost. In addition, some other enterprises have not implemented the cost control in the whole process until now, but only focus on afterwards control, so the goal of enterprise cost control can not be effectively achieved. Besides, there are still some enterprises that do not pay attention to cost control because of their simple product structure, fewer processes and shorter production cycle.

2.3.3.The means and methods of cost control are relatively backward, and the degree of information is relatively low.

At present, most small and medium-sized enterprises still implement the traditional cost management method. They only attach importance to the control of manufacturing links, but neglect the cost control in the areas that are not related with production. They rarely analysis the changes of the external environment and lack strategic consideration for cost management. At the same time, the cost control of some enterprises belong to afterwards control which means they ignore the advance control of cost management. The small and medium-sized enterprises also lack normative and institutional rules in terms of cost forecast and decision. They also lack scientific rigor in the formulation of cost plan which leads these enterprises to be weak in the aspects of advance control and intermediate control. In addition, although many small and medium-sized enterprises have implemented the accounting computerization, but most of them use this instrument for entry accounting vouchers, registration books and accounting statements instead of accounting control, accounting analysis, accounting, forecasting and decision-making. So this kind of accounting is difficult to help the enterprise with cost management.

2.3.4.The consciousness of cost control management is weak.

There are many factors that lead to the low cost management consciousness of the small and medium-sized enterprises, one of which is that the management of the enterprise does not pay enough attention to the cost control. Because of their blind attention to profit, it makes them lack sufficient knowledge of cost management, and is also not familiar with the methods and means about cost control. At the same time, they also ignore staff's pre job training, follow-up training, and training prior to shift of posts, thereby it also affects the implementation of cost control. Secondly, in addition to the factor related to the management level, the employees' awareness of cost control is not strong enough. Many employees believe the costs and benefits of nothing to do with their own. They have little influence on the overall situation of enterprises. The management and financial departments are responsible for that. So these employees neglect to improve their own quality and they are not interested in participating in cost management.

2.3.5.The objectives of cost management are limited.

In China, small and medium-sized enterprises generally take the cost reduction as the goal of their cost management. Many small and medium-sized enterprises regard reducing consumption and saving expenses as the basic means of reducing cost, and simply understand cost management as reducing cost. In the view of the utility of cost, most

enterprises are mostly in the short term. They ignore the long-term perspective, and therefore do not pay attention to the investment in scientific research for their products. But increasing investment in scientific research often makes enterprises get greater benefits and is of great help for them to gain more advantages in the fierce market competition. Today, with the rapid development of science and technology, the cost of raw materials and labor has risen significantly. Most small and medium-sized enterprises are engaged in the manufacture of commodities. If they still rely on low cost to gain competitive advantage, it is difficult to maintain their own survival and development.

2.3.6. Small and medium-sized enterprises lack the market concept of cost control.

Many small and medium-sized enterprises classify the cost and calculate the product cost according to the cost habit. By increasing the output, the fixed cost of unit product is reduced. With this method, the profits of enterprises will also increase, even if the sales volume remains unchanged. But this kind of practice is easy to cause the enterprise to ignore the market demand and expand the output blindly. If these output can be digested by the market, there is no doubt that the profit of the enterprise increases. But if the market can not fully digest these products, it will inevitably lead to the increase of inventory, which will increase the storage cost of products and the depreciation of inventory. If we sell some products through promotional means, it will inevitably lead to an increase in the cost of marketing. The cause of the above phenomenon is that enterprises do not combine production with market demand, which leads to mistakes in management decisions.

2.3.7. Small and medium-sized enterprises lack professionals that are good at cost control and cost management.

There are many reasons about problems about management professionals. For example, first, personnel allocation is not reasonable, so it can not make the best use of these talents; at the same time, due to the fierce market competition, enterprises did not take effective measures to keep people, leading to brain drain in serious condition; in addition, many enterprises are not able to fully mobilize the enthusiasm and consciousness of employees to participate in cost management. At the same time, most of the small and medium-sized enterprises in China do not employ special cost control personnel. In addition, due to the small scale and few managers, the leaders of some small and medium-sized enterprises control and manage cost by themselves. Influenced by traditional culture, many leaders of small and medium-sized enterprises choose their children or relatives and friends to manage cost. Even some leaders assign cost control to people who have little knowledge of cost management, which leads the cost control of these enterprises to lack professional planning. Although some small and medium-sized enterprises assign financial workers to manage cost, but they still use the traditional cost control system, which leads these enterprises to lack advanced and applicable cost control process. So their cost management can not keep pace with the times. In addition, the personnel who carry on the cost control do not pay attention to the improvement of their own professional qualities, which makes them know little about advanced knowledge and ideas of cost control. Although some small and medium-sized enterprises employ personnel who are expert on cost management, but they do not allocate them to the appropriate positions. In spite of this, they neglect professional training to such personnel, so these people can not make the most of themselves. All of these make the enterprises cost control can not operate effectively.

3. Reasons for problems of the small and medium-sized enterprises' cost control

Compared with foreign enterprises, Chinese small and medium-sized enterprises are less competitive and less profitable, and the problems of cost control is more restrictive to the development of these enterprises. A variety of factors result in the problems of cost control in China, and the following are the reasons.

3.1. The cost management of small and medium-sized enterprises in China has not yet adapted to the external economic environment.

The conversion of cost management of small and medium-sized enterprises in China has not been completely completed. Not all kinds of cheap products sell very well, with the development of economy, people's living standard is more and more high, consumers prefer products that are multifunctional and high-quality, so the cost control can not

simply rely on lowering price of raw material, or rely on lowering the quality of the products, but should take consumers' true demand into consideration .

3.2. Scale effect is also one of the reasons for small and medium-sized enterprises to ignore cost control management.

On the one hand, due to the scale of small and medium-sized enterprises and the relatively inadequate funds, owners of small and medium-sized enterprises are unwilling to spend high cost to hire experienced cost managers. On the other hand, these owners may think that they just need little cost management because of their small size.

3.3. The model of cost control of small and medium-sized enterprises may not be perfect.

The existence of this problem makes the enterprise ineffective in the implementation of cost control. Because of the size of small and medium-sized enterprises and other reasons, many small and medium-sized enterprises' managers are also difficult to choose the useful cost control methods for their own enterprises. In many small and medium-sized enterprises, their carrying cost is not sound. They set up the general ledger account. However they do not set up subsidiary accounts, or reflect only the quantity without the amount. All these problems result in the ineffective implementation of small and medium-sized enterprises' cost management.

3.4. Theoretical research on cost control is in the lag phase.

In China, some small and medium-sized enterprises' leaders also realize that there are some problems in their cost control system. Therefore, efforts have been made to try to make use of advanced cost control methods. But the reality is that the theory of cost control often lags behind. Many methods of cost control are only suitable for certain enterprises. The commonalities between different methods are not summarized, so they fail to form effective cost control system.

3.5. In China, many managers of small and medium-sized enterprises lack the consciousness of saving resources, and ignore the content of economy in shaping its own culture.

The structure of small and medium-sized enterprises is relatively simple. There are a variety of defects in their systems. They do not pay attention to cultivating their employee's sense of belonging to the enterprise. In the eyes of many employees, they have nothing to do with the property of the enterprise, and thus they do not have to protect the enterprise's property and save cost for the enterprise. They even take the enterprise property as its own, which results in bad phenomenon that employee occupy enterprises' resources. This leads to the large loss of enterprise's resources , and the enterprise's ability of cost control is very weak.

4. The solution to the problems of small and medium-sized enterprises' cost control

To do a good job of cost control is an important topic for the survival and development of small and medium-sized enterprises in China. The following are some solutions to the problems that exist in the cost control of small and medium-sized enterprises.

4.1. Set up the overall concept of cost control, establish and improve the cost control system.

Enterprises should not only pay attention to their own situations, but also integrate with external environment and market goals. They should take micro and macro environment into consideration, and establish a sound cost control system. Enterprises should carry out cost control and management based on the overall situation, and carry out comprehensive investigation and research on the object, content and methods of cost control. At the same time, these enterprises should make the corresponding cost planning according to their relevant content in the cost decision, so that the cost level can be better under control. In the process of the establishment of cost control system, these enterprises should integrate cost control with the organization, they also should identify the responsible person and the related department of cost control and should specify the relationship between who charge with cost control and the rights and responsibilities of these authority staff, so that all the relevant departments and staff can have a clear idea of their own responsibilities in the cost control and management system.

4.2. Strengthen the construction of systems related with cost control.

As old saying goes, "Nothing can be accomplished without norms or standards". Without corresponding norms that

are about cost control, it will be difficult for small and medium-sized enterprises to carry out cost control effectively. Enterprises should take a comprehensive look at the current cost management system, modify the cost control system which does not meet the cost control requirements and lag behind, and supplement the contents which are not clear and explain norms that are too simple to understand. They also should constantly improve the regulations concerning cost control and management. First of all, they should strengthen the construction of cost budget system, which can make the enterprise's cost budget on the right track. This can point out the goal for the cost management during the enterprise's budget period. In this way, cost control has a more practical and direct basis; what's more, cost budget can mobilize and organize all the staff to control the cost very carefully. At the same time, enterprises can make more effective use of manpower, materials and financial resources to improve management and obtain better economic benefits with minimal labor cost. In addition, the cost budget can also be used as the evaluation standard for the business performance of the enterprise. For inventory, enterprises should establish a complete set of management system which includes the procurement, acceptance, storage and balance. In addition, salaries also occupy a large proportion in the cost accounting of small and medium-sized enterprises. Therefore, enterprises should also do well in salary management, and design a scientific salary system. Apart from that, the enterprise should improve the control system of cost expenditure and strengthen internal cost management. Of course, enterprises should also strengthen the cost management system such as accounts receivable, period cost budget and so on. With the construction of the cost management system, the enterprise's cost level can be under effective control, and the cost and benefit will be greatly improved.

4.3. Change the traditional concept of cost control and set up a sense of innovation.

Nowadays, with the increasingly fierce market competition, small and medium-sized enterprises must constantly improve their learning ability and establish their sense of innovation so as to achieve competitive advantage in the market competition if they want to achieve rapid development. Innovation is a process of conceptualization characterized by new thinking, new inventions and new descriptions. It is the unique ability of human cognition and practice, and it is the advanced manifestation of human subjective initiative. The technological innovation of the enterprise will promote the management innovation effectively. With technological innovation, enterprises can continuously improve the production process. It not only can improve the product quality and performance, so that the enterprise's products are more in line with consumer demand, but also can promote the transformation of enterprise's economic development mode, innovation of cost management and gain more effective ways to reduce cost. To a large number of small and medium-sized enterprises, innovation is an inexhaustible driving force to promote its continuous progress and development. If an enterprise wants to stand in an invincible position in the fierce market competition, it must rely on innovation.

4.4. Carry out comprehensive cost management by drawing lessons from the relevant experience at home and abroad and adopting the advanced methods of cost control and management.

Total cost management refers to some kind of management system, mechanism and behavior that is used to implement the whole process, generality, dynamics and multidimensional cost control for enterprise's management activities according to the law of modern enterprise cost movement and with application of the basic principle and method system of cost management and on the main purpose to optimize the cost investment, improve the cost structure and avoid the cost risk. The so-called "comprehensive management" includes three aspects, generally speaking is "all-round management, all-labour management and all-process management". If a company carries out the total cost management, it will not only manage the cost in the production process, but also include the cost of research, trial, sale and after sale service. This cost management method runs through the whole process of enterprise's production and operation. From aspect of the content of total cost management, it includes not only production cost, but also design and development cost, financing cost, purchase cost, sales cost, management expenses, financial expenses, cost of human resources and so on. If the the enterprisereimplements total cost management, it is easy for this enterprise to break out the traditional cost management mode that only focus on short-term interests of the enterprise. So it will facilitate the enterprise to make better price decision. And it also can effectively reduce the enterprise's cost and make the enterprise to

obtain the continuous development in the increasingly fierce competition.

5.Summary and Prospect

With the development of economy, small and medium-sized enterprises have strongly promoted the development of Chinese national economy with their diversified products and flexible market reaction.

Though small and medium-sized enterprises lag behind large enterprises in the aspects of human resource, materials and capital, its flexibility and diversity ensure its own development opportunities and space. Nowadays, the small and medium-sized enterprises are faced with many problems, for example: the poor ability to resist the risk; lack of funds; the weak financing ability; the high cost; the arduous task to improve the economic benefit and so on. This paper focuses on the problems existing in the cost control of small and medium-sized enterprises.

In recent years, small and medium-sized enterprises in China play a more and more important role in national economic development, but at the same time, the market competition that small and medium-sized enterprises are faced with is increasingly fierce. If small and medium-sized enterprises want to survive in the fierce competition and develop better, they need to change the view on the traditional cost. They also should pay attention to research and practice on theories related to cost control and management. In order to keep up with the rapid development of today's economy, small and medium-sized enterprises should constantly improve their business strategies according to the changes of market environment and the internal requirements of their own development, of which cost control is the most fundamental and important. Chinese small and medium-sized enterprises need to learn and study new theory of cost control, update the modern concept of cost management and learn from the successful experience of other enterprises' and other countries' to search for new ideas of cost control in favor of self development. Though that, they can constantly improve their competitiveness in the market and seize opportunities. So not only is it invincible in the domestic fierce competition, but also can participate in the wider international market, in which it blooms its own unique brilliance.

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