

TRADITIONAL AND ENTREPRENEURIAL COST MANAGEMENT

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Abstract: *The article deals with the theoretical and methodological aspects of traditional and entrepreneurial cost management in production and business structures. The holistic view on the issue of developing the methodology to research the traditional and entrepreneurial cost management within the framework of innovative economy is presented. The concepts of costs, expenses and expenditure with relevance to business entities are theoretically grounded. The meaning of entrepreneurial cost management, its basic parameters are investigated and theoretically grounded; the specific features and characteristics of entrepreneurial cost management are identified and substantiated. The article specifies the selection criteria for entrepreneurial cost management tool base and gives evidence to applying the functional approach when grounding the concept of entrepreneurial management costs. The key features of entrepreneurial cost management are revealed, and the comparative characteristics of traditional cost management and entrepreneurial cost management are presented. The criteria for developing entrepreneurial cost management are substantiated.*

Keywords: *entrepreneurial management, costs, parameters, criteria, business entity.*

INTRODUCTION

A holistic view on the issue of developing the methodology to study the traditional and entrepreneurial cost management in the framework of innovative economy.

According to the theory of economics, on the one hand, entrepreneurship can be seen as a venture to obtain business profit; on the other hand, it can be seen as the process of converting costs into profit. Firstly, determining costs and production output and, secondly, comparing them searching for the options to maximize performance and optimize the costs are crucial for the economy of a business entity.

Thus, the costs have a direct and immediate impact on the main indicator of efficiency of production and business structure, which is profit, with cost management as an essential component of business systems. Cost management for the production and business structure becomes a means to achieve high economic results, which is an indicator of business efficiency. Undoubtedly, cost management should not be considered only as cost reduction, but should be referred to all elements of controlling costs.

Cost management is not only an integral part of business as a whole, but also a system of managing production and business structure. That is, cost management as an essential part of business is one of the important elements in the management of production and business structure. Following the widely-known opinion we can view management as that of having planning, controlling, coordinating, organizing and motivating functions, all of which are implemented through the stages of developing ideas, decision-making in management, practising decisions, evaluating and adjusting the results of these decisions. All these stages, as well as each traditional management function, suggest cost management. Thus, the cost management "penetrates" all functions and stages of managing a business entity, and it is

implemented on the basis of these functions. For instance, the planning function involves setting the goals for the production and business structure as well as specific objectives to achieve these goals. With respect to cost management this means designing the plan (budget) for the cost value and its particular components. Controlling function involves analyzing the costs, monitoring the observance of planning records on the resource consumption. Similarly, the elements of cost management are a part of all controlling functions.

THEORETICAL STUDY

Grounding and revealing the meaning of entrepreneurial cost management.

The increasing importance of cost management in entrepreneurship and management of production and business structures, as well as the analysis of the entrepreneurship development and this activity acquiring its specific characteristics, the enhancing significance of these features for achieving success in entrepreneurial activities allows for introducing the concept of entrepreneurial cost management. The entrepreneurial cost management is viewed as a process of cost management that has certain features and specific parameters, has the basic characteristics of entrepreneurship and focuses on maximizing business efficiency through implementing particular functions and using special tools of cost management (Tevelevich, 2010). Introducing this concept does not imply rejecting the traditional opinion that the essence of the cost management is a continuous systemic process of affecting the companies' costs in order to ensure their optimal level, structure and dynamics, it just points to the new aspects in the parameters and the specific features of cost management in entrepreneurial structures. These aspects and features, in their turn, affect implementing particular functions, reaching the objectives, cost management tools system and others.

The main parameters of entrepreneurial cost management are:

1. The Object is total costs as a key element in the system of business activities indicating the effectiveness and efficiency of a business activity for a certain period. The essence of the costs as the object of the business management is understood in a traditional way, it remains the same even if we introduce the concept of entrepreneurial cost management, but the concept requires to be clarified due to its vague interpretation in scientific publications and regulatory documents.
2. The Subject is the entrepreneur, namely a collective or individual body that has to have specific features, which means that the subject of the traditional cost management (managers and specialists from departments) should develop certain characteristics of an entrepreneur to implement entrepreneurial cost management successfully.
3. The basic principle of entrepreneurial cost management is it being the essential component of entrepreneurial activities. This means that entrepreneurial management costs will be fully considered such under the condition that, on the one hand, it will have the characteristics of any business. On the other hand, it will be an obligatory element of business systems and business entity management system, without which this entity will not be able to fulfill its mission.
4. The main criteria is focus on achieving business efficiency and considering the factors of this efficiency, which results in changing the traditional approaches (accounting, marketing, development and others) mainly aimed at minimizing the costs for new approaches (a process approach, according to the financial responsibility centers, etc.) aimed at cost optimization and to the greatest possible extent meeting the basic characteristics of entrepreneurial activities.

The importance of understanding the essence of the object of cost management results in the need to interpret the concept costs, especially when we take into consideration that the preliminary analysis led to the conclusion of the conceptual ambiguity. In home sources on economics and regulatory documents at first glance we can come across three similar in meaning terms: costs, expenses and expenditure. The comparative analysis of interpreting these terms in home regulatory documents showed that there is no single, clear definition of the terms costs, expenses, expenditure; moreover, often these terms are used interchangeably. The views of home economists on the essence of the identified concepts are reflected in the works (Kerimov, 2003), (Lebedev, 2000), (Popova, 2007), (Trubochkina, 2007) and others. A brief overview of the most frequently specified differences between the analyzed categories leads to the conclusion that there is no single interpretation of the concepts in home literature on economics. Appealing to foreign sources that determine the terms we are interested in (Groth and Kinney, 1994, (MacNair, 2006), confirms the fact that in the English-language literature on economics there are only two terms similar to the

corresponding Russian terms – costs and expenses. Having analyzed a number of sources, we can conclude that foreign researchers have developed a common approach to distinguishing these terms. The term expenses has an accounting nature and is used in the financial reports to reflect the financial outflow for a specific period. The term costs has a broader meaning and means spending the resources of the enterprise in total. According to the definitions in the foreign sources and the analysis of home approaches, we can argue that the closest translation of the term costs is the Russian *zatraty*, respectively expenses should be translated as *raskhody*. Thus, how the investigated terms interrelate is not clear at first glance. Most scientists see specific differences between costs, expenses and expenditure, but in home economics there is no single approach to this issue. Moreover, the number of authors pointing out the differences between these terms later tend to use them as synonyms. In regulatory documents these terms are used interchangeably despite some attempts made to distinguish between them.

Summarizing the abovementioned and not claiming this to be the final view on the issue, we can offer the following definitions of the concepts discussed and related to business entities:

- costs is the amount of resources used or conditionally used (implicit costs) with regard to the activities of the business entity for a certain period;
- expenses are the property outflow for a certain period specified in the report of a business entity;
- expenditure is the amount of resources used with some purpose and subject to being measured financially.

To understand the essence of costs better and provide effective management of the organization it is necessary to apply economically proven classification of costs based on certain criteria. All sorts of cost classifications (Kerimov, 2003), (Lebedev, 2000), (Trubochkina, 2007), (Lieberman, 2006) with regard to information, analysis and accounting purposes are applied in theory and practice. The classification of costs is necessary to assess: a) the extent of possible impact on these or those costs; b) the degree of cost impact on the final efficiency of a business entity.

If the object of entrepreneurial cost management remains unchanged within the context of business entities, then the subject acquires the features specific for the entrepreneur and the characteristics relevant to those of a business entity. First, the subject of entrepreneurial cost management should

possess the qualities of an entrepreneur – innovative thinking and the ability to quickly adapt to the recent cost management methods, the ability to respond flexibly to the dynamic factors of the external and internal environment and seek the most adequate cost management tools relevant to the changing factors. Also, the subject should demonstrate the willingness to take risky decisions about cost management and besides that, the ability to manage the risks in the area of cost management. Secondly, the cost management function in business entities is often seen not only as a niche professional area involving the specialists in cost management, but also as an overall management function of many managers and professionals working towards a common goal to develop a business entity and achieve high economic results.

METHODOLOGICAL RESEARCH

Developing the specific features and characteristics of entrepreneurial cost management.

Entrepreneurial cost management being one of the elements of entrepreneurial activity has all the characteristics inherent to this activity. According to many foreign and Russian scientists and economists these characteristics include:

1. The autonomy and independence of economic entities in the course of entrepreneurial activities preconditions the possibility of using a multiple-choice approach to cost management, multivariance, the relative freedom and flexibility in building the system of cost management tools. For business entities legislative documents comprise only accounting methods of calculating costs for the purpose of determining the assessment basis.
2. The entrepreneurial activity with focus on the economical result and the economic interests of the entrepreneurial subject. The main goal of any business is to gain the maximum profit. Thus, production and business organizations are choosing such approaches to cost management that are primarily aimed at cost optimization. Entrepreneurial cost management serves as a source and means to use the resources of a business entity effectively, as a factor to ensure the highest possible level of efficiency of resource use.
3. The risks characteristic of an entrepreneurial activity, carrying out this activity under the conditions of uncertainty results in greater responsibility on behalf of the subjects of this activity. Entrepreneurial cost management is

implemented in the face of uncertainty due to the mobility of the factors significant for the management, their dynamic character and often weak change predictability. Therefore, preventing the uncertainty and controlling risks in regard of costs becomes an important element of entrepreneurial cost management. Business entities are financially liable for the activities carried out by them, so they are supposed to demonstrate a balanced approach to choosing cost management techniques.

4. Innovative entrepreneurship predetermines entrepreneurial cost management as an innovative process associated with the constant search for new approaches to cost management and their substantiation, updating cost management tools, selecting the tools to meet constantly changing requirements and factors.
5. Entrepreneurship qualifies as the main driving force of entrepreneurial activity. As a result, entrepreneurial cost management is management based on the entrepreneurial activity, the essence of which is seeking and activating internal reserves of economic growth of a business entity. That is, the entrepreneurial cost management necessarily requires continuous search for and implementation of the ways to achieve high economic results. The cost management based on the entrepreneurial activity becomes creative and innovative process to optimize the use of resources by a business structure (Miller and Krutik, 2014). This suggests refusal to use extensive and traditional cost management tools and, on the contrary, means constantly looking for new ways to control costs, implementing the most appropriate combination of innovative cost management tools.

The entrepreneurial cost management not only has all the characteristics of any business, the introduction of the concept of entrepreneurial cost management also suggests developing the specific features and properties of the following individual components: cost management processes, the functions, objectives and criteria of cost management, the system of cost management tools. Let us consider what specific features entrepreneurial cost management possesses. First, we need to mention that these features can be traced in the traditional cost management, but within business entities there are more conditions for these features to form and enhance. The analysis of practical experience points out that the specified features collectively are not characteristic of all companies. With these features accumulating and enhancing, we can talk about the tendency of traditional cost management to change

for entrepreneurial management. Seemingly contradictory requirements are applied to entrepreneurial cost management: on the one hand, it is supposed to be innovative and flexible, as it was mentioned earlier, on the other hand, it should possess standardization, producibility and instrumentality. All these mean that it is important to keep a balance of innovation and regulation of the process in business management. The instrumental approach becomes of particular significance allowing for turning a cost management tool into the tool of obtaining business profit, giving such management a tool system that brings the necessary results of an entrepreneurial activity. Using the instrumental approach makes the methods and tools applied in the cost management clear, well-grounded and specific; enables to combine a variety of tools flexibly and efficiently. This approach combined with the process, functional and systematic approaches allows for standardization and instrumentality of entrepreneurial cost management. It is business entities that are mostly concerned about seeking effective management tools, which makes an instrumental approach for them significant. The following features are evident in the system of entrepreneurial cost management tools and basic rules for their developing. As it has been already noted, the tools system should be developed within the framework of an instrumental approach. This will lead to giving better grounds when some or other tools are used. Moreover, it has been mentioned before that the subjects of production and business activities have relative freedom to choose the cost management tool base and relative economic interest for the selected tools to give the greatest effect. As a result, in production and business structures it is preferable to use not individual tools but their system and special combinations. It is also important to systematically evaluate the effectiveness of the tool systems (Miller, 2015). As for the role of the instrumental approach and the cost management tools system, it should be noted that the number of scientists sees the essence of entrepreneurship as being especially "perceptive" to new opportunities of gaining profit, the ability to "predict" the results and "imagine" the methods of achieving them (Tevelevich, 2010). In this regard, cost management tools are the ways to obtain effective results; updating those tools should be a natural and systematic process in the cost management.

Another feature can be formulated as updating the function of optimizing the entrepreneurial cost management. The functional cycle of cost management in production and business structures can be seen as the interaction of planning, accounting, control and analysis.

FINDINGS

The functional approach to substantiating the concept of entrepreneurial cost management.

Optimizing the costs and not reducing them should be a crucial function of cost management in production and business structures. Since any activity causes certain costs, thoughtless reducing the costs may eventually result in limiting the main goal of any production and business structure activities which is gaining profit. By optimizing costs we mean an increase in return received for every invested ruble.

It is necessary to give grounds for every function that will give a more detailed understanding of cost management in production and business structures.

1. Cost planning is divided into perspective (in the long-term planning stage) and the current (at the stage of a short-term planning). The objective of long-term cost planning is preparing the information on the costs expected when new markets develop, when new products are developed and produced, when the output of production and business organizations is increased. All those may involve marketing and R & D expenditure, capital investment. Current cost planning specifies implementing the long-term goals of production and business structure. If the accuracy of long-term cost planning is low and is affected by the inflation process, the behavior of competitors, state policy in the field of economic governance, and sometimes force majeure, then the short-term cost planning, which reflects the needs of the immediate future for production and business structures, is considered more accurate as it is sustained by annual, quarterly (monthly) and target calculations.
2. Accounting as an element of cost management is necessary for preparing data to make the right economic decisions. For instance, when we assess the value of inventories, the costs incurred are calculated with the help of production records; the data on the actual output of a production and business structure, and all of its production costs are specified in accounting expenses.
3. The monitoring function in cost management system provides the feedback, that is the comparison of planned and actual costs. The efficiency of monitoring depends on corrective management actions aimed at correlating the actual costs with the planned ones or adjusting the plans if they cannot be fulfilled due to the objective change of conditions.
4. Analysing the costs, which is a constituent element of the monitoring function, helps to evaluate the effectiveness of total resource use by a production and business structure, identify the reserves to reduce costs, to gather data to prepare plans and make rational cost management decisions.
5. Optimization means finding ways to increase the return on costs. These include reducing those costs that do not bring additional revenue. It is necessary to constantly find ways to reduce costs, but at the same time to feel the limits by exceeding which the reduction of revenue will prevail over the expenditure reduction. In addition to reducing costs the optimization involves substantiating their structure, search for the best combination of different types of costs, identification of reserve effectiveness (the areas of the company where it is possible not simply to maintain the existing effect level, but also to increase this level by adjusting a certain minimum level of costs), and other measures aimed at increasing the returns received for every invested ruble. It should be noted that developing entrepreneurial cost management suggests working on cost optimization; that is, the cost management system should be optimum in terms of the funds invested in it.

Another specific feature is that the criteria and objectives of the entrepreneurial cost management should be subject to the specified before basic parameters and characteristics of entrepreneurial cost management. Thus, the criteria that are consistent with the basic characteristics of the entrepreneurial cost management include the following:

- the totality of the system, process, functional and instrumental approaches to cost management;
- the unity of the methods practised at different levels of cost management;
- cost management at all stages of the economic product lifecycle – from creation to disposal;
- a harmonious combination of lowering costs with gaining high quality products (works, services);
- avoiding unnecessary costs;
- providing complete, quality data on the cost level;
- increasing interest of all divisions of production and business structure in optimizing costs.

Compliance with all the cost management criteria provides the basis for the sustainable development of production and business structure giving it competitive advantages.

Cost management in production and business structures is designed to pursue the following objectives:

- identifying the role of cost management as a factor to increase the economic performance of the production and business structures;
- calculating the costs of operating and geographic segments, production units of production and business structures;
- calculating the necessary costs per unit of production (works, services);
- preparing the data base which allows for evaluating the costs when economic decisions are chosen and made;
- identifying the reserves to optimize costs at all stages of the production process and in all divisions of production and business structures;
- choosing ways of cost rating;
- choosing the cost management system relevant to the operation conditions of production and business structure.

Management issues should be solved as a whole because only such an approach can contribute to the growth of economic efficiency of a business entity. The ratio of traditional to entrepreneurial cost management. Summarizing the abovementioned characteristics and specific features of entrepreneurial cost management, we can compare it with the traditional cost management (Table 1). As you can see, there are some fundamental differences that allow us to prove the apt use of the concept entrepreneurial management costs. In regard to the development of

entrepreneurial cost management it is important to understand that its main features and parameters are gradually forming once entrepreneurship becomes binding framework of reference in all activity areas of a production and business structure. It is necessary to admit the fact that publications and practice often view entrepreneurial cost management in its traditional sense without taking into account the characteristic features of entrepreneurship. This reduces the effectiveness of cost management: despite the traditional cost management giving an appreciable effect, if such management became a widely spread practice in entrepreneurial cost management, it would become an integral part of overall system of business activities of the company, which would increase the synergy effect. However, the practice shows that on behalf of business managers certain time and effort are needed to lay down the foundation for entrepreneurial cost management. Therefore, in the production and business structures both traditional and entrepreneurial cost management can be used. First, changing the traditional cost management for entrepreneurial one is an objective tendency in the evolutionary development of production and business organizations. Secondly, all management subsystems including cost management acquiring the basic features of entrepreneurial activity is a factor of business efficiency growth. The abovementioned factors serve to explain that the term cost management which can combine the features of a traditional and entrepreneurial management can be used further on to study production and business structures and develop methodological foundations for cost management.

Table 1. Comparative characteristics of traditional and entrepreneurial cost management

Compared parameters	Traditional cost management	Entrepreneurial cost management
The basic concept	Reducing, minimizing costs	Cost optimization
The approach to building cost management	The leading role of the functional approach, to a lesser extent – the systematic approach	The totality of system, process, functional approaches, updating the instrumental approach
The nature of the cost management process	Traditional, rarely subject to change, high level of standardization	Innovative, flexible in combination with a high level of standardization
The applied cost management tools	Single use tools, often spontaneously chosen, the lack of monitoring of their impact on the efficiency of the activity	Diverse, systematically organized, the rationale for the selection and optimal combinations is based on the monitoring of their impact on business effectiveness

Source: developed by the author

Another important conclusion is that the entrepreneurial cost management can become one not only in entrepreneurial structures. Entrepreneurship as a special kind of activity can be partially implemented in any organization which realises the benefits of this type of activity. In this case, the entrepreneurial features may emerge in any management subsystem, particularly in cost management. At the same time, the basic parameters and specific features of entrepreneurial management can be fully and comprehensively revealed only in business entities. In other organizations only some particular features of entrepreneurial cost management may manifest themselves (Tevelevich, 2010).

Therefore, the basic criteria for entrepreneurial cost management are the following:

- gradual development and establishment of parameters and specific features of entrepreneurial cost management making the latter possible in the business entities with traditional cost management as well as in those of entrepreneurial cost management developed at various levels;
- entrepreneurial cost management being an integral management subsystem in business system in order to maximize synergistic effect;
- the prospect of certain parameters and specific features of entrepreneurial cost management emerging in non-entrepreneurial structure, which has a positive effect on its activities, but does not give the maximum effect resulting from the integrated use of all specific features and which can be found only in a business entity.

CONCLUSION

Thus, entrepreneurial cost management is based on the traditional management, partly having its parameters, but it also acquires new features and characteristics that allow us to distinguish between the entrepreneurial cost management and non-entrepreneurial (traditional) one. As these distinctive features and characteristics gradually develop, some features of entrepreneurial cost management may partially emerge in traditional cost management (but they do not manifest themselves fully and comprehensively), that is, what happens is partial overlapping of traditional and entrepreneurial cost management. Entrepreneurial structures can apply traditional cost management, but by their very nature they are more susceptible to developing entrepreneurial cost management; thus, the latter prevails. Taking into consideration the abovementioned, we would like to emphasize that the terms entrepreneurial cost management and cost management in

business entities have, in our opinion, fundamental differences, since the latter can mean applying both traditional and entrepreneurial cost management. In other words, it is necessary to clearly understand the characteristics of entrepreneurial activity in order to get to the essence of entrepreneurial cost management. A systematic approach to cost management consisting of performing the respective functions, fulfilling certain objectives and meeting certain criteria creates the foundation for economic competitiveness of a business entity enabling the latter to take leading positions in the market. Using the instrumental approach allows for developing cost management tool system in which costs, among other factors, determine the effectiveness of entrepreneurial activities.

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