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RESEARCH ARTICLE

EVALUATING THE RELEVANCE (IMPORTANCE) OF STRATEGY IN CONTROLLING BUSINESS OPERATION COSTS

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ABSTRACT

Operations and project cost overrun is one of the many challenges faced by businesses in this current global market. The effects of cost overrun are numerous ranging from loss of profit, threat to business competitiveness and survival and many others. Therefore, the need a strategy that incorporates cost control cannot be over emphasized. This article discusses the different cost control techniques that can be employed when drawing a business strategy. Expert judgements from professionals in the oil and gas industry was gathered using a semi structured interview technique for the purposes of analysis for this structure. The findings revealed that one cost control method cannot be used to manage project cost overrun and hence integration of several cost control techniques relevant to a business is the way forward.

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INTRODUCTION

Controlling the cost of projects and operations has become pivotal in the development of business strategy. The inability of business to effectively manage its project and operation cost do not only result in loss in profit but can threaten the survival of a business (Thomas and Kent 2009). It was suggested that for cost to be controlled, it needs to be embedded in the strategy employed by any business (Weimer cited in Gopal 2009). This study therefore seeks to examine the relevance of strategy in cost control. To find accurate results for this hypothesis, understanding the key terms involved, such as strategy, cost controls and operation is important. Business operations are where a set of conditions in business environment is conducted (Weimer cited in Gopal 2009). The operations are affected by the business environment which is externally the things that affects the organisation and the operations of a business (Wheeler 1968 cited in Marketing Management 2018). A strategy is the formation of a unique and respected position, that encompasses a set of activities serving different needs (Porter 1996 cited in Harvard Business Review 2011). Additionally, an extension for the term 'strategy' is the definition of a 'competitive strategy' which leads onto not only performing business activities adequately but performing business operations profitably. Porter (1996) defines a 'competitive strategy' as being able to 'be different from others, by purposely selecting an alternative set of activities to distribute a unique set of values'. A case study that shows the use of 'Competitive strategy' and succeeded from it, is Southwest airlines in that the company differentiated itself with its activities (Thomas and Kent 2009).

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MATRIALS AND METHODS

The study adopted the case study approach as a method by critically examining the elements of cost control and strategies used by three companies in the Highway Industry, constructing and oil and Gas in the United Kingdom. Company reports, and operation highlights were reviewed and analysed for the purposes of this study. This method was deemed appropriate as it gives a real-life context to the contemporary challenge of cost overrun by offering practical evidences to the issue been discussed (Hartley 2004).

RESULTS

Findings from the cases studied revealed that cost control incorporates four aspects or features of project work that are of prime concerns for the project manager and team members. It involves directing progress, directing actions, controlling results and conserving resources (Taylor 2008).

Table 1. Four main elements for cost control (adapted from Taylor 2008)

4 cost control aspects	Description
Directing progress	Involves direction of progression, specifically regarding the impact of costs, schedules and scope. All impacted areas are dependent on each aspect.
Directing actions	Taking the concrete action to reduce variances among planned and actual progress of the project.
Controlling results	Consciousness of any actions taken must involves a tactic or a strategy to control the whole project.
Conserving resources	Optimising resources available in the company to run and operate a project adequately.

Table 1 shows several aspects of cost controls. However, there are many different theories and frameworks to widen the perspectives of cost control generally and be able to have more materials and results to then conclude on, such as the 'agency theory' which suggest the consideration for agency cost control mechanism that is necessary for businesses to cope (Poutziouris, Smyrnios and Klein 2008). Gupta (2009) argued it is not enough to consider cost control as an "element" of a business but should be built in business strategies. Therefore, strategic cost management is essential in today's generation if operational costs are to be controlled (Gupta 2009).

Table 2. Cost Strategies (Gyasi 2017)

Cost strategies	Description
Costreduction analysis	Is used to know how to maximise organisations profits using a successful system of cost reduction. Cost reduction are fully controlled by the organisation whereas, revenue is not (Bragg 2010).
Total cost management	This maps out the procedure of project management and it integrates the overall conducted steps in the organisation to utilise the company's strategy which also involves monitoring (AACE international 1996 cited in Gupta 2009)
Cost avoidance	These are costs reduced to be paid in the upcoming to withstand a system (Sandborn 2012).
Target costing	This is a process used to recognise and determine the total costs at which a product with its certain functionality must be produced to create the wanted profitability as its anticipated selling price in the future (Clifton et al 2003).

Strategic cost management is the data of costs that is used to implement superior strategies to direct the organisation to success with sustainability and competitive advantage (Shank and Govindarajan 1993). An example of a strategic cost management is implementing 'value chain analysis' which is the understanding of managers to exploit internal and external connections to achieve a sustainable competitive advantage (Hansen, Mowen and Guan 2007). Following the above results, the researchers present some strategies that can be used in managing cost.

Strategies for cost control

There are many methodologies and frameworks to consider when a strategy for cost control is to be adopted as each method has its own various levels of effectiveness. Before applying any strategy, the organisation needs to be able to identify the key cost drivers, that help towards the activities in which contributes to total costs of the whole company (AACE 1996 and Bragg 2010). A good cost strategy should have a direct linkage with costs of the company such as, cost reduction (analysis), total cost management, cost avoidance and target costing (Gupta 2009). In the table 2 above, four strategies that businesses can employ to control cost of operations have been presented. Gyasi (2017) proposed that integration of the four strategies has the potential to reasonably reduce the menace of cost overrun of projects. Analysis of the results and proposals made towards finding a solution for cost overrun is discussed in detail in the next section.

DISCUSSION

Incorporating the four cost strategies discussed in table 2 with operation or corporate strategy is key in controlling cost aspect as that helps in taking control of the projects (Gyasi 2017). Findings from data gathered suggested that cost reduction targets are mostly achieved if cost strategies are reiterated in the operation or projects strategies of businesses. Depending on the complexity of the operation or project involved some of the cost strategies but for optimum results implementing the four simultaneously has proven to be the best (Gyasi 2017). Gyasi (2017) revealed that oil companies in the sub-Saharan Africa save an average of 30% of project cost if all four cost strategies are employed. Target costing is effective as it is a market-driven approach to cost management. The primary benefits of this approach are that it produces the right product, having competitive prices and makes profit for the organisation. The reason as to why this shows that a Strategy is of high importance for cost control is because target costing could be depended on by the market orientation of the company towards its market place; linkage to research and development (RandD) with customer need; supports cost management with the design phase of a product and importantly it helps company to manage costs actively and financial goals whilst simultaneously not affecting customers, employees and shareholders (Clifton *et al.,* 2003). The reason as to why cost reduction is used rather than say cost savings (explained as one of a strategic cost management) is because, basing businesses on subsequent cost avoidance is often harder than a business case that is solely on cost savings, suggesting the need to give detailed quantification of sustainment costs (Sandborn 2012). In addition, this being an example of using one strategy over the other shows why there are many frameworks and theories on strategic cost management mentioned formerly about the 'value chain analysis' the benefits of this theory is that it views each firm in context of the overall chain of value creating activities in which is only partial and aware that no firm spans the complete value chain it operates in (Shank and Govindarajan 1993).

On contrary, challenging the hypothesis of the relevance of strategies in cost controls in business operations is that it has been stated that "operational effectiveness is not strategy" (Porter 1996 cited in Harvard business review 2011). It's been suggested that a strategy is different to operational effectiveness, which is often used incorrectly and confuses people. This statement argues the hypothesis of a strategy having importance towards cost control in operations of a business. Operational effectiveness is performing comparable activities better than the way competitors perform them (Porter 1996 cited in Moon 2010) differing to strategy that was defined formerly. This implies that an organisation only needs to perform and compete better than rivals do and does not suggest a need for a strategy to benefit cost controls but just to overall improve the operational effectiveness which may involve costs.While both terms are related to performing activities, a strategy performs different activities whilst operational effectiveness performs comparable activities more efficiently. Although it has been argued that the two terms are different, Porter (1996) does still consider someimportance of a strategy as he states, "a strategy is what gives an organisation a competitive advantage".

Figure 1. Strategic positioning vs operational effectiveness graph (adapted by Porter 1996)

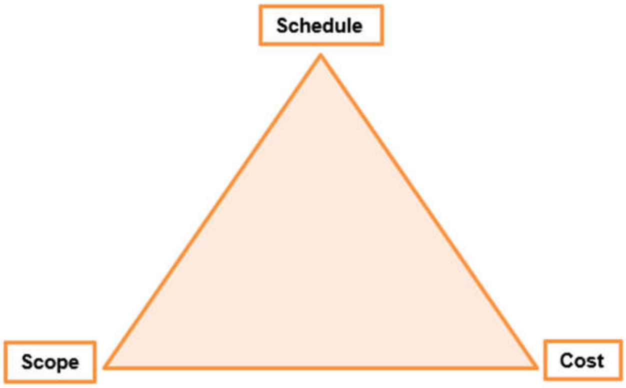

Figure 2. Triple constrain triangle (adapted from Haughey 2011)

As presented in figure 1 it suggests the difference between the two terms and how each term can correlate or affect each other, such as the higher the relative cost position for an organisation means the higher the relation cost quality is too. A comprehensive guide for cost control involving scheduling which also act as a solution is to certainly consider the project. Typically gaining success in cost controls and profitability is due to the fact of having a well-documented work activity requirement for the projects. However, of course if the organisation wants to ensure the projects are properly developed, the functional managers must have the abilities and competence to being knowledgeable of the techniques and tools to precisely gather and evaluate data to develop a comprehensive project plan for management. Accurate scheduling and cost estimations are required to develop the project budget (Wilson 2014).Arguably, these are not the only strategies to control cost as there are other cost strategies such as 'the triple constraint', the 'value chain analysis' and others which have been argued to be effective and efficient (Gitman and McDaniel 2007). Organisations may question the relevance of adopting cost controlsstrategies and the reason as to why organisations need it can be explained by being cognisant of the 'triple constraint' also known as a project management triangle (Haughey 2011 cited in Karuppan *et al.,*. 2016). This framework is where a project is constrained by schedule, cost and quality which each of these elements can then be broken down to further components. In terms of quality, it involves other components such as control, safety and risks. When creating a strategy and managing the organisations it's important to familiarise with the interaction between these areas and be knowledgeable of how it works. A change in one element in the triple constraint may have a knock-on effect on the other elements, which shows that each component needs to be considered equally. Below in figure 2 represent the framework of what the 'triple constraint' looks like and how each element is equally as important. The discussion formerly made on the strategic pricing is related greater towards the marketing department however, if the organisation can sell the product more effectively with the set price (using strategic pricing) to persuade consumers to purchase, then this will increase the overall income of the company which will then have a ripple effect back into operations cost control as the value of the income has increase within the whole organisation. The surplus money made for operation means the functional managers can spend more on different strategies and other needs to 'continually improve' as the theory Kaizen would say (Medinilla 2014). As an evidence to support that a "competitive strategy" has high relevance to cost control in business operations, the case study of Southwest Airlines in how they have benefitted from the strategy they use was mentioned earlier. The company employed a low-cost leadership as their generic strategy, which enabled the company to offer low price tickets compared to the rest of the competitors in the airline industry and is still valid till this day (Thomas and Kent 2009). The strategy involved an era of extraordinary affordability in air travel described as "The Southwest Effect" by the US Department of Transportation. They approach the 'triple bottom line' which embraces, social, environmental and economic performances (Pietro 2012).Along with this, their strategy enabled Southwest Airlines to differentiate themselves to rivals, which gave them a competitive advantage (Southwest Corporate 2018).

Conclusion

On balance, findings presented has shown there is significant relevance of a strategy towards cost controls in business operations. Relevant case studies from the oil industry and Southwest airlines has tested this and supports that this hypothesis is true. Using cost control methods will help an organisation succeed in managing project budgets effectively and efficiently. This will not only save project costs but can help companies to adopt competitive prices in terms of products pricing and enhance their competitive advantage too. Nevertheless, managers must consider that emphasis on one method may not be ideal, as it is important to test the suitability and benefits of other cost method for their organisations. Moreover, evidences on the relevance of in to cost control has been established alongside the role organisations ought to play. In conclusion, knowledge and education on cost control coupled with the implementation of a cost strategy has the probability of reducing project and operations cost for businesses.

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