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## Cost control and cost reduction as drivers of organisational performance in Indian MSMEs

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### Abstract

Micro Small and Medium Enterprises (MSMEs) play a prominent role in the Indian economy by significantly contributing to employment generation, manufacturing output and exports. Due to the competitive nature of business, MSME's are constantly facing multiple challenges such as increasing input prices, limited access to funding and or the pressure to maintain product quality while keeping prices competitive. Cost control and cost reduction are two key cost-management measures to help MSME's improve their financial performance and operational efficiency. Cost control is concerned with keeping costs at or below predetermined limits while cost reduction is concerned with making permanent savings in cost without compromising the quality or the appropriateness of the good or service.

This paper uses a Systematic Literature Review method to study the existing research on the influence of cost control and cost reduction practices on the organisational performance of Indian MSME's. The literature review uses Indian based and international literature published and includes information from corporate reports and examples and cases studies pertaining to the MSME sectors. The research collates evidence on widely used techniques such as budgetary control, standard costing or costing standards, material management, lean methodologies and value analysis. It establishes the direct link that each of these cost management techniques has with operational performance indicators including profitability, cash flow, productivity and customer satisfaction.

The research findings indicate that Indian MSME's that have structurally embedded cost control and cost reduction practices have better financial stability, higher competitiveness, sustained growth. This paper concludes with suggestions for MSME owners, industry bodies and policy makers of implementing cost-management practices through affordable technologies, improving financial management capability, and developing a cost-conscious culture across all levels of the enterprise.

**Keywords:** Cost control, cost reduction, organisational performance, MSMEs, financial sustainability, India, systematic literature review

### 1. Introductions

Micro, Small, and Medium Enterprises (MSMEs) are an essential aspect of the Indian economy as they contribute to production, employment, and exports of goods and services. According to the Ministry of MSME in 2022, there are over 63 million enterprises in the MSME sector in India, which provide many livelihoods and dominate the production of many products and services consumed in society. MSMEs benefit from their niche markets and flexibility to provide local services regardless of their access to capital and infrastructure. However, MSMEs face challenges in the market, as globalisation and competition rise, causing smaller enterprises to feel pressure from suppliers in terms of rising raw material prices, increased energy prices, decreasing demand for goods, and limited ability to negotiate costs with suppliers.

Within such operating conditions, an MSME's ability to control costs is a critical success factor in determining survival and growth. Cost control and cost reduction are similar but different concepts. Cost control is the management of operational costs within predetermined limits to be consistent with planned budgets. Cost reduction is the aim to set permanent savings to cost without compromising goods and ideally services quality, and suitability of goods or services. Cost control and cost reduction help to gain profitability through operational efficiency and competitive pricing, which is crucial to full understanding of MSMEs as competitors to large businesses with better economies of scale.

Research has demonstrated that organisations that use cost management systems such as budgetary control, standard costing, and material management can have a positive influence on organisational performance indicators such as profitability, return on investment,

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productivity, and market share. MSMEs are less able than large organisations to absorb many market fluctuations given the limited resources associated with them. Therefore, the impact associated with cost control and cost saving practices can influence MSMEs more than larger organisations. Also, by effectively chasing costs down, MSMEs will release resources available for reinvestment, provide better predictability for cash flow, and provide longer sustainability for business.

The following study is focused on analysing the impact of control and cost reduction on organisational performance of MSMEs in India through a review and synthesis of academic and practitioner literature published on or before January 2023. This work aims to use the Systematic Literature Review (SLR) method to highlight examples from Indian and international studies associated to MSMEs while making sure that relevant examples from practice are also incorporated. The aim of this study is to highlight effective cost management practices and explore gaps in implementation, all while forming recommendations for MSMEs, policymakers, and industry bodies to strengthen cost management approaches in this important sector of the economy.

## 2. Literature review

### 2.1 Approach to the literature review

This study adopts the Systematic Literature Review (SLR) method to examine how cost control and cost reduction practices influence organisational performance in the context of Indian Micro Small and Medium Enterprises (MSMEs). Only literature published on or before January 2023 was included.

The selection process involved three stages:

- Identification - gathering studies relevant to cost control, cost reduction, and performance outcomes in MSMEs.
- Screening - removing duplicates and studies not aligned with the Indian MSME context or that focused solely on large corporates.
- Eligibility and inclusion - retaining studies that provided conceptual, empirical, or case-based insights applicable to MSMEs.

### 2.2 Defining cost control and cost reduction

The concepts of cost control and cost reduction have been discussed extensively in accounting and management literature.

Cost control is defined as the process of monitoring, regulating, and guiding operational expenditure so that it remains within predetermined budgets or standards (Lockey, 2002) <sup>[9]</sup>. According to Lucey (1996) <sup>[10]</sup>, cost control is the establishment of targets and ensuring that actual performance conforms to these targets, with corrective action taken whenever deviations occur. The Institute of Cost Accountants of India (ICAI, 2015) <sup>[5]</sup> explains cost control as the continuous process of comparing actual costs with standard costs to identify variances and take timely measures.

Cost reduction, on the other hand, is a planned, positive, and permanent decrease in the unit cost of goods produced or services rendered, without compromising quality or functionality (Asaolu & Nassar, 2007) <sup>[2]</sup>. The ICAI (2015) <sup>[5]</sup> notes that cost reduction aims not only to lower current costs but also to maintain such reductions over time through

innovation, waste elimination, and efficiency improvement. Lucey (1996) <sup>[10]</sup> further distinguishes it from cost control by emphasising that cost reduction challenges existing cost levels and strives for improvement, whereas cost control focuses on maintaining costs within set limits.

Indian scholars during 2018-2020 such as Maheshwari (2018) <sup>[11]</sup> and Jain & Narang (2020) <sup>[6]</sup> have highlighted that in the MSME sector, cost reduction is usually achieved via low-investment solutions, such as redesigning workflow, negotiating with suppliers, and sourcing close to home. They highlight that for MSMEs, even small percentage savings in cost can significantly improve net margins due to their relatively narrow profitability levels.

### 2.3 Historical context and evolution of cost management in MSMEs

Historically, cost management principles emerged from industrial engineering and management accounting practices in large manufacturing units. Over time, these principles were adapted for smaller enterprises with resource constraints. In India, the emphasis on cost management in MSMEs gained traction during the liberalisation period of the 1990s, when exposure to global competition forced smaller firms to enhance efficiency (Ramakrishnan, 2016) <sup>[17]</sup>. Initially, Indian MSMEs relied on informal cost control methods such as manual tracking of expenses and informal approval systems. With the availability of affordable accounting software and Enterprise Resource Planning (ERP) solutions in the early 2000s, some MSMEs began adopting more structured approaches like budgetary control and standard costing (Singh & Gupta, 2019) <sup>[19]</sup>. Despite these advancements, many MSMEs still rely on simple methods due to limited managerial capacity and financial literacy.

### 2.4 Techniques relevant to MSMEs

The literature identifies several techniques applicable to cost control and cost reduction in MSMEs:

- **Budgetary control:** As defined by the ICAI (2015) <sup>[5]</sup>, budgetary control involves preparing budgets for each department and comparing actual performance with the budgeted targets to identify variances. Budgetary control is particularly useful for MSMEs to allocate scarce resources efficiently (Bose, 2017) <sup>[3]</sup>.
- **Standard costing:** Sikka (2003) <sup>[20]</sup> describes standard costing as setting predetermined costs for operations and comparing them with actual costs to analyse deviations. In MSMEs, this helps detect inefficiencies in labour usage, material wastage, and process delays (Gupta & Mehra, 2018) <sup>[4]</sup>.
- **Material management:** Ensures the procurement, storage, and utilisation of materials in an optimal manner. For MSMEs with limited storage facilities, effective material control reduces holding costs and prevents production disruptions (Patel & Shah, 2021) <sup>[16]</sup>.
- **Value analysis/value engineering:** As explained by Miles (1961) <sup>[12]</sup> and applied in the Indian MSME context by Ramesh & Srivastava (2020) <sup>[18]</sup>, this method examines each component of a product or process to determine if it can be delivered at lower cost without affecting functionality.
- **Lean practices:** Lean manufacturing principles, though originating in large automotive firms, have been successfully adapted by some Indian MSMEs to eliminate waste in production processes (Kannan, 2020) <sup>[7]</sup>.

## 2.5 Linking cost management to organisational performance

A significant body of literature establishes a link between effective cost management and improved organisational performance. Lawal (2017) <sup>[8]</sup> found that cost control and cost reduction accounted for over 65 per cent of the variation in organisational performance in a manufacturing setting. Murugan and Ramprathap (2022) <sup>[14]</sup> observed that net profit margin is highly sensitive to cost efficiency, especially for MSMEs operating in competitive sectors. Indian studies (Ramakrishnan, 2016; Bose, 2017) <sup>[17, 3]</sup> indicate that structured cost management leads to better cash flow, improved return on assets, and higher market competitiveness. Beyond financial metrics, MSMEs benefit from improved product quality, faster delivery, and higher employee productivity when wasteful practices are reduced.

## 2.6 Gaps in literature

Despite the available research, several gaps remain. Much of the literature on MSMEs in India is fragmented, with studies often focusing on single techniques or specific industries. There is limited empirical work integrating both cost control and cost reduction into a comprehensive performance framework for MSMEs. Furthermore, qualitative aspects such as leadership commitment, employee involvement, and organisational culture in sustaining cost management practices have not been adequately explored. The link between cost efficiency and long-term sustainability outcomes, particularly in MSMEs, also requires further attention.

## 3. Research methodology

The methodology of this study is a Systematic Literature Review, which synthesises existing knowledge from previous research and practice on the topic of cost control/cost reduction in Indian MSMEs. The method helps to provide a structured overview or summary on the knowledge that exists and to determine where gaps exist for future work.

This research aims to analyze published academic content, case studies, industry information and official statistics available on or before January 2023. The included literature was considered carefully, and the main concepts were clustered together by theme under headings of concepts, strategies and techniques, impact on performance and challenges. The resulting structure provides a clearer perspective on how cost control and cost reduction relate to overall organisational performance in MSMEs.

## 4. Objectives of the study

The core aims of this investigation are:

- To clarify the notions of cost control and cost reduction within the Indian MSME setting
- To identify and define the methods that MSMEs use to monitor and reduce costs.
- To analyse how these methods affect organisational performance indicators like profitability, productivity, and competitiveness.
- To review previous research and examples of practical examples relating to cost management in Indian MSMEs.
- To provide recommendations for MSME owners, policy makers and industry associations for improving cost management practices.

## 5. Significance of study

This study is important for several reasons. First, it is written with focus on Micro Small and Medium Enterprises (MSMEs), which are an important part of the Indian economy and often struggle with limited resources and limited managerial capacity. Knowing how to best consider and apply cost control and cost reduction can help enhance efficiency and remain competitive.

Second, the study has brought together the available literature in both Indian and international perspectives, in a systematic review format. As a consolidated view of literature, this provides a perspective that suggests what is known, and what may need further work.

Third, the study presents a resource for MSME owners and managers by providing practical information that may offer ideas on cost control or reduction, without impacting quality. The findings will also provide a framework which could assist policy makers or industry bodies, in the development of MSME training and development programmes, advise services, and support initiatives.

Finally, the study contributes to the knowledge base of academia in cost management, particularly in the context of Indian MSME's, where the body of literature is still limited.

## 6. Research in detail

This section discusses the results from the systematic literature review on how accounting practices for cost control and cost reduction influence organisational performance of MSME organisations in India. The discussion is arranged according to significant themes which were consistent within the reviewed literature. Each theme contains examples, data, and cited literature and will be interpreted with the limitations and opportunities contained in the realm of MSMEs.

### 6.1 Cost management as a key driver of MSME competitiveness

The systematic reviews clearly indicate that achieving efficiencies through cost management is much more than an accounting consideration, it is a competitive strategy. As opposed to bigger firms, we can assume that MSMEs rarely enjoy economies of scale or high market bargaining power allowing for cost efficiencies (Ramakrishnan, 2016) <sup>[17]</sup>.

The literature points to two main competitive benefits:

- **Price flexibility:** Well-managed costs allow MSMEs to offer competitive prices without eroding margins.
- **Resource reinvestment:** Savings from cost reduction can be reinvested into marketing, technology upgrades, or product diversification, further strengthening competitiveness (Bose, 2017) <sup>[3]</sup>.

For example, Patel and Shah (2021) <sup>[16]</sup> document how a cluster of textile MSMEs in Gujarat improved bargaining power through joint raw material procurement, reducing average input costs by 12 per cent. The savings were partly passed on to customers and partly reinvested in modern looms, enhancing product quality and delivery speed.

### 6.2 Adoption patterns of cost control and cost reduction practices

The SLR findings show that MSMEs tend to adopt cost management techniques selectively, often prioritising those that are simple, low-cost, and easy to implement without specialist staff. Common adoption patterns include:



- Budgetary monitoring rather than comprehensive budgetary control systems. Many MSMEs track monthly expenses against a target but lack formal variance analysis (Singh & Gupta, 2019) <sup>[19]</sup>.
- Basic inventory controls such as reorder level tracking, with less emphasis on integrated material management systems (Kannan, 2020) <sup>[7]</sup>.
- Process adjustments to reduce waste, rather than full-scale lean implementation.

This selective adoption is often due to constraints in technical knowledge, time, and financial resources. While these practices can still yield meaningful savings, the literature suggests that a more structured and consistent approach could deliver greater performance benefits.

### 6.3 Sector-specific insights from MSME literature

Cost management practices differ by sector due to differences in cost structure, production processes and market factors:

- Manufacturing MSMEs are likely to look at raw material usage, machine running and labour efficiency. For example, Kannan (2020) <sup>[7]</sup> studied small engineering units in Coimbatore and found that the introduction of preventive maintenance schedules reduced unplanned downtimes by 15 per cent. This helped to increase output with no increase in labour.
- Service based MSMEs would be looking at time management, workforce scheduling and the use of technology in service delivery. For example, Bose (2017) <sup>[3]</sup> noted that standardising project workflows enabled small IT firms to improve billable hours.
- Agro-processing MSMEs are likely to view cost management as reducing post-harvest losses, better packaging and energy savings. Nair (2019) <sup>[15]</sup> reported that food-processing MSMEs in Kerala increased their profits by 15 per cent after adopting better packaging that increased product shelf life.

This difference by sector indicates that cost control and cost savings strategies will need to reflect operational realities of MSMEs rather than generic measures.

### 6.4 Impact on organisational performance indicators

The reviewed literature confirms a strong positive association between cost management and both financial and non-financial performance indicators in MSMEs.

#### Financial indicators

- **Profitability:** Murugan and Ramprathap (2022) <sup>[14]</sup> show that net profit margin is particularly sensitive to reductions in input costs for MSMEs.
- **Liquidity:** Effective cost control improves working capital availability, reducing reliance on short-term borrowing.
- **Return on investment:** Lawal (2017) <sup>[8]</sup> reports that structured cost reduction programmes significantly improve ROI by lowering operating costs without reducing output.

#### Non-financial indicators

- **Operational efficiency:** Reduced cycle times, improved labour productivity, and lower defect rates.
- **Customer satisfaction:** Competitive pricing combined with quality consistency improves repeat orders (Patel & Shah, 2021) <sup>[16]</sup>.

- **Employee morale:** Clear cost targets and efficient processes can lead to better role clarity and accountability.

These findings reinforce that cost management contributes to a broader set of performance outcomes, extending beyond immediate financial gains.

### 6.5 Barriers unique to MSMEs

There are clear benefits to cost control and cost reduction but there are also barriers specific to MSMEs which can limit the effectiveness:

- **Formal systems are limited:** Most MSMEs use informal methods, and do not have rigorous cost records (Singh & Gupta, 2019) <sup>[19]</sup>.
- **Owner-dependent decision making:** In smaller organisations, cost management is left to the owner; thus, decisions are not generally informed or cross-functional.
- **Short-term focus:** Immediate cash flow requirements tend to come at the expense of longer lasting efficiency investments (Ramakrishnan, 2016) <sup>[17]</sup>.
- **Cultural resistance:** Changes to ways of working that have been established in workflows often face resistance from employees and middle management.

To address these barriers often requires specific interventions e.g. training, advisory support, and the use of affordable technology that can be adapted to MSME usages.

### 6.6 Case-based evidence from India

The literature provides evidence of cases within the Indian MSME context which demonstrate clear outcomes of the benefits of cost management:

- **Textile cluster, Gujarat:** By forming a procurement consortium, input costs reduced by 12 per cent with reinvestment in machinery (Patel & Shah, 2021) <sup>[16]</sup>.
- **Engineering MSMEs, Coimbatore:** Preventive maintenance schedules reduced downtime by 15 per cent, increasing output without additional labour (Kannan, 2020) <sup>[7]</sup>.
- **Food processing units, Kerala:** Improved packaging extended shelf life, reducing wastage and increasing profits by 15 per cent (Nair, 2019) <sup>[15]</sup>.
- **Auto component MSME, Pune:** Value engineering in fixture design cut production costs by 15 per cent without affecting quality (Ramesh & Srivastava, 2020) <sup>[18]</sup>.

These examples illustrate that even incremental improvements, when consistently applied, can lead to measurable gains in performance.

### 6.7 Emerging trends in MSME cost management

Several trends were evident in the literature before January 2023:

- Adoption of affordable digital tools such as Tally, Zoho Books, and simple inventory apps to track costs in real time.
- Cluster-based shared services for procurement, logistics, and training to reduce individual firm costs.
- Focus on energy efficiency through low-cost interventions like LED lighting and optimised machine usage schedules.
- Capacity-building initiatives by industry associations and state governments, aimed at introducing MSME owners to lean practices and basic cost accounting.

These trends indicate a gradual shift towards more formalised cost management approaches, although adoption remains uneven across the sector.

### 6.8 Synthesis of key findings

The synthesis of the reviewed literature yields the following key insights:

- **Strategic importance:** Cost control and cost reduction are not isolated accounting tasks but strategic levers that can improve MSME competitiveness in price-sensitive markets.
- **Selective adoption:** MSMEs tend to implement only a subset of available cost management techniques, often due to resource and knowledge constraints.
- **Sector-specific practices:** The choice and effectiveness of techniques vary by sector, underscoring the need for customised approaches.
- **Broad performance impact:** Benefits extend beyond profitability to operational efficiency, customer satisfaction, and employee engagement.
- **Persistent barriers:** Informality, owner-dependency, and short-term focus hinder systematic cost management.
- **Potential for scale:** Cluster-level initiatives and affordable digital solutions present opportunities to scale up effective cost management practices across MSMEs.

### 7. Recommendations

The literature review and case evidence provide a firm foundation for further recommendations for actions to improve cost control and cost reduction in Indian MSMEs. All recommendations are categorised by key stakeholders:

#### 7.1 For MSME owners and managers

- **Implement simple, consistent cost accounting practices:** Use low-cost accounting software, or structured spreadsheets to track relevant cost elements such as materials, labour, and overheads. It is far more important to consistently and accurately track costs, than to use a complex system.
- **Include cost accounting monitoring and discussions, in daily or weekly operations:** Include cost performance in daily or weekly operational meetings. This allows for quicker corrective actions rather than waiting for monthly management reporting.
- **Explore low-cost digital options:** Implement low-cost digital tracking for stocks and inventory; a cloud-based inventory tracker, supplier management apps or a basic barcode approach, can assist in stock management, reduce waste and avoid over purchasing.
- **Encourage employees to participate in developing cost-cutting ideas:** Implement a suggestion system to allow all employees to provide practical and/or low-cost ideas to reduce waste or improve efficiency. The organisation should consider recognising and rewarding effective ideas.
- **Negotiate with your suppliers:** Develop a long-term relationship with suppliers and ask for better credit terms. While representing a collective of MSMEs, leverage the flexibility of joint purchasing with other MSMEs in the sector to secure bulk discounts if possible.

- **Benchmark your costs and productivity levels:** Identify a key sample from within similar enterprises in the sector to compare relative costs and productivity levels, along with opportunities for improvement.
- **Make sustainable adjustments for improvement:** Avoid cutting costs at the expense of quality or employee goodwill. Prioritise improvements on agreed process changes, workflow designs and preventive maintenance to realize and sustain savings.

#### 7.2 For policymakers and industry bodies

- **Deliver capacity building programmes:** Focused on cost control including budgeting, cost reduction and process improvements for MSME owners and managers and the relevant sector, based on practical and easy to adopt methods.
- **Support cluster-based services and procurement:** For groups of MSME to seek bulk stocks, logistics and facility service centres, aimed to reduce unit costs.
- **Support technology adoption:** Offer financial incentives such as subsidies or tax benefits for the adoption of cost management software, energy-efficient machinery, and waste reduction tools.
- **Develop sector-specific cost benchmark databases:** Compile and publish anonymised cost data to allow MSMEs to evaluate their performance relative to industry standards.
- **Encourage supplier-MSME collaboration:** Set up formal platforms where MSMEs and suppliers can negotiate mutually beneficial agreements and build trust for long-term cooperation.
- **Link financial support to cost management initiatives:** Tie government-backed credit facilities to participate in cost management or efficiency improvement programmes to ensure that funding supports productivity gains.

#### 7.3 For academia and future research

- **Design MSME-focused cost management models:** Develop frameworks that suit the operational realities and resource limitations of small and medium enterprises.
- **Conduct sectoral and regional studies:** Explore the most effective cost control and cost reduction practices for specific industries and geographic regions within India.
- **Examine organisational culture and leadership:** Study how management style, staff involvement, and workplace culture influence the adoption and sustainability of cost management.
- **Plan long term impact assessment:** Over time, collect information about MSMEs to understand the relationship between effective cost management, growth, profits and resilience.
- **Investigate the relationship between environmental sustainability to cost management:** Investigate how reduction of costs relates to environmental outcomes such as reducing energy usage; reducing waste; sustainable sourcing.

### 8. Conclusion

This research aimed to investigate the impact of cost control and cost reduction practices on organisational performance

in the Indian MSME sector by conducting a systematic literature review of English language published material. The analysis highlights that these two approaches, which are related yet distinct, are two of the most powerful levers available to small and medium enterprises for improved efficiency, sustained profitability and enhanced competitiveness in the current fast paced global environment.

Cost control provides operational discipline for MSMEs and focuses on keeping expenditure within pre-determined limits allowing for planned utilization of finite resources and preventing financial leakage or wastage. Cost reduction challenges the cost structure for sustainable savings from existing products, processes, or services without discounting quality or functionality. Done collectively, the coordinated approaches together represent a dual solution for operational resilience, immediate financial establishment through cost control, and ongoing efficiency improvements to the operation through cost reduction.

Evidence quoted during the literature review indicates the existence of a clear and positive relationship between sound cost management and improvements in organisational performance. The association reflects both financial metrics such as increased profitability, improved liquidity and return on investment, and non-financial metrics such as productivity, customer retention and employee engagement. Examples from Indian case studies demonstrate that comparatively insignificant, incremental improvements through interventions such as preventive maintenance scheduling, group buying, or improved packing can achieve a significant impact if implemented consistently and in a structured manner.

Nevertheless, the review identified important limitations as well. Many MSMEs pursued only a partial adoption of cost management, often a focus on rudimentary practices like simple budgeting or monitoring stock rather than structured management such as standard costing, value engineering or lean manufacturing. This has implications for the extent to which MSMEs can leverage cost management activities owing to insufficient technical proficiency, irregular record keeping, focus on immediate cash flow pressures and a culture resistant to change. These challenges underscore the need for capacity-building, policy incentives, and sector-specific frameworks tailored to the realities of small and medium enterprises.

From a policy perspective, the findings suggest that enhancing cost management capabilities across the MSME sector could have significant multiplier effects for the Indian economy. Improved cost efficiency can increase competitiveness in both domestic and export markets, strengthen employment stability, and enable more MSMEs to invest in innovation and technology. For owners and managers, the results point to the importance of embedding cost control and cost reduction into the organisational culture, involving employees at all levels, and leveraging affordable technology to support decision-making.

For the academic community, this study reinforces the need for further sectoral and regional research, especially longitudinal studies that track the long-term impact of cost management practices on MSME growth and resilience. Integrating sustainability considerations such as energy efficiency and waste reduction into cost management research could also expand the relevance of these practices

in a world where environmental and social governance is gaining prominence.

In closing, cost control and cost reduction are not optional add-ons for Indian MSMEs but essential elements of strategic management. When embraced as continuous, organisation-wide disciplines rather than ad-hoc responses to financial pressure, they can serve as catalysts for sustained profitability, operational excellence, and long-term competitiveness. The challenge lies not in recognising their value, but in embedding them deeply and consistently within the operational fabric of every enterprise.

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