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Releasing Hidden Profit through Taking a Strategic View of Non-strategic Costs

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Abstract

With the emergence of the lean enterprise and increased global competition, companies should learn to be more proactive in the way they manage costs from a strategic perspective. The literature has shown that cost management has shifted away from a focus on the clerkship role, product costing and financial reporting. The new focus is on a strategic supporting role to facilitate the management of the firm and the achievement of its strategic goals. By focusing on reducing costs as in lean philosophy much can be done to reduce costs from a strategic point of view. The new emphasis considers strategic issues called strategic cost management and promotes the management of costs in a strategic way. Extending the idea of strategic cost management, the focus of interest is in high level organisation strategy and the attempt to categorise costs into two blocks from a strategic perspective—strategic costs and non-strategic costs, and further to develop a conceptual framework to release hidden profit through by a strategic view of non-strategic costs.

The few articles and studies that have been published in the last couple of years have used a strategic approach to managing overhead resources and costs, and no studies have focused on the management of non-strategic costs. The subject is investigated by taking a positive approach to surveying and interviewing (to achieve triangulation) business stakeholders and entrepreneurs, mainly based in Taiwan. From this, the framework 'Extended Strategic Cost Management (ESCM)' as the research contribution to the professional practice is developed which as a case study was implemented in a hospital in Taiwan. This framework exposed issues, such as the need for management commitment, the implementation of the need to categorise costs into two blocks of strategic and non-strategic costs and focus on non-strategic costs. The idea of focusing on non-strategic costs originated from practitioners. It is argued in the research that companies can attain a competitive position by managing non-strategic costs. In addition, the importance of the study is to provide academic support for defining the terms of strategic and non-strategic costs, recognise the profit contribution and the value of administrative personnel, and fill the gap in the literature of strategic cost management.

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Yi-Cheng Yeh

Declaration

I declare that this Doctorate of Business Administration thesis is my own work and that all critical and other sources have been properly acknowledged as and when they occur in the body of the text.

Yeh Yi-Cheng

Yi-Cheng Yeh

Date: May 16, 2013

Chapter 1—Introduction

The thesis is introduced in this chapter and an explanation of why the study is important is given. The aims of the research are listed and the research process to achieve the aims is presented in summary. The chapter concludes by outlining how the thesis is organised.

1.1 Overview and background

The concept of cost reduction can be used interchangeably with the term ‘profit enhancement’. Nevertheless, it is remarkable how often a comprehensive cost reduction program is neglected even when the firm is doing everything possible to increase profit (Figgie 1983). It will be argued in this thesis that cost reduction should play an important role in improving profitability. Simply asking people to leave has often been in the news media as one of most used ways for reducing cost in the executive’s mind. However, it is not an easy job to determine accurately the right number of staff to cut beyond which quality of service, efficiency, etc. would be influenced (Wong 2004). The researcher argues that there may be other cost categories which, if trimmed properly, can generate comparable cost savings to staff cutting.

During the last years, there is a significant shift in cost accounting and management due to an increasingly competitive environment (Maher and Deakin 1994). Cost management has moved from a traditional role of product costing and operational control to a strategic focus—strategic cost management (Cooper and Slagmulder 1998a, 1998b and 1998c, Blocher et al. 1999, McNair 2000, Hansen and Mowen 2000, Hilton et al. 2001). In taking a strategic emphasis, cost management considers the long-term competitive success of the firm and the purpose is to manage costs strategically. The researcher argues that categorising costs into two blocks—strategic and non-strategic costs from a strategic perspective can give a better approach for managing costs. The term ‘strategic cost’ which was originated from field practitioners is redefined in the study as costs spent which can directly increase business profit, product (service) value, or business revenue. On the other side, non-strategic costs are those costs which can not directly increase the values and revenue stated above. However, the researcher argues that companies tend to be much better-equipped to manage strategic costs than to manage non-strategic costs, based on the researcher’s years of working experience and consulting practices. It may make it easier to have a higher saving rate from non-strategic costs than working on strategic costs. In this research a number of questions are investigated; are non-strategic costs the ‘low-hanging fruit’ which if addressed can lead to quick and high savings? Do non-strategic costs really deserve more attention? Do non-strategic costs give potentially a real key for a company to be a competitive success? Should companies pay more attention to non-strategic costs than to strategic costs when initiating cost reduction plan in a hard economy? Is it less risky to focus first on non-strategic costs when cost cutting? All these lead the researcher further into a consideration of the strategic position about non-strategic costs and stimulate the researcher’s interest in finding the answers to the researchable questions.

1.2 The research aim and objectives

Cost management systems can make decisions enabling the organisation to achieve or exploit a strategic competitive advantage (Buckingham and Loomba 2001). However, focusing on reducing costs as in lean philosophy, much can be done to reduce costs from a strategic point of view. The researcher argues that taking a strategic lens to categorise costs into strategic and non-strategic costs can provide improved cost management. Furthermore, taking the concept of cost leadership to profit-maximisation as much as possible, cutting non-strategic costs can be a wise strategic move. The reason is simple and powerful. A firm should spend as little as possible on non-strategic costs. On the other hand, it may be unwise and risky to cut strategic costs without a well thought out and thorough plan. However, the terms ‘strategic costs’ and ‘non-strategic costs’ originated from the practitioner field have little academic support and there is no unified or well-accepted definition from the literature on how to appropriate costs. Up till now, little attention has been given to non-strategic costs from a strategic perspective in the major research journals. Some articles and studies have been published and have used a strategic approach to manage overhead resources and costs in the last couple years, but no studies have ever focused on the management of non-strategic costs, but only mentioned the idea of such costs. To rectify this lack of attention and provide solutions, the key research objectives are:

- To critically review the literature in cost management, strategic cost management, and importance of managing costs non-strategic.
- To redefine strategic and non-strategic costs originating from the practitioner field.
- To give a case for the strategic position of non-strategic costs.

- To recognise the profit contribution and the value of administrative personnel in charge of related non-strategic costs. .
- To suggest a comprehensive conceptual framework for managing non-strategic costs.

1.3 Research methods

Research philosophy is how a researcher reflects the development of knowledge (Saunders et al. 2003). Holding a belief in positivism and thinking that some methods can be flawed, the researcher therefore takes a post positivist epistemological position and starts with the quantitative research approach along with a literature review. Triangulated evidence is provided after a further enhancement with interviews to get a more accurate indication of what is happening in reality.

The quantitative approach with the questionnaire as the main part of the survey is adopted for collecting primary data to explore and examine how costs are treated in firms and refine the definition of strategic and non-strategic costs from practitioners and in the literature review. The suitability of the quantitative approach could provide evidence of the possible oversight of non-strategic costs. Nevertheless the approach might find it hard to deal with intangibles such as mood and culture difference. To mitigate that, an in-depth interview (qualitative) is conducted for more information to be gathered and conditions of the participants and the companies they work for, the strategic thinking behind the decision makers, the difficulties a firm may encounter when performing a cost saving on non-strategic costs, and so on. Interviews to stakeholders and decision makers who have been or had been in charge of Profit and Loss (P&L) at work are therefore carried out. The results from the mixture of quantitative and qualitative research will form the foundation of the need for a better management over non-strategic costs. A conceptual framework for managing non-strategic costs supported by a case study is then suggested to achieve the study aim.

1.4 Structure of the thesis

The thesis is divided into six chapters. After **Chapter 1**: Introduction, in **Chapter 2**, through a review of the literature, an understanding of the research topic, of what has already been done on it, how it has been researched, and what the key issues are that have been acquired. The literature review covers different topics including cost management, strategic management, strategic cost management, competitive advantage, overhead management and management of non-strategic costs. It analyses changes of the markets and has a greater focus on cost management from a strategic perspective. These changes and cost focus affect the success of a company's strategy, and adjust the strategy of the company and the internal context accordingly. In the light of the trends and changes in the business environment, the suggestion from the review is that traditional cost management should move to strategic cost management. The researcher argues that there is a need for fine-tuning the definitions of strategic and non-strategic costs in the practitioners' world, then investigates if there is a competitive position for non-strategic costs to put competitors far behind and finally extends the concept of strategic cost management to enhance business profit by eliminating or at least reducing non-strategic costs, those costs not strategically important to the business.

In **Chapter 3**, the researcher takes the post positivist position, which appreciates the space between the extremes of positivism and interpretivism, understanding the need to challenge both paradigms and looks to develop the idea of multiplism emphasised by post positivists. A combination of the statistical findings further enhanced with interviews and literature review could have provided a triangulated evidence to get an accurate indication of the reality after repeatedly verifying the results in multiple ways (Rothbauer 2008, Bogdan and Biklen 2006, Cohen and Manion 2000, Altrichter et al. 2008, O'Donoghue and Punch 2003, Denzin 2006). A questionnaire approach as a main survey is adopted for collecting primary data to explore how costs are treated in organisations and verify the findings in the literature. To deal with intangibles such as mood and culture difference, the quantitative research approach is followed by the qualitative approach for an in-depth study of the findings from a questionnaire. An interview approach is applied to better understand the viewpoints of participants in order to search for and reduce the possible subjective reality.

In **Chapter 4**, a sample of 108 participants with supervisor levels are mainly collected from a structured questionnaire to measure the characteristics and current general status of the cost management in firms, gather information to define strategic and non-strategic costs, challenge, as well as find ways possible to manage non-strategic costs. To further validate and support the findings from the questionnaire, 39 interviews from 31 participants were conducted to further investigate the reasons for attitudes and opinions behind the questionnaire in order to get the full picture of reality. Based on the findings and discussion, this attempt in this chapter is to redefine and categorise the terms of strategic and non-strategic costs and to provide the support to the definitions originated from the practitioners' field and provide possible guidance on how to deal with non-strategic costs.

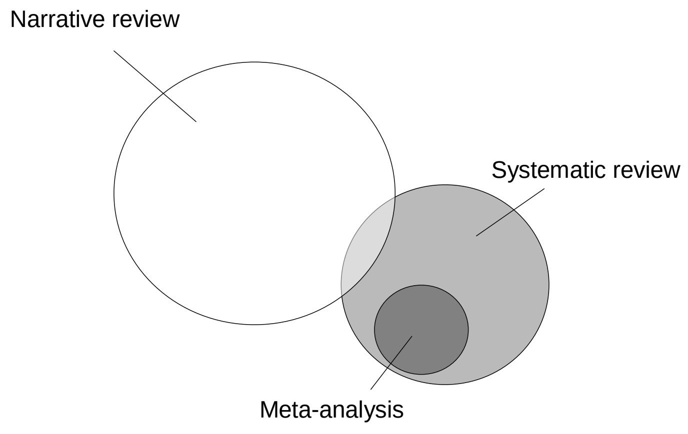
In **Chapter 5**, after reviewing the concepts of strategic cost management and overhead management from a strategic perspective in the literature, a framework for managing non-strategic costs in a more effective, efficient and economical way is developed. In this chapter, the researcher firstly discusses the concept of managing non-strategic costs and also advocates that managing non-strategic costs is a philosophy, attitude and a set of techniques for continuously improving business cost and profit as well as the organisation's competitive position from a strategic point of view. Secondly, the researcher explains the concerns and objectives of the suggested framework which is termed as '**Extended Strategic Cost Management (ESCM)**' and the guiding principles as well as key support factors of this framework are introduced. Then the key concepts of Strategic Cost Management and Transaction Cost Economics (TCE) in the literature are introduced before applying the instruments to realise the saving of non-strategic costs are integrated together. The suggested framework with the aforesaid themes will be explained more fully in Chapter 5 and tested by a case study to draw the usability and suitability for the framework in practice. In the final chapter (**Chapter 6**), the summary and conclusions with discussion of limitations, as well as further research areas are presented and recommendations are made to practice.

Chapter 2—Literature Review

The aim of this chapter is to explore the literature relevant to the key themes of this thesis. This literature review outlines the review process, specific debates, academic gaps, key writers and influential models encircling cost management, and relating them to the management of non-strategic costs with a solution to enhance business profit. The critical review underlines the three most important areas in this attempt: cost management, strategic cost management, and management of non-strategic costs.

Rumrill and Fitzgerald (2001) and King and He (2005) identified that there are four methods when conducting a literature review, these are Narrative Review, Descriptive Review, Vote Counting and Meta-analysis. In the qualitative-quantitative continuum, narrative review is most interpretive-qualitative and meta-analysis is considered as the most rigorous method and closest to positivist tradition in nature. In Figure 2.1, Higgins (2008) however argued that literature review methods from conceptual relations are Narrative Review, Systematic Review and Meta-analysis. The major difference between narrative reviews and meta-analysis may well be that narrative review primarily focuses on conclusions reached in various studies, whereas meta-analysis focuses on data through the variables, the effect sizes and the sample sizes (Higgins 2008, Rumrill and Fitzgerald 2001)

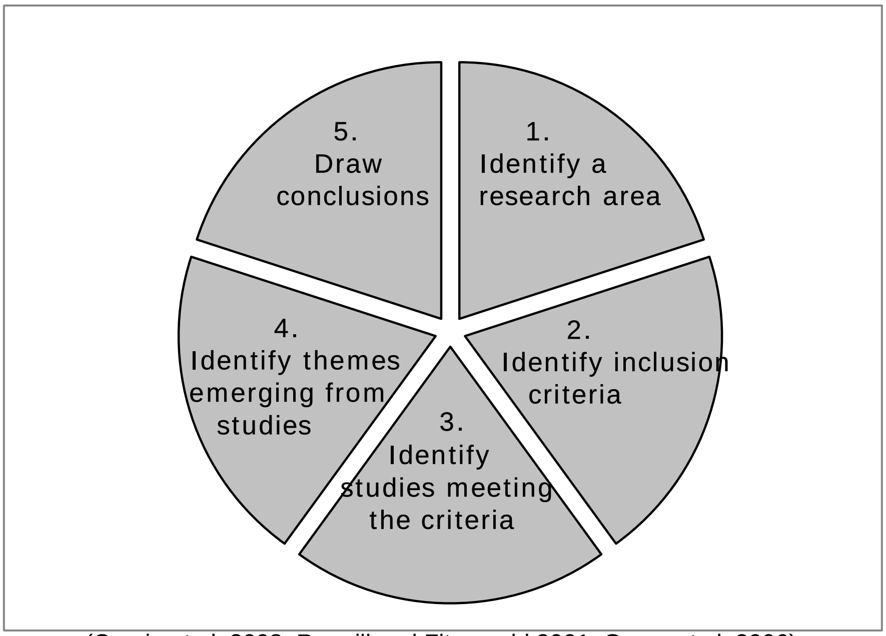
Figure 2.1: Literature review methods – conceptual relations



(Higgins 2008)

To describe the current states of both practice and research in focused areas of inquiry and add dimensions of insight or application that are not available in existing literature and provide critical analyses of standing works, the researcher uses narrative literature review in this thesis and focuses on the conclusions reached in various studies. The five steps illustrated in Figure 2.2 are used in this narrative literature review process.

Figure 2.2: Narrative literature review process



(Cronin et al. 2008, Rumrill and Fitzgerald 2001, Green et al. 2006)

The review process starts from the idea of overall cost leadership (Porter 1980) to do everything a firm can to cut costs. However, in a survey of nearly 2000 companies conducted in 2004-2005 by Monitor Group, it was found that over 40 percent of the survey respondents reported that the critical capabilities of their organisation were not protected during overhead cutting initiatives and found themselves tied to a roller-coaster cycle of cost cutting without strategic thinking (Lee and Covell 2008). These findings are in line with researcher's observation that managerial attention to non-strategic costs such as overhead tends to be sporadic and is often driven by the need to cut costs in the short term without a thorough and systematic plan. In addition to personal observation and work experience, the initial literature review was based on consultations with a group of experts from practice and academic fields to identify the research area：Managing costs from a strategic prospective, in particular to those possible oversight costs. The general area of the academic study places the research within the area of 'cost management', specifically key themes of 'strategic cost management' and 'management of non-strategic costs' evolved from the review. However, often the non-strategic costs meaning can not be isolated from closely related concepts such as overhead management, administration expenses/costs, value chain, quality, transaction and cost drivers. A period of critical evaluation and reflection was undertaken to identify studies and select studies meeting the inclusion criteria. Over 95% of databases used are mainly from scholarly journals with time frame from 1937 to the present. Furthermore, an in-depth search to identify appropriate main and sub-themes emerging from the set of studies was conducted before drawing conclusion.

2.1 Scope of the literature review

Wringing the costs is how a company can extract more profit (Tanaka et al. 1993). To achieve this level of performance and success requires the commitment of resources, the formulation and application of appropriate policies and procedures, and the establishment of objects, activities and instruments for non-strategic costs. In view of this, the review attempts to answer the key questions:

- What is strategic cost management?
- What are strategic costs and non-strategic costs?
- What are the key literature and concepts of strategic cost management?
- What are the guiding principles and steps when managing non-strategic costs?
- What are the tools in strategic cost management?
- What is the interrelationship between non-strategic costs and strategic cost management?

Besides, there are some sub-objectives to be achieved in the literature review. They are:

- Discuss the primary trends and changes in the business environment and show how cost management systems can be adapted to meet the needs of the business environment.
- Discuss strategic management and competitive strategies as an answer to trends and changes in the business environment.
- Show the strategic position of non-strategic costs to the business environment changes and the firm's long-term success.
- Explain that there is a need for extending the strategic cost management concept and methods to contribute to the overall success of the company and achieve a real lean cost management.

2.2 The changing cost management

Costs are used in different business applications, such as financial accounting, cost accounting, budgeting, capital budgeting and valuation (Cooper and Slagmuler 1998d 1998e; Hilton 1991; Horngren et al. 1999; Horngren and Sundem 1990). Costs are the expenditures that are made to run a business. However, are they all truly necessary or of direct benefit to the business? Consequently, there are different ways of categorising costs according to their relationship to output as well as according to the context in which they are used, such as fixed and variable costs (Garrison et al. 2009), and direct and indirect costs (Edmeads and Mackell 2002). In addition, other types of costs are used in different business contexts. In budgeting it is useful to identify controllable and uncontrollable costs (Vaidyanathan and Aggarwal 2003). In evaluating the financial merits of special proposals, the concepts of out-of-packet cost and sunk costs (Thaler 1980) are often used. Financial planning also utilises the concepts of incremental, opportunity, and imputed costs (Bromwich and Hong 1999, Northcraft and Neale 1986).

The researcher argues that businesses are vitally interested in measuring and managing their costs, in particular those related to organisational performance. After all, organisational performance and its improvement have been of central concern to practitioners and researchers alike. Strategic is a word with many shades of meaning. Jaeger and Baliga (1985) argued that it will be no exaggeration to assert that almost every business function uses the term strategic (Porter 1980; Lorange 1980; Andrews 1980; Quinn 1980; Schendel and Hofer 1979; Steiner 1979; Hofer and Schendel 1978; Ansoff 1965) to picture its plans, programmes and initiatives for improving organisational performance. Porter (1980) pointed out that a competitive advantage comes from either having lower cost than all other industry competitors or by being significantly different from competitors. On that basis, one of three generic strategies Porter promotes is overall cost leadership. A low-cost organisation does everything it can to save costs (Porter 1980). Porter's statement reflects that in today's highly competitive environment, cost management has become a critical survival skill for many firms and must be managed strategically to improve organisational performance.

The term 'cost management' is not a well-defined term. It builds on both cost accounting and management accounting, but goes beyond the two. Brinker (1996) defined it as 'a set of techniques and methods for controlling and improving a company's activities and processes, its products and services'. With the emergence of the lean enterprise and increased global competition, companies must learn to be more proactive in the way they manage costs. As cost management became more critical to a company's survival, Cooper (1996) identified two emerging trends. First, new forms of cost management are required, and, second, more individuals in the firm become actively involved in the cost management process. The increased importance of cost management has facilitated the transformation of accounting into a more strategic function. A new form of cost management with involvement from individuals in the firm, Strategic Cost Management (SCM), was originally advocated by Simmonds in the 1980's (Ying 2004). Strategic Cost Management (Shank and Govindarajan 1993, Dubois 2003) is the application of cost management techniques so that they simultaneously improve the strategic position of a firm and reduce costs and can be applied in service and manufacturing settings and in not-for-profit organisations.

In order to assist companies to manage costs from accounting to strategic orientation, an understanding of the differences between management accounting and strategic cost management (SCM) is summarised in Table 2.1. The need to manage this process can not be overemphasised.

Table 2.1: Comparison of Traditional Cost Management and Strategic Cost Management

	Traditional Cost Management	**Strategic Cost Management**
Focus	• Internal	• External
Perspective	• Value-added	• Value chain
Cost analysis-way	• In terms of product, customer, and functions. • With a strongly internal focus. • Value added is a key concept.	• In terms of the various stages of the overall value chain of which the firm is a part. • With a strongly external focus. • Value-added is seen as a dangerously narrow concept.
Cost analysis-objective	• Three objectives all apply, without regard to the strategic context：Score keeping, attention directing, and problem solving.	• Although the three objectives are always present, the design of cost management system changes dramatically depending on the basic strategic positioning of the firm: either under a cost leadership strategy, or under a product differentiation strategy.
Cost driver concept	• A single fundamental cost driver pervades literature - cost is a function of volume. • Applied too often only at the overall firm level.	• Multiple cost drivers such as structural drivers (e.g. scale, scope, experience, technology, and complexity), executional drivers (e.g. participative management, and total quality management). • Each value activity has a set of unique cost drivers.
Cost containment philosophy	• Cost reduction approached via responsibility centers or product cost issues.	• Cost containment is a function of the cost driver(s) regulating each value activity.
Cost behavior awareness	• Cost is primarily a function of output volume: variable cost, fixed cost, step cost, mixed cost.	• Cost is a function of strategic choices about structure of how to compete and managerial skill in executing the strategic choices: in terms of structural cost drivers and executional cost drivers. • Operational drivers can be used to suggest strategic choices of organisation drivers (i.e. structural cost drivers and executional cost drivers).
Primary concern	• Cost impact	• Cost/Value/Revenue relationship
Key disciplines	• Finance/Accounting	• Marketing/Economies
Primary role	• Scorekeeper	• Analyst and consultant
Management responsibility	• Follower/reactive • Risk-averse	• Leader/proactive • Comfortable with ambiguity

(Fischer 1993, Shank and Govindarajan 1993, McNair 2000, Hansen and Mowen 2006, and Kelety 2006)

In summary, traditional cost management focuses on using unit-based drivers, allocation-intensive, narrow and rigid product costing, managing costs, general activity information, individual unit performance, using financial measures of performance, internal orientation and short-term perspective. On the other hand, strategic cost management focuses on using unit and non-unit-based drivers, tracing–intensive, broad product costing, managing activities, detailed activity information, system-wide performance maximisation, using both financial and non-financial metrics to measure performance from both internal and external orientation and long-term perspective (Wilson and Chua 1993, Fischer 1993, Shank and Govindarajan 1993, McNair 2000 and Kelety 2006).

Anderson and Dekker (2009) described how Lord (1996) pointed to cost management research and stated that there are two related main streams. The first stream examines whether and how firms configure accounting data to support value chain analysis (e.g. Tomkins and Carr 1996; Dekker 2003; Hergert and Morris 1989). The second stream attempts to derive the relationship between a firm's strategy and cost structure. The focus is on the causal relation between activity levels and the resources that are required (i.e. cost drivers) (e.g. Anderson 1995; Ittner et al. 1997). These research streams echo that a broader perspective of what constitutes strategic cost management is leading the way to manage cost effectively and efficiently, even economically.

2.3 Strategic cost management

'Efficiency is doing things right ; Effectiveness is doing the right things.' Drucker (1967) once commented. According to Cooper and Slagmulder (1998), there are two distinct modules at the heart of an enterprise-wide strategic cost management system. The first of these modules deals with operational improvement to help a firm become more efficient (Cooper and Slagmulder 1998). The other module is strategic costing to identify the firm's sources of profitability (Cooper and Slagmulder 1998) for effectiveness. Anderson and Dekker (2009) mentioned in the prior decades when the focus of cost management was on reengineering internal processes for efficiency (like just-in-time (JIT) inventory, lean production) and effectiveness (e.g., six-sigma quality initiatives, team production), firms were taking up Shank and Govindarajan's (1992, 1994) challenge to manage costs throughout the value chain. This chain encompassed research and development, design, production, marketing, distribution and service (see Shields and Young 1988;

Shank and Govindarajan 1992; Cooper 1995a and 1995b).

To achieve an efficient and effective enterprise-wide approach to cost management requires critical changes in the way that managers think about cost management. Although cost management has moved from a traditional role to a strategic role, strategic cost management has been understood in different ways in literature since the 1980s. Cooper and Slagmulder (1998) and Welfie and Keltyka (2000) argued that strategic cost management is the application of cost management techniques to reduce costs and at the same time improve the strategic position of the company. Shank and Govindarajan (1993) defined strategic cost management as the managerial use of cost information to support the strategic objectives of the company. Horvath and Brokemper (1998) stated that strategic cost management is the process influencing the behavior, structure, the level of the costs in order to attain and sustain a strategic competitive advantage (Wei et al. 2010).

In addition, strategic cost management has been discussed from many aspects in the literature. Strategic cost management has been studied through the use of various instruments such as value chain cost management (Cavinato 1992, Handfied and Nichols 1999, Seuring 2002), target costing (Seidenschwarz 1993 and Ansari et al. 1997a and 1997b), activity based costing and activity based management (Turney 1996, Cooper and Kaplan 1998 and 1999), transfer pricing (Mehafdi 2000), performance measurement and costing (Gunasekaran et al. 2005), open book accounting (Seal et al. 1999, Mouritsen et al. 2001, Dekker 2003), benchmarking (Gotze 2004), or life cycle costing (Hunkeler and Rebitzer 2003, Shields and Young 1991, Coenenberg et al. 1997, Hansen and Mowen 2000 and Gotze 2004). Thus, in the field of strategic cost management, most studies in the literature concentrate on the application of cost management instruments.

In some cases, strategic cost management has been discussed through some key concepts such as value chain, cost drivers and strategic position. A notable approach in strategic cost management that gained attention internationally was by Shank and Govindarajan (1993). It is based on Porter's work (1979, 1980, 1985, 1986, 1987, 1990, 1991, 1996 and 1998). This conceptual framework comprises three key concepts: value chain, cost drivers and strategic positioning. Shank and Govindarajan (1993) emphasised some important aspects of managing costs in the value chain. This approach however ignores some important aspects of the strategic cost management framework such as activities and objects, instruments, and key support factors.

Other studies, focused on objects (resources, processes and products) and analysis fields and activities (cost behavior, cost structure, cost level management) of strategic cost management (Mannel 1995, Corsten and Stuhlmann 1996). In his study, Kajuter (2000) argued that the cost management system and cost management structure are the two basic parts of the conceptual framework for cost management. According to Kajuter (2000) the elements of the cost management system include activities (cost planning and cost monitoring), objects (resources, processes and products) and the techniques that support cost management activities. Kajuter (2000) emphasised that the cost management structure is an important aspect of the framework of cost management. This includes the definition of responsibilities and the choice of coordinating mechanisms. Kajuter (2000) concentrated on cost planning, cost monitoring and organisational issues.

Some studies stressed the behavioral and organisational aspects of strategic cost management (Shields and Young 1989 and Cooper 1995). These studies argued that factors influencing the success of implementing cost management systems involve behavioral and organisational factors. For example, these factors include top management support, linkage of the cost management systems to competitive strategies, linkage of the cost management systems to performance evaluation and compensation, sufficient internal resources, training, commitment, motivation, and more.

In the literature, the treatment of conceptual approaches of strategic cost management in general is rare and existing conceptual approaches only consider certain individual contributions. Therefore, a focus on specific aspects of strategic cost management is required.

2.4 Key concepts of strategic cost management

When companies cut cost randomly, they wind up hindering their development and growth; this process can create major internal conflict, damage relationships with customers and increase the risk of non-achievement of strategic business goals (Osborne and Ringrose 1998). Cost management is a strategic process that focuses on the customer (Freeman 1998 and Kelety 2006) and on profitability (Miller 1992 and Freeman 1998). When determining how to manage costs in the organisation, the key is that costs must be viewed by looking simultaneously at the value they provide (Kelety 2006) and understand costs in relation to value (McNair 2000). Strategic cost management should be linked explicitly to business strategy and to competitive context in which value is created (Grundy 1995). Value chain analysis is used to decompose the firm into strategically important activities and understand their impact on the cost and value (Hergert and Morris 1989). These activities include not only in-company activities but also activities outside the company (Kelety 2006). The company is viewed as part of an overall chain of value-creating processes focused on the customer. Each activity that a firm performs will have an underlying cost structure and behavior. Costs are caused by many factors (cost drivers) that affect the costs of activities, and therefore, identifying and analysing the cost drivers can contribute directly to the success of the firm (Porter 1998). Kelety (2006) described Wong's (1996) point that strategic cost management is the practice of understanding what causes costs to occur, through cost driver analysis and value chain analysis.

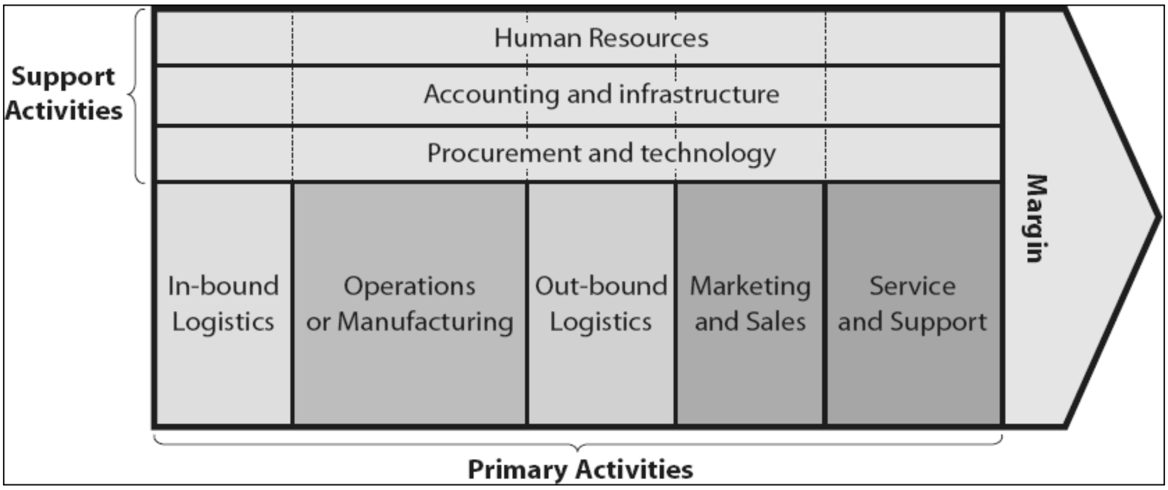
Shank and Govindarajan (1993) argued that understanding the implications of how the firm chooses to compete (i.e. strategic positioning) is as important for cost analysis as understanding the value chain and key strategic cost drivers. In the literature, however value chain and cost drivers were mentioned most by different researchers (e.g. Kelety 2006, McNair 2000, Grundy 1995, Hergert and Morris 1989, Porter 1998, Wong 1996) as key concepts of strategic cost management. The review therefore highlighted the three key concepts—value chain analysis, cost driver analysis and strategic positioning analysis, taken from the strategic cost management literature.

2.4.1 Value chain analysis

The idea of a value chain in Figure 2.3 was first suggested by Porter (1985) as a way of presenting the construction of value as related to the end customer. It helps businesses to organise their thinking about cost management and put their focus and efforts on areas for cost management. Porter (1985) described the value chain as the internal processes or activities a company performs to design, produce, market, deliver and support its product. The idea of the value chain is based on the process view of companies, the idea of seeing a manufacturing (or service) company as system, made up of subsystems each with inputs, transformation processes and outputs (Stabell and Fjeldstad 1998 and Dess and Picken 1999). Input, transformation processes, and outputs involve the acquisition and consumption of resources—money, labor, material, equipment, building, land, management, and so on (Evans and Wurster 1997). A company can not reduce costs and/or create value for customer by looking at its activities as a whole. Each of the activities in the value chain can contribute to improve a company's cost position and customer value. Examining all activities a company performs and how they interact is necessary for improving cost position and customer value, the value chain is a systematic way for doing so. Thus, value chain analysis is essential to determine exactly where in the chain customer value can be enhanced or cost can be lowered.

A company is more than a random compilation of machinery, equipment, people and money. Porter (1998) distinguished between primary activities which are directly involved in creating and bringing value to the customer and support activities including procurement, technology development, human resource management and infrastructure. A company realises a profit margin that depends on its ability to manage the linkages between all activities in the value chain (Hax and Majluf 1991). However, Shank and Govindarajan (1993) further described the value chain in broader terms than did Porter and called it a value system. They argued that much more can be done for Porter's value chain and stated that the value chain for any firm is the value creating activities all the way from basic raw material sources from component suppliers through to the ultimate end use product delivered into the final consumers' hands. This description views the firm as part of an overall chain of value creating processes.

Figure 2.3: Porter's Value Chain



The value system and value chain are important tools for understanding how a company can position itself against its competitors. The value chain represents the interrelated value-creating activities inside the company (Partidge and Perren 1994). These activities affect each other and cannot be treated in isolation. The idea in the value chain is to capture the fact that a company does a series of functions. Analysing how these functions are done relatively to their competitors can provide useful insights. On the other hand, the value system is the set of interdependent value chains all the way from the suppliers of raw materials to the end user (Gadiesh and Gilbert 1998, Kelety 2006). To gain competitive advantage a company has to realise that costs and benefits, i.e. values associated with the product, should be examined from the final consumer's point of view. For a product to be competitive, it must pass through the whole value system efficiently.

According to Porter (1980), whether or not a firm can develop and sustain differentiation of cost advantage or differentiation-with-cost advantage depends fundamentally on how the firm manages its value chain relative to the value chains of its competitors although no firm spans the entire value chain in which it operates.

From a strategic perspective, unlike the value-added concept taken by management accounting, the value chain concept highlights four profit (margin) improvement areas which could help a company to assess and improve its strategic position (Hergert and Morris 1989, Shank and Govindarajan 1993). The four areas are:

- *Linkage with suppliers.* Suppliers provide inputs and as a consequence, can have a significant effect on a user's strategic positioning. To avoid weakening its strategic position, a firm must carefully choose its suppliers.

- *Linkage with customers.* Firm's products fit into the buyer's value chain. By knowing what percentage of the firm's product costs are in the customer's total costs can bring supplier and buyer to work together to reduce costs.

- *Process linkages within the value chain of a business unit.* The individual value activities within a firm are interdependent rather than independent. By recognising inter-linkage, the value chain analysis admits to the possibility that deliberately increasing costs in one value activity can bring about a reduction in total costs.

- *Linkage across business unit value chains within the firm.* The value chain analysis recognises the profit potential accruing from exploiting linkages among value activities across business unit. The cost position of one business unit can be enhanced by its ability to share in distribution with other business units.

The idea of the value chain, introduced by Porter (1985) is that organisations should think and act as a joint entity to develop better products or services for meeting customer's satisfaction, and always endeavoring to meet the interests of the company. A firm is profitable if the value it creates exceeds the cost of producing the product. If a company controls those costs with the value chain, it can achieve a competitive advantage over competitors. A competitive advantage over rivals is achieved by producing the same competition but at a lower price or can also be achieved by differentiation, which could allow higher prices. The value chain is key to determining the strategy, either cost leadership or differentiation. However, the value chain is a complicated model to install in the company in the short term (Pearson 1999). The similar statement was made by Stabell and Fjeldstand (1998) that the complication of Porter's model results in managers rejecting this model by providing simple and abstract results. Furthermore, Stabell and Fjeldstad (1998) criticised that Porter focuses on the analysis of the tangible products with this model not specifying anything for the services or intangible assets. In addition, Hines (1993) criticised Porter's value chain as based on the past, where growth is very slow. Porter's model can not be applied because the environment of the 21st century is dynamic (Hines 1993).

2.4.2 Cost driver analysis

Accountants usually define cost as a resource sacrificed (consumed) or foregone (give up opportunity) to achieve a specific objective (Kelety 2006). It is usually measured as the monetary amount that must be paid to acquire goods and services (Horngren et al. 2000). All costs incurred by an organisation result from activities that are pursued by the organisation. Knowing your organisation's cost is an essential theme for any manager. To say an organisation understands its costs implies that the managers understand the underlying cause-and-effect relationship between the work of the organisation and the costs of the organisation (Harper 1995). Cost driver is a characteristic of an activity or event that causes that activity or event to incur costs and can be more or less under a firm's control (Blocher et al. 1999). In other words, factors that causally affect costs over a given time span are called cost drivers.

Volume is the most important cost driver (Schmalenbach 1963) that has dominated thinking about cost for decades: fixed versus variable cost, break-even analysis, profit contribution analysis, marginal cost, flexible budgets, cost-volume-profit (CVP) analysis, and so on. There is no question that the notion is true as cost does decline as volume increases in general. In contrast to Schmalenbach (1963), researchers such as Bleichrodt and Quiggin (1999), and Black (1990) focused on a cause-and-effect relationship as a fundamental principle of cost calculation. As with the works of Schmalenbach (1963), Bleichrodt and Quiggin (1999), and Black (1990), Kilger (1993) also focused on the cost determination factors that stem from the production area. He emphasised that output volume is an important cost determination factor in the industrial companies although cost drivers for cost planning and controlling are identified and analysed. This statement also holds true for service companies such as, to some extent, contacts centres (Hurkens et al. 2006, Smith et al. 2010).

However, the concept of strategic cost drivers is to get away from the notion that volume drives cost due to considerable changes in the cost structures of companies caused by the new condition of the business environment. These changes have resulted in higher overhead rates; investment in machinery and services has reduced direct labor costs and simultaneously increased overhead costs. Thus, Miller and Vollman (1985) argued that most production managers understand what drives direct labor and materials costs, but they are much less aware of what drives overhead costs. Within this context, Porter (1998) introduced his system of cost drivers to overcome the strong production orientation of the traditional views of cost drivers. In opposition to most of the former approaches, Porter concentrated on the strategic level. He used the value chain as a basic idea in his considerations about cost drivers including economies of scale, experience and learning effects, capacity utilisation, linkages, interrelationships, degree of integration, timing, location and institutional factors. The list of cost drivers by Porter (1998) has made an important contribution to the research of the cost drivers. He has presented one attempt to create a comprehensive list of cost drivers particularly long-term drivers through using the value chain as a basic idea. However, the researcher argued that due to changing business environments, there are many more cost factors from time to time like industry sectors (e.g. manufacturing or service sectors), company age, size and tenure, corporate culture, ownership, county of operation, and market. According to Shank and Govindarajan (1993), Porter’s attempt is more important than his list. Shank and Govindarajan (1993) emphasised that in strategic management literature better lists exist such as Riley’s (1987) and focused on the concept of cost drivers after Riley (1987) they break the list of cost drivers into two categories (i.e. structural cost drivers and executional drivers). In the Strategic Cost Management (SCM) framework (Shank 1989), cost is caused, or driven, by many factors that are interrelated in complex ways. Shank and Govindarajan (1993) argued that volume usually is not the most useful way to explain cost behavior but emphasise cost position in terms of the structural choices and executional skills shaping the firm’s competitive position in the long-term.

The structural cost driver refers to the organisational infrastructure and strategic costs of the entire potential cost associated drivers usually including economies of scale, scope, experience, technology, and complexity (Riley 1987, Shank and Govindarajan 1993, Hansen and Mowen 2006). The structural cost drivers associated with organisational structure, investment decisions, and the operating leverage of the firm define the playing field for strategic cost management. A core component of structural cost management is the decision to execute activities within the firm or to outsource them to another party. The so-called ‘make-buy or-ally’ decision considers how and where in the value chain firms draw their organisational boundaries and which activities are conducted inside versus outside the firm (Geyskens et al. 2006).

Transaction cost economics (TCE; Williamson 1985) is the most widely used framework for explaining firm boundary and organisational design choices related to make-buy or-ally decisions. Williamson’s work (1985) assumed that firms are profit maximising, and that profit maximisation involves cost minimisation. He argued that the firm owner will compare the costs of governance associated without outsourcing to those associated with manufacturing most components of the product himself, and will only then decide whether to outsource the task or perform it in-house. By implication from Williamson’s TSE, a firm’s manufacturing scope is based on a series of make-or-buy decisions to strategic cost thinking although they are not clearly stated in Williamson’s work. Furthermore, by identifying value chain activities, the relative importance of each activity in compromising total cost, cost drivers for each activity and why the firm is relatively efficient or inefficient in individual activities, how costs in one activity influence costs in others, which activities should be internal and which should be outsourced, etc., opportunities for cost reduction become evident.

However, Hansen and Mowen (2006) argued that of more recent interest and emphasis are executional drivers. Continuous improvement and its many faces, such as employee empowerment, total quality management, process value analysis, life-cycle assessment, are what executional efficiency is all about as Hansen and Mowen described (2006). An example of the role of an executional cost driver is the use of quality as a key strategic concept by Motorola in 1981, then carried forward by Honeywell and General Electric (GE) as Six Sigma. In recent years, some practitioners have combined Six Sigma ideas with lean manufacturing (lean production, or lean enterprise, often simply identified as "Lean" for preserving value with less work, which derived mostly from the Toyota Production System) to yield a methodology named Lean Six Sigma focusing on quality, process improvement and speed (Womack et al. 2007, Holweg 2007). The cost advantage it derives from its ability to achieve defect rates of only 3.4 units per million ('Six Sigma' quality) is a key aspect of competitive strategy with the aim of improving quality and achieving financial targets (cost reduction and profit increase). Six sigma follows a defined sequence of steps (i.e. DMAIC as define, measure, analyse, improve and control) to improve the quality of process outputs by identifying and removing the causes of defects and minimising variability in manufacturing and business processes (Antony 2006). Although Lean and Six Sigma are often seen as the same process and its philosophy and steps are fundamentally the same (Dahlarrd and Dahlgaard-Park 2006). Lean looks to process flow where Six Sigma tends to focus on process variation. Due to the confusion, there are now a number of hybrid processes in the market amalgamating these procedures which, potentially, in the future will become a version of the same thing (Ross 2012). Some authors such as Dale et al. (2007) argued even the most rudimentary attempt at quality costing has been beneficial in identifying areas of waste and trends in quality improvement. It should also not be forgotten that quality costs are already being incurred in designing, implementing, operating and maintaining a quality management system by an organisation. The quality cost is involved in introducing and sustaining a process of continuous improvement, plus the costs incurred owing to failure of systems, processes, products and/or services. Feigenbaum (1956) categorised quality costs into prevention, appraisal and failure. Dale et al. (2007) argued that to identify these 'hidden costs' from various budgets and overheads and then allocate these indirect costs to a specific cost activity is the whole purpose of quality costing.

Furthermore, by managing non-strategic costs efficiently and effectively, companies can reduce quality costs and simultaneously release the 'hidden profit' in both costs of goods sold and operating expenses. The researcher argued that the purpose of the cost of poor quality assessment is to identify and quantify the non-value-added activities and waste driven by poor quality, thereby supporting the achievement of quality goals and objectives reflecting the broader business goals and objectives. The assessment provides the information management needed to begin a cost driver analysis, which provide the information needed to identify high payback improvement projects.

Thus, Shank and Govindarajan (1993), Porter (1998), Donelan and Kaplan (1998), Blocher et al. (1999) argued that a company can develop a cost advantage by controlling cost drivers of value activities which represent a significant percentage of total costs, or by reconfiguring the value chain. However, the aforementioned cost driver analysis is fraught with major limitations before identifying and quantifying all the factors that influence cost. Although the structural and executional activities define the number and nature of the day-to-day activities performed within the organisation, analysis of operational activities and drivers may be needed to suggest strategic choices of organisational activities and drivers (Donelan and Kaplan 1998, Hansen and Mowen 2000). Operational activities are day-to-day activities performed as a result of the structure and process selected by the organisation (Hansen and Mowen 2006). Operational cost drivers are those factors that drive the cost of operational activities such as number of parts, number of moves, number of products, number of customer orders, and number of returned products. As should be evident, operational activities and drivers are the focus of activity-based costing (Hansen and Mowen, 2006).

Organisation is a collection of activities that are performed to design, produce, market, deliver and support its products and services as mentioned in 2.4.1. Many researchers, for example, Donelan and Kaplan (1998) and Hansen and Mowen (2000) stated that the costs of performing such activities can be driven up or down by three types of factors: structural cost drivers, executional cost drivers and operational cost drivers as shown in below Table 2.2. However, there is no clear agreement on the list of fundamental cost drivers.

Table 2.2: Organisational and Operational Activities and Drivers

	Cost activity	Cost driver	Objective	
Strategic cost management				Development of competitive advantage
	Organisational activities	Structural cost drivers	Underlie economic structure that drives cost position	Define organisational activities and determine the long-term cost structure of an organisation.
		Executional cost drivers	Determine a firm's core position that hinge on its ability to execute successfully	
Activity-based costing				Trace costs to activities and then to products and other cost objects
	Operational activity	Operational cost drivers	Identify factors driving the cost of operational activities (operation activities: day-to-day activities performed as a result of the structure and process selected by the organisation)	Suggest strategic choices of organisational activities and drivers

(Shank and Govindarajan 1992, 1993, 1994, Tomkins and Carr 1996, Hansen and Mowen 2006, Anderson and Dekker 2009)

2.4.3 Strategic positioning analysis

Strategy has been conceptualised by Andrews (1980), Ansoff (1965), Hofer and Schendel (1978), Miles and Snow (1978), and others as the process for evaluating external environmental opportunities as well as internal strengths and resources in order to decide on goals as well as a set of action plans to accomplish these goals. Management control really depends upon the strategy being followed, and effective cost management systems are differentiated, depending on strategy (Kelety 2006). For instance, for a firm following a cost leadership strategy in a mature, commodity oriented business, carefully engineered product target costs are likely to be a very important ongoing management control tool. But for a firm following a product differentiation strategy in a market-driven, rapidly growing, fast-changing business, carefully engineered manufacturing costs are much less important. As articulated by Porter (1981) and discussed widely in the strategy literature, the basic choice on how to compete is between cost leadership and differentiation (Shank and Govindarajan 1993) as shown in Table 2.3. The design of cost management systems changes dramatically depending on the basic strategic positioning of the firm, cost leadership or product differentiation.

Table 2.3: Aspect of the Two Competitive Strategies

Aspect	**Cost leadership**	**Differentiation**
Strategic target	Broad cross-section of the market	Broad cross-section of the market
Basic of competitive advantage	Lowest cost in the industry	Unique product or service
Product line	Limited selection	Wide variety, differentiating feature
Production emphasis	Lowest possible cost with high quality and essential product features	Innovation in differentiating product
Marketing emphasis	Low price	Premium price and innovative, differentiating features

(Porter 1985, Shank and Govindarajan 1993)

Three general strategies have been identified : Cost leadership, product differentiation, and focusing (Porter 1985). The objective of a cost leadership strategy is to provide the same or better value to customers at a lower cost than offered by competitors. The main risk for organisations that decide to compete in this cost leadership category is that there can only be one cost leader and competition can intensify, leading to a price war where no one wins (Porter 1998) except perhaps the customer. A differentiation strategy, on the other hand, strives to increase customer value by increasing what the customer receives. The main risk for organisations operating with differentiation strategies from this category is that the consumer may sacrifice some of the uniqueness of the differentiated product in order to avail of large cost savings. A focusing strategy is selecting or emphasising a market or customer segment in which to compete. Another risk associated with this differentiation category is that imitation by competitors will narrow the perceived differentiation between the products (Hill and Jones 2001).

In reality, many firms will choose not just one general strategy, but a combination of the three general strategies. Hill (1988) argued that there are many situations in which establishing a sustained competitive advantage requires the firm to simultaneously pursue both low-cost and differentiation strategies because in many industries there is no unique low-cost position, particularly in mature industries. Furthermore, Hill (1988:401) contended that Porter's model is fundamentally flawed, arguing that differentiation maybe a means to overall low cost leadership, especially within emergent industries or in mature industries that are experiencing technological change. Murray (1988), Wright (1987), Miller and Dess (1993) all argued that mixed or hybrid strategies have distinct advantages and that pursuing a single generic strategy may be dangerous, leading to lower performance. A strategy, reflecting combinations of the three general strategies, can be defined as: '…choosing the market and customer segment the business unit intend to serve, identifying the critical internal business processes that the unit must excel at to deliver the value propositions to customers in the targeted market segments, and selecting the individual and organisational capabilities required for the internal, customer, and financial objectives' (Kaplan and Norton 1996). As used in this definition, 'choosing market and customer segments' is actually referring to the focus strategy; 'delivering value proposition' is choosing to increase customer receipts and/or decrease customer sacrifice, and, therefore, entails cost leadership and/or differentiation strategies, or a combination of the two (Kelety 2006). Developing the necessary capabilities to serve the segments is related to all three general strategies. Therefore, strategic positioning is the process of selecting the optimal mix of these three general strategic approaches although there has been some support found (e.g. Hambrick 1983, Miller and Friesen 1986, Kim and Lim 1988, Hooley et al. 1992) for Porter's statement: 'this is rarely possible' to pursue more than one of three strategies simultaneously and successfully (Porter 1998). The mix is selected with the objective of creating a sustainable competitive advantage which the researcher advocates. However, to the firm itself and the business person responsible for profit and loss (P&L), the fastest way to generate extra profit is to cut costs. It is simply easier to trim cost than it is to generate sales growth. After all, it is more controllable to save your own money than asking for business from other persons as the researcher argued. Atkinson et al. (2004) stated costs are controllable and can be reduced through the application of lean methods to take unnecessary costs out of an organisation. Using cost saving to strategically position a company is in line with Lean thinking although there is much more Lean can do to achieve more with less.

2.5 Management of non-strategic costs

Strategic cost management is not a new concept in theory however it presents major opportunities for decision-making improvements for most organisations by taking a broad view of the organisation costs, both internal and external in such a way to enhance competitive advantage (Ellram and Siferd 1998). Miller (1993) argued that over time the world views, goals, strategies, cultures, and processes of successful organisations will become more pure or ‘simple’. Taking the ideas and concepts of strategic cost management and the law of simplicity (Maeda 2006), a better list focusing on the interrelationship with revenue and profit may exist by breaking the list of cost drivers into strategic costs and non-strategic costs. If businesses can view each value activity and cost from a strategic point of view then the idea of Lean is that unnecessary costs are reduced to the lowest level and can be realised for achieving more with less.

The strategic vs. non-strategic distinction has been considered by Brander and Spencer (1983), Horstmann and Markusen (1987), Fudenberg and Tirole (1984), Bulow et al. (1985), Gal-Or (1985, 1987) and Woolf (2012) but applied in different areas such as trade policy, investments, commitment, differentiation, and weapons. Moreover, the definitions of strategic and non-strategic costs have not been standardised. Using ‘strategic costs’ and ‘non-strategic costs’ for discussing a new direction, new investment, or how to enhance business profit is still mainly limited to practitioners and consulting companies and there is a lack of academic support.

Until recent times, there has been little attention on non-strategic costs from a strategic perspective or approach in the major research journals. Although few scholarly articles and academic studies have been published on using a strategic approach to manage overhead resources and costs in the last couple years (e.g. Tattersall 1989, Lee and Covell 2008), no studies have really addressed the idea of managing non-strategic costs, but only mentioning the term of non-strategic costs (e.g. Evans 1989, Shufelt 2003, Blackshaw 2006). Part of the reason is that non-strategic costs are relatively small in comparison with strategic costs. Chang and Hwang (2002) found a positive link between the percentage of cost and degrees of cost tracing over the manufacturing industry for firms in US and Hong Kong which supports the previous statement. The phenomenon is confirmed in Chapter 4 to be applicable across industry in Taiwanese companies or organisations.

MIA EeziBuy (2011), a partnership between the Music Industries Association and PartnerSave Limited, claimed that ‘non-core or ‘non-strategic costs are the overhead costs needed to run a business that do not directly contribute to sales or profits’ as most practitioners (e.g. Fifer and Machin) did. Overheads as a part of non-strategic costs need to be managed in a strategic approach (Lee and Covell 2008). However, Lee and Covell (2008) described that Drucker in the 1950s complained about the variety of costs the accountants ‘lumped’ together as overheads and warned mangers to make a careful distinction between ‘productive’ and ‘non-productive’ overheads. This implies simply categorising overhead as non-strategic costs is arguable. The definitions from the practitioner field need to be fine-tuned and redefined.

A key success factor for any organisation is the effective management and control of its overhead resources and costs (Tattersall 1989, Gandhi 1996). Unfortunately, indiscriminate across-the-board cuts, or cuts based on benchmarks or the subjective perceptions of value provided by an overhead service or department are normally adopted by companies due to lack of time and patience to categorise and assess their overhead thoughtfully (Lee and Covell 2008). The few instruments often applied to managing overhead costs in some cases are budgeting and value analysis (Tattersall 1989 and Aggarwal 1983) but generally take place in manufacturing industry. This problem is not new and results in managers having grappled unsuccessfully with overhead and non-strategic costs for decades (Lee and Covell 2008, Tattersall 1989).

Instruments of strategic cost management however can be used individually to support a specific goal or together to serve the overall needs of the organisation for managing non-strategic costs. With ongoing pressures to reduce costs and improve profit, the need for cost management instruments is clear. What is not so clear is which instrument to use, when, why, and how one cost management instrument interfaces with others (McNair and Bleeker 1998). In the literature, there are many instruments for strategic cost management such as target costing, activity based costing and management, competitive advantage analysis/strategic positioning analysis, life cycle costing, benchmarking and value chain analysis. Among the instruments, the important consideration is which instrument can be strategic, integrated and interacted with other instruments to achieve strategic cost management objectives, and is also applicable for managing non-strategic costs. According to these important considerations, some key instruments are introduced in Table 2.4.

Table 2.4: Instruments of Strategic Cost Management

Tool	Nature	Role	Reference
Benchmarking	Process performed to determine critical success factor and study ideal procedures of other organisation in order to improve operations and dominate market	Strategic analysis	Camp (1989), Geber (1990), Davies (1990), Spendolini (1992), Grayson (1992), Vaziri (1992), Bendell et al. (1993), Kharbanda (1993), Seidenschwarz (1993), Watson (1993), Zairi and Leonard (1994), Karlof and Ostbloom (1994), Leibfried and McNair (1994), Cook (1995), Morwind (1995), Lamla (1995), DeToro (1995), Pieske (1995), Codling (1995), Lewis and Naim (1995), Andersen and Pettersen (1996), Gronerus (1996), Meyer (1996), Gronerus (1996), Zairi (1996, 1998), Coenenberg et al. (1997), Magrab (1997), Ansari et al. (1997a and 1997b), Ahmed and Rafiq (1998), Bhutta and Huq (1999), Fernandez et al. (2001), Ball (2000), Coers et al. (2001), McAdam and Kelly (2002), Gotze (2004)
Balanced scorecard	A strategic performance management system that translates the vision and strategy of an organisation into operation objectives and measures. Objectives and measures are developed for each of four perspectives: financial, customer, process, learning and growth.	Formulating strategies and determining the basis of performance measurement	Maisel (1992), Lingle and Schieman (1996), Epstein and Manzoni (1997), Mooraj et al. (1999), Olve et al. (1999), Schneiderman (1999), Kaplan and Norton (2000), Beer and Norhia (2000), Malina and Selto (2001), Jensen (2001), Brignall (2002), Bourne and Bourne (2000), Olve and Sjostrand (2002), Niven (2002), Parmenter (2002), Cobbold and Lawrie (2002), Davig et al. (2004), Rohm (2004), Hannabarger et al. (2007)
Theory of constraints	A tool to improve rate of transferring material into finish goods.	Implementing strategies	Goldratt (1990), Lockamy and Cox (1994), Lockamy (2003),

Tool	Nature	Role	Reference
Continuous improvement	Conducting continuous improvement in quality and other critical success factors. A variety of methodologies are available for process improvement. These include Six Sigma, Lean Management, Lean Six Sigma, Agile Management, Re-engineering.	Continuous improvement	Upton (2004), Cooper and Slagmulder (2004), Vonk (2005), Maurer (2005), Cveykus and Carter (2006), Alukal (2006), Manos (2007), Gordon (2007)
Total cost of ownership (TCO)	A purchasing tool and philosophy aimed at understanding the relevant cost of buying a particular good or service from a particular supplier.	Implementing strategies	Ellram (1993), Ellram and Siferd (1993, 1998), Hogg et al. (2001), Hodges (2005), Geiger (2006), Garfamy (2006), Hurkens et al. (2006), Heilala et al. (2007), Ramanathan (2007), Machuca et al. (2009)
Treatment protocols	A management technique originated from healthcare and conducted by management account and functional specialists together to reduce costs by cutting back on unnecessary and inefficient steps and presenting standardised ways to a particular condition.	Formulating strategies and determining basis of performance measurement	Cooper and Albright (1996)
Cause and effect (fish bone) diagram	An approach to help identify the hidden causes.	Strategic analysis	Tatikonda L and Tatikonda M. (1994), Shea and Kleinsorge (1994), Welsh (1997), Morrow and McNeese (2002), Pal and Byrom (2003), Perry (2006), Levinson (2006), Laman (2007), Adrian (2008), Bowie(2010)
Pareto analysis (80/20)	Separating vital few from the trivial many.	Strategic analysis	Chu and Chu (1987), Wendell (1987), Bradford and Sugrue (1997), Berniker (1997), Azari-Rad (2004), Rai and Allada (2003), Warburton (2004), Bernikder and McNabb (2005), Litten (2010)
Value analysis (VA)/Value Engineering (VE) (Overhead value analysis (OVA) was further developed for reducing costs of overhead activities)	A structured method of exploring and innovating the detail of how value is created. A step-by-step approach that capitalises on the synergy of a multidisciplinary team working together and determines the cost and value of each function, task and subtask within each function to solve a company's problems.	Strategic analysis; Implementing strategies	Aggarwal (1983), Reuter (1986), Beidelman (1987), Neuman (1987), Copeland and Ostrowski (1993), Pawar et al. (1993), Ross and Fenster (1995), Widner and Gallant (2008), Lang and Eaton (2009)

As mentioned in Section 2.3, the conceptual framework of strategic cost management is rare in the literature. The framework for managing non-strategic costs is even rarer, almost non-existent in the literature. Firms have responded to the changes in business in many ways such as downsizing the workforce and outsourcing service functions. They have attempted to become adaptable as the pace of change increases. Firms also are beginning to apply cost management to support their strategic goals. So, non-strategic costs deserve more attention.

However, it is expected that there will be a wide range of obstacles to improving non-strategic costs, based on the survey conducted by CFO Research Services (2009). CFO Research Services study showed Organisational Resistance is the greatest obstacle at companies to reducing G&A costs (General and Administrative costs), followed by a lack of time, attention, resources and incentives, standardised approach, tools, framework, decision-making structure, cross functional communications, benchmarking data, robust spending reporting, knowledge of supplier market, souring arrangement, and so on. To form the foundation of effective management on non-strategic costs, the researcher further argued that guiding principles should be used to minimise Resistance to Organisational Change, the major barrier to successful business improvement projects (Al Jufairi and Sequeira 2013, Kokkranikal et al. 2013). Refsgaard and Henriksen (2004) described key principles in a systematic and consistent way to enable the mangers to make the compromises required and minimise resistances in practice. There are several guiding principles which have been identified to assist in improved and effective cost management (Berliner and Brimson 1988, Kelety 2006). To overcome the obstacles identified by CFO Research Service (2009) in the way of managing non-strategic costs and reach the desired objectives of the study, the following steps incorporating guiding principles and common steps are listed as follows:

- *Top management support and sponsorship:* Top management commitment is a prerequisite to the successful implementation of any strategy or cost cutting (Hunt et al. 1985). However, to get this support, top management need to understand the value of managing non-strategic costs to the business profit and be committed to create a culture of continuous improvement (Shields and Young 1989). An effective cross-functional team is vital to the success of any cost management effort because of the varied departments and functions that are affected and need to be involved to implement cost management initiatives.
- *Understand what causes the cost and revenue structure of the business:* Understanding the causal relationship between an activity and its cost enables management to focus improvement efforts on the areas that will produce the best results (Porter 1985, Miller 1992, Shank and Govindarajan 1993, Donelan

and Kaplan 1998, Blocher et al. 1999). Many companies do not have accurate information on what their true costs are. Information systems to capture spending can be used in areas such as pooling knowledge, identifying saving opportunities and total cost drivers, optimising use of resources.

- *Identify the firm's activities and select those that can be used to produce (or sustain) a competitive advantage:* This selection process requires knowledge of the cost and value of each activity. With value chain analysis, the strategic cost management efforts are focused on improving the strategic activities of the company, trace costs to value chain activities, and use the activity-cost information to manage the strategic value chain activities better than other companies in the industry (Porter 1985, Miller 1992, Shank and Govindarajan 1993, Donelan and Kaplan 1998, Blocher et al. 1999).
- *Understand and reduce inter-functional complexity:* A company's complexity increases as the breadth of its product line expands, as each product uses more unique components, and as more process options are available to manufacture the product (Swenson 1998). Excessive product and process complexity drives costs up, increases lead time, and makes quality more difficult to control. Complexity makes the challenge of managing costs effectively even more difficult (Porter 1985, Shank and Govindarajan 1993, Spitzer and Tobia 1993, Cooper and Kaplan 1998, Donelan and Kaplan 1998, Blocher et al. 1999).
- *Increase effectiveness and continuously improve costs:* A company should redefine its cost structure to select the costs that generate profit. Therefore, strategic cost management must become standard operating procedure; effective cost management never stops, and it does not have to be painful (Spitzer and Tobia 1993). Management and employees should be constantly identifying opportunities for eliminating or reducing unprofitable works and only incur costs that are specially linked to revenues for profit maximisation.
- *Use strategy to manage costs:* In tough times, a company may rush to cut costs without thinking carefully about its long-term future. Hence, cost management should use the organisation's strategy as the initial screen for decisions on costs (Grundy 1995). There must be known cost management objectives and a plan as to how the company is going to achieve them, in addition to overall business strategies.
- *Build skills:* In an organisation that practices cost management, employees must know that they are responsible for managing costs, have the skills to do so, receive positive reinforcement for cost management and get timely feedback on the results (McMahon 2001). Investments in educating the work force about cost make the critical difference and enable employees to better

understand how to manage costs, improve quality and productivity, and enhance performance.

- *Involve employees in decisions:* Employees will need to understand the company's objectives and have accurate cost information. Soliciting input from the employees will not only give management a better understanding, but it will give employees more incentive to become involved (Lewis and Luecal 1998). Companies that actively solicit suggestions from their employees will undoubtedly find better and more cost effective ways to do things.
- *Performance measurements:* One of the key aspects in the cost management is to establish suitable performance criteria. Without measurements a firm will not know where it is, where it came from, or where it is going. Performance measurements like validation tests (Refsgaard and Henriksen 2004) should be established for all aspects of a cost management plan that are critical to its success. The results of measurement can be used to report success, to identify problem areas, and as the basis for taking corrective action. However, any cost element should not be overlooked to increase larger reduction.
- *Continuous interaction among involved parties :* A continuous interaction is crucial for a successful process (Refsgaard and Henriksen 2004). This dialogue is also very important in connection with continuous improvement (Dean and Robinson 1991, Malik et al. 2007) for cost management. Cost management is a process that never ends, but the dollars you save and efficiencies you gain are real. ‘We're already saving all the money that we can.’ should not be the excuse for discontinuing cost improvement.

The primary focus of the researcher’s study is to achieve a low cost relative tocompetitors by using value chain analysis to break down the chain into strategically relevant activities and further categorise involved costs and expenses into strategic costs and non-strategic costs. The researcher argued that a firm can lower its costs without weakening its competitive position. Ignoring value chain linkages will result in either spending too much money on the non-strategic side or very little, and even no, contribution to a firm’s revenue or profit.

2.6 Extended Strategic Cost Management

Today, managing non-strategic costs is still in an early exploratory stage and has not yet developed a consistent theory, not to mention a framework for reducing non-strategic costs. The implications from the above research on non-strategic costs or overhead indicate that managing non-strategic costs may assume a more strategic role in the future. While previous literature has identified strategic skill sets in cost management and their importance, there is a need to take a long term view and identify the strategic position of non-strategic costs and manage them to enhance business profit. Extended Strategic Cost Management (ESCM) system developed in the study is a framework originating from the idea of non-value added activity from Lean but intentionally categorises costs from the strategic perspective by extending the key concepts of strategic cost management for a better management of non-strategic costs on practical grounds. In addition to Lean for maximising customer value while minimising waste, the framework has its genesis and its conceptual links with other models, such as Balanced Scorecard (BSC) for aligning business activities and monitoring organisation performance to the vision and strategy of the organisation.

However, Extended Strategic Cost Management (ESCM) is supported by many themes as a broader but relatively simple system for strategic planning and performance management (PM) to reduce non-strategic costs and meet global challenges — reducing waste, enhancing iteration speed, and continuous improvement through improved innovation.

With the development of industry and growth of business in general, the business management systems have evolved to business philosophies that have their supporters, as well as critics (Aubrey 2006, Rausch and Sheta 2013). There are similarities and differences between ESCM and other systems. The table 2.5 below reviews and features ESCM and the commonly accepted and recognised performance management systems that employ such processes as setting goals (strategic, operational and others), evaluation, control, introduction of response actions, and so on.

Table 2.5: Features of Different Business Management Systems

Six Sigma	· Process oriented · Uses similar implementation stages to BSC · Customer oriented · Implies good communication inside the company · Uses some of the concepts from preceding methodologies like total quality management, quality control
Extended strategic cost management (ESCM)	· Operation and Strategy oriented · Extends the idea of strategic cost management but focus on non-strategic costs · Focus on co-relationship of revenue, value, profit and cost · Leans more to cost leadership approach
Lean	· Aims at removing waste · Aims at avoiding unnecessary costs and operation · Monitors activities that a company must perform in order to deliver the product to the customer · Implies good communication inside the company
Balanced scorecard (BSC)	· Strategy oriented · Requires effective management and feedback system · Measures KPIs to reach strategic goals · A global tool

Total Quality Management (TQM)	· Often implemented within departments by technical specialists · Uses internally set quality standards · Often disregard company strategy and senior managers may not be involved in TQM

(Hannabarger et al. 2007, Dahlgaard et al. 2006, Cobbold and Lawrie 2002)

In general, performance management (PM) ensures that company goals are effectively and efficiently achieved. Different performance management systems are operating on different levels, and thus are pursuing different goals, as well as serving different purposes. It should be noted that ESCM, Six Sigma and Balanced Scorecard look alike. At the same time there is a difference in the scope. Six Sigma focuses on processes and separate projects; Balanced Scorecard (BSC) covers strategic goals, while ESCM tends to cover operation and strategy.

It is interesting that the implementation process of ESCM is almost identical to that of BSC and Lean: Define, measure, analyse, improve and control. These stages may have different names in the three systems (i.e. ESCM, BSC and Lean) but they certainly have similar concepts.

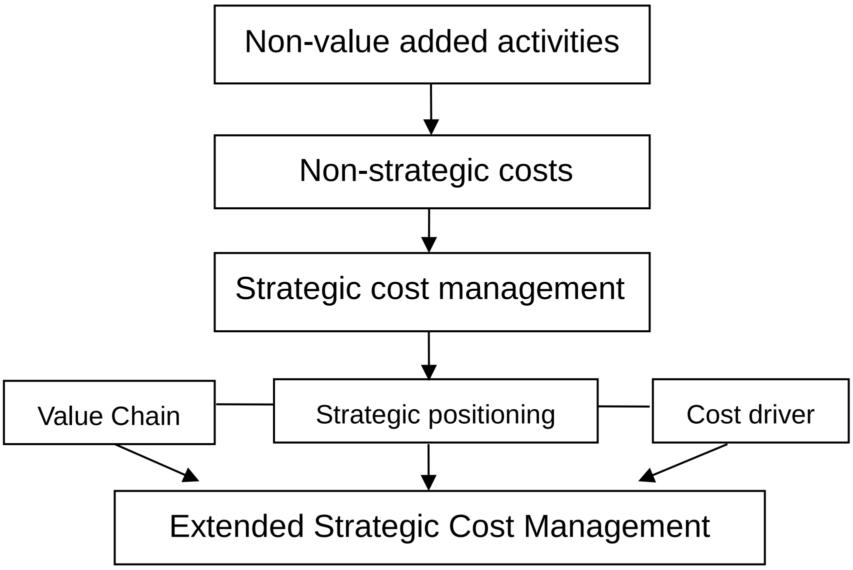
The goal of lean management is to avoid expenses which the final customers do not need. In other words, the goal of Lean is avoiding waste. Lean implies the following stages: identify value, identify value stream, flow, pull and perfection. Value in this case is expressed in how the product meets customer needs at a certain price and at a certain time. In other words, Lean aims at avoiding unnecessary costs and operations. In context of Balanced Scorecard, Lean also uses metrics, since it is necessary to establish, for example, cost per 1 day of storage, or cost for one produced detail.

The Implementation of balanced scorecard begins with setting of strategic goals. Once the goals are set, a series of operational tasks is created. In other words company management should answer the question “what needs to be done to reach strategic goals?” Ideally, BSC aims at informing every employee on his/her contribution to the overall success. So, every employee should be aware of strategic goals and what he/she is personally doing to reach them. Key performance indicators (KPIs) are created based on operational tasks to evaluate performance and analyse, and if necessary review, operational tasks or introduce response actions.

As to Extended Strategic Cost Management (ESCM), the implementation starts with Identifying value chain, categorise costs into strategic and non-strategic costs and measure them, analyse saving opportunity and setting strategic goals, actions taken for improvement, control and continuous improvement. Under the cost leadership strategy, the system is looking for minimising non-strategic costs and covers everything, not just internally, that happens to non-strategic costs.

The development stream of the extended strategic cost management system is displayed in Figure 2.4. The literature review supports this research to fulfill the three broad objectives for a cost management system (Hansen and Mowen, 2006): (1) other costing objects of interest to management; (2) planning and control; and (3) decision making.

Figure 2.4: The Development Stream of Extended Strategic Cost Management



In the last decade there have been dramatic impacts on, and changes within the field of strategic cost management. Given non-strategic cost's new strategic role, the research seeks to deliver the key skills and knowledge necessary for firms to improve in order to maximise the profit contribution of non-strategic costs to organisations at the end.

2.7 Conclusions

The review has showed that the trends and changes in the business environment affect the costs structure and the development of cost management. Cost management has shifted away from a focus on the stewardship role - product costing and financial reporting. The new focus is on management facilitating role - the development of cost and other information to support the management of the firm and the achieving of its strategic goals. A firm's cost management system needs to be more dynamic to deal with the more rapidly changing environment and helps to enhance business's profit in this competitive environment by facilitating strategic management.

Strategic cost management has been discussed from many aspects in the literature. The literature review has explained that the term strategic cost management has a broad focus. It is not confined to the continuous reduction of costs and controlling of costs and it is far more concerned with management's use of cost information for decision-making. Strategic cost management is also not confined to the use of cost management techniques for cost savings and should be used to improve the strategic position of a firm at the same time. In addition, it is much more than just a collection of new topics (Blocher 2009). It is a different way of viewing cost management. It is not a planning or decision-making focus, but instead focus is placed on helping the organisation to succeed, through the implementation of an effective competitive strategy.

In view of these, the researcher takes the strategic elements into consideration and classifies all costs into strategic costs and non-strategic costs for cost management to gain sustainable competitive advantage and improve business profit. Lee and Covell (2008) argued that the average company spends 23 cents out of every dollar of revenue on overheads which support non-strategic costs in companies accounting on average for 10% to 30% of their net revenues based on the researcher’s years of observation. For companies faced with an extraordinarily challenging sales environment, a cost reduction of this magnitude can create a welcome compensating effect to a firm’s profit if non-strategic costs can be managed strategically. The finding of a positive link between the percentage of cost and degrees of cost tracing by Chang and Hwang (2002) leads to a hypothesis that a reduced chance for companies to save more over strategic costs than non-strategic costs. Reducing non-strategic costs can strengthen the firm’s strategic position and is not a roadmap for collapse commented by Shufelt (2003). However, the concept and definition of non-strategic and strategic costs are different from value added and non-value-added costs (Hansen and Mowen 2006), are originated from practitioners and are not supported by academic studies. The researcher will therefore provide the academic support through the research and redefine the terms of strategic and non-strategic costs in this DBA study.

To serve the purposes of the study, below Table 2.6 shows the linkage between the researcher's review of existing literature and the researcher's empirical research.

Table 2.6: The links between the main themes from the literature review and the research questions and/or hypotheses

Review of the Existing Literature	Research Questions and/or Hypotheses
· The structural cost drivers associated with organisational structure, investment decisions, and the operating leverage of the firm define the playing field for strategic cost management (Riley 1987, Shank and Govindarajan 1993, Hansen and Mowen 2006).	· Cost Management department/ section/ committee under company structure?
· Wringing the costs is how a company can extract more profit (Tanaka et al. 1993). · One of three generic strategies for improving organisational performance and competitive advantage is overall cost leadership (Porter 1980) · 'non-core' or 'non-strategic' costs are the overhead costs needed to run a business that do not directly contribute to sales or profits (Fifer 1994, Machin 2007and MIA EeziBuy 2011) · It is not an easy job to determine accurately the right number of staff to cut beyond which quality of service, efficiency would be influenced (Wong 2004).	· What is the main reason behind conducting cost saving projects in your company? Low sales performance, low profit margin, be continuously competitive, or others specified? · Importance scale for Profit Contribution, Revenue Generation, Company Reputation, People Management, Others specified? · What is the most important element in categorising costs from a strategic perspective? Profit contribution, Revenue generation, Company reputation, Quality assurance, People management, or Others specified?

Review of the Existing Literature	Research Questions and/or Hypotheses
· Cost management is a strategic process that focuses on the customer (Freeman 1998 and Kelety 2006) and on profitability (Miller 1992 and Freeman 1998). · When determining how to manage costs in the organisation, the key is that costs must be viewed by looking simultaneously at the value they provide (Kelety 2006) and understand costs in relation to value (McNair 2000). Strategic cost management should be linked explicitly to business strategy and to competitive context in which value is created (Grundy 1995). · Costs are used in different business applications (Cooper and Slagmuler 1998d 1998e; Hilton 1991; Horngren et al. 1999; Horngren and Sundem 1990). · There are different ways of categorising costs according to their relationship to output as well as according to the context in which they are used, such as fixed and variable costs (Garrison et al. 2009), direct and indirect costs (Edmeads and Mackell 2002). In addition, other types of costs are used in different business contexts. In budgeting it is useful to identify controllable and uncontrollable costs (Vaidyanathan and Aggarwal 2003). In evaluating the financial merits of special proposals, the concepts of out-of-packet cost and sunk costs (Thaler 1980) are often used. Financial planning also utilises the concepts of incremental, opportunity, and imputed costs (Bromwich and Hong 1999, Northcraft and Neale 1986). · The strategic vs. non-strategic distinction has been considered and applied in different areas but there is no clear definition (Brander and Spencer 1983, Horstmann and Markusen 1987, Fudenberg and Tirole 1984, Bulow et al. 1985, Gal-Or 1985, 1987 and Woolf 2012) · Non-strategic costs are all other costs needed to run a business, but that do not directly bring in more business (Fifer 1994 and Machin 2007) · Non-core or non-strategic costs are the overhead costs needed to run a business that do not directly contribute to sales or profits (MIA EeziBuy 2011) · Drucker complained about the variety of costs the accountants 'lumped' together as overhead and warned mangers to make a careful distinction between 'productive' and 'non-productive' overhead (Lee and Covell 2008) · The idea of the value chain, introduced by Porter (1985, 1998) is that organisations should think and act as a joint entity to develop better products or services for meeting customer's satisfaction, and always endeavoring to meet the interests of the company. · Porter (1998) distinguished between primary activities which are directly involved in creating and bringing value to the customer and support activities	· Revenue and profit are two major elements to determine strategic and non-strategic costs?· Non-strategic costs are those costs may be needed to run the business but do not directly contribute to the bottom line profit, product/ service value, or sales growth? · Strategic costs are any costs spent that can directly increase business profit, product/ service value, or business revenue? · Categorising costs into two blocks, strategic and non-strategic, will allow companies to manage costs strategically? · What Items are strategic costs? Or Non-strategic costs? Any costs spent to increase business profitability, any costs spent to bring in more business, any costs spent that do not increase business profitability, any costs spent that do not bring in more business, the expenses which are not directly related to the core business activity profile, the expenses which are directly related to the core business activity profile, administrative costs, labour costs - not directly related to sales, labor costs - directly related to sales, Indirect costs, direct costs, quality costs, and other specified. · What is importance of scale of non-strategic costs?

Review of the Existing Literature	Research Questions and/or Hypotheses

· The average company spends 23 cents out of every dollar of revenue on overhead (Lee and Covell 2008) · Positive link between the percentage of cost and degrees of cost tracing over manufacturing industry for firms in US and Hong Kong supports the previous statement (Chang and Hwang 2002)	· Are strategic costs larger than non-strategic costs? · First focus for cost management in a company normally? Strategic or non-strategic costs · Is ‘a positive link between the percentage of cost and degree of cost tracing’ sustainable across industry? · Are Non-strategic costs often overlooked? · Companies normally give more time and attention to strategic costs than non-strategic costs? · Do companies spend enough time and attention on non-strategic costs? · Would it be easier to achieve higher saving rates from non-strategic costs than from strategic costs if a company can give attention to non-strategic costs? · Are non-strategic costs easy to measure? · Non-strategic cost is a potential source of competitive advantage? · What is Importance of scale of managing non-strategic costs?
· Organisational Resistance is the greatest obstacle at companies to reduce G&A costs (General and Administrative costs), followed by a lack of time, attention, resources, standardised approach, tools, framework, decision-making structure, cross functional communications, benchmarking data, robust spending reporting, knowledge of supplier market, souring arrangement, and so on (CFO Research Services 2009)	· What obstacles are in the way for improving non-strategic costs? What is the importance of scale of each obstacle? Organisational resistance, Lack of time, attention, and resources, Lack of a standardised approach to non-strategic cost management across the company, lack of tools, frameworks, and decision-making structures for non-strategic cost management, lack of communication among finance, operations, and/or procurement, lack of benchmarking data to evaluate vendor offerings/provide leverage in negotiation, lack of robust reporting on non-strategic cost spending, incomplete knowledge of vendors’ competitive market positions, highly complex sourcing arrangements, lack of adequate incentives, other specified?
· Business focusing on quick-fix and non-strategic cost reduction create a roadmap for collapse (Shufelt 2003)	· Reducing non-strategic costs is a roadmap for collapse?
· Indiscriminate across-the-board cuts, or cuts based on benchmarks or the subjective perceptions of value provided by an overhead service or department are normally adopted by companies due to lack of time and patience to categorise and assess their overhead thoughtfully (Lee and Covell 2008). · The few instruments often applied to managing overhead costs in some cases are budgeting and value analysis (Tattersall 1989 and Aggarwal 1983) but generally take place in manufacturing industry. This problem is not new and results in managers having grappled unsuccessfully with overhead and non-strategic costs for decades (Lee and Covell 2008, Tattersall 1989).	· How do companies cut non-strategic costs? What tool is used? Budgeting, Benchmarking, Strategic Cost Management, Balanced Scorecard, Total Quality Management, Lean Management, and/or others specified:

The research questions and/or hypotheses generated from the literature review in above Table 2.6 as well as the research philosophy and methodology for achieving the purposes in the researcher's study are discussed and investigated in the following chapters.

Chapter 3—Research Philosophy and Methodology

The purpose of this chapter is to discuss the research philosophy and the research strategy in the researcher's study. It describes the rationale for the researcher to adopt an **Objective** ontological position as well as a **Post Positivism** epistemological position and further discusses the benefits and limitations of this philosophy for the study undertaken. In addition, this chapter covers why the Survey Research was chosen as the methodology for the study involving and the use of a questionnaire supported by interview together with a combination of **Quantitative** and **Qualitative** approaches as methods.

Research philosophy depends on how a researcher thinks about the development of knowledge (Saunders et al. 2003). Benton and Craib (2001) stated that philosophy can assist in playing a part in uncovering obstacles to scientific progress and possibly criticise them, allowing science more freedom and providing a drawing of the pattern of existing scientific knowledge, as well as assisting in the gathering of information in the broader field of knowledge. In addition, philosophy can refine the methods of investigation in logic and argumentation (Benton and Craib 2001). It is important to recognise and identify a clear research philosophy before choosing methods to collect data and contribute to the development of a body of knowledge.

Easterby-Smith et al. (2008) suggest that understanding philosophy helps to refine and specify which research methods should be used to clarify the type of evidence gathered and its source when answering research questions. Easterby-Smith et al. (2008) go on to discuss the evaluation of the different methodologies and methods that could avoid inappropriate use of methods and to be creative and innovative in either selection or adaptation of methods. Therefore, it seems significant for the researcher to understand the subject of philosophy and to reason out the investigating phenomena in a clear perspective.

According to Benton and Craib (2001), philosophy provides 'foundations' for the research done in particular scientific specialisms. The researcher agrees that research philosophy not only provides findings that advance knowledge and understanding, it also addresses business issues and helps to solve managerial problems.

3.1 Philosophical stance and rationale

Each type of research is associated with different types of philosophical paradigms (Benton and Craib 2001). However, there is no definitive way to categorise the various research traditions since the terms and categories used by different authors to describe research traditions are not mutually exclusive so that some are overlapping (Miles and Huberman 1994, Patton 2002).

Research philosophy consists of a stance towards the nature of reality (ontology), how the researcher knows what she/he knows (epistemology), the role of value in the research (axiology), and the methods used in the process (methodology) (Creswell 2003). In general, approaches to research may be taken to view the world via ontological questions, adopt a philosophical approach and use the most appropriate methods of gathering data. There are two ontological positions: objectivism and constructivism (Harris 1999). Hughes and Sharrock (1997) pointed out that true knowledge must rest upon a set of firm, unquestionable and indisputable truths from an objectivist point of view. On the other end, the constructivist asserts that everything can be influenced by other social factors and the researcher's position will affect the manner in which research is undertaken (Bryman 2001).

Figure 3.1: The ontological positions and the epistemological positions

Ontology →	Epistemology →	Methodology →	Methods
· Objectivism	· Positivism	· Experimental research	· Sampling
· Constructivism	· Interpretivism	· Survey research	· Statistical analysis
	- Symbolic interactionism	· Ethnography	· Questionnaire
	- Phenomenology	· Phenomenological research	· Observation
	· Critical inquiry	· Grounded theory	· Interview
	· Feminism	· Heutristic inquiry	· Focus group
	· Postmodernism	· Action research	· Case study
	· Postpositivism, etc.	· Discourse analysis, etc.	· Document analysis
			· Content analysis, etc.

(Esterby-Smith et al. 1991, Crotty 1998; Hudson and Ozanne 1988, Saunders et al. 2003, Grix 2004; Druckman 2005)

Based on Figure 3.1 and other categorisation of research traditions, alternative epistemological foundations for research can be found in the debates involving positivism, post positivism, interpretivism, critical realism and post modernism in general (Table 3.1), although many more epistemological paradigms and potential definitions can be categorised (Morgan 2007 and Wells 1994) due to the diversity and disagreement in philosophical literature about meaning of philosophy (McGreal 1967).

Table 3.1: Summary of major epistemological positions

Epistemological position	Description	Reference
Positivism	Emphasis on explanation in social research, not understanding; Belief in the establishments of regular relationships between social phenomena by using theory to generate hypotheses or theories which are then tested and measured; Requires an observable reality, focus on highly structured methods with an end result to produce and law like generalities, more interested in figures providing points.	Grix (2004), Bryman (2001), Raeside (2010), Barron (2010)
Interpretivism	Emphasis on understanding, not explaining; Objective analysis is impossible as the researcher is the total of their personal and subjective opinion, attitudes and value; exemplified in the use of qualitative methods.	Grix (2004), Barron and Ellis (2010)
Critical Realism	Rejects both positivist and interpretive approaches to seek understanding and explanation in the social world.	Grix (2004), Ellis (2010)
Post Positivism	Exists alongside critical realism and uses further methods to get a more accurate indication of what is happening in reality while it recognises that it is not possible to fully know; Reacted against the adoption of methodologies of the natural sciences to explain the social world.	Sparks (2002), Fischer (1998), Phillips and Burbules (2000), Trochim (2006), Dias and Hassard (2001), Barron (2010), Blaxter et al. (2006), Groff (2004), Gray (2009)
Post Modernism	Abandons any attempt to find bases for knowledge and emphasise difference, fragmentation, change, pastiche, and the irrational.	Benton and Craib (2001), Ellis (2010), Maxwell (2010)

Concerning knowledge creation for everyday life, the researcher initiated the research ideas from personal work experiences as a senior executive observing the phenomenon as a management consultant in Taiwan, as well as from literature reviews. Based on the personal work experiences and phenomenon observed, the researcher found that most companies give little well thought effort and attention to reduce the costs which are not directly linked to their strategic needs. In addition, the hypothesis resulting from literature review such as a positive link between the percentage of cost and degree of cost control in the manufacturing industries, if can also be sustainable over service industries reflect the possible truth that non-strategic costs are often overlooked. The researcher therefore argued that a strategic move might need to be made to non-strategic costs for being competitive in the market. If a researcher takes a positivist viewpoint, hypothesis or theories will be measured (Grix 2004). The hypothesis in the study indicates the suitability of working within a positive approach or post positivist paradigm for the study. By applying a positivist approach, a scientific method having often been codified into stages like including a sample, observations and analysis could be adopted to formulate the study and then propose a conceptual framework of managing non-strategic costs after testing the hypotheses generated (Raeside 2010, Gray 2007).

Although the ultimate goal of all scientific activities is ‘truth’ (‘law like’ generalisations) and explanation through measurement and experimental methods (Benton and Craib 2001, Grix 2004, Barron 2010, Raeside 2010), it is arguable as to whether we get a ‘true’ objective view; even with any kind of scientific research there are bound to be certain levels of possible error and bias in their experiments and testing (Grix 2004). Positivism focuses and promotes operationalism (involved in proving and applying). However, positivism could lead to insufficient information on which to base the management’s next strategic move of companies. The suitability of this positivist approach should be evident but the approach might be hard to deal with intangibles such as mood and culture differences. A positive approach may not allow sufficient information to be interpreted on which to base future decisions which re-interpret non-strategic cost as strategic.

Crossan (2003) argued that a positivist approach does not allow the means to examine human beings behaving in an in-depth way. Crossan (2003) also asserted that human are not objects and are subject to many influences on behaviour, feelings, perceptions and attitude which is what social science research is all about. However, social science research involves some kind of scientific examinations and observations. The interpretivist approach emerged in contradiction to positivism in an attempt to understand the social reality that involves interactions among people, organisations or societies or perhaps a reality working behind them (Crotty 1998, Remenyi et al. 1998).

Interpretivist researchers use their own conceptual lens when they interpret the social world based on their previous experiences, beliefs, existing knowledge, and assumptions (Carroll and Swatman 2000, Benton and Craib 2001, Grix 2004). Although interpretive studies are not limited solely to the use of qualitative methods, they are acknowledged as the most typically used method (Lincoln and Guba 1985; Patton 2002). According to Woods and Trexler (2000), ‘qualitative research’ can be referred to as an attempt to capture in-depth understandings of the world being investigated and the term qualitative research is used synonymously for research associated with the interpretivist paradigm. Since business situations are complex and dynamic, interpretivist claims that generalisability is not crucial because they try to capture the rich complexity of social situations of the changing and evolving world of business organisation (Saunders, Lewis and Thornhill, 2003). This has motivated the need to undertake interviews.

The researcher took a Post Positivism epistemological position holding a similar basic belief to positivism but thought some methods can be flawed and used other techniques to validate results for this thesis (Blaxter et al. 2006, Groff 2004). Unlike other interpretive paradigms and approaches, post positivism ‘rejects the incommensurability of different perspectives but recognises and takes cognisance of the often unequal power relationship between the researcher and those being researched’ (Sparks 2002). Post positivism uses multiple approaches and triangulation to extract reality (Barron 2010). A combination of the statistical findings further enhanced with structured focus groups and interviews could have provided a triangulated evidence to get a more accurate indication of what is happening in reality (Phillips and Burbules 2000, Barron 2010). By adopting a post positivist stance, the researcher can therefore hold close cross culture research but recognise and address power difference, establish and maintain rapport and build good relations with those being researched (Barron 2010). From a practical viewpoint, the researcher’s positive view of the world of reality is socially constructed and therefore a mixture of quantitative and qualitative approaches seems to be more appropriate. It is the intention of the researcher to deeply explore and gradually to acquire the views and perspective of others through a post positive approach in the study.

Incorporating and modifying the scientific methods of positivism from Raeside (2010), the scientific methods of post positivism in Figure 3.2 is used to generate researchable questions based on the researcher’s observation from working places, cultural experiences, management views, and so on. The research is then designed to hold steadfastly to the goal of getting it right about the reality of the management of non-strategic costs. Even though the goal could never be fully achieved because all measurements are fallible from a post positivist's stand point, the researcher emphasises the importance of multiple measures, observations and the need to use triangulation across these multiple errorful sources to try to get a better understanding on what's happening in reality (Trochim 2006). The triangulation in the study was achieved by a literature review, questionnaire (the initial research intervention) and interview (the further research intervention). The research design and data collection along with analysis based on sample size aim to propose a conceptual model of managing non-strategic costs from a strategic perspective. Once the reliability and validity of analysis results are tested and assessed, conclusions and recommendations can be made and further supported by a case study before selling solutions and recognising the strategic position of non-strategic costs and the contribution to business profit delivered by all related personnel.

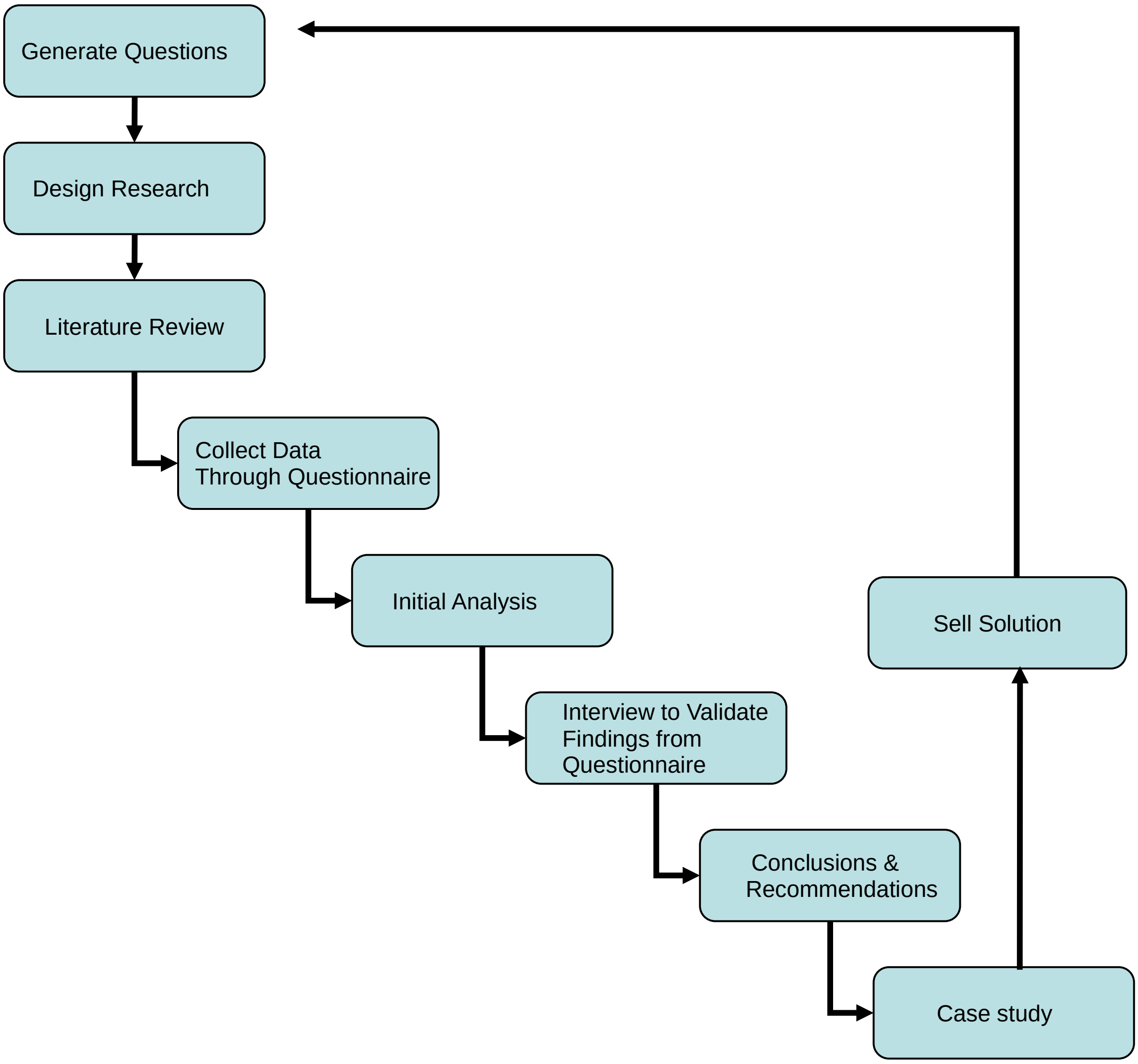


Figure 3.2: The Scientific Method of Post Positivism

This post positivism philosophy discards the extremes of pure positivism and interpretivism as described and looks to explain more fully the issues being researched and supported by the strongest, but possibly imperfect evidence that can be gathered at the time. However, it is possible that choosing the philosophy will be more time consuming and costly due to the investigation depth. Given the input, experience and close proximity of the researcher there is the possibility the researcher can influence or lead the respondents in their answers thus affecting the results or leading to bias which need to be avoided. The post positivist's philosophical position however fits best with the requirements of this thesis for the following reasons:

(1) Use of multiple measures, methods and continued testing in an attempt to achieve objectivity, which is in line with the researcher's ontological position - objective.
(2) Triangulation can be used to get a more accurate indication of the real world (Phillip and Burbules 2000, Winter 2000, Gray 2009)
(3) The breadth of investigation is a benefit for the study to get an approximate indication of reality through continued testing.
(4) Recognises and takes cognisance of the often unequal power relationship between the researcher and those being researched (Spark 2002).
(5) Use of questionnaires as an initial means of data gathering.
(6) Embraces cross cultural research but recognises and addresses power difference.
(7) Seeks the insider's perspective and consequently aims not only to explain phenomena but also understand reasons for its occurrence.
(8) The philosophy uses positivism and interpretivism in its position in understanding the benefits of both quantitative and qualitative approaches.

Other approaches are considered to have a number of limitations in the context of the aims of this DBA thesis. As mentioned previously, positivism focuses on quantitative methods, missing the depth of investigation (Blaxter et al. 2006). A wholly positivist approach may be inadequate on epistemological grounds, and that the procedures characteristic of this approach, particularly the experimental method, are unlikely to prove generally feasible or useful (Smith 1987). In contrast, interpretivism emphasises understanding not explaining (Grix 2004), taking more of a qualitative approach and being less likely to be open to scientific measurement (Benton and Craib 2010). Critical realism is not testing a hypothesis or query and does not pronounce scientific claims as being true (Grix 2004), limiting the research to non-scientific validation. Postmodernism (Grix 2004, Klages 2007) takes a narrow review not looking at the whole picture. It makes no promise of stability and has a moveable truth. Therefore, postmodernism claims nothing stands still long enough to be identified and that there is no such thing as knowledge (Lyotard 1979), making the epistemological position less attractive as a research philosophy for this thesis, given the understanding that the research may be applied in the future business operations.

There are three major ways of thinking about research philosophy: Epistemology, Ontology and Axiology. Each contains important differences that will influence the way in which researchers think about the research process. Axiology is the study of value (Heron 1996, Graham 2006) and can be defined as 'the study of the nature of types of and criteria of values and of value judgments' (Warfied 2006). The researcher believes that an understanding of axiology is very important to identify and analyse the influence of bias and prejudices on research. By learning how to discover the potential of employees, business can well release its hidden profit. Imagine if all employees utilised all their strengths, knew their true value to business, and could understand the roadblocks that hold them back? The values the researcher brings to research philosophy also reflect on himself and his ontology (Bryman and Bell 2007).

The researcher conducted the study and placed great importance on data collected through interview work which reflected that the study values personal interaction with respondents. So much can be achieved by simply recognising a person's value. It can help build confidence in their ability to make and carry out decisions. So the question to ask is, 'How does the study structure a programme for people to discover their true values and their roadblocks to achievement?' The answer is Axiology, the study of values and judgments. It reveals how people can make better decisions based on how they think and what they value. The researcher always values people potential, experience and true value. In the study, the researcher tried to recognise the value of administrative personnel and profit gained by the contribution delivered by them. Therefore, people can make better decisions for the company, help to reduce expenses and contribute to higher profits.

Looking at the aforesaid epistemological positions together and taking into account the survey research needs and the researcher's axiology, post positivism can deliver a more sustainable truth and help in designing a conceptual framework for managing non-strategic costs.

3.2 Data gathering method

The philosophy could influence the study and data gathering methods (Benton and Craib 2001). The study was conducted through a combination of induction and deduction approaches as well as a mixture of qualitative and quantitative researches. It was found in Chapter 2 in the literature review that the definitions of ‘strategic costs’ and ‘non-strategic’ costs from the practitioner field have no academic support and no unified definition although the strategic vs. non-strategic distinction is considered in different areas.

Aiming to use a less costly way to reach more people including people at some distance, the researcher adopts a quantitative approach in a convenient way as a primary method for collecting public opinions to make a judgment of what most people think about the definitions of strategic costs and non-strategic costs. In addition to fine-tuning or redefining the definitions from the practitioner field in an academic way, the research questions and/or hypotheses identified from the existing literature are investigated and tested. Then the qualitative approach is used to validate the survey results and gather an in-depth understanding of cost behaviour and the reasons that govern such behaviour.

From a deductive point of view, the researcher starts with the hypothesis that non-strategic costs are more likely to be overlooked and prepared a questionnaire to a sample of companies in order to establish the extent of oversight of the non-strategic costs. In addition, the researcher interviews some stakeholders and decision makers who have been or had been in charge of Profit and Loss (P&L) at work. From an inductive point of view, the researcher tried to get a feel of how costs were treated and managed in companies, so as to understand better the nature of the problem related to non-strategic costs. The result of this analysis forms the foundation of the study for a better management over non-strategic costs.

The survey is the most commonly used social research method for collecting data from individuals in a population of interest (Keeter 2000). A useful survey entails not only developing a good questionnaire and a valid sampling plan, but success in actually interviewing the sampled individuals (Druckman 2005). Druckman (2005) argued that one of first decisions in a survey design is how the data will be collected. The chief concern about surveys to the researcher is how to get the surveys completed. After all, the research philosophy influences not only data gathering methods but also the analysis of the data. A summary of important considerations in choosing a survey mode is presented in Table 3.2.

Table 3.2: Survey modes

	Personal interviewing	Mail surveys	Telephone surveys	Internet surveys
Cost	Very high	Low to moderate	Moderate to high	Low to moderate
Accessibility to population of interest	Very High	High	High	Moderate
Length of data collection	Lengthy	Lengthy	Fast	Moderate to lengthy
Infrastructure and staffing needed to administer	Substantial	Minimal	Substantial	Minimal to moderate
Level of questionnaire complexity	High	Moderate	Moderate	Moderate
Maximum length of survey	Long	Moderate	Moderate to long	Moderate
Response rates	Moderate to high	Low to moderate	Low to moderate	Very low to moderate
Respondent cognitive skills needed	Low	High	Low to moderate	High
Ease of use of open-ended questions	Easy	Difficult	Easy to moderate	Difficult
Use of graphics or other visual aids	Yes	Yes	No	Yes
Item nonresponse	Low	Moderate to high	Low	Moderate to high
Control over order of items answered	Complete	Low	Complete	Depends on implementation
Ability to control who responds	High	Low	High	Low

(Fox et al. 1988; Dillman 2000; Keeter et al. 2000; Druckman and Harris 1990; Druckman 2002a, 2002b and 2005)

The use of a sample when conducting a survey is typically justified on time and cost (Druckman 2005). Table 3.2 shows that the personal interviewing is the most time consuming and costly among the indicated survey modes. Although cost is a critical concern and may override other considerations, the researcher intends to use personal interviews as a qualitative approach to discover the real thoughts of decision makers, in addition to a questionnaire to a sample of companies as mentioned. A personal interview is more likely to solicit cooperation from decision makers and senior executives as described by Druckman (2005). During the interview period, direct observation (Pinnegar and Hamilton 2009) is employed as well as visualising any actual behaviour occurring (Ary et al. 1972) beyond the conversation and allowed for understanding (Douglas and Johnson 1977) through feeling, touching, hearing and seeing, etc.

However, to gain a rich understanding of the context of the research and process being enacted (Morris and Wood 1991), a short case study approach as confirmation is used to see if the proposing framework works well in real business environments. Robson (2002) defined a case study as a strategy for doing research which involves an empirical investigation of a particular contemporary phenomenon within its real life context using multiple sources of evidence. The multiple sources are referred to as interviews, observation and documentary analysis for the case study approach in the study.

The sample size is an important feature of any empirical study in which the goal is to make inferences about a population from a sample (Bartlett et al. 2001). In practice, the sample size used in a study is determined based on costs (time and money). Concerning the expense of data collection, and the need to have sufficient statistical power, as shown in Table 3.3 the researcher plans to have about 130 and 30 participants for questionnaire and interviews from the population, respectively.

Table 3.3: The population and planned sample size for the survey and interviews

Population (Target Companies)		Planned Sample Size	
		Questionnaire	Interview
Total number of companies in Taiwan	1,337,890	130 - 138	30 - 40
Total number of SME*	1,306,729		
Total number of non-SME companies per SMEA's definition*	31,167		
Total number of companies with annual sales > £ 2,100,000 (TWD100,000,000)	37,455		

*Note: SME as defined by Small and Medium Enterprise Administration (SMEA) in Taiwan is the company with paid-in capital below £1,680,000 (TWD80,000,000), annual sales turnover less than £2,100,000 (TWD100,000,000), or employee number less than 50;
(2013 White Paper On Small And Medium Enterprises In Taiwan published by SMEA, Small and Medium Enterprise Administration, Ministry of Economic Affairs ROC)

The planned sample size for the questionnaire is also justified and in line with Burns et al. formula (2008). As most question results found in the pilot questionnaire were skewed highly one way, the researcher expects the main study and the population probably are too. In addition to a response distribution of 90% resulting from the above findings and expectation, the recommended sample size for a hypothetical population is 138, based on a response with margin of error set at 5%, confidence level set at 95%, and an infinite population or a parent population that is at least larger than 20,000 assummed in Burns et al. formula (2008) and the sample size calculator of Raosoft (2004).

The planned sample sizes will be further reviewed and discussed in section 3.4: Sample selection and development.

3.3 The pilot study

Thinking of a pilot study as a miniature study (Lancaster et al. 2004, Ruxton and Colegrave 2006, Cochran and Cox 1992, Altman 1991, Festing et al. 2002), the research called for fewer literary resources, a shorter time frame, and fewer research subjects to ensure that the ideas and methods behind a research idea are sound, as well as to validate the study and its design being able to capture the data the researcher is looking for. Therefore, the purpose of the pilot study is to assess the proposed data collection and analysis techniques for defining strategic and non-strategic costs and uncovering the potential problems as well as pretesting the assumptions or hypotheses generated from the literature review in the preparation of the major study.

Taking the dynamic nature of post positivist approach, two methods including questionnaire and interview were pilot tested. To help in improving the response rate to some extent, the participants in the pilot study were mainly recruited from the companies and service industry the researcher had business associated with to test if the finding over manufacturing industry discovered in the literature could also be applied in the service industry. The researcher found that using personal connection seems to be a good way for the pilot study as other authors such as Atkinson and Hammersley (1989) and Birbili (1999) drawing upon the literature, gave several examples of cases where researchers have used personal networks in order to negotiate access or select informants. 10 participants from available networks were taken as the sample for the pilot questionnaire and another 2 participants for the pilot interview were involved to pretest whether the sampling frame and technique are effective.

The questionnaire was designed and structured in the way of gathering information after depiction questions to get a feel of how costs were treated and managed in companies, so as to understand better the nature of the problem before asking the definition of strategic and non-strategic costs at the end of questionnaire without affecting participants' responses. In order to validate the finding from the pilot survey results and other sources, the researcher approached those considered to be high level professionals with knowledge and access to answer questions in the pilot interview. The answers from the pilot interview validated the findings from the pilot survey, literature review, other reports and financial figures from interviewees, although more works need to be done in the main study.

Completing a pilot study is not a guarantee of the success of the full-scale survey. Based on the findings and lessons learnt from the pilot study, some changes are made for the main study:

(1) The flexibility to allow respondents to add or describe some things they feel are important or give better answers they believe but which are not covered by the response choices in the questionnaire are included and featured in the main study. The answer choices of the pilot questionnaire came from either the literature review or open-ended discussion with specialists from both practice and academic fields. The question style in the pilot questionnaire however used solely closed-questions and dichotomous or multiple responses which did not give participants the flexibility to provide other alternative answers not on the answer choices. The opinion made by one of the participants was that he could not find the answer choice 'lack of incentives' which is one of major obstacles to improving non-strategic costs at his company. The incident occurred in the pilot questionnaire and had the researcher rethink how to include more answer options and collect more information to be used in the main study. These response options were then refined and evolved further as the pilot questionnaire was implemented so that the respondents could fully express their ideas.

(2) To remove interviewee' unwillingness and to really open up to their inefficiencies as well as other inherent problems in their organisation, no tape recording is done but documenting is conducted in the main study. The pilot interview taking 69 minutes with electronic recording under anonymous arrangement was structured as one-to-one and face-to-face interviews in the participant's office after working hours to validate the findings of organisational resistance from the pilot questionnaire and discovered possible intangibles such as stakeholder's attitude, management's commitment and company culture against cost saving projects in the organisation. Before the pilot interview was conducted, permission was sought to tape-record, but the interviewee soon asked to stop recording as the topic was somehow related to sensitive information about his company and his voice might be recognisable to someone.

(3) The questions with specific financial information required or knowledge needed in the pilot questionnaire are removed from the question list of the main study due to the high incompletion rate on answering those questions. The questions asking about figures of cost items aiming to investigate the percentage of

non-strategic costs against total revenue were difficult and time consuming for most participants in the pilot questionnaire. To mitigate these, the financial statement and general ledger of the interviewee's company were investigated and used as a case to validate the findings from the questionnaire or/and interview related to finance in the pilot study. Separate exercises on the financial statements and general ledgers are conducted to investigate and verify the percentage of non-strategic costs against total revenue as well as other finance related findings, after the questionnaire and interview are completed in the main study.

(4) A bilingual questionnaire, English version along with Chinese, is adopted to assist participants on answering the questionnaire in the main study. Due to the English proficiency issue, extra efforts to interpret the questions in the pilot questionnaire into Chinese were made. Moreover, there were certain answers given by participants produced conflict among questions due to language issues. One example is where the participant had a positive answer for the definition of strategic costs as costs spent that can directly increase business profit, product/service value, or business revenue but categorised any costs spent to bring in more business as non-strategic costs. The conflict between the two answers was caused by miss understanding the words of business and revenue after a further check with the participant.

(5) The total questions in the main study are shortened to 25. There were 58 questions in the pilot questionnaire to ensure that it addressed all relevant issues. However, the high incompletion rates among participants led to a change after considering the balance between including enough questions to make a survey relevant but not too long. The questions such as respondent's gender under demography were removed due to no significant difference and meaningful answers given from the pilot study to increase completion rate and research feasibility in the main study.

(6) Participants in the pilot study are not included in the main study. Teijlingen and Hundley (2001) pointed out that a common problem for contamination is deciding whether to include pilot study participants in the main study. The concern was that they had already been exposed to an intervention and, therefore, may respond differently from those who have not previously experienced it. To prevent that from happening, those participants for the questionnaire in the pilot study were excluded in the main one.

The feasibility study and pilot study, were done in preparation for the major study (Polit et al. 2001) and also provided a good pre-testing or 'trying out' of the particular research instrument (Baker 1994). In general, the exercise of the pilot study using questionnaire and interview approaches fulfilled a range of different purposes, assessing the feasibility of a (full-scale) study, designing a research protocol, assessing whether the research protocol is realistic and workable, establishing whether the sampling frame and techniques are effective, estimating variability in outcomes to help determine sample size, collecting data and developing a research question and research plan. The answers from the pilot questionnaire are fruitful and the usefulness of personal interviews is obvious when probing for further explanations and for clarification.

3.4 Sample selection and development

Concerning contacting, questioning, and obtaining information from a large population is extremely expensive, difficult, and time consuming; the researcher conducted a convenience sample to infer information about a population without examining every member or element in the study. The sampling process comprised stages about defining the population of concern, specifying a sampling frame, a set of items possible to measure, specifying a sampling method for selecting items from the frame, determining the sample size, implementing the sampling plan, sampling and data collecting.

The structured questionnaire included items to measure the characteristics and current status of cost management in the respondents' firms; gathered information on strategic and non-strategic costs, challenge, exploratory behavior, self-evaluation, the assumptions or hypotheses generated from the literature review, and so on. The sample was generated from two sources. The largest source was the executive list of the companies which the researcher has associated with in the business or from personal networks. To obtain a larger sample a snowball technique was used whereby willing participants passed on the paper based questionnaire to their business friends or classmates in the Executive Master of Business Administration (EMBA programme) and asked them to participate. They worked in organisations that focus on cost control and profit enhancement as well as strategic management. The organisations commonly have more open communication than traditional organisations. The use of the known contacts is recognised as a proper and efficient way (Birbili 1999, Easterby-Smith et al. 2002; Atkinson and Hammersley 1989). Using existing business contacts in the study was more convenient to gain access for data collection. The demographic profile of the sample is in Chapter 4.

The questions of the questionnaire were developed from personal observation, work experiences and the literature review. In addition to demographic or filmographic questions to the participants, they fell into 3 key themes as Table 3.4 below:

Table 3.4: Key themes of the questionnaire

1. Cost Management	2. Cost Category and Distribution	3. Managing Non-strategic Costs
1a. Organisation structure 1b. Reasons for conducting cost saving 1c. Current general status of the cost management in participant's firms	2a. Categorising costs from a strategic perspective 2b. Distribution of strategic costs and non-strategic costs 2c. Definitions of strategic and non-strategic costs	3a. Importance of non-strategic costs 3b. Instruments and tools used for cutting non-strategic costs 3c. Obstacles keeping companies from delivering cost savings

The complete questionnaire was pilot tested and followed by some changes as mentioned in Section 3.3 to clarify questions and increase the understanding of respondents for the actual study although no more inferential statistical analysis with 10 participants could be done other than frequencies in the pilot study. The initial sample categorised participants between male and female in the pilot study. Because the proportion of female participants to total participants was relatively small (12%) and also because there was no gender difference across questions in the pilot questionnaire, the main study therefore eliminated the gender question from the sample. In addition, deleting 10 multiple respondents from the same participants that had participated in the pilot study (March 16, 2011～June 10, 2011) and 3 responses with excessive missing values pertaining to measurement items on top of 12 non-responses reduced the final sample size to 112. Another 4 missing values were neither estimated nor substituted for the performance measures, so the final sample used to test was further reduced to 108 in the main study as shown in Table 3.5. The task list and schedule for the questionnaire taken from March 16, 2011 to February 21, 2012 including phase, project task and procedure, day taken and interview date is in Appendix 3.

Table 3.5: The actual sample size for the questionnaire and Interviews

Sample Size							
Questionnaire				Interviews			
Distributed	Responded	Valid	Completion Rate	Approached	Conducted	Participants	Completion Rate

137	121	108	78.83%	41	39	31	75.61%

The quantitative research approach in the form of questionnaire with results presented in Chapter 4 was used for collecting primary data to understand how costs were treated and managed in companies, so as to define costs from a strategic perspective and explore if non-strategic costs often are neglected and find ways possible to manage non-strategic costs for improving the company's competitive position. However further validation and support to the findings from the questionnaire are needed from the post positivism epistemological position of the researcher, the interview approach was therefore adopted to understand the reasons for attitudes and opinions behind the questionnaire and to possibly get the full picture of reality and, after testing the hypotheses, propose a conceptual framework of managing non-strategic costs. 41 participants for personal interviews were chosen mainly from senior executives of the researcher's existing clients and personal connection. Due to personal concerns and availability issues, at the end only 39 interviews were undertaken in an eleven-month time for a total of 31 interviewees aged from 30 to 60 and working in their respected companies at least 3 years. The respondents' functions were directly related to profit and cost (P & L), general administration or purchasing. The interviews were mostly taken in the interviewee's office or a nearby cafe after business hours or during the lunch breaks. However, 11 of the interviewees requested to undertake the interviews by online phone (e.g. Line, Skype), video (e.g. Skype) or phone due to location and time restraints. A small horse figure as a gift was given to show the researcher's appreciation to each participant. A consent letter confirming the interviewee understands the process and consents to participate and permission for the use of a voice recording device was signed by each interviewee. The interview questions were mainly developed and based on the questionnaire results. A 3 phase interviewing process including introduction, question and answer, and closing section was used for each interview. The Table 3.6 below shows the interview themes with questions which were constructed and developed to validate questionnaire results as aforesaid. The interview schedule is in Appendix 4.

Table 3.6: Key themes with interview questions

1. Support and attention
1a. Does your company have cost management department, section, meeting, committee, or any centralised unit to watch over costs regularly? If no, who has the ownership to manage costs? Is he/she fully responsible for cost management? 1b. Do senior manager give strong support to cost saving projects? 1c. Does your company pay good attention on cost management? 1d. Do you think cost saving is important to your company/ institution? 1e. Do you prioritise differently (hold different viewpoint) if you work in public sector instead of private sector? 1f. Has your company taken any cost saving projects? What's the reason behind it? 1g. Is importance of cost management different between service and manufacturing industries? 1h. Do you prioritise differently (hold different viewpoint) if you work in service industry instead of manufacturing industry? 1i. Do you give different ranks for the following five reasons of taking cost saving projects: profit contribution, revenue generation, company reputation, quality assurance, and people management? 1j. Do you rank the five major reasons (profit contribution, revenue generation, company reputation, quality assurance, and people management) differently if you are personally involved in the cost saving projects? 1k. Will the ranks be different if you are in different job position? 1l. What is the most important purpose of cost management from the above 5 major reasons? 1m. Is there any other important reasons for conducting cost saving projects which are not on the list of aforesaid 5 reasons?

2. Categorising costs from strategic perspective
2a. Do you agree revenue and profit are two major elements to decide what cost is strategic or non-strategic? If your answer is yes, are strategic costs bigger than non-strategic costs? 2b. What will be your first focus, strategic costs or non-strategic costs? Why? 2c. To you, what costs are strategic costs? How do you measure them? 2d. Do you agree costs related to product or service quality are strategic costs? 2e. Do you agree costs spent to bring up profit are strategic costs? 2f. Do you agree costs spent for sales growth are strategic costs? 2g. Do you agree strategic costs are those costs spend which can directly increase business profit, product (service) value, or business revenue? 2h. Do you agree categorising costs into two blocks, strategic and non-strategic will allow a company to manage costs strategically? 2i. Do you acknowledge the benefit of categorising costs into the two blocks for a better cost management in your organisation?
3. Management of non-strategic costs
3a. Does your company pay attention on non-strategic costs? 3b. Do you agree or disagree that a company focusing on quick-fix and non-strategic costs will create a roadmap to collapse? 3c. Is reducing non-strategic costs a plus to a company's profit? 3d. Do you agree cutting non-strategic costs is less risky to a business? 3e. Do you agree reducing non-strategic costs is a strategic move to be more competitive in the market? 3f. Do you expect to have higher saving rate from strategic costs or non-strategic costs? Please provide your reasons. 3g. Have you worked on reducing non-strategic costs? How did you (or your company) do? How's saving rate in comparison with strategic costs?
4. Obstacles and instruments
4a. Except budget control, any particular action taken to cut costs? 4b. How does your company reduce non-strategic costs? 4c. Any policy, guide line, or management tools introduced to cut non-strategic costs? 4d. Any action your company took to reduce costs, non-strategic costs in particular, when the economy is bad? 4e. What obstacles you met when you conduct cost saving projects? 4f. What is the biggest obstacle for reducing non-strategic costs? 4g. What were the actions your company took to overcome the obstacles? What will you do differently if you can do it again?

As mentioned in section 1.3 and 3.1, the results from the mixture of quantitative (the initial research intervention) and qualitative research (the further research intervention) in addition to the literature review can achieve a triangulation for forming the foundation of the need to develop a conceptual framework of managing non-strategic costs. The suggested framework ‘Extended Strategic Cost Management (ESCM)’ aiming to release hidden profit through taking a strategic view of non-strategic costs is supported by a case study in Chapter 5 to establish the feasibility and usability of the study and enable a contribution to the enhancement of professional practice in the business area.

The case is chosen from a hospital located in Taiwan where the researcher and his team provide their management consulting services. Taiwan, the place of the case study, has extensive transportation networks to most cities within 3 hours and ranks as 18th in the world by gross domestic product (GDP) at purchasing power parity per capita (person) but is facing de-internationalisation, low-paid salary to employees and uncertain outlook for personal promotion of staff, which results in human resource talents seeking career opportunities elsewhere in the Asia-Pacific region. As a result businesses in Taiwan suffer most from being the size of small and medium enterprises but with weaker-than-expected revenue of its hectic business operation for any consideration of further expansion (Michael Page 2013). With the prospect of continued relocation of labor-intensive industries to economies with cheaper work forces, such as in mainland China and Vietnam, Taiwan's future development will have to rely on further transformation to a high technology and service-oriented economy (QFinance 2010). However, Healthcare as one of service-oriented industries is highly competitive. The number of hospitals since 1998 has been contracted to 510 from 913 (Cheng 2011). The decline in hospital numbers was mainly due to the demise of private hospitals. In order to better cope with the challenges facing the hospital in terms of the changing market environment and changes made in the National Health Insurance (NHI), the studied sample XYZ hospital has to increase scale and reduce operating costs to maintain its competitive edge.

Networking is an important part of doing business in Taiwan as ‘who knows who’ is highly regarded (Katz 2006). Besides, eating and drinking with prospective partners and clients is an important part of doing business in Taiwan for ‘guanxi (relationship)’ (Pitta et al. 1999). This is also the case when working on the case study for the collection and analysis of relevant data. Finding a senior executive early on to help forge and maintain robust interaction is the first thing the researcher does to get into the social circle in the hospital. Meetings and discussions with stakeholders in the case are often arranged over food and drink.

Although Mandarin (Chinese) is an official language in Taiwan, speaking in local dialect (Taiwanese) is the most effective way to communicate. In Taiwan today about 16 million people, 70% of the population of Taiwan, speak Taiwanese and most also speak Mandarin. Taiwanese is spoken in most parts of Taiwan and some people are even more comfortable and willing to share their thoughts with the interviewer speaking Taiwanese than Mandarin.To collect information in Table 3.6, Taiwanese will be mainly used in the research survey.

3.5 Conclusion

Taking the post positivist approach, the researcher intends to give a strategic position of non-strategic costs and recognise its contribution to business profit. The study was designed to discover a clear link between non-strategic costs and business profit, which is not a traditional focus by businesses; non-strategic costs are not important at first thought since sales and strategic costs are top of the business agenda.

The research philosophy also influences the conclusion drawn in the study. Positivism believes the facts about the external world can only be learnt through experiment and manipulation. Guba (1990:20) says ‘Question and/or hypotheses are stated in advance in propositional form and subjected to empirical tests (falsification) under carefully controlled conditions’. In view of the difficulties encountered in applying positivism in social and behavioral sciences, a relaxation of conditions required by positivism had been proposed in various ways. As characterised by Phillips (1990), the focus of the new philosophy, post positivism, is dynamic. Though experimentation and manipulation are still the primary methods in acquiring new knowledge, the inquiry was conducted in a more natural setting instead of laboratories (Hsu 2001). Qualitative methods are also allowed if they do not violate scientific principles (Hsu 2001). Multiplism is therefore emphasised, which is to repeatedly verify the results in multiple ways. To achieve the research aims, the researcher followed the scientific method by adopting the quantitative research approach. Besides, in-depth interviews (qualitative) were conducted for a considerable amount of information to be gathered on the conditions of the participants, the fears they held about reduction on non-strategic costs and most importantly information regarding working culture within participant’s companies.

In conclusion, the research philosophy of mixed methods leaning more to positive approaches is suitable for this task. Working from a post positivist perspective, the researcher can avoid seeing things in only black and white. Most importantly, the effect of focusing on non-strategic costs from different angles can be truly discovered.

Chapter 4—Findings and Discussion

This chapter reports and discusses the analysis results on the research design specified in Chapter 3 to fulfill the following purposes: the redefinition of strategic costs and non-strategic costs originated from practitioners for a better cost management; the investigation of non-strategic costs managed in organisations and the resulting construction of a suggested conceptional framework for managing non-strategic costs. As mentioned in Chapter 3, the study adopted a quantitative approach as the main survey for collecting data. In addition to a questionnaire to a large sample of companies, personal interviews as qualitative approach to discover the thoughts of various parties in the organisations were used to support and validate the findings from the questionnaire.

4.1 Sample demographics

A structured questionnaire was used to collect responses (see Appendix 1 and 2). To further validate and support the findings from the questionnaire, an interview approach was also conducted to understand the reasons for the decisions that the research participants have taken and to understand the reasons for their attitudes and opinions. So the full picture can be presented in the study.

		Frequency	Percent
Sector	Public	16	14.8
	Private	92	85.2
	Total	108	100
Industry	Service	64	59.3
	Manufacturing	44	40.7
	Total	108	100

Table 4.1: Sample demographics by sector and industry

As shown in Table 4.1, the most represented sector in the study was the private (85.2%) with the public sector making up the remainder (14.8%). About 59.3% of them were from the service industry and the rest were from the manufacturing industry (40.7%). The sampled participants mainly from the service industry was in line with one of the study's intentions to further test if the relevant findings over the manufacturing industry in the literature could also be discovered in the service industry.

		Frequency	Percent
Age	<30	4	3.7
	30-39	15	13.9
	40-49	44	40.7
	50-60	33	30.6
	>60	12	11.1
	Total	108	100
Education	High school	4	3.7
	College	53	49.1
	Graduate	51	47.2
	Total	108	100
Position	Board chair	15	13.9
	CEO/MD/GM	17	15.7
	Financial leader	21	19.5
	Administration leader	15	13.9
	Other functional leader	27	25
	Clerical-General admin	8	7.4
	Clerical-others	5	4.6
	Total	108	100

Table 4.2: Sample demographics by age, education and position

All age and education groups were represented. In Table 4.2, there were 17.6% of participants aged below 40 years. 96% of participants had college or graduate degrees. Except 12.0% of respondents with clerical positions, the majority of respondents (88.0%) had job titles of chairman, president, chief executive officer (CEO), vice president, director, or manager. The participants skewing toward older, senior and the more educated just reflect the profile of decision makers in most companies. It is concluded that the survey respondents possessed the knowledge requisites for appropriate answers because (1) they were involved in the company's profit and loss and were familiar with company operation; (2) they had some particular specialist information required to be able to answer the questions in the survey; (3) the participants with different positions and levels might have different view points and had a basic understanding of cost management; (4) they should be likely to pay careful attention to performance measures, which is necessary to accurately measure the effectiveness of cost management practices; (5) the respondents who could not answer a particular question were in a position to ask someone who could.

		Frequency	Percent
Annual Revenue	< £ $31,198,000	44	40.7
	£ 31,198,000- £ 62,397,000	24	22.2
	£ 62,397,000- £ 155,990,000	13	12
	> £ 155,990,000	27	25
	Total	108	100
Number of Employees	<10	7	6.5
	10-49	23	21.3
	50-99	21	19.4
	100-500	32	29.6
	>500	25	23.1
	Total	108	100
Business Ownership	State owned	16	14.8
	Non-governmental org.	11	10.2
	Sole proprietorship	5	4.6
	Partnership	4	3.7
	Corporation—privately owned	35	32.4
	Corporation—publicly owned	29	27.8
	Corporation—publicly owned &multinationally operated	8	6.5
	Total	108	100

Table 4.3: Sample demographics by annual sales, number of employees, and business ownership

Based on Table 4.3, the sample mainly from midsize to large size firms with company revenue with more than £31,198,000 (USD50,000,000 at £1=USD1.603), made the data collection of the companies the respondents worked for easier as their general information was somewhat available in the Market Observation Post System of The Taiwan Stock Exchange and Gre Tai (Over the Counter, OTC)

Securities Market. 34.3% of the sampled firms were either publicly owned or publicly owned with multinational operation and their general information such as in the case of commercials, financial statements and public message boards were available publicly since the firms were listed in the Stock Market. More than 59% of the respondents filling out the survey confirmed their company's annual turnover was over £31,198,000 (USD50,000,000). Over 72% of respondents reported his/her company had more than 50 employees. The samples were in line with the research plan and also covered a good number of small size companies to represent the population as 41% of them had annual sales less than £31,198,000 (USD50,000,000) and 28% of them had less than 50 employees. Based on statistics of 2013 White Paper On Small And Medium Enterprises In Taiwan, small and medium size enterprises (SME) as defined by the Taiwan government (SMEA, Small and Medium Enterprise Administration, Ministry of Economic Affairs R.O.C) accounted for 97.67%. In general, they are companies with paid-in capital below £1,680,000 (TWD80,000,000 at ￡1=TWD47.619), annual sales turnover less than £2,100,000 (TWD100,000,000), or employee numbers less than 50. The difference of the sample in the main study from the national distribution also reflects a more significant and visible profit contribution of managing non-strategic costs as well as easier access and more transparent information of those larger companies.

In addition, only 23.1% of the participants described their companies as low performers compared to other competitors (see Table 4.4). Most respondents reported that they worked for companies which had good performance so the reasons behind conducting cost saving were not mainly due to their poor performance. The answer was later supported by higher percentages of low profit margin and continuous competitiveness than that of low sales performance as the reason behind conducting cost saving projects in the company.

		Frequency	Percent	Cumulative Percent
Business Performance	Low performer	25	23.1	23.1
	Average performer	55	50.9	74.1
	High performer	28	25.9	100.0
	Total	108	100.0	

Table 4.4: Sample demographics by business performance

As for personal interviews, as mentioned in Chapter 3 the participants were mainly from the researcher's existing clients and personal connection and aged from 30 to

60. Among them, 61% of them were managers or above so they had a good understanding of company situations and were able to validate the questionnaire results to some degree.

Considering all the issues discussed in this section, it is argued that the measures used and data collected in this study satisfy the conditions for ensuring content validity. Most target respondents (over 98%) in the main study commented that the instruments including questionnaire and interview had good structure and content.

4.2 Costs management within Organisations

The survey results indicated that more than 78% of participant's firms have no cost management department, section, or committee. This supports Ludy's (2000) statements that firms, as most of today's business books emphasise, do not view profit generation through cutting costs as an organisation function but have similar organisation structure and departments on sales, marketing, human resources, and so on. The sample representative of who the researcher is trying to find out therefore is not discounted. In addition, this shows that the majority of firms do not have a standing control unit or projectl team at an enterprise-wide level for cost optimisation. Less attention on cost management could be paid by firms. An internal audit officer of a multinational bank claimed:

> '*Cost matters are not properly controlled in the company.....there is no regular platform to watch over entire cost management effectively and efficiently but only counting costs if within the budget by finance department......no one does the collaboration works....same stuffs are repurchased at the same time, even there is inventory still.'*

A group administration director from chain restaurants agreed with comments made by the internal auditor:

> '*The CEO promoted from sales director is a sales driven person. As long as the company makes good money, he is careless about cost management......we have a weekly meeting and committee to closely monitor sales performance but none for cost management.'*

The situation resulting in no ownership for cost management becomes common in companies. A middle manager from the finance department of a bakery group remarked:

> '*One of my job functions is to deliver a budget report but certainly not to do the real works for cost control. I obviously have no manpower and capability for doing that and see no one in the organisation for that as well.'*

All of the statements from the above interviewees clearly support the findings from the questionnaire that there is no regular centralised team and designated person in charge of cost management, and that there is less attention and resources given to cost management than sales and marketing. However, some improvements can be made once a centralised mechanism structured under the Chief Executive Officer (CEO) or general manager (whoever has the responsibility for the financial well-being of the company), is appointed the position with overall accountability. A senior vice president who has been involved in cost savings projects of a local commercial bank claimed that:

> *'Cost saving projects were never success under （the former CEO） period but*
>
> *now everything seems well controlled under a centralised control unit with strong support from the new CEO....the cross function committee led by special assistant to CEO has the full ownership of cost management now. I apparently see the big difference and improvement. People now do care about costs since the CEO cares.'*

Cost saving to increase the company's profit is not as much of a priority as sales creation to the organisation unless special attention is paid by senior executives, and the chief executive officer in particular. However, a further question was asked to investigate why companies conduct cost saving projects? 35.2% of respondents stated that a low profit margin is the main reason behind conducting cost saving projects in their companies, followed by the reason of being continuously competitive (33.3%), the cause of low sales performance (28.7%) and other reasons (2.8%), although there is no overwhelming majority of respondents for any of the aforesaid three major reasons. These results are consistent with current business conditions but relatively more companies conduct cost saving projects to improve their profit margin. An example of this situation was explained by one senior chief human resource officer:

> *'Cost saving for us is not about being continuously competitive…..is about life and death. We aspire to use cost savings to strengthen the balance sheet and maintain headcount. We are using profit margin as indicator for triggering cost reduction plan. The company has shifted its focus from revenue growth to profitability as the economic down turn has taken hold. Cost reduction will play an important role in maintaining profitability in the next years.'*

Based on the pilot study supported by consulting with field seniors before the main study, there are five major considerations for conducting cost management: profit contribution, revenue generation, company reputation, quality assurance and people management. The mean scores, from the final sample, with 95% confidence intervals are displayed in Figure 4.1

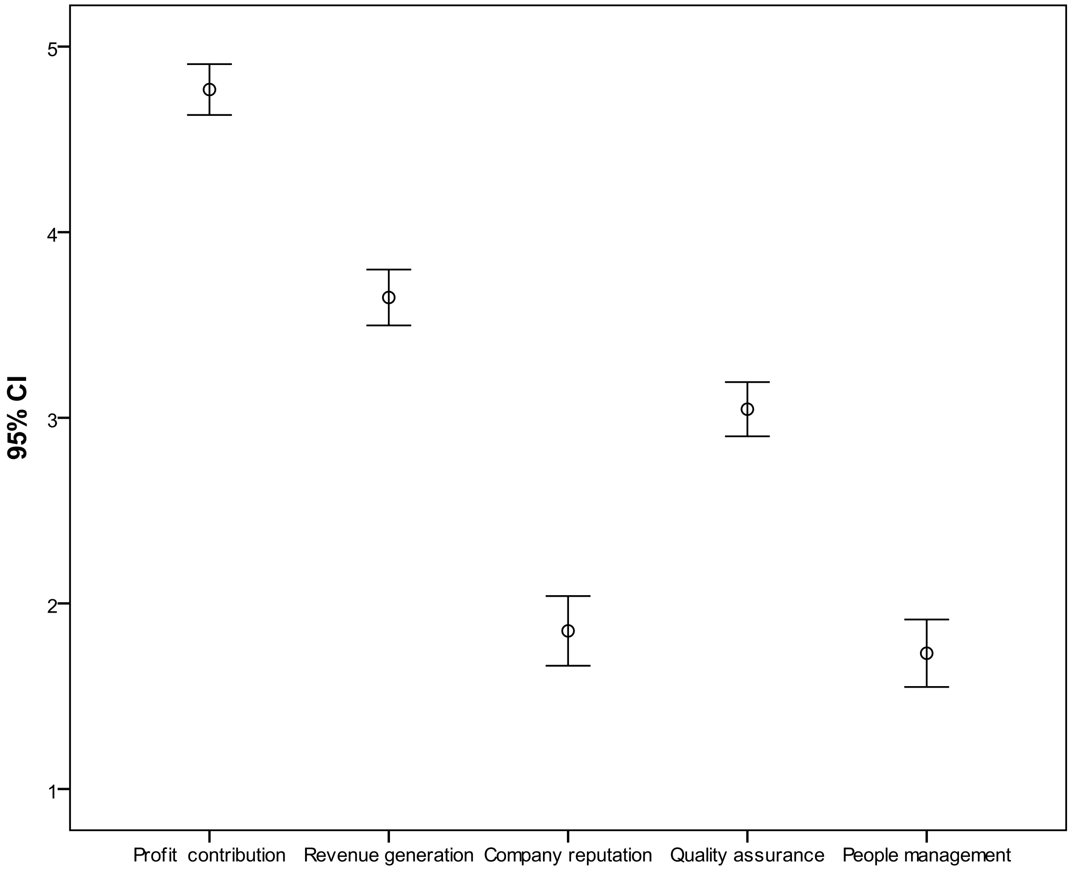


Figure 4.1: Why cost management is important (5 is most important)

By using standard error, an indication of the likely accuracy of the sample mean as compared with the population mean can be given in particular. The smaller the standard error, the less the spread and the more likely it is that any sample mean is close to the population mean. The Figure 4.1 shows a small standard error and indicates the sample means are likely to be close to the population mean. These were significantly lower than the neutral position of 3.

From Figure 4.1, the respondents rated ‘profit contribution’ as the most important reason for cost management and this was significantly greater (at the 1% level) than all other reasons. The next most important was ‘revenue generation’. The least important reasons were ‘company reputation’ and ‘people management’

Respondents’ rankings to why cost management is important were compared between public and private sectors and by industry type. The comparisons are given in Table 4.5 and the significance of differences in the means is assessed by an independent samples t test.

	Sector	N	Mean	Std. Deviation	Std. Error Mean	p value of difference in means
Profit contribution	Public	16	3.62	1.025	.256	0.389
	Private	92	3.79	.655	.068	
Revenue generation	Public	16	2.12	.957	.239	0.004
	Private	92	2.74	.724	.076	
Company reputation	Public	16	1.44	1.153	.288	0.009
	Private	92	0.69	.824	.086	
Quality assurance	Public	16	1.87	1.088	.272	0.485
	Private	92	2.08	.699	.073	
People management	Public	16	0.94	1.340	.335	0.495
	Private	92	0.70	.874	.091	

Table 4.5: Why cost management is important by public/private sector (5 is most important)

From Table 4.5 it is apparent that there is no significant difference (at the 5% level) between public and private sectors for most reasons on doing cost management. However, the private sector attaches significantly (at the 5% level) more importance to revenue generation than the public sector and the public sector gives significantly more importance to reputation than the private sector. The Chief Operation Officer (COO) from one of the leading economic research institutes in Taiwan made comments which reflected the importance of organisation reputation from the viewpoint of the public sector:

> '*Although cost management is important to the institution, we always take the organisation reputation (public image) as one of very first priorities. After all, this is a non-profit organisation which reputation counted as priceless asset to win government's projects and trusts. We have a higher standard on the reputation than profit organisations.'*

Conversely, a senior vice president from the private sector commented and confirmed that revenue generation should be taken more seriously than those institutions from the private sector:

> '*Profit margin and sales revenue are two key things we care more than non-profit organisations or institutions funded by the government. As you know we pay the government value added tax (VAT) based on revenue and income tax based on Pretax Profit (EBT,* earnings *before taxes*) *like any profit organisation, we definitely need to work harder on revenue, the main stream to keep the company survive and profit.'*

A statistically significant outcome does not give information about the strength or size of the outcome (Morgan et al. 2004). Therefore, it is important to know, in addition to information on statistical significance, the size of the effect (*d*). The effect size *d* focusing on magnitude of difference rather than strength of association is used in the study (Table 4.6). Cohen (1988) defined *d* as the difference between the means, M1 - M2, divided by standard deviation. Based on Cohen (1988), the d revised by Rosnow and Rosenthal (1996) is as follows:

$$d = M1 - M2 / \sigma pooled$$

$$\sigma pooled = \sqrt{[(\sigma 1^2 + \sigma 2^2) / 2]}$$

Cohen (1988) defined effect sizes as 'small, *d* = 0.2' a non-overlap of 14.7% in the two distributions, 'medium, *d* = 0.5' a non-overlap of 33% in the two distributions, and 'large, *d* =.8' a non-overlap of 47.4% in the two distributions. To give the information about the magnitude of difference between the means by sector, effect size (*d*) measures for t tests were conducted as below Table 4.6.

Table 4.6: Interpreting effect sizes (Cohen's *d*) and comparison of respondents from public and private sectors (n=16 respondents from public sector and 92 respondents from private sector)

Variable	*M*	*SD*	*T*	*df*	*p*	*Cohen's d*	*Effect size*
Rank for profit contribution			0.87	106	0.389	0.20	Small
Public sector	3.62	1.03					
Private sector	3.79	0.66					
Rank for revenue generation			2.98	106	0.004	0.73	Tending to Large
Public sector	2.12	0.96					
Private sector	2.74	0.72					
Rank for company (organisation) reputation			-2.50	17.76	0.022	-0.76	Tending to Large
Public sector	1.44	1.15					
Private sector	0.68	0.82					
Rank for quality assurance			0.71	17.22	0.485	0.23	Small
Public sector	1.87	1.09					
Private sector	2.08	0.70					
Rank for people management			-0.94	106	0.351	-0.21	Small
Public sector	0.94	1.34					
Private sector	0.70	0.87					

This shows that respondents from the public sector are not significantly different from respondents from the private sector on the rank for profit contribution. Inspection of the two group means indicates that the average rank for profit contribution from the public sector (3.62) is not significantly higher than from the private sector (3.79). The difference between the means is 0.17 on a 5-point test. The standardised effect size or Cohen's *d* represents the difference between the two means expressed in terms of their common standard deviation to express the magnitude of a reported relationship. The effect size *d* is approximately 0.20, which is smaller than typical in this discipline, thus according to Cohen (1988). Respondents coming from the public sector are not significantly different from respondents coming from the private sector on the rank for profit contribution (p=0.389), as well as on the ranks for quality assurance (p=0.485), and people management (p=0.351). The effect size, *d*, is about 0.23 for quality assurance, smaller than typical. The negative *d* (-0.21) on rank for people management indicates the effect is bigger for the group of private sector but smaller than typical. However, the respondents from the public sector are significantly different from respondents from the private sector for revenue generation (p=0.004) and company (organisation) reputation (p=0.022). The effect size is 0.73, which is larger than typical according to Cohen (1988) on the rank for revenue generation. The effect size *d* is approximately -0.76, which is larger than typical, and indicate the effect is bigger for the second group (private sector).

The remarks from the deputy dean of a public hospital clearly reflected the different viewpoints from the private sector to some extent for cost management:

> ‘*The public sector has different priority from the private sector mainly looking for profit only. We have more social responsibility to be taken......there are so many more things to be considered for managing costs....even sometimes, we need to spend the entire budget to get more money from the government for next year. Ironically speaking, we are afraid the less funding we may receive from the government next year if we spend less this year.’*

Taking the industry sectors into consideration, the study further checked to ascertain if participants from different industries may have different responses. Under 95% Confidence Interval of the Difference (see Figure 4.2) - These are the lower and upper bound of the confidence interval for the mean difference to specify a range of values within which the unknown population parameter, in this case the mean may lie.

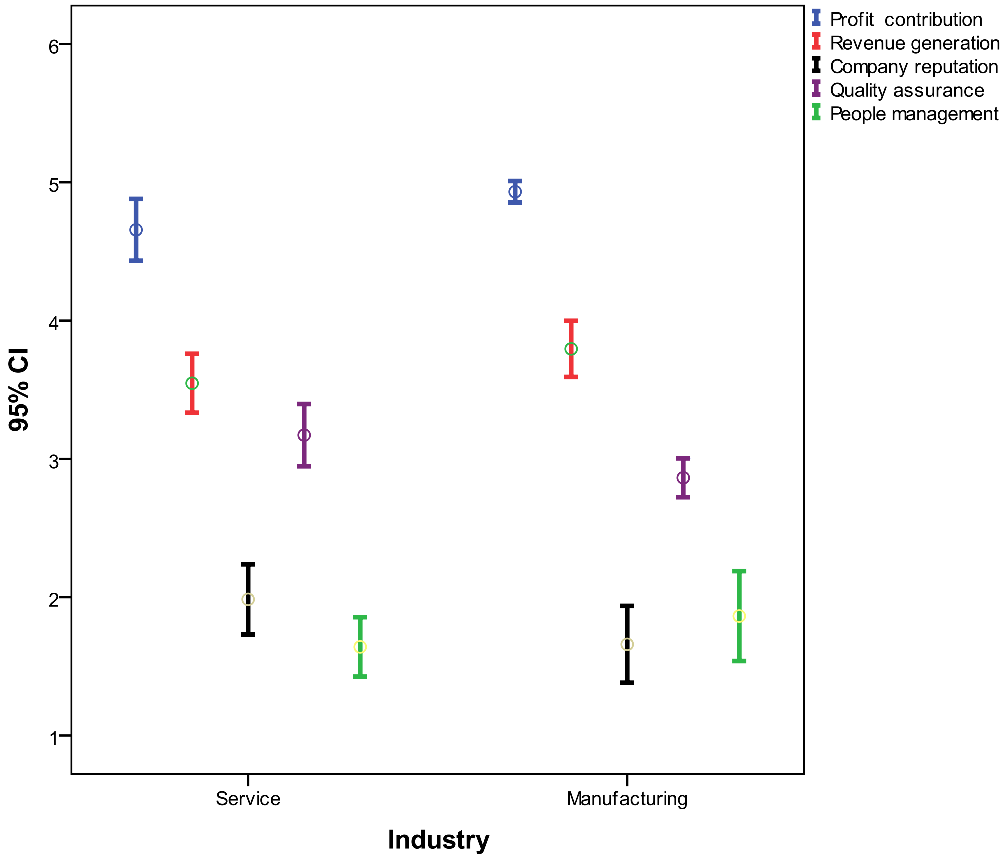


Figure 4.2: Comparison between industries under 95% confidence interval

If the procedure for computing a 95% confidence interval is used over and over again, 95% of the time the interval will contain the true value (mean here). The above figure depicts the situation for the Service industry and Manufacturing industry. The error bars (Figure 4.2) show the ranks for profit contribution, revenue generation, company (organisation) reputation, quality assurance and people management given by respondents from two industries under 95% confidence intervals for those differences. In each situation, there is no significant difference between the service industry and manufacturing industry.

The Mean±1.96* Standard Error of the Mean bars of industry 'service' and Mean±1.96* Standard Error of the Mean bars of industry 'manufacturing' overlap for all five reasons for cost management). One is therefore confident that at the 5% level the differences between the two means are not statistically significant across industry sectors.

The mean of the reasons for cost management are tabulated and the differences of means are assessed for statistical significance in Table 4.7.

	Industry	N	Mean	Std. Deviation	Std. Error Mean	p value of difference in means
Profit contribution	Service	64	4.66	.895	.112	0.022
	Manufacturing	44	4.93	.255	.038	
Revenue generation	Service	64	3.55	.853	.107	0.093
	Manufacturing	44	3.80	.668	.101	
Company reputation	Service	64	1.98	1.016	.127	0.092
	Manufacturing	44	1.66	.914	.138	
Quality assurance	Service	64	3.17	.901	.113	0.022
	Manufacturing	44	2.86	.462	.070	
People management	Service	64	1.64	.861	.108	0.234
	Manufacturing	44	1.86	1.069	.161	

Table 4.7: Why cost management is important by Service/Manufacturing industry

Manufacturing industry gives significantly (at the 5% level) more importance to cost management than the service industry in regard to profit contribution and the service industry gives significantly (at the 5% level) greater importance to quality assurance as a reason for cost management than manufacturing. 'We have been so uncomfortable with the slim profit margin in Taiwan' was the comment from an assistant manager of a manufacturing company who emphasised the importance of profit contribution through managing costs for manufacturers.

However, a general manager of a cookie manufacturing company used to working in service industry commented no significant rank difference between manufacturing and service industries:

> '*Cost management is one of keys to survive and be competitive in the market. I do not see it will make any difference if you are from manufacturing or service industry. I personally take cost issues seriously whether I am or was working in the manufacturing or service industry. The ranks in order of importance for cost management concerns for both industries have no significant difference.'*

A manager of human resource consulting company echoed:

> *'Managing costs is an important task to all industries. It should be well taken care across industries and sectors. I see no difference for the ranks in order of importance for cost management concerns either in manufacturing or service industry although service industry may have more importance to cost management than manufacturing in regard to quality assurance'*

There are two ways to increase a company's profit, selling more or saving more. Porter (1980) pointed out a competitive advantage comes from either having lower costs than all other industry competitors or by being significantly different from competitors to increase revenue. The survey results confirmed that those considerations directly related to a company's profit (i.e. profit contribution, revenue generation and quality assurance) are more important to respondents for cost management. Taken together, these results provide evidence that cost control and efficiency improvement without compromising the effectiveness of the organisation as mentioned by Drucker (Mihaiu et al. 2010)—which protect the profit—play a critical role in companies' broad strategies

However, two samples (respondents with personal involvement and respondents not personally involved in cost saving projects) are investigated to detect if the means are significantly different. An independent samples t test is used to see if two means from the group 'respondents with personal involvement in cost management' and the group 'respondents without personal involvement' are different from each other. The findings are summarised in Table 4.8.

	Involvement in cost management	N	Mean	Std. Deviation	Std. Error Mean	P value of difference in means
Profit contribution	Personally involved	53	3.74	0.812	0.112	0.645
	Not personally involved	55	3.80	0.621	0.084	
Revenue generation	Personally involved	53	2.57	0.888	0.122	0.293
	Not personally involved	55	2.73	0.679	0.092	
Company reputation	Personally involved	53	0.77	1.068	0.147	0.803
	Not personally involved	55	0.82	0.748	0.101	
Quality assurance	Personally involved	53	2.00	0.679	0.093	0.540
	Not personally involved	55	2.09	0.845	0.114	
People management	Personally involved	53	0.91	1.043	0.143	0.062
	Not personally involved	55	0.56	0.834	0.112	

Table 4.8: Group statistics for whether personally involved

There appears to be no significant difference in reasons for cost management dependent on the respondents' personal involvement with cost management, although views on people management (the least important category) do come close to being significant at the 5% level.

The statements below, made by a senior executive not personally involved and a middle manager personally involved in the cost saving projects support that no difference in the order of importance for the five major reasons (profit contribution, revenue generation, company reputation, quality assurance, and people management):

> '*It is sensible to consider profit contribution, revenue generation and quality assurance first before company reputation and people management. This is how the company can make money to fulfill shareholder's expectation which is clear to me as a senior executive even though I am not personally involved in the projects.'*
>
> *'As a middle manager of engineering company, I do not think different answers will be given by a participant personally involved in the projects and participants without personally involved. After all, maximising profit is what every company is looking for. For cost management concern, they are those related to profit contribution, revenue generation, quality assurance'*

However, the remarks made by a seasonal human resource manager indicated that there may be some significant difference for views on people management between those personally involved and not personally involved in the cost saving projects:

> *'Based on my years of observation, people management becomes more important when you are personally involved. You will find the pains, joys and challenges to deal with people issues. Of course, the importance of people management cannot be neglected. On the other side, it becomes less important if you have nothing to do with it. For cost saving projects, I will say people management is more important than company reputation and others as I am in charge of human resource as well as personally involved in cost saving projects from time to time. '*

The statement also reflects the survey result in Table 4.8 which shows between personally involved and not personally involved on people management come close to being significant.

The standardised effect size or Cohen's *d* represents the difference between the two means expressed in terms of their common standard deviation to express the strength or magnitude of a reported relationship. If the difference in the two means is positive, it is in the direction of improvement, and if it is negative, it shows deterioration (Becker 2000).

Cohen's effect size (Table 4.9) shows that responses from group 'participants personally involved' are not significantly different from group 'respondents not personally involved' on the rank for profit contribution (p=0.65). Inspection of the two group means indicates that the average rank for profit contribution from respondents personally involved (3.74) is not significantly higher than the rank from respondents not personally involved (3.80). The difference between the means is 0.06 on a 5-point test. The effect size *d* is approximately 0.08, which indicates that the distribution of ranking for the group of participants personally involved overlaps almost completely with the distribution of ranking for the participants not personally involved, according to Cohen (1988).

Table 4.9: Interpreting effect sizes (Cohen's *d*) and comparison of respondents with and without personal involvement in the saving projects (n=53 respondents with personal involvement and 55 respondents without personally involvement)

Variable	*M*	*SD*	*T*	*df*	*p*	*Cohen's d*	*Effect size*
Rank for profit contribution			0.46	106	0.65	0.08	—
Individual personally involved	3.74	0.81					
Individual not personally involved	3.80	0.62					
Rank for revenue generation			1.06	97.35	0.29	0.20	Small
Individual personally involved	2.57	0.89					
Individual not personally involved	2.73	0.68					
Rank for company (organisation) reputation			0.25	92.80	0.80	0.05	—
Individual personally involved	0.77	1.07					
Individual not personally involved	0.82	0.75					
Rank for quality assurance			0.61	106	0.54	0.12	—
Individual personally involved	2.00	0.68					
Individual not personally involved	2.09	0.84					
Rank for people management			-1.89	106.00	0.06	-0.37	Small
Individual personally involved	0.91	1.04					
Individual not personally involved	0.56	0.83					

In addition, individuals personally involved did not differ significantly from individuals not personally involved on the ranks for revenue generation (p=0.29), company (organisation) reputation (p=0.80), quality assurance (p=0.54) and people management (p=0.06).

The effect size *d* for revenue generation is 0.20, smaller than typical and 14.7% non-overlapping for the two participant's groups. The effect size *d* for quality assurance is 0.12, close to smaller than typical in this discipline and about 7.7%-14.7% non-overlapping for the two participant's groups. The negative *d* on rank for people management (-0.37) is smaller than typical in this discipline and indicates the effect is bigger for the second group (individual not personally involved) and 21.3%-27.4% non-overlap for the two participant's groups.

4.3 Strategic perspective of non-strategic costs

The literature demonstrated the increased importance of cost management from a strategic perspective (Grundy 1996; Cooper and Slagmulder 1998; Shank and Govindarajan 1993 and 1998, McDowell 2010). To determine what is strategically the most important purpose of cost management the samples were asked this and the ranked replies are displayed in the Pareto chart in Figure 4.3. According to the respondents questioned, 98 out of 108 (about 91%) confirmed that profit contribution is the key purpose of cost management. Other purposes including company reputation, revenue generation, people management and quality assurance have a very minimal percentage for being the most important purpose reported by respondents (Figure 4.3). A managing director of a cargo forwarder, and former chairman of an association of small and medium enterprises commented:

> '*In our own survey, more than two-third of our members say their companies are primarily focusing on bottom-line profitability, not market share or revenue. They find higher revenue does not bring them more benefit....some of them even lose more money for acquiring more business....In the past 3 years, we were in the red ocean......market players killed each other to dead and turned the market (ocean) into red just for more market share without profit. Profit is king to us now'.*

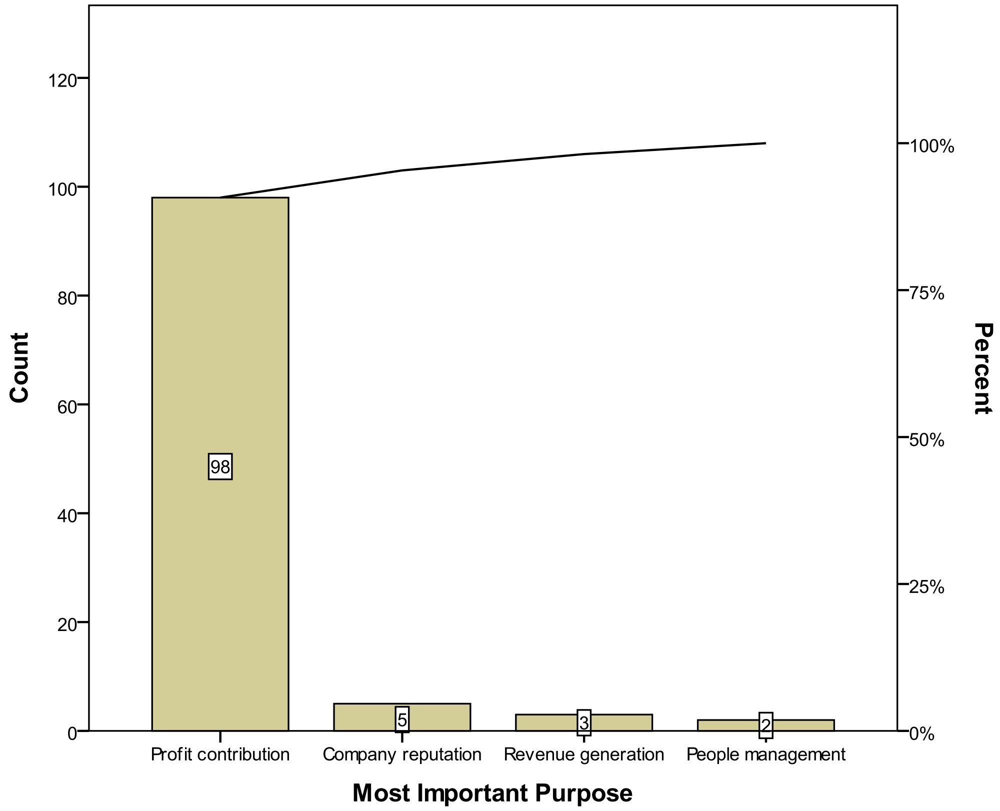


Figure 4.3: The most important element of cost management

Other than profit, what else is in the top of the respondent's list for cost management? Freeman (1998) and Kelety (2006) pointed out that cost management is a strategic process because of its focuses on the customer and profit. When the respondents were asked if they agreed that cost management was strategic because it focused on the customer whilst maximising profit and revenue, 88% either strongly or somewhat agreed (almost 53% strongly agreed). The implication of this is that revenue and profit are two major elements to determine whether strategic or non-strategic processes are confirmed, which is in line with Porter's Generic Competitive Strategies (1985). Excluding those 12% (13 respondents) with neutral answers, there is no disagreement from any respondents.

Two managers in the management committee of a plastics manufacturing company who are heavily involved in the company's strategy stated:

> *‘We may have different opinions on how to define strategic or non-strategic costs but there is a clear consensus between us that costs spent for generating profit and revenue are strategic.....revenue and profit are two essentials.’*

However, if costs are categorised into two groups, strategic cost and non-strategic cost, most respondents (93.5%) focused on strategic costs instead of non-strategic costs for cost management. A senior manager for a local commercial bank commented:

> ‘*The answer is obvious. Strategic cost is always our first focus. They are strategic and huge. I personally don't think there is a second answer for this question’.*

The same opinion was stated by a sales manager of a hotel:

> *‘If we can have savings over strategic costs, the saving amount will be much meaningful than the non-strategic costs even though the saving rate is small.’*

A different answer was however, given by a CFO of a supplementary school:

> *‘Logically, strategic cost should be the first focus* for *conducting cost saving. However, the risk is higher if we cut them unwisely. Our current focus therefore is non-strategic costs.’*

To determine whether the sector is associated with a firm's first focus for cost management, a contingency table was constructed which is displayed in Table 4.10.

Count

		First Focus for Cost Management		Total
		Strategic costs	Non-strategic costs.	
Sector	Public	16	0	16
	Private	85	7	92
Total		101	7	108

Table 4.10: Cross tabulation for cost focus by sector

The cross tabulation table shows the spread of the responses across the two variables —sector and firm's first focus for cost management. The cost which most respondents focus on as first priority is strategic cost (101 out 108 respondents; 94%). The 2 by 2 grid shows that only 7 respondents from the private sector report non-strategic costs as their first focus for cost management and the rest of the respondents from both public and private sectors confirm strategic costs as their first focus for cost management. Thus one concludes that strategic costs are normally a firm's first focus for cost management across sectors. There is no significant association between sectors and their view on cost management.

The main categories of costs were then presented to the respondents who were asked to categorise them as strategic or non-strategic costs. These responses are displayed in Table 4.11.

	Valid Percentage	
Item	*1* Strategic cost	*2* Non-strategic cost
(a) Any costs spent to increase business profitability	94.4%	4.6%
(b) Any costs spent to bring in more business	93.5%	5.6%
(c) Any costs spent that do not increase business profitability	2.8%	96.3%
(d) Any costs spent that do not bring in more business	0%	99.1%
(e) The expenses which are not directly related to the core business activity profile	3.7%	94.4%
(f) The expenses which are directly related to the core business activity profile	99.1%	0.9%
(g) Administrative costs	14.8%	84.3%
(h) Labour costs – not directly related to sales	14.8%	84.3%
(i) Labour costs – directly related to sales	97.2%	1.9%
(j) Indirect costs	13.9%	84.3%
(k) Direct costs	92.6%	6.5%
(l) Quality costs	89.8%	8.3%

Table 4.11: Categorising costs into strategic or non-strategic costs

The overwhelming majority of respondents (over 89%) thought strategic costs are (1) any costs spent to increase business profitability, (2) any costs spent to bring in more business, (3) any expenses directly related to the core business activity profile, (4) labor costs directly related to sales, (5) direct costs, and (6) quality costs.

Most respondents (over 80%) reported that non-strategic costs from their perspective are: (1) any costs spent that do not increase business profitability, (2) any costs spent that do not bring in more business, (3) the expenses which are not directly related to the core business activity profile, (4) administrative costs, (5) labour costs not directly related to sales, and (6) indirect costs.

To date, there are no academic studies that focused on non-strategic costs from a strategic point of view as mentioned in the literature review chapter, but only mentioning the concept of non-strategic costs (e.g. Evans 1989, Shufelt 2003, Blackshaw 2006). The research therefore adopts definitions from practitioners such as Fifer (1994) and Machin (2007) that non-strategic costs are all other costs needed to run a business, but that do not bring in more business. Since strategic costs should be thought of as all those things that generate business and improve the business profit, the control of these costs should receive attention and focus and all other costs given less attention. The first focus on strategic costs instead of non-strategic costs was evidenced by 94% of the respondents as mentioned early. However, from this questionnaire it is clear that those costs defined by managers as non-strategic costs are in fact very important to the efficient and profitable operation of any business. Thus effort should be applied to the control of non-strategic costs and this should release more profit and make for more sustainable business. These research findings from the analysis are in line with practitioners' understanding and the definitions (Fifer 1994; Machin 2007; CFO Research Services and Expense Reduction Analysts 2009).

Corcoran (2012), a managing director of a US consulting and coaching company also claimed:

> '*....... to identify the strategic and non-strategic costs of a company so that the whole organisation knows how to save money and help make a profit......Position With Overall Accountability is CEO or General Manager (whoever has the responsibility for the financial wellbeing of the company) who should list all costs the company incurs on a monthly basis and divide all costs into two categories. Strategic costs are all those things that clearly bring in business and improve the profit. Typical items in this category are the cost of sales people's commissions and effective advertising. Non-strategic costs include all other costs necessary to run the business that don't clearly bring in more business. Administrative costs of all kinds fall into this category such as rent, office supplies, managers' salaries, etc......companies should outspend their competition for strategic costs and spend this money in good times as well as bad times. Emphasise that non-strategic costs then should be maintained at a bare minimum.'*

However, the quality assurance manager of high-tech industry argued:

> *'Any costs related to product or service quality is a necessary spending before delivering sales growth and profit. Without them, profit and sales cannot be realised.'*

The sales manager of a service company also commented:

> '*Service industry is making its money by delivering good quality service. Any costs spent can bring up service level which the customer are willing to pay more for are strategic. After all, profit and sales result from good service delivered to clients. '*

The interviews indicated that costs used for product and service value are strategic, in addition to for profit contribution and sales growth. The interview supported by a question investigated the acceptance for an inferential redefinition on strategic and non-strategic costs. Approximately 81.5% agree that non-strategic costs are those costs needed to run the business but do not directly contribute to the profit, product (service) value, or sales growth. 92.6% agree that strategic costs are any costs spent which can directly increase business profit, product (service) value, or business revenue.

A deputy dean responsible for general affairs in a local private hospital commented:

> ‘*Every company has different ways to view costs from a strategic perspective. One cost item can be strategic to one company but become non-strategic in another company as their goals are different from the first beginning. But certain common agreements for strategic costs are those costs related to sales, profit and quality.’*

A respondent remarked:

> *‘I don't have any idea on how to define strategic and non-strategic costs but cannot disagree that some things related to ‘profit’, ‘product (service) value (I guess this refer to quality)’ are strategic.’*

Through the quantitative questionnaires and qualitative interviews, the definition for strategic costs can be redefined as any cost spent which can directly increase business revenue, profit, or product (service) quality and value. Non-strategic costs are those costs which may be needed to run the business but do not directly contribute to the profit, product (service) value and quality, or sales growth.

As a further strand of this research a review of the financial statements of 51 companies mainly listed in the Taiwan Stock Exchange from 2009 to 2012 was made and shown below in Table 4.12.

Company	Strategic Costs		Non-strategic Costs		Revenue (£)
	£	%	£	%	
1	23,485,343	85.31	3,421,906	12.43	27,529,414
2	3,523,788	56.19	1,387,190	22.12	6,271,200
3	10,532,754	76.52	2,520,318	18.31	13,764,707
4	2,117,645	73.26	567,423	19.63	2,890,588
5	11,687,186	69.03	3,648,542	21.55	16,930,589
6	38,929,655	77.16	5,166,403	10.24	50,453,156
7	11,027,440	69.83	3,033,612	19.21	15,791,838
8	7,063,992	75.47	2,566,512	27.42	9,360,001
9	12,904,893	71.09	3,654,178	20.13	18,152,895
10	24,437,111	93.22	5,733,100	21.87	26,214,451
11	7,973,309	69.83	2,561,096	22.43	11,418,171
12	16,918,182	74.69	2,734,000	12.07	22,651,201
13	5,303,693	65.88	2,425,627	30.13	8,050,537
14	10,158,070	64.32	3,329,168	21.08	15,793,019
15	37,822,378	84.33	4,265,176	9.51	44,849,379
16	10,282,114	65.47	3,747,232	23.86	15,705,078
17	25,334,170	74.34	4,208,730	12.35	34,078,786
18	57,620,997	65.99	8,519,371	9.76	87,321,741
19	13,810,766	67.54	2,480,254	12.13	20,447,272
20	54,858,280	65.41	13,779,568	16.43	83,868,339
21	24,677,865	67.54	4,742,652	12.98	36,538,148
22	9,320,974	84.32	1,068,950	9.67	11,054,287
23	85,027,513	64.53	28,500,621	21.63	131,764,315
24	8,714,828	69.28	1,315,778	10.46	12,579,140
25	5,618,005	95.53	1,359,071	23.11	5,880,880
26	212,124,163	85.16	31,235,756	12.54	249,088,966
27	8,336,850	59.60	2,268,994	16.22	13,988,003
28	17,610,672	65.56	2,981,673	11.10	26,861,916
29	19,119,238	88.97	3,341,622	15.55	21,489,533
30	36,135,684	76.43	11,072,847	23.42	47,279,451
31	528,898,143	88.79	66,941,743	11.24	595,673,097
32	36,837,091	67.54	7,564,857	13.87	54,541,147
33	32,293,709	74.87	7,315,364	16.96	43,133,043
34	4,399,102	79.85	630,804	11.45	5,509,207
35	65,676,062	75.98	20,131,554	23.29	86,438,618
36	2,573,350	86.50	648,841	21.81	2,974,972
37	336,292,632	73.76	43,509,227	9.54	455,928,188
38	36,552,500	70.76	11,462,690	22.19	51,657,009
39	56,107,938	78.76	9,239,715	12.97	71,239,128
40	41,858,003	89.07	4,525,571	9.63	46,994,502
41	70,875,097	76.53	16,290,252	17.59	92,610,867
42	3,578,698	66.98	1,499,227	28.06	5,342,935
43	343,444,622	89.75	42,131,758	11.01	382,668,103
44	37,714,109	63.63	10,064,208	16.98	59,270,955
45	25,660,031	62.11	9,002,288	21.79	41,313,848
46	284,447,915	85.44	57,928,297	17.40	332,921,249
47	14,865,747	75.12	4,199,297	21.22	19,789,333
48	136,323,196	76.54	46,857,537	26.31	178,097,821
49	7,090,195	74.34	2,300,358	24.12	9,537,138
50	10,335,397	65.73	4,482,986	28.51	15,724,257
51	115,593,967	95.41	12,091,267	9.98	121,154,980
Mean		74.89		17.55	
Std Deviation		9.57		5.90	

Table 4.12: Review on the percentage of non-strategic costs and strategic costs to revenue

These companies in Table 4.12 were selected from the client database of Expense Reduction Analyst Taiwan and either they were listed or their general ledgers were ready in the file. The researcher went through the items on the general ledgers individually as the indicative example shown in Table 4.13. The indicative example of how costs are categorised into non-strategic costs was a work done together with CFO and CEO of the subject company on March 2013.

Item		Strategic Cost		Non-strategic Cost	
		£	%	£	%
(a) Any costs spent to increase business profitability directly	Manufacturing/ processing – outsourced	52,543	2.19		
	Mold	83,834	3.49		
(b) Any costs spent to bring in more business directly	Manufacturing costs	1,127,656	46.99		
	Goods purchased or manufactured	18,803	0.78		
(c) Any costs spent that do not increase business profitability directly	Repair and maintenance			31,530	1.31
	Utilities			30,761	1.28
	Depreciation			21,063	0.88
	Food stipend			3,754	0.15
	Miscellaneous costs			4,243	0.18
	Miscellaneous purchases			4,073	0.17
	Fuel			15,483	0.65
(d) Any costs spent that do not bring in more business directly	Packaging			11,085	0.46
	Impairment loss			23,255	0.97
(e) The expenses which are not directly related to the core business activity profile	Repair and maintenance expenses			17,993	0.75
	Utilities			2,656	0.11
	Insurance			17,192	0.72
	Food stipend			4,492	0.19
	Miscellaneous			28,557	1.19
	Miscellaneous purchases			7,725	0.32
(f) The expenses which are directly related to the core business activity profile	Sample	3,360	0.14		
	Delivery/shipping	18,101	0.75		
	Advertisement	17,348	0.72		
	Entertainment	18,423	0.77		
(g) Administrative costs	Stationery			1,497	0.06
	postage and phone/ fax expenses			6,855	0.29
	Newspapers and magazines			901	0.04
(h) Labour costs – not directly related to sales	Professional service fees			1,314	0.05
	Salary and wages			116,722	4.86
	Overtime			802	0.03
	Pension			4,389	0.18
(i) Labour costs – directly related to sales	Salary and wages	101,025	4.21		
	Overtime	8,237	0.34		
	Pension	2,926	0.12		
(j) Indirect costs	Travelling			56,677	2.36
	Taxes			2,574	0.11
	Depreciation			18,582	0.77
	Training			8,390	0.35
	Employee benefits			3,905	0.16
	Export expenses			2,415	0.10
(k) Direct costs	-	-	-		
(l) Quality costs	Insurance-products/manufacturing related	10,762	0.44		
TOTAL		1,463,018	60.94	448,885	**18.69**
Revenue (£)	2,399,648				
Revenue (NTD)	114,268,824				

Table 4.13: Indicative example of categorising costs into strategic and non-strategic costs

From these reviews strategic and non-strategic costs were detected and classified under the new definition. As found in Table 4.13, 18.69% of net revenue in the company is non-strategic costs. The finding also supports the survey results found from the questionnaire and interview as well as the inferred percentage based on the literature review.

This research found that non-strategic costs on average among companies account for 10% to 30% of their net revenues and the block ‘strategic costs’ usually representing 70 to 90 percent of the total cost value. A special report on operation ratios from Entrepreneur Magazine (1996) pointed out that publicly-owned PC companies typically spent 11% of their net revenue on G&A (General and Administrative) but the three year G&A average for small companies is 19%. As mentioned by Fifer (1994) and Machin (2007), most administrative costs fall into this non-strategic category. From this one can make the assumption that non-strategic costs account for about 10% to 30% of a company’s revenue and strategic costs of about 70% to 90%.

This assumption was investigated in the survey by the question ‘In your opinion are strategic costs larger than non-strategic costs’. 87% of respondents replied that they were therefore validating the assumption made above. However, only 21.3% of respondents reporting that non-strategic costs are easy to measure and many reported that there was a need for improved definitions of these costs. Thus one concludes that the true scale of non-strategic costs might well be unknown and perhaps they receive less attention because they are perceived to be difficult to identify and measure.

Overwhelmingly the majority of respondents, 90.7%, agreed that categorising costs into two blocks, strategic and non-strategic, will allow them to manage costs strategically.

Group vice chairman of chain restaurants recognised the benefit of categorising costs into two blocks and stated:

> *‘The categorisation really provides a simple and effective way for me to review and refocus on what costs are most important and strategic to the business development in the long run. Moreover, the concept provides an efficient way to manage costs not from traditional accounting thinking but from a strategic perspective. The categorisation reminds me to check if we manage those strategic costs, the most important part to the company, well constantly. ‘*

Efficiently and effectively managing strategic costs is important for a company to remain in the market and to be continuously competitive. The discipline of managing strategic costs needs to be applied to non-strategic costs, even those that might be the smaller portion. The finding here does not support views such as those given by Shufelt (2003) that businesses which focus on quick-fix and non-strategic cost reductions create a roadmap for collapse, instead a need to have a strategic focus on non-strategic costs has been identified. The study argues that there may be solutions that will enable non-strategic costs to be reduced and the firm's strategic position to be strengthened in the meanwhile. Only around 20% of respondents agreed with the statement made by Shufelt (2003). Most respondent (62.0%) clearly disagreed with the statement made by Shufelt (2003) and conversely argued that focusing on quick-fix and non-strategic costs will not create a roadmap for collapse.

A CFO of a listed manufacturing company argued:

> *'It should be a plus to any company instead if they can control non-strategic costs well. In particular, controlling non-strategic costs provides a quick solution to enhance a company's profit in a short run. Besides, since they are not strategic, minimising them properly has no harm. I disagree with the statement that focusing on non-strategic cost will create a roadmap for collapse. On the other side, it should be a good strategic move to be more competitive in the market.'*

Reducing non-strategic costs can bring extra profit to a company, provided companies properly manage them. Chang and Hwang (2002) reported finding a positive link between the percentage of cost and degrees of cost tracing for firms in US and Hong Kong on implementing value chain cost analysis. The findings of Chang and Hwang (2002), based on the research over manufacturing industry, are also applicable to service industry as the responses in the survey showed no difference across industry and about 84% of participants agreed that there is a positive link between the percentage of cost and degree of cost tracing in their firms. Thus, the hypothesis that strategic costs (major cost portion) could be better under control is created in the study due to a high degree of cost tracing and close monitoring performed by a company. A reduced chance for companies to save more over strategic costs than non-strategic costs therefore could be true. These findings point to the need to devote more attention to non-strategic costs and companies should apply the discipline of managing strategic costs to non-strategic costs.

The hypothesis and assumptions have been confirmed in the survey and in-depth interviews. Most respondents (89.8%) agreed and no participants disagreed that non-strategic costs are a potential source of competitive advantage. 86.1% of respondents reported that non-strategic costs are often overlooked in a firm since they are not currently aligned with company's strategic goals. Very few respondents (4.6%) stated that their companies spend enough time and attention on non-strategic costs. 85.2% of respondents agreed that it will be easier to achieve higher saving rates from the control of non-strategic costs than from strategic costs if a company can give attention to non-strategic costs.

The percentages reported above came from the three questions which measured responses on a five point Likert scale. These questions are displayed in Table 4.14.

Table 4.14: Views on the importance of non-strategic and strategic costs to the profit

	Mean	Std. Deviation
Do you agree that non-strategic costs are those costs (expenses) which maybe needed to run the business but do not contribute to the profit? (5 = strongly agree)	4.13	.958
Do you agree that strategic costs, those costs (expenses) spent directly, can increase profit, product value or revenue? (5 = strongly agree)	4.39	.653
What importance do you attach to non-strategic costs? (5= of critical importance)	3.39	1.084

The answers to these questions were all significantly higher than the neutral position (3) at the 1% level and it was found that there were no significant differences for comparisons between companies in the private and public sectors as well as those companies in services and manufacturing.

From Table 4.14, one observes that respondents understand that non-strategic costs are needed but agree that they do not contribute to the bottom line where as strategic costs do and spending in areas associated with strategic costs incurs a direct contribution to the profit. Respondents are in agreement, though, that non-strategic costs are of critical importance.

If the company decreased expenditure on non-strategic costs by 20%, it would translate as enhanced company profit by 2% to 6%. The saving of 20% non-strategic costs is based on a report on midsize companies prepared by CFO Research Services in collaboration with Expense Reduction Analysts (2009). This report examined the management of G&A costs and showed that around a 20%

reduction could be expected if more attention could be paid by a firm and identification of opportunities for cost reduction in non-strategic costs could be grabbed. In the report it was found that if the same focus was given on strategic costs the saving would be much less than non-strategic costs.

A chairman and chief executive officer of one of largest LEO (Light-Emitting Diode) listed companies in Taiwan Stock Exchange, said:

> ‘*Cost reduction is like wringing out a wet towel. We keep wringing those costs related to production and core business on daily basis even when the towel appears dry to the touch. However, we find minimal room for further improvement on the strategic costs. Yes, we gave very limit attention and did not spend much time over those costs or expenses non-strategic such as packaging, telecommunication, insurance, etc. since they are relatively small in comparison with strategic costs. I personally think and agree higher saving rate than strategic costs for non-strategic costs could be expected.’*

A chief financial officer (CFO) from a publicly owned distributor of plastic materials**,** environmentally friendly materials**,** engineering plastic**,** electronic components and auto parts, commented that there is more room for cost savings against those overhead expenses:

> ‘*Under external assistance, we paid our attention over overhead and saved more than 20% of administration expenses. The saving rate was never achieved for strategic costs’.*

A senior vice president from high-tech industry commented:

> ‘*In the high competitive market, the profit margin for our industry has been very slim......Among market players, the cost structure is similar to each other. We cannot do any better than other market players. To be competitive and survive, every small money and non-strategic items count. They are our hope.’*

A general manager and CEO of listed retail chain stores indicated:

> ‘*The sustainability of cost reduction is the key for us to be the market leader as always....However, I agree we do not spend enough time and attention on those non-strategic costs. Recent projects to tackle those non-strategic costs have proved that more savings were generated and higher saving rates could be achieved from them in comparison with those strategic costs.’*

An assistant vice president's comments second that a higher saving rate for non-strategic cost is much easier to be achieved:

‘*We used to focus on big money, big item, those strategic costs defined here......we found that is a hard way with small saving rate and create lots of conflict between departments.....The non-strategic costs however are quick money to save and those costs are not critical to the core business. I guess quick money is good money to any companies. Besides, they are easy money, the low-hanging fruits, to make.’*

An expatriate holding chief operating officer (COO) position complained of its:

‘Layers of administration, no proper definition of cost or expense necessary to be spent......We clearly overlook non-strategic costs and need to do something about them.....our profit is no longer good. We really need to pay more attention to non-strategic costs.’

From the statements listed above, it evidently supports the analysis results from the questionnaire as well as delivers clear messages that that high potential savings can be delivered by better management of non-strategic costs. Non-strategic costs are mostly overlooked in the organisations and they can be saved easier without harming core business activities.

Besides watching over strategic costs closely, the study confirms that non-strategic costs also deserve more attention. Attacking non-strategic costs therefore becomes a winning strategy for companies to stand out from competitors, in particular during difficult economic times. The low-hanging fruits (non-strategic costs) have indeed a strategic position. The overwhelming majority of respondents (89.8%) confirmed that non-strategic costs are important, only 10.2% respondents attached no importance to non-strategic costs.

An example of this situation was explained by one senior chief officer:

‘Every dollar counts in the high competitive environment even though they are not strategic costs. Strategically and importantly, if we control those non-strategic costs better than other market players, we then can become more competitive. In particular, these costs are not strategic to a company and can be cut without too much hesitation and concern.’

Unfortunately, only 30.6% of the respondents reported that their companies cut non-strategic costs based on benchmarks. Others just have an indiscriminate policy across the board to cut or make decisions based on the subjective perceptions of value provided by a cost service or department. From the survey it seems that close to 70% of firms do not have a thorough plan for cutting their non-strategic costs.

An administration staff member from a collection agent observed:

> '*When it comes to cost cutting, freezing all expenditure is always a routing ...... in the company I am currently working for. Since 2009, we have conducted 4 budge freezes for overhead expenses as the company entered its critical phases and economy was bad. It is not easy to determine accurately right numbers for every department to cut fairly.....so budge freeze for all expenses not strategically needed first, then special approval for every single spending of them if they are really necessary.'*

The human resource director of a well-known bank described:

> '*Staff is always a major item in the boss's mind as it is normally the most expensive cost category. Besides, managing people is not an easy task and most decision makers would prefer to deal with as few people-related problems as they can......a 15% head count off and salary increase freeze for all managers above were conducted...... The recent sales indicators are rapidly and consistently trending upward, but my department finds so difficult to recruit talented people as those people laid off. We should have a more well-thought-out solution to tackle those labour costs; no matter they are strategic or non-strategic, then.'*

This high percentage without a well-thought-out plan for cutting non-strategic costs from respondents, followed by very limited tools used by the respondent's firms for controlling non-strategic costs, further implies there is a great deal of room for improving cost management. An overwhelming majority of respondents (85.2%) reported that the major cost control tool they use is budgeting. Other useful cost control tools including benchmarking, strategic cost management, balanced scorecard, total quality management, lean management and others are rarely used. There is indication of a need for solutions, tools and a comprehensive conceptual framework to manage non-strategic costs strategically—a proposed framework will be presented in the next chapter.

The analysis concludes that there is a competitive position for non-strategic costs to improve firm's profit and leave competitors far behind if they are managed strategically. However, lack of understanding about non-strategic costs and their measurement is an obstacle which prevents realising the savings. From the survey, respondents rated out of 10 the importance of eleven different obstacles to the improvement of non-strategic costs (10 being of upmost importance). Their views are presented in Figure 4.5.

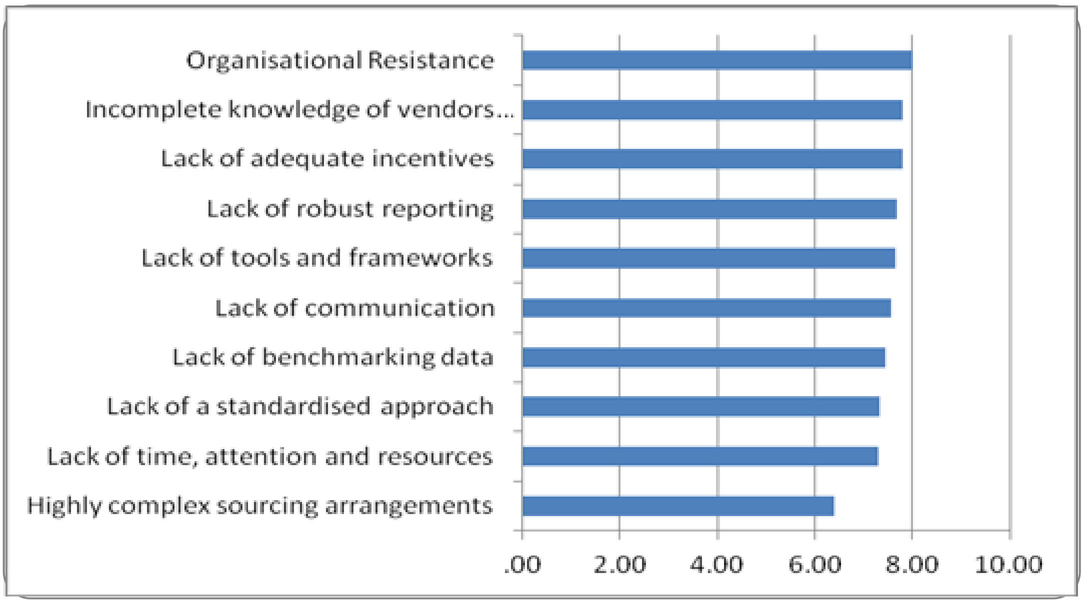


Figure 4.5: The mean score of the importance of obstacles faced in dealing with non-strategic costs

From Figure 4.5 it is clear that respondents consider all obstacles to be important although operating complex sourcing arrangements is perceived as less of an obstacle. The high scores given to all obstacles is perhaps a reflection of the lack of understanding of non-strategic costs and the difficulty of identifying and controlling them. Organisational resistance has emerged as the most important obstacle. The business process literature (Davenport 1993, Elzinga et al. 1995, Corrigan 1996, DeToro and McCabe 1997, Del Val and Fuentes 2003, Trader-Leigh 2002, Goldberg 2010) echoes that the resistance to change is a major barrier to successful business improvement projects.

The comments from a chief financial officer (CFO) described the importance of overcoming the obstacles:

> *'The savings delivered by the project team were significant. Unfortunately, the project is no longer running due to stakeholders' resistance. They were so afraid of accusation made by general manager to them for not doing their own jobs properly. Most people in the company believe it's better to save trouble.....the less trouble the better.....avoid trouble whenever possible. Most people, in particular for those stakeholders, do just enough work to get by, believing 'the less trouble the better.'*

Obstacles can be anything or anyone that gets in the way of the cost project team reaching their goals. Realising that there will likely be obstacles along the path to the goal makes it easier to plan for, overcome or avoid them. A project manager of a construction company heavily involved in cost savings stated:

> '*I thought it was not difficult to reduce non-strategic costs and believed I should have full support from everyone. But soon as I put my actions in place, I found I was wrong. I should identify roadblocks and real limitations before putting my plans in action. It is important for me to decide whether the roadblock is a true limitation, something that I am unable to change, or not. After all, all opportunities only lie in areas which I can change.'*

Conversation during the interview with a CEO and a CFO from the same household goods retailing company reflected that the organisation resistance is the biggest obstacle to be removed.

> '*CEO: We had cost saving projects for non-strategic costs, overhead expenses in 2009.....The saving was not very meaningful in total amount or saving rate.*
>
> *CFO: The fact is that the average saving rates were over 25% but complaints from various parties made the project stopped although you approved the project to go ahead then. They, in particular those stakeholders, were arguing credit belonging and possible blame on them for high costs before conducting cost saving projects.'*
>
> *CEO: 'Why I was not totally aware of the real reasons behind stopping the projects?'*
>
> *CFO: 'Sorry. I was new at that time and did not want to upset people. Besides, those non-strategic costs are not material compared to strategic costs'.*

This unexpected conversation which took place also indicates the importance of proper team structure, incentive programme and communication re-engineering for managing non-strategic costs effectively and efficiently.

The importance of the obstacles were investigated to determine if there were differences between those in the public and private sectors and between those in services compared to those in manufacturing. Using independent t tests no significant differences were found.

4.4 Discussion

Businesses are vitally concerned with measuring and managing their costs. The findings and analysis confirm companies should learn to be more proactive in the way they manage costs. With the emergence of the lean enterprise and increased global competition, focusing on reducing costs much can be done from a strategic point of view. This research categorising costs into two blocks—strategic costs and non-strategic costs provides a practical way to manage cost strategically and recognises there is a competitive position for non-strategic costs to improve firm's profit and leave competitors far behind if more attention can be given to non-strategic costs.

The terms of strategic costs and non-strategic costs through questionnaires supported by interviews are developed. Non-strategic costs are those costs needed to run the business but do not directly contribute to the business profit, product (service) value, or sales growth. Strategic costs are any costs spent which can directly increase business profit, product (service) value, or business revenue. The purpose of this exercise is to identify the strategic and non-strategic costs of a company and so that the whole organisation knows where and how to save those costs not strategically important and help make a profit.

Pareto (1896-7) analysis has long been used in operation, inventory control, and cost management as a means of sorting out data for decision purposes (Bernikder and McNabb 2005; Azari-Rad 2004; Bradford and Sugrue 1997; Chu and Chu 1987; Rai and Allada 2003; Wendell 1987; Wharburton 2004). The method is used in so many different ways that it is appropriate to briefly review the process as used for cost management to separate the major causes (the 'vital few') of a problem from the minor ones ('trivial many'). Pareto's method is simple and easy to understand when applied to cost control. The 80 percent portion is confirmed to be 'strategic costs' instead of 'non-strategic costs' based on the survey results.

The higher percentage of cost receives more attention and closer monitoring. A positive link between the percentage of cost and degree of cost tracing for firms was reported by Chang and Hwang (2002) and is confirmed and applicable to all sectors. This indicates that strategic costs (major cost portion) are better controlled due to a higher degree of cost tracing and closer monitoring performed by a company. Therefore, there is a reduced chance for companies to save more over strategic costs than non-strategic costs. The Pareto principle is that the 20% are responsible for 80%. The principle is to sift the few critical tasks from the rest and focus efforts on them. Of the tasks a company does during a regular day, only 20 percent really matter to be more competitive and outstanding from other competitors. Those 20 percent produce 80 percent of results. This 20 percent mean there is a need to focus on non-strategic costs instead of strategic costs.

Doing an excellent job with strategic costs seems so natural to survive. But talking about being outstanding, non-strategic costs are also of importance. The survey confirms that companies used to work heavily on strategic costs when initiating a cost reduction plan, but soon they find it maybe much easier to have savings resulting from non-strategic costs than working on strategic costs. The low-hanging fruit (non-strategic costs) is the likely oversight that deserves attention. Non-strategic costs should be minimised and optimised.

By eliminating or at least reducing non-strategic costs, a firm's strategic position can be strengthened whether they are public or private, service or manufacturing, SMEs (small and midsize enterprises) or corporate, listed or non-listed, etc. However, there are some obstacles and bottlenecks getting in the way of a company's effort to reduce non-strategic costs. Respondents from both interviews and questionnaire confirm that organisational resistance is a major obstacle. A comprehensive conceptual framework including guiding principles to ease organisational resistance and manage non-strategic costs effectively and efficiently therefore is needed

Managing non-strategic costs including overheads is in its infancy as researches and studies are still in an early exploratory stage and have not yet developed a consistent theory, not to mention a framework for reducing non-strategic costs. Such a framework is further developed in this study. The research followed the idea of overall cost leadership by Porter (1980) to do everything a firm can to cut costs. However, trying to accept the good and not create adversity about cost savings, the research is looking for cutting costs with strategic thinking but keeping away from discounting or losing the critical capabilities of the organisation during cost cutting initiatives as concerned by Lee and Covel (2008). Extended Strategic Cost Management (ESCM) is the framework based on the researcher's intention to extend the discipline of strategic cost management (SCM) to the management of non-strategic costs, the missing and overlooked part of strategic cost management in the business environment. ESCM however is not identical to strategic cost management (SCM) or totally irrelevant to traditional cost management as shown in Table 2.1 of Chapter 2. Its focus is on value added within a firm but also on the overall value chain/system which the firm and its competitors are a part of the chain/system. Cost containment to ESCM is a philosophy regulating each value activity, individual and business activities. Management of non-strategic costs is a philosophy, attitude and a set of techniques. Its primary concern is the co-relationship among cost, profit margin, value and revenue.

ESCM, a systematic and not a sporadic performance management framework and the system, is to ensure that the company's hidden profit is released through taking a strategic view of non-strategic costs. The framework can be a quick fix tactic to meet company's short term need for saving costs or a long-term strategy to establish a business philosophy and company culture for keeping non-strategic costs at the lowest level and maintaining profitability without jeopardising business operation. The aim of the next chapter is to develop this framework which will allow the key skills and knowledge necessary for firms to improve and maximise the profit contribution of non-strategic costs to organisations to be identified.

Chapter 5—Framework and Case Study

This chapter shows a conceptual framework reflecting on the previous literature review and the findings and analysis for managing non-strategic costs strategically. To establish the feasibility and usability of the suggested framework, a case study approach is used to validate the framework structure underlying a system to be used as a support or guide, or a set of logical relationships (Rouse 2005) and focusing not only on cost improvement, but also on profit enhancement.

Strategic cost management is not limited to cost but is inclusive to all resources used and deployed across the value chain (Cooper and Slagmulder 1998). Therefore, strategic cost management should not be confined to cost, but should also consider revenue, productivity, customer value, and at the same time the strategic position of the company. Different from costs spent in business-value-added activity (Harrington 1999), the researcher is taking strategic cost management lens to view cost items themselves through the entire value chain but is more interested in how to reduce those costs not directly bringing up business revenue, profit, product quality and service value. The need to understand these costs is a clear one. The costs are non-strategic costs based on the analysis results in Chapter 4 and are unlike non-value-added-costs described as the costs necessary for the operation of the business but for which a customer would not want to pay.

Many companies do not focus on actively managing non-strategic costs since they consider achievable margins to be small and view many categories as indispensable (Gleich 2011). However, opposed to the general perception, the findings in Chapter 4 indicate that companies do think they should pay more attention to non-strategic costs often overlooked and smaller than strategic costs. In spite of the survey confirming the importance of non-strategic costs to increase business profit and be competitive in the market, Gleich (2011) claimed that there is little research which has been conducted to explore the hidden potential of these costs and to analyse how and if non-strategic costs can be managed and reduced. A study aiming to better control non-strategic costs with a conceptual framework is therefore needed. Although some existing systems such as Lean or the Balanced Scorecard mentioned and discussed in Chapter 2 can be applied to the saving of non-strategic costs, Extended Strategic Cost Management (ESCM) is different to a sole reliance on existing models or approaches due to its simplicity and flexibility to deal with non-strategic costs, the relatively small costs compared to strategic costs.

The framework has been tested and applied to a hospital. Its degree of success in reducing non-strategic costs and the potential to increase profit has been assessed in this chapter. In this case study the advantages of the ESCM model over other models will be made clear. Also examined is the ease of implementation of the framework. However, there are always limitations to the generalisations that can be made from just one case. Despite the limitations, this case study is believed to show the viability to use the framework for reducing non-strategic costs and the applicability of the suggested framework in practice. So, the suggested framework and a case study for using the framework are to come in this chapter.

5.1 The suggested framework

Shown in Figure 5.1 is a suggested framework for managing non-strategic costs in more effective, efficient and economical ways. Taking the ideas and concepts of strategic cost management and considering the nature of relatively small portion of non-strategic costs from strategic costs, the research argues the Extended Strategic Cost Management (ESCM) supported by many sub-themes and existing models can be a simple but broad system in a flexible way for achieving the investment gains comparing favorably to investment costs from a return-on-investment (ROI) perspective. The theme of managing non-strategic costs is supported by feedback loops to highlight a clear identification of strategic and non-strategic costs made or discussed before cost cutting takes place; many sub-themes, with existing approaches applied on a case-by-case basis are included and now briefly described:

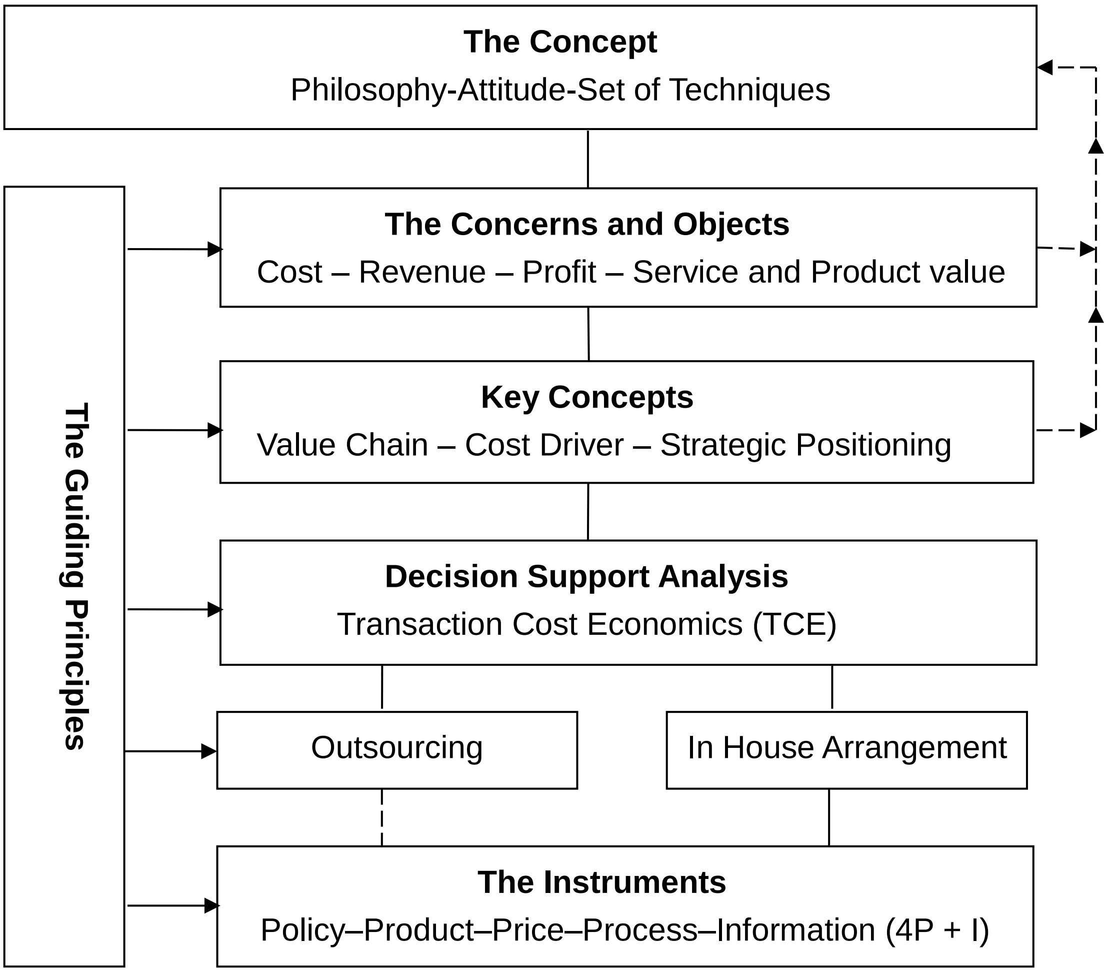


Figure 5.1: Framework of extended strategic cost management (Framework of Managing Non-strategic Costs)

5.1.1 The concept

Cooper (1995) concluded that cost management has to become a discipline practiced by virtually every person in the firm and should be performed rapidly and aggressively in order to survive. Every dollar counts. Based on the findings in Chapter 4, reducing non-strategic costs can release a company's hidden profit to increase a company's competitive advantage and is less risky in comparison with reducing strategic costs. This leads to the strategic importance of non-strategic costs. The researcher advocates that management of non-strategic costs is a philosophy, an attitude, and a set of techniques to enhance company's profit and contribute its strategic move for managing costs as shown in the coming case study section.

Firstly, managing non-strategic costs is a philosophy of improving cost and revenue. It is not only cost management but also profit management. This philosophy plays a vital role in determining the future of the company because it promotes the idea of continually finding ways to help organisations make good decisions to operate business at a lower cost. Efficient companies use the minimum of the organisation's scarce resources, while continuously seeking to improve value, costs, and revenue. Secondly, managing non-strategic costs represents a proactive attitude. This proactive attitude refers to competitive behavior and has a broad focus on the entire value chain, involvement of every employee, continuous improvements and integration of business functions. Thirdly, managing non-strategic costs is a set of reliable techniques. These techniques or instruments may be used individually to support a specific goal and the organisation strategy or together to serve the overall needs of the organisation. Given the strategic thinking and the nature of relatively small portion of non-strategic costs from strategic costs, the simplicity and flexibility of the approach provide an answer to manage non-strategic costs effectively and economically for companies across industry, sector and business scale. The concept of the approach is therefore different from existing models or approaches such as Lean or Balanced Scorecard on practical grounds to managing non-strategic costs.

5.1.2 The concerns and objects

There are many cost management systems offering many solutions for companies, but their primary concern was cost reduction (McNair 2000). In the competitive business environment, the researcher argues that the primary concern of managing non-strategic costs will not only be for reducing costs but also for increasing revenues, improving service and product value and at the same time improving the strategic position of the company. Clearly, not every dollar of cost is equal. The model will help the organisation with the differentiation. Some costs lead directly to customer value creation and profits, others do not. Knowing which costs yield the optimal return to the firm and its strategic goals is the new object. The goal of managing non-strategic costs is to more thoroughly understand, measure, and portray the relationships among cost, profit, service and product value that define a firm's competitive position and long-term success.

The research emphasises that managing non-strategic costs should not restrict its attention to the cost structure of the firm only. It should monitor the firm's cost performance relative to that of other firms and, in particular competitors. The thesis identifies the true link between costs and revenues and can reveal hidden costs (as well as hidden profits) in providing product, servicing customers and operating a company, which is also discovered in Section 5.2: case study.

5.1.3 The guiding principles

To form the foundation of effective cost management for managing non-strategic costs using the guiding principles as mentioned in Chapter 2: the literature review should be taken into consideration seriously for the project rollout to ensure that things are running smoothly and keep the project on track. In order to achieve this, the following objectives found in other approaches and models should be achieved (Kelety 2006, Soltainia et al. 2008, Al Jufairi and Sequeira 2013, Kokkranikal et al. 2013), in addition to the principle of maintaining cost reduction on non-strategic costs as one of continuing priorities in the organisation.

1. Seeking support and commitment from top management,
2. Understanding the cost cause and revenue structure of the business,
3. Reducing inter-functional complexity,
4. Increasing effectiveness and continuously improving costs,
5. Using strategy to manage costs,
6. Giving right skills to people involved through education,
7. Involving employees in decisions,
8. Setting performance benchmarks and measurements,
9. Monitoring the progress based on the goals for both timeliness and finished tasks,
10. Continuously interacting with involved parties,
11. Creating incentive and penalty programmes,
12. Maintaining cost reduction on non-strategic costs as one of the continuing priorities in the organisation.

Using a multiple case study and reviewing data from 52 semi-structured interviews representing a variety of managerial levels, Soltani et al. (2008) found that, where there are guiding principles between senior managers' underlying approaches towards common goals with those of middle and first line managers, then projects are highly likely to produce expected results.

In comparison with strategic costs, non-strategic costs are smaller and more trivial. It cannot be overemphasized that the guiding principles to manage non-strategic costs successfully are more important. The hospital case in Section 5.2 echoes that the support and commitment from senior management are of the utmost importance, which is the number 1 guiding principle.

5.1.4 Key concepts

Once the aforementioned foundations for the cost cutting initiatives are carried out, three major themes of strategic cost management are then adopted to review and manage non-strategic costs.

Value chain: The value chain concept to examine all costs generating from all activities a company performs and how they interact is necessary for improving cost position and business profit margin. The value chain describes the activities within and around a company, and relates them to an analysis of the competitive strength of the company (Dess and Picken 1999). In the value chain a systematic way is sought to evaluate which activity can add value to the products or services to its customers. The value chain however cannot be directly and simply applied to differentiate strategic and non-strategic costs. To view costs more from a strategic perspective needs to be done through the whole value chain and value system which the firm is in. Taking the idea of value chain, the researcher uses the definitions generated from Chapter 4: Analysis and Results for strategic and non-strategic costs to categorise all costs. Only if these costs are arranged into systems and systematic activities, it will become possible to eliminate or at least reduce those costs not producing revenue, margin and value or quality of product and service (i.e. non-strategic costs). The value chain is an important tool for understanding how a company can position itself against competitors. In addition, relevant costs of value chain activities need to be managed and optimised together instead of viewing them as separate and independent costs. Although value chain analysis is used to decompose the firm's costs into strategically or not strategically important and understand their impact on the cost and value for cutting non-strategic costs to the minimum, the analysis can include not only in-company parties (e.g. senior managers, administrative staff) but also involved parties outside the company (e.g. suppliers, processors) from the value system stand point.

Cost drivers: There are many studies that discuss different lists of cost drivers as mentioned in Section 2.4.2 but there is no clear agreement on the list of cost drivers. Authors such as Donelan and Kaplan (1998) and Hansen and Mowen (2000) argued three types of them: structural cost drivers (such as factors determining the costs of number of production facilities and selecting and using process technologies) which determine the costs of the underlying economic nature of the company, executional or procedural cost drivers (such as factors determining costs of quality and product design) which pervade the costs of all aspects of company operation and reflect the company's ability to perform processes efficiently and effectively, and operational cost drivers (such as factors determining the costs of product assembly, setting up equipment, and scheduling). The aforesaid three types of cost drivers can be used to understand the cost causes and further improve the cost and profit structure of the business. It is acknowledged that cost is caused, or driven by many factors that are interrelated. Understanding the interplay of the set of cost drivers at work can help to understand cost behavior in any given situation to reduce non-strategic costs. Non-strategic costs are driven not only by volume and its related measures, but also by non-volume-related variables that result from the diversity of company business and complexity of the company's operation. Hernandez (1989) argued that selecting and using process technologies such as JIT and purchasing systems may affect the number and nature of procedural and operational activities within the company and their cost drivers. It is proved to be right in the coming case study that advanced systems can supply quality service (product) at the necessary time with lower cost through elimination of every loss and waste from the operation including those in service lines.

Strategic positioning: Strategic positioning is the process of selecting the optimal mix of three strategic approaches: Cost leadership, differentiation, or focus (niche market) to gain a competitive advantage (Porter 1980) and can be used to differentiate costs through taking a strategic view. Although Hill (1988) contended that Porter's model is fundamentally flawed and argued that there are many situations in which establishing a sustained competitive advantage requires the firm to simultaneously pursue both low-cost and differentiation strategies instead of just pursuing a single generic strategy, different strategic positioning and focus require different task priorities and influence cost management and control. The development and growth of Taiwan's industries have been predominately emphasising on cost leadership strategy (Lee and Ho 2013). The organisation from the medical service industry in the case study strives to be competitive through cost leadership approaches such as tight cost control and cost minimisation in areas. It competes with other medical service providers in areas such as process technology and capacity utilisation.

5.1.5 Transaction cost economics

One of the questions that organisations grapple with is whether or not to outsource their works to external providers. The work of Williamson (1985) about transaction cost economics can be applied to the question of outsourcing and is included in the ESCM. This is however not mentioned clearly in Strategic Cost Management (SCM) or covered by other models such as Lean, Six Sigma or Balanced Scorecard.

A firm has two choices for any economic activity: performing the activity in-house or going to market. In either case, the cost of the activity can be decomposed into production costs, which are the direct and indirect costs of producing the good or service, and transaction costs, which are other (indirect) costs incurred in performing the economic activity. In the case of in-house application development, production costs include developer time, software tools etc. whereas transaction costs include costs relating to building an internal team (with the right skills, attitude and knowledge) and managing uncertainty. On the other hand, in outsourced application development, production costs include all costs that the outsourcer incurs in producing the application whereas transaction costs (typically incurred by the client) include search costs, selection costs, bargaining costs, enforcement costs and costs of coordinating work. According to Williamson (1985), the decision as to whether or not an economic activity should be outsourced depends critically on transaction costs.

The most efficient institutional arrangement is often the market (i.e. outsourcing), but firms (i.e. in-house arrangements) are sometimes better. Williamson (1985) argued that sometimes in-house arrangements are better i.e. firms are better when the cost of completing an economic transaction in an open market:

1. Increases with the complexity of the transaction
2. Increases if it involves assets that are worth more within a relationship between two parties than outside of it

These features make it difficult if not impossible to write and enforce contracts that take every eventuality into account. At some point this becomes too hard to do. In such situations it makes sense to carry out the transaction within a single legal entity (i.e. within a firm) rather than on the open market. From the client perspective such as the hospital in the case study when contracts for IT (information technology) services are easy to draw up and enforce, it may be better to have those services provided by external vendors than in-house departments. However, organisations and vendors should expect possible ambiguities and omissions in contracts, and be flexible whenever there are disagreements over the interpretation of contract terms.

5.1.6 The instruments

As discussed earlier in the literature review, there are only a few instruments often applied to manage non-strategic costs. They are indiscriminate across-the-board cutting, budgeting or cuts based on benchmarks or the subjective perceptions of value provided. Having feedback loops to differentiate strategic and non-strategic costs can help a company to avoid cutting costs without a strategic mindset and priority thinking. However, with ongoing pressures to reduce cost and improve profit, the need for instruments other than indiscriminate cutting, budgeting or cuts based on benchmarks or subjectivity to manage non-strategic costs is clear although there has been little attention to this topic in the major research journals. Instruments of strategic cost management however can be extended and applied to manage non-strategic costs.

Hansen et al. (2009) argued that cost management consists of two major subsystems: the cost accounting system (A system to assign costs to individual products and services and other cost objectives as specified by management) and the operational control system (A system to provide accurate and timely feedback concerning the performance of managers and others relative to their planning and control of activities). Based on that and instruments covered in the literature review for non-strategic costs, a cost instrument system with integrated instruments called '4P+I' (policy, price, product, process, and information) are developed in the study for managing non-strategic costs. In the '4P+I', existing models and approaches such as Lean and Balanced Scorecard are integrated and applied on a case-by-case basis and in a flexible way with ROI perspective to balance the cost and return. The researcher's approach based on ESCM is therefore preferable on practical grounds to managing non-strategic costs.

Policy : Common policy is the setting of principles or rules to guide decisions and

achieve rational outcomes for managing non-strategic costs. The goal is to ensure compliance with the company or business group policies as well as reduce the growth rate of business group expenses. It offers guidelines to reinforce consistency and efficiency in expense policies for the Company. Instruments such as Cost Control Policy, Budgeting, Zero Cost Budgeting, Activity Based Costing and Management and Balanced Scorecard are used.

Price: Price negotiation is a common occurrence when purchasing materials or supplies to determine a price that is acceptable to both buyer and seller. Purchasing represents a significant profit opportunity (Fifer 1995). Figgie (1983) argued there are six specific techniques: utilising an ABC stratification system (An 'A' classification signals that the item is in the most expensive category to be watched), encouraging competition among vendors, avoiding single-sourced items, standardising materials, negotiation with suppliers, insisting on high integrity of the purchasing staff. All these six techniques with weights attached to each item can be evaluated by the actual situation for price negotiation. Other instruments such as 'BATNA' (Best Alternative to a Negotiated Agreement), Game Theory, Integrative Theory, Benchmarking can be utilised for price negotiation as well.

Product: An ill-considered, vague or misleading statement of requirements can be very costly to correct at a later stage or, worse, may provide end users with an unsatisfactory product or service. The specification is the heart of the procurement transaction (De Boer et al. 2001). Therefore, the first step in the procurement is to produce a product specification. When defining the business need, it is important that the best VFM (Value for Money) is always considered. It is essential to differentiate between needs and wants if value for money is to be achieved. It may be that a customer wants to specify a particularly high standard of service or product simply because funds are available, whereas the real business need could be satisfied by something less extravagant and expensive. In addition to VFM, Total Cost of Ownership (TCO) provides a cost basis for determining the total economic value of an investment such as return on investment.

Process: Process improvement is an aspect of organisational development in which a series of actions are taken to identify, analyse and improve existing business processes to improve organisational performance, such as reducing costs, increasing profits and performance. Bititci et al. (2008 and 2011) believed that competitive advantage is delivered through the capabilities and competencies rooted in the Operate and Support Processes but those of Manage Processes are critical to determine the organisations ability to develop and sustain competitive advantage in the long run. The researcher argued that these capabilities and competencies often follow a specific methodology or strategy to encourage and ultimately create successful results and best performance through radical or incremental changes. The literature (Armistead et al. 1997, Zairi 1997, Harrington 1998, Lee and Dale 1998, O'neil and Sohal 1999, Bitici et al. 2008) consistently agrees on the 4 steps to improve the process performance: Identify and understand the processes, define and measure metrics against these processes, benchmark where appropriate and possible, and take corrective actions. Process improvement may include the restructuring of company training programmes to increase their effectiveness. Process improvement is also a method to introduce process changes to improve the quality of a product or service, and to better match customer and consumer needs. Methods and examples of process improvement include: Reengineering, Process Redesign, Just-In-Time, Lean, Performance/Process Improvement, Lean Six Sigma, Total Quality Management, etc.

Information: Not everyone benefits equally from communication technology. The result is an 'information gap' between the haves and have-nots (Adler 1999). The information gap is clearly a major issue for many companies. An information gap is a situation in which there is a communication between two or more people and where information is known only to some of the people present. Cost information is a critical input for many managerial decisions and plays a vital role in reducing costs. Systems such as Enterprise Resource Planning (ERP) and Knowledge Management (KM) provide access to real time data from any functional area of the firm and to bridge information or knowledge gaps. Using this real-time data and knowledge database enables managers to continuously improve the efficiency of managing non-strategic costs.

The '4P+I' approach including balanced scorecard for 'policy', need identification and specification for 'product', comparison and negotiation for 'price', streamlining for 'process', documentation for 'information' is adopted in the case study and successfully leads the organisation into revenue enhancement, cost reduction and increased productivity.

However, it would be wrong to say that one system is better than another. Different performance management systems are operating on different levels, and thus are pursuing different goals, as well as serving different purposes. The ESCM is a performance management system tailor made to manage non-strategic costs in more effective, efficient and economic ways. Table 5.1 shows the advantages of ESCM and how ESCM is needed for the case study in section 5.2 in comparison to other approaches or models such as Lean and BSC.

Table 5.1: Comparison between ESCM and other main approaches

	ESCM	Lean	BSC
Level operated	Operation and strategic levels	Process and operation levels	Strategic level
Value gained	· A tactic for rapidly reducing unnecessary costs in the short run as well as a strategic move in the long term to release hidden profit through taking a strategic view of non-strategic costs.	· Remove waste (non-value added activities) and avoid unnecessary costs and operation through continuous improvement.	· Clarify business models, heighten awareness of strategy within the organization, make execution more effective and, consequently, improve financial performance.
	· The Simplicity and flexibility of the approach provide an answer to manage non-strategic costs effectively and economically across companies in different industry, sector and business scale.	· The development of lean mostly referring to production processes can be used to reduce waste and non-strategic costs but does not provide an answer to many of the challenges faced by service industries ,because service is different in push and pull practice, in the inability of storing capacity, in the creation process and especially in the variety of demand.	· The BSC can be used to report the performance on managing non-strategic costs and increasingly support strategic thinking whereas it is frequently led by consultants instead of company employees due to its complexity and much intellectual rigour required. · Suitable for big companies where there is enough human resources available to carry out the projects in these scales but difficult for small and medium-sized companies.
	· The ESCM supporting material is largely a practical based approach with many implementation based tools provided to enhance business profit and optimise costs. · The instruments of ESCM including existing models and approaches such as Lean and Balanced scorecard are applied in a flexible way with ROI perspective to balance cost and return. · Performance measures are linked to the critical success factors (CSFs). Knowing profit and cost to critical success factors (CSFs) is fundamental to knowing what	· Lean's over focus on elimination of waste which the final customers do not need may override other concerns such as strategic thinking. · Lean's constant pressure to eliminate waste and ensure optimal output places all energy on the present and may lead to missing out on the bigger picture, failing to comprehend the relevance of the task in the first place, or taking time to anticipate future challenges and make necessary changes to respond to such challenges.	· The BSC supporting material is largely an academic based approach with few implementation based tools provided. · The model is built up while organisations are in relatively good health and in a relatively stable development stage. In many cases where the organization needs more thorough reengineering the BSC does not provide reasonable results. · A myriad of BSC applications that support the strategy mapping and cascading performance measures leading to many performance measures without any linkage

	to measure in ESCM.		to the organisations' CSFs (Critical Success Factors).

(Olve et al. 2004, Arfmann and Federico 2014, Pamenter 2012, Rillo 2004)

5.2 Case study

The XYZ General Hospital, a member of PJ Group, is a community hospital with 300 employees serving the medical needs while promoting healthful living in the Taipei Metropolitan community since 1976. The hospital's vision is to become a leading community hospital in Taiwan under the mission of Compassion, Service and Innovation.

This 301 bed hospital consists of 24 multi-specialty clinics, fully staffed intensive units, 24 hour emergency chest pain cardiac catheterisation center, physical exam center, etc. The hospital practices medicine on the premise of respecting the dignity of life while utilising an integrated approach to medical service to provide excellent medical care.

The case was picked because it is the first consulting case applying the suggested framework by the researcher and also the researcher's intention to use an organisation from the service industry to verify the findings from the manufacturing industry in the literature.

Due to many health care providers taking advantage of the Health Care System in Taiwan by offering unnecessary services to a larger number of patients leading to excessive billing the government, National Health Insurance (NHI), changed the payment system from fee-for-service to a global budget, in the face of increasing loss and the need for cost containment, a kind of prospective payment system, in 2002 (Shih 2003). The XYZ General Hospital, as with other private providers, heavily relies on the revenue generated from the NHI, a single-payer compulsory social insurance plan which centralises the disbursement of health-care funds, and has been facing a 32% revenue decrease resulting from the change of the NHI payment system. By conducting a cost cutting project, the hospital aimed to improve its profit. However, layoffs may not be the best way as there is a low doctor-to-population ratio resulting in too many patients depending on too few doctors and deteriorating service quality on clinical performance.

‘According to the Monthly Portfolio Report published on August 10, 2013, the cut in non-strategic costs of XYZ General Hospital delivered a 23.54% saving and has boosted the hospital’s income by 2.82%’ revealed by the deputy dean of general administration. The case proves that non-strategic cost cuts increase net profit margin and also can hold onto its greatest assets: doctors and key staff.

5.2.1 Devil in the Details

‘To carry out a fruitful and effective trimming exercise, support and commitment from senior management is of the utmost importance, even though the impetus has been given from the dean of the hospital (Chief Executive Officer, CEO)’ says the deputy dean. A project team including a project sponsor, a project coordinator and project users from different functional areas was formed to work together on the project rollout and to ensure smooth running. Customer focus and supplier management are also the focal points of the cost reduction project and key messages delivered in the project kick-off meeting by the hospital dean. Rather than focusing on the big ticket items in the hospital, the project team scrutinised all of the small ticket items that usually slip too easily people’s concern, actively involve workers at all levels, and build up confidence levels through successful delivery as performed in the ‘key concepts’ stage of the ESCM model,. ‘These ‘little’ requests often prove to be non-strategic or unnecessary duplicates of other requests, but few people have the time, energy, or inclination to ask about them,’ according to the deputy dean. However, ‘they should.’ The works conducted in the ESCM are recognised by the deputy dean as a different approach from other traditional models.

As most health providers operate in the private sector and form a competitive market on the health delivery side, the hospital followed a cost leadership strategy and paid careful attention to the following for managing non-strategic costs to stand from the competitors:

- Unexceptionally high expenditure items,
- Strange overhead costs,
- Unusual spending patterns,

- Unnecessary spending.

Having a cost leadership mindset, the hospital used value chain analysis to review all costs involved within the value chain and categorised them into strategic and non-strategic costs. The team focused cost saving attention on non-strategic costs to improve its business profit. The focus might not be normally done without the model. The following stages to locate non-strategic costs were taken:

Stage 1: Identify the value chain activities and disaggregate the organisation into separate activities.

Stage 2: Establish the relative importance of different activities in the total cost.

Stage 3: Categorise costs into two groups: strategic and non-strategic costs.

Stage 4: Identify cost drivers.

Stage 5: Review non-strategic costs by crosschecking interrelationships within the value chain from a strategic perspective.

Stage 6: Identify opportunities for reducing non-strategic costs to improve the company's profit and strategic position.

5.2.2 Source of Cost Saving

To attract personnel and meet counter offers from other hospitals for regaining existing staff, the hospital had difficulty to control compensation costs, especially in the time when hospitals were actively competing for talented employees. However, the costs representing almost 32% of total revenue identified as potential saving opportunity were an exceptionally high item. Using the definition of strategic and non-strategic costs developed in the research, the hospital categorised the cost of salespeople, doctors, advertising, commercialisable R&D as strategic costs and administrative costs of all kinds then as non-strategic costs. The idea was to ruthlessly cut non-strategic costs without jeopardising service quality of the hospital.

The solution for increasing personnel efficiency and reducing non-strategic compensation costs at the same time is to select and use process technology (i.e. structural activity). Just-In-Time (JIT) in Services and Enterprise Resource Planning (ERP) as types of process technology (i.e. structural cost drivers) can help operational efficiency and integration of internal and external management information across the entire organisation, embracing finance/accounting, manufacturing, sales and service, customer relationship management, etc. to reduce the time to process paperwork (Conant 1988) and facilitate the flow of information between all business functions inside the boundaries of the organisation and manage the connections to outside stakeholders such as suppliers. The systems are considered to be suitable technology for affecting the number and nature of procedural and operational activities within the hospital (i.e. operational activity) and therefore their cost drivers. Hospital layout and process flow are executional cost drivers that are managed differently under JIT and ERP. In traditional job and batch service delivery, clinical performance was moved from one group of identical rooms to others.

All components of the processes employed to provide service were not visible to those participating in the process. Before the project was conducted, clinical machines with identical functions were located together in an area referred to as a department or process. Workers who specialise in the operation of a specific machine were located in each department. JIT replaces this traditional hospital layout and uses Kanban-controlled movement (*Kanban* is a simple method of notifying preceding work centres that material is required downstream), arranges equipment and workstations in a sequence supporting a smooth flow of material, components through the process, with minimal transport or delay. In other words, it consists of the people and the machines or workstations required for performing the steps in a process or process segment, with the machines arranged in the processing sequence. Thus, managing hospital layout (executional activity) and process flow through JIT and ERP can result in some efficiency such as reduced lead times and lower service costs. Reducing lead time enables the hospital to respond better to changes in patient demand. In addition, materials handling activity cost, inventory and set up time can be reduced and service flow design can also affect structural activities, such as hospital space and number of exam rooms/facility room, might lead to space savings. So the compensation costs of non-strategic personnel, running cost and other related costs are reduced.

Through JIT and ERP to carry out quality management at every step of the service delivery process from the beginning to the end, total quality management as one of the fundamental goals in JIT and ERP are achieved as well. Each individual and function involved in the process therefore accepted the responsibility for the quality level of its service. The corrections of defective units have been completed. The selecting and using JIT and ERP do affect structural and procedural activities like enhancing quality. In addition, the empowerment of the employees increases the degree of participation allowed by workers in the management of the hospital (the executional cost driver) and increases productivity and overall cost efficiency. Workers are allowed to identify and correct problems. Management uses workers' input and their suggestions to improve work processes. Employee empowerment, a procedural activity, also affects other structural and procedural activities. The management structure also changes in response to greater employee involvement.

Because workers assume greater responsibilities, few managers and manual processes are needed and the structure of the organisation becomes flatter.

However, the decision to develop the technology internally or procure them on the open market needs to be made. Buying decisions are made for the process technology after taking costs and other things into consideration. According to TCE, Transaction Cost Economics (Williamson 1979 and 1981), transaction cost varies depending on the characteristics of the transaction associated with the exchange relationship, such as asset specificity, uncertainty, and frequency (Williamson 1985). TCE argues that buyers should make their supply requirements to preempt against the hazards of opportunism in engaging external agents or suppliers when transaction specific assets are involved in exchange relationships, and outsource (or buy) their requirements otherwise. Since the development of JIT is not involved in exchange relationships and uncertainty, as well as the cost for providing in house solutions are higher than buying (outsourcing), the hospital therefore decides to buy it from the system provider instead. In addition, concern about scarce manpower and efficiency are also major reasons for the buy-only decision. The decision is expected to deliver a cost saving of 3.51% every year after deducting the initial capital investment with a 5-year amortisation period. The ESCM has usefully helped in the decision making where other models might not have been preferable on practical grounds.

Along with the process technology in place, the following instrument systems are implemented to maximise the effect on managing non-strategic costs:

Policy: To accommodate the new system in place and reflect the objective of the project, working rules and policies are changed accordingly. Change is a fundamental component of continuous quality improvement. The improvement methodology involves introducing change and measuring its impact. A number of lessons were learnt throughout the project about implementing practice change, these were:

- Use best practice clinical guidelines
- Practice change is facilitated by environmental change, e.g. provision of appropriate equipment such as pressure reduction foam mattress
- Executive support is essential
- Education programme is a necessary condition
- Targets measures are agreed upon
- Feedback to staff of the results of data collection and analysis
- Integration with associated programmes

- Offset up a supportive multidisciplinary committee
- Identify staff resources
- Articulate the aim of the project and the benefits to patients/staff
- Focus on high risk areas
- Include patient information/education
- Ensure practice change is supported by change in organisational policies

The Balanced Scorecard is used to create a strategic focus by translating the hospital's strategy into operational objectives and performance measures for financial, customer, internal business processes and learning and growth perspectives. The flexibility to include Balanced Scorecard in the ESCM provides the answer that ESCM manages non-strategic costs not only in both operational and strategic levels, but also in a flexible way to take advantage of existing models. A 2.34% saving is delivered through applying the policy of fine-tuning.

Product: All of the functional operations and system objectives are identified to ensure the product specification of the system meets actual need. Then some knowledgeable specialist, user, and decision makers decide the final needs. A must and wish analysis is adopted to identify the 'real need' and 'nice to have' items to the function design as well as an interface design and data migration strategy. The gap analysis is critically conducted to identify what functions are required that are not native in the application system they are about to purchase. These are the functions that require custom development and greatly increase the cost of the total solutions. An additional 5.02% saving was achieved in return due to the need for less administration support and back end staff.

Price: Comparing price across service and product providers in non-strategic cost items aims to be successful in the negotiations with suppliers to obtain the best price with the best conditions for every item needed in the organisation and its affiliated entities through consortium purchasing or centralised procurement mechanism. After market research and criteria screening, the hospital generated a short list of suppliers who they would purchase different items from which required purchasing resources to spend limited time on negotiating the lowest prices. Further comparison on list prices from catalogs and vendor selection based on that information was conducted. These offer the hospital the ability to negotiate significantly lower prices for items that they were purchasing from a number of separate vendors. Better rates with the chosen suppliers whilst maintaining or increasing quality and service are achieved. The negotiated long-term contracts with a smaller supplier base also produced more of a partner relationship between the hospital (buyer) and supplier. In this partner type of relationship the hospital encourages the vendor to increase quality and service and the vendor knows that by doing this the partnership will continue with a renewed contract with guaranteed sales. The price negotiation achieved an average a cost saving of 6.13% on general purchasing.

Process: Walking through the hospital building and offices, one often comes across nonstandard or even abnormal items and processes, manifestations of idle time among administration staff and inefficiency. All are examples of waste, a form of loss. To eliminate such waste-related loss and take advantage of the new technology in place, the hospital reconfigured its back end operations in response to such technology changes and trimmed away these excess costs/waste by adopting process mapping and process improvement. Applying systematic activities to streamline unnecessary processes and establishing a central administration office for all member entities under PJ Group, the resulting improvements cut 5.03% of total costs in XYZ General Hospital. The saving also resulted from the feedback loops used in the ESCM to discuss costs at a strategic level before cuts were made. Scrutinising its process designs led to a meaningful flow of administrative activity. This not only allows but encourages the reduction of numerous non-strategic costs. In addition, it virtually eliminates paper work.

Information: From time to time, management in the hospital missed the information they need to complete a task and needs discussion to find it. This means the hospital has a gap - or a shortfall - of the information or knowledge they require. It is a consensus statement by managers that documentation should be done in a scientific manner, however, much of the information managers received during their work is missing knowledge. Examples of Information Gaps and Knowledge Gaps are that the hospital has no idea how many employees are on duty for a certain shift, how many patients are served by one doctor every hour, how many beds are available in a certain time, how much profit the hospital makes per patient.

Compiling information by the appropriate scientific manner and paying attention to action research, the importance of documentation, as well as publications, the information gap is minimized and communication efficiency is improved.
Attention points as follows are identified and taken to reduce the information and knowledge gap:

- Focus on action research/ scientific ways of things happening,
- Documentation with scientific methods and processes,

- Publication of the compiled information.

By bridging the information or knowledge gaps, a saving of 1.51% over the total costs was achieved.

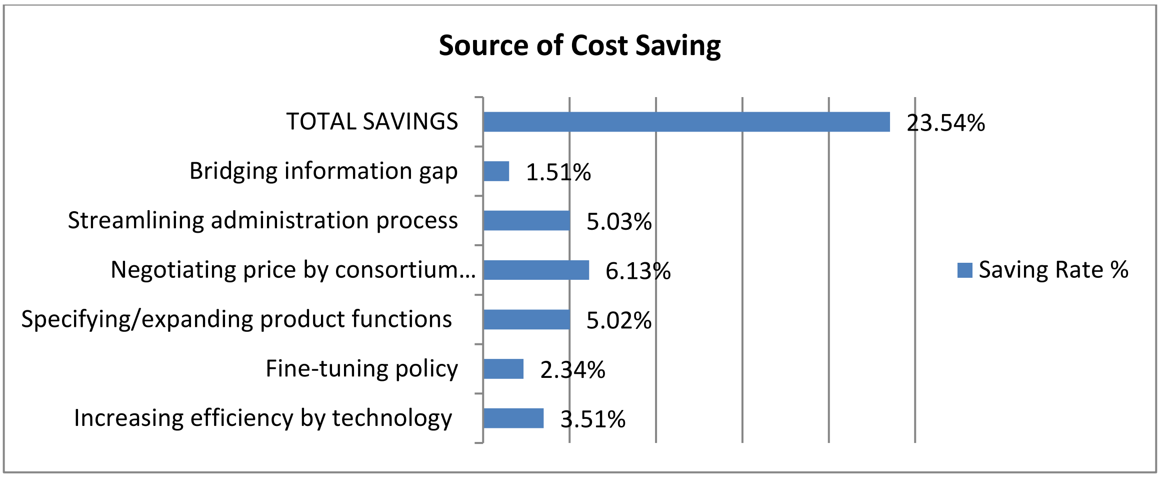


Figure 5.2: Source of cost saving of the case study

The case study has proved the framework worked in a high degree, a total saving of 23.54% in the given case (Figure 5.2). It has also concluded that the refined definitions of strategic and non-strategic costs in the study are useful to distinguish those strategic costs that truly enhance the top and bottom lines (i.e. revenue and profit) from those that are wasteful and unlikely to pay off, i.e. non-strategic costs. In summary, the suggested framework to cut non-strategic costs without jeopardising the main strengths or strategic advantages of a business is less risky, even risk free, simple and easy to follow in practices. It can effectively deliver a cost saving to support business profit. A higher saving from non-strategic costs than strategic costs is also truly achieved. Most importantly, the framework for managing non-strategic costs to enhance business profit is sustainable in the vigorous business environment. Furthermore, it can be applied to the services or intangible products since Stabell and Fjeldtad (1998) criticised that Porter's value chain was designed only to tangible products, not to the service sector which develops over half of economic activity currently. The case study just echoed Extended Strategic Cost Management (ESCM), the integrated framework and the performance management system to release business profit through taking a strategic view of non-strategic costs, is both different and preferable on practical grounds to a sole reliance on existing models or approaches. Based on the case study, the value to be gained from the ESCM by senior management is a set of tactics in short term for rapidly reducing unnecessary costs without jeopardising business as well as a strategic move in the long term for releasing hidden profit constantly and being outstanding in relation to other competitors. In comparison with other approaches, the simplicity and flexibility of the ESCM also provides the answer to manage non-strategic costs effectively and economically and meanwhile shows the strategic value of the non-strategic costs in the case study. Moreover, the practical based approach, with many implementation based tools provided, can be applied to enhance business profit and optimise costs in a flexible way and balance cost and return from Return on Investment (ROI) perspective. The ESCM model offers advantages over other models in cost reduction.

Chapter 6—Conclusion and Recommendation

The concluding chapter contains the results of the research with respect to management of non-strategic costs and then discussion of the recommendations made from the findings. Summarised in this chapter are the research outcomes with the new framework based on the findings and discussion as to whether the aims and objectives are achieved and if the questions posed are answered. This is followed by discussion of the contribution to professional practice and to the research literature in addition to the limitations of the study and further research.

6.1 Conclusions

The aim of this research was to improve business profit by highlighting the significance of non-strategic costs and further eliminating or at least reducing them through the development of a comprehensive conceptual framework. The objectives included a critical literature review of cost management, strategic cost management and the relationship between non-strategic costs and competitive advantages. Another objective was to collect and analyse data to facilitate the achievement of the thesis aim. In the thesis the combination of analysis, results and literature research, was used to categorise costs from a strategic perspective and explore the strategic position and importance of non-strategic costs.

The research results revealed similar outcomes as the original pilot study by analysing data from questionnaires and interviews. And the research also helped to redefine the terms ‘strategic costs’ and ‘non-strategic costs’ originating from the practitioners’ perspective. Strategic costs are redefined as any costs spent that can directly increase business profit, product (service) value, or business revenue; non-strategic costs are not. In addition to the redefinition, the study emphasises the strategic importance of managing non-strategic costs to show the broad focus strategic cost management needs. The study concludes that the management of non-strategic costs is a philosophy, an attitude, and a set of techniques to contribute in shaping the future of the company. In addition, the objective of managing costs should not be confined only to cost, but should also consider revenue, profit, service and product value, and at the same time the strategic position.

In order to suggest the framework for managing non-strategic costs, the study analysed the effects of changes in the business environment on cost management systems. The study showed that the trends and changes in the business environment affect the cost structure. Thus, cost management systems should be adapted to meet the needs of the business environment. In addition, the study evaluated the traditional cost management systems in the light of trends and changes in the business environment to reflect as well as assure that traditional cost management moves to strategic cost management.

The existing conceptual approaches only considered certain individual contributions and therefore focused on specific aspects of strategic cost management. This study extended the concept of strategic cost management and introduced a new conceptual framework to reach the research objectives. In addition to concepts, concerns and objectives, the suggested framework for managing non-strategic costs is supported by different schemes: (1) the guiding principles, (2) the key concepts, (3) the objects, (4) the decision support analysis (5) The instruments.

The study introduced significant principles that serve the suggested framework. It also explained and analysed the key concepts of strategic cost management—Value Chain, Cost Driver and Strategic Positioning. It concluded that integrating the key concepts and extending the idea of strategic cost management to reduce non-strategic costs can further enhance the business profit. The study further used transaction cost economics (TSC) to support the decision for controlling non-strategic costs internally or through outsourcing. Finally, a cost instrument system with integrated instruments called 4P+I (policy, price, product, process, and information) is originally developed to manage non-strategic costs under in house arrangements. Under the instrument system, it has been demonstrated that various cost management instruments in the literature can be integrated and interacted to strategically reduce non-strategic costs.

In summary, the refined definitions of strategic and non-strategic costs were found to be an easy way to categorise costs from the strategic point of view. Most importantly, it helps a company to cut non-strategic costs without jeopardising business. Effective management of non-strategic costs can be a strategic move to increase business profit and produce a higher savings rate from non-strategic costs than would be achieved from strategic costs. A case study approach used in the study has also proved the suggested framework worked effectively and has supported the aforesaid benefits of the ESCM in Chapter 5 to eliminate or at least minimise non-strategic costs in practice.

6.2 Contribution to practice, knowledge and beyond

The findings from the analysis results in Chapter 4 and the case study in Chapter 5 demonstrate that the idea of categorising costs into strategic and non-strategic costs is helpful for firms and related parties to review their costs from a strategic stance and the suggested framework is very easy to use across sector, industry and business scale in comparison with other approaches. In terms of contribution to practice, this thesis inspires the participants and their businesses to consider an alternative cost leadership paradigm. In addition to the company in the case study of Chapter 5, it is good to note that some participants are thinking of changing, are changing or even have changed their current practices within their own businesses due to being part of this study. Some examples are:

- One of participants in charge of a company's operation across countries now understands the need to categorise costs into two groups—strategic costs and non-strategic costs. To have the costs across countries linked to the group strategy, he feels will be the start of reviewing costs internationally under the same cost concept.
- Three of the participants mentioned that including the saving performance of non-strategic costs at performance review time is an excellent idea and thinks they would implement this in their business if they can get internal agreement.
- A respondent is now listing cost items in his department as a simple experiment into how his team will react if he introduced a strict cost control on non-strategic costs.
- A local commercial bank is trying to introduce a maximum cost ratio of 1 to 10 for strategic costs against non-strategic costs to outspend their competition on strategic costs in good times as well as bad times by cutting non-strategic costs to the minimum.
- One managing partner of law offices is asking all his direct reporting staff and associates to submit their time sheets with time allocation by strategic time and non-strategic time to review if their working hours directly link to business profits. Strategic time is defined by the firm as anything you do that produces profits or revenue and non-strategic time is defined as that which succumbs to the requirements of processes but which does not contribute to profits or revenue.
- An operating manager responded about using the framework companywide and they also commented that breaking into departments and feeding into a large companywide framework is still a workable structure.

- A human resource officer from a high-tech industry indicated that the inter-relationship between all departments is important as the framework took a holistic approach with all departments involved on an equal footing and introduced guiding principles before undertaking the cost saving project. Having clear strategies and direction from the leadership team is important. This message needed to be delivered by seniors, the CEO in particular, in a project kick off meeting. A clear consensus among leaders to an initiative is the best way forward although it is hard to get all directors on board.
- A director is using the framework with him to introduce and implement with his new team. He feels that this will make his performance even more presentable to the company's managing director if the framework works successfully.
- Being part of this study has inspired a chair lady to put cost control on her company agenda. The chair lady felt non-strategic costs had been somewhat neglected due to the sales first always culture in the company. She is now reinvigorating the importance of managing non-strategic costs within her company. She states that she would use the framework as a tool to bring up company's profit.
- One consulting company is changing its communication method and transforming most of its communication with consultants working on the client sites to free Internet Calls and Messaging Apps (application software run on the Internet, on the computer, or on the phone or other electronic device.) such as Skype, Line, WhatsApp, WeChat as costs spent on the internal communication truly cannot bring up its sales revenue. They are non-strategic costs to the consulting company.

The thesis explored ways of encouraging a more positive cost control within the organisation and has proposed a workable solution (framework) to bring the discipline of strategic cost management to non-strategic costs. It is argued that such an approach would support an improved perception of the cost reduction held by the employees, thereby making a specific contribution to practice.

This thesis contended that it contributed to academia by the combination of an effective research process with the knowledge distribution of managing non-strategic costs through an academic route. There may be other similar businesses suitable for research using the same methodology and may discover these results and cost saving potentials through an academic route. The use of the academic route is a cornerstone in the direction of this thesis and in the results it has obtained to provide the academic support to the original concepts from practitioners; especially the use of questionnaires, interviews and the literature review gave triangulation followed by validation when implemented in a case study. This thesis contended that this methodology can be transferred from the case study to other similar businesses and can produce suggestions for researchers, consultants and other business executives.

Implementing a cost leadership strategy and reducing non-strategic costs requires many areas to be intrinsically linked in the suggested framework. It will be difficult to understand how a company would undertake a cost saving initiative without looking at how it would change or improve the overall business; therefore to understand how to enhance the business profit a company would need research and put all the themes underlined in the suggested framework in place to make the recommended moves. It would be sensible if the suggested framework took a holistic view and that all areas of business were perceived as equally important and inclusive. By developing the conceptual framework hopefully the researcher can intrinsically link all parties within the organisation to bring an extra saving of 10% to 30% over non-strategic costs. This gives a potential and extra profit contribution to the business profit if the developed approach in the study is adopted and implemented accordingly. Most importantly, there is an offer of a means for any business to manage non-strategic costs strategically.

The questions posed have been clearly answered in the study as follows:

- Yes, non-strategic costs are potential sources of competitive advantage.
- Yes, there is a positive link between the percentage of costs and degrees of cost tracing.
- Yes, it is easier to generate a higher saving rate for non-strategic costs than strategic costs.
- Yes, administrative personnel deserve recognition for their profit contribution and the value they generate by reducing non-strategic costs.
- Yes, non-strategic costs are a missing part and gap in the literature of strategic cost management.
- Yes, non-strategic costs can be managed from a strategic perspective.
- Yes, non-strategic cost is a real key for a company to achieve competitive success after spending so much effort on strategic costs.
- Yes, companies should change the emphasis from strategic costs when initiating cost reduction plans to non-strategic costs, especially in difficult economic times.

Not only were the above questions found with positive answers but also links were found between these answers and the literature review as well as the responses from participants. These lead the researcher to confirmation the strategic position of non-strategic costs. The contribution to practice and knowledge involves not only recommendations and lessons learnt from the involved subjects, but will also add to personal development and a work-based contribution.

6.3 Limitation of the study

Although the undertaken research has achieved the envisaged goals, there was limitation arising from the chosen research design and from the research outcome. The use of the case study is to establish the feasibility and usability of the suggested framework. However, this single case is a limited basis for scientific generalisation. Scientific facts usually are based on a multiple set of experiments, which have replicated the same phenomenon under different condition (Yin 1988).

Many methodological and ethical limitations have already been addressed in this thesis. It is the researcher's opinion that the developed framework is simple and easy to understand. However in practice implementing changes within any business is not usually an easy task, and although there is a case which showed that this framework will work there must be consideration given to the amount of potential change that may be required from senior managers to buy in to processes, attitudes, culture, skills, training, people's ability to change, empowerment and leadership. It is suggested that, as part of implementing the framework, planning and buy in such as team building must be part of the consideration before commencement. This research has not covered the ability of companies to change but has simply identified a framework to assist in identifying the areas that need to be reviewed when considering the implementation. According to the findings and responses from the research participant's company and culture barriers hinder the implementation of managing non-strategic costs. This framework does not address these issues and related key support factors.

Up till now, there has been little attention to the topic of non-strategic costs in the major research journals. The researcher will need to further investigate the related established knowledge and findings in depth and breadth. Another important concept is that strategic costs should be properly controlled and more attention given to non-strategic costs. There are other problems and limitations like ethical implications, interviewees' unwillingness to really open up the inefficiencies in their companies as well as other inherent problems although the study was done under the condition of anonymity.

6.4 Future research

The suggested framework for managing non-strategic costs has been forwarded and the research aims and objectives achieved. However, further research is needed to enhance the suggested framework for managing non-strategic costs. Further research should explore the organisational issues of managing non-strategic costs and the possibility of using the key elements of differentiating strategic and non-strategic costs such as profit, revenue, product and service as cost drivers to identify cost causes instead of traditional cost drivers mentioned in section 2.4.2. In addition, the suggested framework for managing non-strategic costs can be operationalised and used in empirical research. This requires a future study to provide empirical evidence for the suggested framework for managing non-strategic costs. Finally, research efforts will contribute to further studies that develop a consistent theory for managing non-strategic costs.

Bremen et al. (2010) and Labro (2001) argued that transaction costs are one part of the total cost of ownership (TCO) of purchased goods. Bremen et al. (2010) further claimed that TCO generally consists of the purchase price, costs for transport and logistics, transaction costs, costs of capital lockup, depreciations and risk costs. Therefore using only transaction cost economics (TCE), as the decision support analysis in the suggested framework to decide if a company should manage non-strategic costs on its own or through outsourcing, is insufficient and there is a need to include TCO in future studies.

It would be more generalisable to theoretical propositions if the same approach can be used with multiple-case studies by other individuals for future research although other different research strategies such as interview and questionnaire were used in the study before the single case study was conducted.

Last but not least, it is also acknowledgeable that the empirical work was done with Taiwanese companies in the context of the current state of the Taiwanese and world economy, rather than with companies in other countries in a different economic context.

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Appendix 1 Questionnaire - English

Thanks for taking the time to answer the non-strategic cost management dissertation questionnaire.

The purpose of the study is to investigate if much can be done to reduce costs from a strategic point of view. However, there is few literature review available and even no direct academic support to category costs into strategic and non-strategic. The questionnaire is therefore to establish the study foundation for a better cost management. Please take a few minutes to fill out this questionnaire. Your participation and time is greatly appreciated and your response will be used to further develop a conceptual framework helping companies including your to generate extra profit.

All information provided will only be used for the purpose of the dissertation study and will not be passed on to any third parties for further research or contact.

Any further questions call Mr. Yeh at 0958759774 or email
waldoyeh@yahoo.com.tw, 09013248@live.napier.ac.uk. Thanks.

Releasing Hidden Profit by Making Non-strategic Costs Strategic

Reference

Section—About You

1. What age group (in years) are you in? *A*

1 □<30 *2* □30-39 *3* □40-49 *4* □50-60 *5* □>60

2. What education level you have? *EDU*

1 □High school *2* □College*3* □Graduate

3. What position do you currently hold? *PSN*

1 □Board chair *2* □CEO/MD/GM *3* □Financial leader *4* □Administration leader

5 □Other functional leader. Please specify:__________ *6* □Clerical-General administration

7 □Clerical-others. Please specify:______________

4. How long have you been in the current position? *TM_PSN*

1 □<1 year*2* □1-3 years *3* □3-5 years *4* □>5 years

5. Have you been personally involved in cost saving projects? *INVD*

1 □Yes *2* □No

Section—About Your Business

6. What sector and industry your company is in? (Single Choice x 2)

Sector:

1 □Public sector *2* □Private sector *SCTR*

Industry:

1 □Service；Please specify:_____ *2* □Manufacturing；Please specify:______ *IND*

7. What business ownership your company has? *BIZ_O*

1 □State owned 2 □Non-governmental organisation (NGO)

3 □Sole proprietorship *4* □Partnership *5* □Corporation—privately owned

6 □Corporation—publicly owned

7 □Corporation—publicly owned and multinationally operated

Reference

8. Approximately what is the annual revenue of your company? *REV*

1 □<US$50,000,000 *2* □US$50,000,000 to US$99,000,000

3 □US$100,000,000 to US$250,000,000 *4* □>US$250,000,000

9. What is the number of employees in your company? *Num_E*

1 □<10 *2* □10-49 *3* □50-99 *4* □100-500 *5* □>500

10. Compared to others in your business sector, how do you describe your company in terms of performance? *PERF*

1 □Low performer *2* □Average performer *3* □High performer

Section—About Cost Management[1]

11. Do you have a Cost Management department/section/committee under your company structure? *STR*

1 □Yes *2* □No

12. In your opinion, what is the main reason behind conducting cost saving projects in your company? (Single Choice) *MN_R*

1 □Low sales performance *2* □Low profit margin *3* □Be continuously competitive

4 □Others-please specify:_________________

13. Rank in order of importance for cost management. Rank 1 being most important:

	Rank 1	*Rank 2*	*Rank 3*	*Rank 4*	*Rank 5*	*Rank 6*	
Profit contribution							*RNK_P*
Revenue generation							*RNK_REV*
Company reputation							*RNK_R*
Quality assurance							*RNK_Q*
People management							*RNK_PM*
Others. Please specify____________							*RNK_OTHR*

[1] Cost management is the process by which companies control and plan the costs of doing business.

Reference

Section—About Non-strategic Cost

14. What is most important element to you in categorising costs from a strategic perspective? (Single Choice) *MI_E*

1 □Profit contribution *2* □Revenue generation *3* □Company reputation

4 □Quality assurance *5* □People management *6* □Others. Please specify:________

15. Cost management is a strategic process that focuses on the customer and on profitability. This implies revenue and profit are two major elements to determine strategic and non-strategic costs. Do you agree? (Single Choice) *AGMT_RNP*

1 □Strongly agree *2* □Somewhat agree *3* □Neutral-neither agree nor disagree

4 □Somewhat disagree *5* □Strongly disagree

If your answers are "somewhat disagree" or "strongly disagree" for above question, please explain:__________________________

16. What is the first focus in your company normally for cost management? (Single Choice) *FF_SorNS*

1 □Strategic costs 2 □Non-strategic costs

17. If the distribution of cost can be aggregated into two large categories, please tick [√] the following items either under strategic cost or non-strategic cost? (Single Choice)

Item	*1* Strategic cost	*2* Non-strategic cost	
(a) Any costs spent to increase business profitability			*S_NS_CIP*
(b) Any costs spent to bring in more business			*S_NS_CBB*
(c) Any costs spent that do not increase business profitability			*S_NS_CNIP*
(d) Any costs spent that do not bring in more business			*S_NS_CNBB*
(e) The expenses which are not directly related to the core business activity profile			*S_NS_ENDCB*
(f) The expenses which are directly related to the core business activity profile			*S_NS_EYDCB*
(g) Administrative costs			*S_NS_AdmC*
(h) Labour costs - not directly related to sales			*S_NS_LC_NDTS*
(i) Labour costs - directly related to sales			*S_NS_LC_DTC*
(j) Indirect costs			*S_NS_IndC*
(k) Direct costs			*S_NS_DC*
(l) Quality costs			*S_NS_QC*
(m) Other. Please specify:			*S_NS_OTHR*

Reference

Based on your answer to Question 17, please answer Question 18-25.

18. In your opinion, are strategic costs larger than non-strategic costs? *SorNS_LRGR*

1 □Strategic costs > Non-strategic costs *2* □Non-strategic costs > Strategic costs

3 □Unsure

19. In your opinion, please tick [√] the following items based on the level of your agreement?

Item	*1* Strongly agree	*2* Somewhat agree	*3* Neutral-neither agree nor disagree	*4* Somewhat Disagree	*5* Strongly disagree	
(a) "Business focusing on quick-fix and non-strategic cost reduction create a roadmap for collapse "?						*AGMT_NS_C*
(b) Categorising costs into two blocks, strategic and non-strategic, will allow you to manage costs strategically?						*AGMT_CAT_H*
(c) There is a positive link between the percentage of cost and degree of cost tracing in your company?						*AGMT_PL_$NF*
(d) Non-strategic cost is a potential source of competitive advantage?						*AGMT_NS_PPot*
(e) Non-strategic costs often overlooked in your company since they are not currently aligned with company's strategic goals?						*AGMT_NS_OL*
(f) Do you think your company spends more time and attention on strategic costs than non-strategic costs?						*AGMT_S_MT*
(g) Do you agree that your company spends enough time and attention on non-strategic costs?						*AGMT_NS_ET*
(h) Do you agree it will be easier to achieve higher saving rates from non-strategic costs than from strategic costs if a company can give attention to non-strategic costs?						*AGMT_NS_HS*
(i) Are non-strategic costs easy to measure?						*AGMT_NS_M*

Reference

20. How does your company cut non-strategic costs?

1 □Indiscriminate across-the-board cut *2* □Cut based on benchmarks *NS_C*

3 □Cut based on the subjective perceptions of value provided by a cost service or department

4 □Others. Please specify:________________________

21 What tool does your company use to control non-strategic costs? (Multiple choices)

Item	*1* Yes	*2* No	
(a) Budgeting			*Tool_Budgeting*
(b) Benchmarking			*Tool_BenchK*
(c) Strategic cost management			*Tool_SCM*
(d) Balanced scorecard			*Tool_BSC*
(e) Total quality management			*Tool_TQM*
(f) Lean management			*Tool_LM*
(g) Others. Please specify:_________________			*Tool_OTHR*

22. In your opinion, how important are the following obstacles to improving non-strategic costs at your company (Please tick [√] to score the importance from 0 to 10 for each obstacle)?

	Importance Low---------------------------------High											
Obstacle	0	1	2	3	4	5	6	7	8	9	10	
(a) Organisational resistance												*IMPRMT_OrgR*
(b Lack of time, attention, and resources												*IMPRMT_TME*
(c) Lack of a standardised approach to non-strategic cost management across the company												*IMPRMT_APP*
(d) Lack of tools, frameworks, and decision-making structures for non-strategic cost management												*IMPRMT_Tool*
(e) Lack of communication among finance, operations, and/or procurement												*IMPRMT_COM*
(f) Lack of benchmarking data to evaluate vendor offerings/provide leverage in negotiation												*IMPRMT_BenchM*
(g) Lack of robust reporting on non-strategic cost spending												*IMPRMT_RPT*
(h) Incomplete knowledge of vendors' competitive market positions												*IMPRMT_K*
(i) Highly complex sourcing arrangements												*IMPRMT_CxSourceA*
(j) Lack of adequate incentives												*IMPRMT_INT*
(k) Other. Please specify:												*IMPRMT_OTHR*

Reference

23. Do you agree that non-strategic costs are those costs (expenses) may be needed to run the business but do not directly contribute to the profit, product/ service value, or sales growth? *NS_Defined*

1 □Strongly agree *2* □Somewhat agree *3* □Neutral-neither agree nor disagree

4 □Somewhat disagree *5* □Strongly disagree

24. Do you agree that strategic costs are any costs (expenses) spent can directly increase business profit, product/service value, or business revenue? *S_Defined*

1 □Strongly agree *2* □Somewhat agree *3* □Neutral-neither agree nor disagree

4 □Somewhat disagree *5* □Strongly disagree

25. What importance do you attach to non-strategic costs? *NS_IMPRMT*

1 □No importance *2* □A little importance *3* □Some importance

4 □Very important *5* □Of critical importance

QUESTIONNAIRE FINISHED AND THANKS FOR COMPLETING IT!

Appendix 2 Questionnaire－Chinese

感謝您撥出寶貴的時間，參與對「非策略性成本」有關論文研究主題所進行的問卷調查。

本研究目的在於調查是否能從策略的角度來對成本降低的操作做更多的努力和改善。基於此，以下問卷請您花幾分鐘的時間來作答。本次相關研究人員特此致上我們對您在本次問卷的參與和時間投入，深表感激。而你本次的問卷回答將被用在研究發展出一個能協助企業獲取額外利潤的概念性操作架構。

本問卷所有有關資訊將只被用於本論文研究之用，而不會提供給任何第三者(或單位)做更進一步研究和再連繫之使用。

若您在作答中，如有任何問題，煩請以電話或電郵方式連繫葉先生(0958759774；waldoyeh@yahoo.com.tw 或 09013248@live.napier.ac.uk)。謝謝!

轉換「非策略性成本」為企業提升利潤的策略性操作

<u>Releasing Hidden Profit by Making Non-strategic Costs Strategic</u>

關於填表人你本身 Section—About You

1. 年齡層?

1□30 歲以下 *2*□30 歲(含)至 39 歲(含)之間 *3*□40 歲(含)至 49 歲(含)之間

4□50 歲(含)至-60 歲(含)之間 *5*□60 歲以上

2. 教育程度?

1□高中(含以下) *2*□大專院校畢業 *3*□研究所(含)以上

3. 現有公司職稱?

1□董事長 *2*□總經理/執行長 *3*□財務主管 *4*□行政主管

5□其他部門主管，請說明:__________ *6*□行政職員

7□其他部門職員，請說明:___________

4. 現職年資?

1□少於 1 年 *2*□1 年(含)至 3 年之間 *3*□3 年(含)至 5 年(含)之間

4□5 年以上

5. 你本人是否參與過企業成本降低專案?

1□是 *2*□否

關於填表人公司 Section—About Your Business

6. 現職公司所屬產業別? (單選 2 題)

6.1 公民營: *1*□公有機構 *2*□私人企業 (單選題)

6.2 產業別: *1*□服務業 *2*□製造業 (單選題)

請述明確實的產業別:______________________________

7. 現職公司股權型態?

1□獨資/企業社 *2*□合夥 *3*□未上市櫃公司 *4*□上市櫃公司

5□國際上市櫃公司

8. 年營業額 Approximately what is the annual revenue of your company?

1□小於美金五千萬(小於台幣十五億) *2*□美金五千萬至一億(台幣十五億至三十億) *3*□美金一億至二億伍仟萬(台幣三十億至七十五億) *4*□大於美金二億伍仟萬(大於台幣七十五億)

9. 員工數?

1□10 人以下 *2*□10 人至 49 人之間 *3*□50 人(含)至 99 人之間

4□100 人(含)至 500 人(含) *5*□500 人以上

10. 與同業相比，你所屬企業的表現如何?

1□表現欠佳 *2*□表現平均 *3*□表現極佳

關於成本管理 Section—About Cost Management[1]

11. 你現職公司是否有成本管控專屬部門或委員會等常設組織?

1□有 *2*□沒有

12. 你認為你公司進行成本降低的主因為何? (單選題)

1□低營業額 *2*□低利潤 *3*□持續具競爭性 *4*□其他，請說明:_______

13. 請排序以下對成本管理的重要性(從 l 依序排起，1 為最重要)

重要性排序	*1*	*2*	*3*	*4*	*5*	*6*
利潤貢獻						
營業額						
企業聲譽						

[1] 成本管理是企業對其因從事商業行為所產生成本進行管控和規劃過程。.

品質保證						
人事管理						
其他，請說明:___________						

關於「非策略成本」Section—About Non-strategic Cost

14. 依你見，從策略的觀點來對成本項目做分類，下列為最重要的決定因素(單選題)?

1□利潤貢獻　　*2*□營業額　　*3*□企業聲譽　　*4*□品質保證

5□人事管理　　*6*□其他，請說明:____________

15. 成本管理是一專注於客戶和利潤的策略性流程。這意涵營業額和利潤是決定成本項目是歸屬於在「策略性成本」或在「非策略性成本」的兩個主要因素。你是否同意這樣的說法 (單選題)?

1□極為同意　　*2*□某種程度的同意　　*3*□中立，無同意與否

4□某種程度的不同意　　*5*□極不同意

假如你的回答是 “某種程度的不同意"或"極不同意"請說明:_________

16. 何類成本是你公司的首要專注重點 (單選題)?

1□策略性成本　　*2*□非策略性成本

17. 假若成本能被歸列為 2 大類，請擇一勾選[√]對下列成本項目做適當分類歸屬 (單選題):

項目	*1* 策略成本	*2* 非策略成本
(a)能用以直接提升公司利潤的成本支出		
(b)能直接帶來更多生意的成本支出		
(c)不能用以直接提升公司利潤的成本支出		
(d)不能直接帶給企業更多業績的成本支出		
(e)與企業核心業務活動非直接相關的的費用支出		
(f)與企業核心業務活動直接相關的的費用支出		
(g)行政總務成本		
(h)與銷售非直接相關的人工成本		
(i)與銷售直接相關的人工成本		
(j)間接成本		
(k)直接成本		

(l)品質成本		
m)其他，請述明:		

請依你對第 17 題的答案，回答第 18 題到第 25 題。

18. 依你見，企業的「策略性成本」一般是比「非策略性成本」來得多(大) (單選題)?

1□策略性成本比非策略性成本多(大) *2*□非策略性成本比策略性成本來得多(大)

3□不確定

19. 依你見，請對下面項目，擇一勾選[√]表示你的認同程度

項目	*1* 極為同意	*2* 某程度同意	*3* 中立	*4* 某程度不同意	*5* 極不同意
(a)企業著重快速處理和「非策略性成本」的降低，是在走向衰敗一途					
(b)把成本分類為「策略性成本」和「非策略性成本」，將有助你從策略的角度來管理成本					
(c)某成本項目佔公司營業額的比率與企業對該成本的追蹤程度成正本					
(d)「非策略性成本」是公司要提升其競爭優勢的潛在來源					
(e)「非策略性成本」因通常未能和公司的現行策略緊密相結合，故常被忽略					
(f)依你見，你公司花時間和關注在「策略性成本」比「非策略性成本」多					
(g)你是否認為你公司已投注夠多的時間和關注在「非策略性成本」上					
(h)你是否同意，假若公司對「非策略性成本」能多給些關注，則其節省比例和成效是較「策略性成本」來得容易達成且來得高					
(i)依你見，「非策略性成本」是容易評估					

20. 你企業如何降低非策略性成本 (單選題)?

1□無差異性地降低所有成本 *2*□依個別設定的指標降低成本

3□依據你對該服務或該單位所提供的價值做主觀判斷後進行成本降低

4□其他，請述明:____________________

21. 你公司使用何種工具來管控「非策性成本」的支出 (複選題)?

工具	*1* 是	*2* 否
(a) 預算管理		
(b) 設定成本基準指標		
(c) 成本策略管理		
(d) 平衡計分卡		
(e) 全面品質管理		
(f) 精實管理		
(g) 其他，請述明:________________		

22. 依你見，請擇一勾選[√]表示下列成本障礙對企業在進行「非策略性成本」管控時的重要程度 (10 分為最高)?

	重要性 低---------------------------------高										
管控障礙	*0*	*1*	*2*	*3*	*4*	*5*	*6*	*7*	*8*	*9*	*10*
(a)企業內的反彈											
(b)缺乏時間，關注和資源											
(c)全公司缺乏一致性和標準化的方法											
(d)缺乏對降低非策略性成本所需的工具，架構和決策機制											
(e)財務、作業和採購等部門間缺乏溝通											
(f)缺乏評估供應商價位合理與否的指標和談判能力											
(g)缺乏有關非策略性成本的完整資訊											
(h)缺乏對供應鍊市場的專業知識											
(i)高複雜供應來源的採購協調和規劃											
(j)缺乏足夠的獎勵機制											
(k)其他，請述明:											

23. 你是否同意「非策略性成本」是指為了能維持企業營運所需的成本支出但不能直接提高企業獲利，產品/服務價值或業績 (單選題)?

1□極為同意 *2*□某程度同意 *3*□中立，無同意與否

4□某程度不同意 *5*□極不同意

24. 你是否同意「策略性成本」是指能直接提高企業獲利，產品/服務價值或業績的成本支出 (單選題)?

1□極為同意 *2*□某程度同意 *3*□中立，無同意與否

4□某程度不同意 *5*□極不同意

25. 你認為「非策略性成本」的重要性如何 (單選題)?

1□不重要 *2*□有點重要 *3*□重要 *4*□很重要 *5*□極為重要

本問卷到此結束 謝謝您的參與

QUESTIONNAIRE FINISHED AND THANKS FOR COMPLETING IT!

Appendix 3 Questionnaire Schedule

Task List and Schedule for the Questionnaire

	Phase	Project Task and Procedure	Days Taken	Interview date
1	**Preparation**		**93**	March 16, 2011～ June 10, 2011
		· Consulted with researchers with field experience for the possible questions to be asked.	29	
		· Developed a list of questions to pilot test. · Identify ambiguities and difficult questions for a further revision, based on the feedback from the subjects. · Discard all unnecessary, difficult or ambiguous questions. · Assess whether each question gives an adequate range of responses. · Check that all questions are answered. · Establish that replies can be interpreted in terms of the information that is required. · Re-work or re-scale any questions that are not answered as expected. · 10 participants recruited for the pilot questionnaire.	45	
		· Finalised the questionnaire content.	19	
2	**Implementation**		**229**	
		· Administered the questionnaire to participantsfrom business networks. · 67 participants were recruited from the companies which the researcher has associated with, 1 to 3 participants from each company (26 companies involved in total).	97	June 28, 2011～ October 2, 2011
		· Administered the questionnaire to participants from the personal networks. · 33 participants whom the researcher had no business with were recruited.	81	October 3, 2011～ December 29, 2011
		· 37 participants were recruited by Snowball techniques whereby willing participants from the aforesaid business and personal networks passed on the paper based questionnaire to their friends or classmates in EMBA programme.	41	December 30, 2011 ～February 9, 2012
3	**Analysis**	· Final sample in total reduced to 108 due to multiple respondents from the same participants that had participated in pilot study and responses with excessive missing value, and so on. · List down the questions to further discover and verify , based on the questionnaire results.	**22**	February 10, 2012～ February 21, 2012

Total Days Taken for the Questionnaire	**344**	

(Based on Peat et al. 2002; Teijlingen and Hundley 2001)

Appendix 4 Interview Schedule

<table>
<tr><th></th><th>Interview Date</th><th>Interviewee's Position</th><th>Industry</th><th>Main Question</th><th>Interview Mode</th><th>Remarks</th></tr>
<tr><td></td><td></td><td></td><td></td><td colspan="2">A 3 phase interviewing process was used:
1. Introduction,
2. Question and answer,
3. Closing</td><td></td></tr>
<tr><td>1</td><td>March 2, 2012</td><td>Internal audit officer</td><td>Multinational bank</td><td rowspan="4">1. Does your company have cost management department, section, meeting, committee, or any centralised unit to watch over costs regularly? If no, who has the ownership to manage costs? Is he/she fully responsible for cost management?
2. Do senior manager give strong support to cost saving projects.
3. Except budget control, any particular action taken to cut costs?
4. Does your company pay good attention on cost management?</td><td>Face to face interview</td><td></td></tr>
<tr><td>2</td><td>March 2, 2012</td><td>Group administration director</td><td>Chain restaurants</td><td>Face to face interview</td><td></td></tr>
<tr><td>3</td><td>March 7, 2012</td><td>Middle manager of finance dept.</td><td>Bakery group</td><td>Face to face interview</td><td></td></tr>
<tr><td>4</td><td>March 20, 2012</td><td>Senior vice president</td><td>Local commercial bank</td><td>Face to face interview</td><td></td></tr>
<tr><td>5</td><td>March 23, 2012</td><td>Senior chief human resource officer</td><td></td><td rowspan="4">1. Do you think cost saving is important to your company/ institution?
2. Do you prioritise differently (hold different viewpoint) if you work in public sector instead of private sector? Do you give different ranks for the following five reasons of taking cost saving projects: profit contribution, revenue generation, company reputation, quality assurance, and people management?
3. Has your company taken any cost saving projects? What's the reason behind it?</td><td>Face to face interview</td><td></td></tr>
<tr><td>6</td><td>March 31, 2012</td><td>Chief operation officer</td><td>Economic research institute</td><td>Face to face interview</td><td></td></tr>
<tr><td>7</td><td>March 31, 2012</td><td>Senior vice president</td><td>Private sector</td><td>Face to face interview</td><td></td></tr>
<tr><td>8</td><td>April 4, 2012</td><td>Deputy dean</td><td>Public hospital</td><td>Phone interview</td><td></td></tr>
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9	April 10, 2012	General manager	Cookie manufacturing company	1. Is importance of cost management different between service and manufacturing industries? 2. Do you prioritise differently (hold different viewpoint) if you work in service industry instead of manufacturing industry? 3. Do you give different ranks for the below 5 reasons of taking cost saving projects: profit contribution, revenue generation, company reputation, quality assurance, and people management?	Face to face interview	
10	April 20, 2012	Manager	Human resource consulting company		Phone interview	
11	Nov. 10, 2013	Assistant manager	Manufacturing company		Online phone interview (Line)	
12	April 23, 2012	Senior executive not personally involved in cost saving projects		1. Do you rank the five major reasons (profit contribution, revenue generation, company reputation, quality assurance, and people management) differently if you are personally involved in the cost saving projects? 2. Will the ranks be different if you are in different job position? 3. What is the most important purpose of cost management from the above 5 major reasons? 4. Are there any other important reasons for conducting cost saving projects which are not on the list of aforesaid 5 reasons?	Video interview	Same participant as Interviewee 6
13	May 3, 2012	Middle manager personally involved in cost saving projects	Engineering company		Face to face interview	
14	May 4, 2012	Seasonal human resource manager			Online phone interview (Line)	Same participant as Interviewee 10
15	May 10, 2012	Managing director and former chairman of association of small and medium enterprises	Cargo forwarder		Face to face interview	

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<tr><td>16</td><td>May 28, 2012</td><td>Manager</td><td rowspan="2">Plastics company</td><td rowspan="5">1. Do you agree revenue and profit are two major elements to decide what cost is strategic or non-strategic? If your answer is yes, are strategic costs bigger than non-strategic costs?
2. What will be your first focus, strategic costs or non-strategic costs? Why?</td><td>Face to face interview</td><td></td></tr>
<tr><td>17</td><td>June 28, 2012</td><td>Manager</td><td>Face to face interview</td><td></td></tr>
<tr><td>18</td><td>June 10, 2012</td><td>Senior manager</td><td>Local commercial bank</td><td>Video (Skype)</td><td>Same participant as Interviewee 4</td></tr>
<tr><td>19</td><td>June 17, 2012</td><td>Sales manager</td><td>Hotel</td><td>Phone interview</td><td></td></tr>
<tr><td>20</td><td>June 25, 2012</td><td>Chief finance officer</td><td>Supplementary school</td><td>Face to face interview</td><td></td></tr>
<tr><td>21</td><td>June 31, 2012</td><td>Quality assurance manager</td><td>High-tech industry</td><td rowspan="5">1. To you, what costs are strategic costs?
2. How do you measure them?
3. Do you agree costs related to product or service quality are strategic costs?
4. Do you agree costs spent to bring up profit are strategic costs?
5. Do you agree costs spent for sales growth are strategic costs?
6. Do you agree strategic costs are those costs spend which can directly increase business profit, product (service) value, or business revenue?
7. Do you agree categorising costs into two blocks, strategic and non-strategic will allow a company to manage costs strategically?
8. Do you acknowledge the benefit of categorising costs into the two blocks for a better cost management in your organisation?</td><td>Video interview</td><td></td></tr>
<tr><td>22</td><td>August 5, 2012</td><td>Sales manager</td><td>Service company</td><td>Phone interview</td><td></td></tr>
<tr><td>23</td><td>August 11, 2012</td><td>Deputy dean for general affairs</td><td>Local private hospital</td><td>Face to face interview</td><td></td></tr>
<tr><td>24</td><td>August 19, 2012</td><td>Respondent</td><td></td><td>Online phone interview (Line)</td><td>Same participant as Interviewee 11</td></tr>
<tr><td>25</td><td>August 23, 2012</td><td>Group vice president</td><td>Chain restaurants</td><td>Face to face interview</td><td>Same participant as Interviewee 7</td></tr>
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26	Sept. 2, 2012	Chief finance officer	Listed company	1. Does your company pay attention on non-strategic costs? 2. Do you agree or disagree that a company focusing on quick-fix and non-strategic costs will create a roadmap to collapse? 3. Is reducing non-strategic costs a plus to a company's profit? 4. Do you agree cutting non-strategic costs is less risky to a business? 5. Do you agree reducing non-strategic costs is a strategic move to be more competitive in the market?	Face to face interview	
27	Sept. 9, 2012	Chairman and Chief executive officer	Listed light-emitting diode (LED) company		Face to face interview	
28	Oct. 5, 2012	Chief financial officer	Publicly owned distributor		Face to face interview	
29	Oct. 6, 2012	Senior vice president	High-tech industry		Face to face interview	
30	Oct. 14, 2012	General manger and chief executive officer	Listed retail chain stores	6. Do you expect to have higher saving rate from strategic costs or non-strategic costs? Please provide your reasons. 7. Have you worked on reducing non-strategic costs? How did you (or your company) do? How's saving rate in comparison with strategic costs?	Face to face interview	
31	Oct. 22, 2012	Assistant vice president			Online phone interview (Skype)	
32	Oct. 30, 2012	Expatriate chief operating officer		1. How does your company reduce non-strategic costs? 2. Any policy, guide line, or management tools introduced to cut non-strategic costs? 3. Any action your company took to reduce costs, non-strategic costs in particular, when the economy is bad?	Face to face interview	
33	Nov. 4, 2012	Senior chief officer			Face to face interview	Same participant as Interviewee 27
34	Nov. 7, 2012	Administratio n staff	Collection agent		Face to face interview	Same participant as Interviewee 23
35	Dec. 1, 20121	Human resource director	Well-known bank		Phone interview	Same participant as Interviewee 5

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36	Jan. 5, 2013	Chief financial officer		1. What obstacles you met when you conduct cost saving projects? 2. What is the biggest obstacle for reducing non-strategic costs? 3. What were the actions your company took to overcome the obstacles? What will you do differently if you can do it again?	Face to face interview	
37	Jan. 8, 2013	Project manager	Construction company		Face to face interview	
38	Jan 10, 2013	Chief executive officer	Household goods retailing company		Face to face interview	
39	Jan.12, 2013	Chief financial officer			Face to face interview	