



The Performance Incentives and Enterprise Cost Management

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Abstract: Cost management is an important part of enterprise financial work. Active cost management can effectively reduce costs and lay the foundation for the long-term development of enterprises. When analyzing the cost management of enterprises, this paper understands the current situation of enterprise cost management and the problems existing in cost management by consulting literature and enterprise financial reports, and finally chooses to effectively combine the two from the perspective of performance incentive, combined with the current situation of enterprise cost management, hoping to strengthen the cost management of enterprises and effectively reduce the cost of enterprises, And provide accurate financial information for the decision-making of the enterprise management, and promote the long-term development strategy of the enterprise.

Keywords: cost management, Incentive mechanism, Performance incentives

Introduction

Cost management is an important part of enterprise management, which is related to the core competitiveness and sustainable development of enterprises. In order to obtain profits, on the one hand, enterprises should actively expand business and obtain more income, on the other hand, they should strengthen cost management and reduce expenses, so as to obtain higher income. In contrast, enterprises with the same income generating capacity, the higher the level of cost management, the higher the benefits. This guides the financial management of enterprises to pay attention to cost management. In addition to actively opening up sources, they should also pay attention to throttling. At present, the overall situation of the global economic development trend is not optimistic, and the pressure is great. The development of enterprises is facing a complex internal and external economic environment, such as policy requirements for energy conservation and emission reduction, supply side reform, etc. The external market environment is that competition is becoming more and more information-based and technological. The rise and application of artificial intelligence, cloud computing and other technologies have put forward new requirements for enterprise cost management. At present, the problems faced by industrial development are mainly the cost increase of raw materials, labor costs, etc., followed by the pressure of transformation and development under the comprehensive requirements of policies and markets. Low value-added products cannot fully meet the diversified needs of the market. Enterprises should not only strengthen internal financial management and control costs, but also increase technology investment and research and development to improve technology production capacity. Cost management is an important part of enterprise management, which is of great significance to enhance the core competitiveness of enterprises.

Literature Review

Abroad Research Status

Cost management has always been an important content of continuous attention in the process of enterprise management, which has an important impact on the development of enterprises. At present, the research on cost management abroad is mainly divided into two aspects. On the one hand, the research on enterprise project cost: Reuben a. Okereke, Mohammed Zakariyau, & Emmanuel Eze^[1] took the Nigerian construction company as an example to study the effect of cost management practice on the implementation of the company's strategic performance. The study believed that cost management was an important function of the project management department, but its effect was not obvious. The main reason was that the cost management method was poor. The study found effective cost management methods, It can reduce the waste of materials and reduce



unnecessary costs, improve operational efficiency needs, help predict future costs, ensure procurement efficiency, improve project performance and strategic performance of construction organization, and maximize corporate profits. Jing Xu^[2] mainly studies project cost management. By analyzing the disadvantages of traditional project cost in cost management, the research proposes to integrate information management into project cost management, gradually apply information management to project cost, and establish standardized PC pricing software program, which can be more scientifically controlled in engineering, equipment, materials, prices, etc., and comprehensively promote project cost management. Oyiki Komakech Jackson Cirino. & Dr. Lydia Gachengo Wanjiku.^[3] studied the financial cost management and sustainability of a community water distribution project, and found that cost estimation, budgeting and cost control have a positive and significant impact on the sustainability of the project. The study believes that cost estimation enables the project manager to set clear expectations with stakeholders, deeply understand the financial situation of the enterprise, and determine the available financial and human resources in budget preparation. When preparing the budget, cost planning in terms of labor costs, material costs and operating costs should be considered, and controlling costs can reduce the overall cost of the organization.

In terms of cost management, in addition to the research on project cost, on the other hand, it is mainly about the factors affecting cost management: Loy, Thomas R. & Hartlieb, Sven^[4] studied the impact of corporate governance on cost management using the data of the staggered implementation of global board reform. The study found that the reform of the board of directors to improve the independence of the board of directors and establish a board committee has limited management opportunism in terms of cost behavior. The results show that the staggered adoption of board reform across the world has led to a 50% to 75% reduction in cost asymmetries. Joanna Golde & Kenneth Zheng^[5] studied the relationship between cost management and dividend payment decisions. It is found that cost stickiness is positively correlated with dividend yield. In addition, the results also show that changes in sales will affect cost management, because cost management has a direct impact on the company's earnings. Rajiv D. Banker & Dmitri Byzalo^[6] believe that there is a certain relationship between cost drivers and costs. The research results show that the understanding of costs and the financial problems of enterprises will affect cost management. We can also understand the business decisions of enterprise managers by observing the cost behavior of enterprises.

Domestic Research Status

There are also many researches on cost management in China, mainly focusing on the following two aspects. On the one hand, it is the research on the cost management of state-owned enterprises. Due to the special nature of state-owned enterprises, the cost of enterprises has been high, and cost management is particularly important, Zhao Dan^[7] summarizes the problems in the cost control of state-owned enterprises, specifically including the management's inadequate understanding of cost accounting, the imperfect cost management system, the low professional level of cost managers, and the backward cost management methods. Combined with these problems, the corresponding improvement suggestions are put forward: establish a good cost accounting management awareness, establish a perfect cost budget management system, improve the comprehensive quality and improvement of cost managers This management method improves the efficiency of cost management. Shi Chunxia^[8] started with the problems existing in the cost management of state-owned enterprises, and combined with the actual work, analyzed the countermeasures to solve the problems. The problems in the cost management of state-owned enterprises include weak cost budget management, investment benefits to be improved and insufficient quantitative management means. Therefore, state-owned enterprises need to adopt a variety of budget management means to improve investment income and optimize quantitative management means. Du Shengyuan^[9] analyzed the cost management of state-owned enterprises and summarized the existing problems, including four aspects: backward cost control concept, imperfect management system, backward management mode and imperfect incentive mechanism. Combined with these problems, he put forward specific strategies: changing cost control concept, improving management system, optimizing management mode and innovating incentive mechanism. Li Shangge^[10] believes that state-owned enterprises should do a good job in fine management. Specifically, they need to establish a fine management concept, optimize cost management objectives, improve the utilization rate of raw materials, and establish cost management standards. Wu Danting^[11] discussed the importance of cost management, and mentioned that cost management is conducive to reducing the operational risks of state-owned enterprises, conducive to the diversified development of enterprises, conducive to the healthy and sustainable development of enterprises, and conducive to improving the efficiency of internal control. The article also summarizes the problems in the cost management of state-owned enterprises, and puts forward specific suggestions for improvement.

On the other hand, it mainly studies the strategic cost management method of enterprises from the way of how to reduce the cost of enterprises, and how to promote the development of enterprises through effective cost management. In the research on strategic cost management of growing small and medium-sized enterprises based on value chain, Liu Shunling^[12] started with the analysis of the value system and value chain of growing small and medium-sized enterprises, analyzed in detail the company's value chain, cost drivers and strategic cost management evaluation system, and put forward the safeguard measures for the company to implement strategic cost management. Using the common methods of cost management - activity-based costing and cost planning, this paper puts forward the problems that need to be solved in strategic cost management under value

chain management. Deng Yongxin^[13] studied strategic cost management from the perspective of enterprise value chain. The research believes that enterprises should combine cost management with enterprise strategic development, promote enterprises to integrate the concept of value chain into the practice of enterprise management, and improve the level of enterprise strategic cost management through value chain analysis. Wang Xia^[14] believes that if enterprises want to achieve sustainable development, they should carry out scientific strategic cost management, that is, effectively combine enterprise costs with strategic development. This paper studies the factors that restrict enterprise strategic cost management and the necessity of implementing strategic cost management, and finally puts forward effective countermeasures on how to improve enterprise strategic cost management.

Theoretical Overview

Content of cost management

Generally, cost management includes five basic contents, namely:

First, cost planning. Cost management starts from cost planning and completes the strategic formulation of cost management in this link. Based on the overall setting of cost management planning, provide necessary guidance for the follow-up implementation of cost management. Specifically, the setting of cost management plan should be comprehensively formulated in combination with the internal and external environment of the enterprise and the strategic objectives of enterprise development.

Second, cost accounting. Cost accounting includes financial cost accounting and cost management accounting. The former is calculated by historical cost, and the latter integrates historical cost, current cost and future cost calculation.

Third, cost control. Cost control is embodied in three aspects: first, the principle of comprehensive control, which requires cost control to cover all aspects of membership, production, management etc; The second is the principle of economic benefits. Strengthening cost management does not mean reducing the absolute value of cost expenditure, but comprehensively measuring the input-output ratio to achieve relative savings, that is, obtaining more benefits through less losses; Finally, the principle of exception management refers to that the focus of cost control should be on the plate.

Fourth, cost analysis. The significance of cost analysis is to comprehensively and deeply understand the change law of enterprise cost expenditure, and provide necessary information support for the implementation of cost management.

Fifth, cost assessment. It means to analyze the effectiveness of cost control and management through the evaluation system constructed by multiple indicators for the cost control work implemented in a stage, analyze the weak links, and make targeted adjustments in the subsequent stages, including financial and non-financial indicators.integrates historical cost, current cost and future cost calculation.

Importance of cost management

The significance of implementing scientific cost management in enterprises is that it can significantly reduce enterprise costs and improve enterprise profit margin. Usually, enterprises will choose to implement cost management, and in special cases, enterprises will also increase costs through cost management in order to obtain new competitive benefits. If cost changes are related to other factors, enterprise managers need to face the balance between cost reduction and normal operation, which is also a key and difficult point in the process of cost management. The enterprise cost management cannot fall into the misunderstanding of taking the cost as the evaluation index. The change of enterprise cost is related to various factors, such as quality, price, sales volume, etc. weigh various factors, quickly adjust the implementation of enterprise cost management, and ensure the orderly implementation of various activities.

Reasonable layout of cost management can effectively accumulate competitive advantages for enterprises. Enterprises are facing increasingly fierce market competition, so they adopt diversified competitive strategies, and the implementation of many competitive strategies needs to be based on cost management. If enterprises choose the cost leadership strategy, they need to vigorously promote the development of cost management in daily management. It can be seen that the strategic choice and implementation of enterprises are directly linked to the development needs and benefits of enterprises. All enterprise development strategies should focus on the development needs and profits of enterprises. The implementation of cost management in enterprises should meet the cost requirements of enterprises in the implementation of different strategies, take the enterprise development strategy as the guidance, and guide enterprises to continuously reduce costs.

Current Situation and problem analysis of enterprise cost management

Current situation of cost management

The cost management of an enterprise mainly includes raw materials, labor and other costs, which are included in various links such as procurement, production and sales. For the product production process of the enterprise, the production department first formulates the production plan. After receiving the production plan, the purchasing department purchases the corresponding materials as required. After receiving the materials, the production department produces according to the

established process, and then sells the finished products. On the whole, the financial department prepares the budget according to the production plan formulated by the head office and the possible expenses in each link and process, assigns the goal of supervising the implementation of the budget to each production department, and brings the production efficiency, production cost control and other contents into the performance evaluation scope of each department and position. In recent years, due to the impact of the COVID-19 and the instability of the world situation, the price of raw materials has shown an upward trend, as well as the increase of labor costs, and the increase of costs caused by uncontrollable factors, most enterprises' costs have shown an upward trend. Especially for multinational enterprises, the reduction in the number of international orders and the instability of the international and domestic economic situation have led to a substantial reduction in sales and an increase in costs. However, at present, most enterprises do not have a complete and systematic management method for cost management. Therefore, in the face of various complex and volatile economic situations, if enterprises want to develop stably in the long term, cost management cannot be ignored.

Analyze the problems of cost management from the perspective of incentives

1.Senior management: single incentive mechanism, poor incentive effect, excessive pursuit of personal performance

When most enterprises carry out cost management, they take reducing enterprise costs as the only goal, pursue short-term interests, and do not combine enterprise cost management with long-term strategic objectives, and conduct cost-benefit analysis. Short-term benefits are important, but long-term benefits are the ultimate goal that enterprises should pursue. Therefore, when carrying out cost control, enterprises should pay attention to the innovation and development of products, and ensure the quality of products. Blindly reducing costs may cause enterprises to lose their original market share, lose their reputation, and even be on the verge of bankruptcy.

The combination of enterprise cost management and long-term strategic objectives requires professional managers to weigh the two when making decisions, but now the senior management of the enterprise is facing two embarrassing situations: on the one hand, the term of office of the senior managers of the enterprise is limited, and the performance evaluation during the limited term of office is the key factor for the future development of managers, so many managers in order to pursue the performance objectives during their term of office, It will abandon the strategic development goals of the enterprise and choose to pursue short-term interests; On the other hand, domestic policies have increasingly strict requirements on environmental protection, especially in heavily polluting industries. If enterprises want to carry out environmental governance and protection, they will inevitably invest a lot of costs in the early stage. Such investment will increase the total cost of enterprises. Moreover, environmental protection is a long-term process, and there is no effect and return in the short term. Therefore, when senior managers pursue personal performance during their tenure, It is likely to give up the long-term strategic objectives of the enterprise.

Therefore, under such a dilemma, enterprises are bound to take effective incentive measures. However, at present, the incentive mechanism adopted by enterprises is relatively simple. For senior management, the main incentive mode adopted is: to implement the annual target responsibility assessment for senior managers, and determine the annual remuneration of senior managers according to the completion of the annual business objectives of the enterprise and the results of annual personal assessment and evaluation, And, link the job risk with the company's business performance to encourage the management to actively participate in the company's decision-making. For senior managers of enterprises, sometimes they are more inclined to be stable, and the psychology of "not seeking merit but not making mistakes" leads to the fact that a single performance incentive mechanism cannot play a normal role. Moreover, the common means for managers to pursue performance is to focus on sales performance, and in the past, they will ignore the cost management behind sales performance. Therefore, a single incentive mechanism is difficult for senior managers to pay too much attention to the cost management of enterprises.

2.Grassroots managers: the incentive mechanism is not obvious and does not pay attention to, resulting in the basic work related to cost management is not solid

The formulation of planned costs and the implementation of cost decisions largely depend on the basic work of cost management. Although this part of work has also been valued by enterprise managers, the means adopted are mainly to supervise and allocate tasks, ignoring the psychological needs of grass-roots managers and their emotional ownership of the enterprise, and failing to take effective and timely incentive measures to encourage and enhance the work enthusiasm of grass-roots managers, The basic work of cost management is not solid enough, which is mainly reflected in: (1) the early evaluation of market price and the prediction of price change trend. If the enterprise procurement management personnel are not sensitive to the change of market price and cannot make a prediction in time for the change of market price, the result is likely to be that when the market price is low, they do not purchase raw materials in time to increase inventory, thus missing the best price, When the market price rises slightly, a large number of raw materials are purchased for fear of a sharp rise in price, thereby increasing storage costs; (2) Price comparison of suppliers: due to the lack of enterprise incentive mechanism, the work of material procurement managers cannot be effectively encouraged. When selecting suppliers, it may often damage the interests of the company for personal interests. The selected suppliers are not the best choice, which may lead to the increase of the

company's material costs and other hidden costs, thus increasing the total cost of the enterprise; (3) The measurement method of materials, etc. when the financial management personnel of the enterprise measure materials, etc., for convenience, they do not choose the appropriate measurement method, which may make the cost of the enterprise higher in a certain period, resulting in a false phenomenon of higher cost in a certain period. (4) The lax management system of delivery, warehousing and receiving and returning will increase the consumption rate and waste rate of raw materials, resulting in increased costs.

3. Ordinary employees: there is no incentive or simple incentive, and the effect of cost management is poor

A complete and sound cost analysis system requires enterprises to invest a lot of human and financial resources. In addition, professional managers also need to invest a lot of time and energy to gradually improve, so as to establish a relatively complete and effective cost analysis system. At present, although many large and medium-sized enterprises have begun to try information-based collaborative operation in cost management, the more common is ERP system. ERP system builds an information-based platform for production and marketing connection, order tracking, centralized control of production, purchase, storage and transportation, and cost refinement management, and connects with the information-based systems of various units, which can greatly improve work efficiency. However, the construction of a complete system is a long-term process. In this process, there are still many problems that need professional managers and technicians to deal with in time, including the technical training of users. In the operation process of this system, the vast majority of workers are ordinary employees. If enterprises want to maximize the role of the whole system, they should pay attention to the training of ordinary employees and fully mobilize the enthusiasm of employees. Because of cost management is not a unilateral work of the management, it requires the joint participation of all employees of the enterprise, and every link cannot be ignored. Therefore, enterprises cannot ignore the performance incentive work of ordinary employees. However, at present, the main incentive mechanism adopted by enterprises for employees is: the post efficiency salary system is adopted for employee compensation, which links the employee income with the company's performance, and gives play to the incentive and guiding role of performance appraisal; For enterprise employees, the performance of the company is more often the responsibility of senior managers, and employees lack the enthusiasm to participate in enterprise management.

Suggestions on Strengthening Incentive Mechanism and Strengthening Enterprise Cost Management

Adopt a diversified incentive mechanism for senior management, and combine cost management with the strategic objectives of the enterprise

In terms of the assessment of senior management, diversified assessment methods should also be adopted. A single performance assessment as the only standard of annual assessment is somewhat too arbitrary. Such an assessment mechanism will affect the enthusiasm of senior management in formulating long-term strategic development goals. Therefore, enterprises must adopt diversified assessment mechanisms and diversified incentive mechanisms to fully consider their needs, which can be comprehensively considered through the annual salary, equity, corporate culture, personal development goals and other aspects. In addition, individual performance cannot be used as the only standard for assessment. While considering the results, they should also pay attention to process management, and cost management can be included in process management assessment. Diversified Assessment and incentive mechanism will be the only goal of the senior management of the enterprise when carrying out cost management. The cost management of the enterprise should be combined with the long-term strategic objectives of the enterprise to carry out cost-benefit analysis. Short term income is important, but long-term income is the ultimate goal that the enterprise should pursue. The key to the long-term survival of enterprises is whether the products can be accepted and recognized by the market. Therefore, enterprises must give consideration to the continuous innovation of products when carrying out cost control. While innovating, they should also ensure and improve the quality of products. They must not unilaterally ignore the variety and quality of products in order to reduce costs, let alone ignore the strategic objectives of enterprises in order to unilaterally pursue immediate interests. We should not take reducing the cost of the enterprise as the ultimate goal, but should complete our cost management on the basis of fully considering the overall development strategy of the enterprise. For example, the differentiation strategy costs a lot in the short term, but in fact, these new differentiated products expand market share, so as to obtain higher cost-effectiveness. Therefore, we should face up to and establish the idea of cost-effectiveness for future efficiency, which is conducive to the formulation of enterprise competitive strategy. The combination of enterprise cost management and long-term strategic objectives requires professional managers to weigh the two when making decisions. Therefore, a reasonable incentive mechanism is needed for the senior management of the enterprise to avoid senior managers abandoning the long-term strategic objectives of the enterprise without pursuing personal performance during their tenure.

Strengthen the performance incentives of grass-roots managers and strengthen the basic work related to cost management

Because the formulation of planned cost and the implementation of cost decision depend on the basic work of cost management to a large extent, it is very important to do a good job in the basic work related to cost management. For grass-roots managers,

we should also formulate an effective incentive mechanism to encourage grass-roots managers to actively participate in cost management and do a good job in the basic work of cost management. The first is the early evaluation of the market price and the prediction of the trend of price changes. According to the evaluation and prediction, we should make corresponding decisions, and whether to purchase raw materials in time to increase inventory, or adjust the existing inventory to reduce storage costs; The second is to strictly select suppliers. On the one hand, it can effectively avoid the risk of shortage and bring unnecessary negative effects to the production of enterprises; On the other hand, it can also get the supply information in time, understand the market and industry development trends, and provide necessary information support for the business decision-making of enterprises. In addition, we should pay more attention to the reduction of logistics costs and optimize the cost management of different logistics links. In addition, effective incentive mechanisms should be adopted for procurement personnel to reduce procurement costs and other hidden costs in the procurement process; The third is to choose suitable measurement methods such as materials to avoid a false phenomenon of high cost in a certain period of time; The fourth is to tighten the management system of warehouse out, warehousing and receiving and returning, reduce the consumption rate and waste rate of raw materials, improve the utilization efficiency of materials, and reduce the cost from every link as much as possible.

Work to motivate ordinary employees and support managers' decisions

To make effective and accurate business decisions, the management of an enterprise needs to master the complete financial information of the enterprise, including accurate cost management, accurate cost information, etc. These informations can be through a complete and sound cost analysis system. A complete cost analysis system is an inevitable process that an enterprise will experience, and it will also benefit the enterprise in the long run. Moreover, an effective cost analysis system can more accurately analyze the cost situation of the enterprise, make the enterprise more effective in cost management, and provide more accurate and complete information for the decision-makers of the enterprise. The management of the enterprise can effectively combine the cost and long-term strategic objectives when making decision analysis, so as to prepare for the long-term development of the enterprise. However, a sound cost analysis system requires enterprises to invest a lot of human and financial resources. Especially in terms of manpower, the operation of the cost analysis system cannot be separated from the hard work of ordinary employees. Only the active and effective work of ordinary employees can provide more accurate cost information to the management of the enterprise, and at the same time, control and save costs from the source. Therefore, it is necessary to effectively mobilize the enthusiasm of employees. At this time, we need to fully consider the needs of employees. Only by taking appropriate incentive measures and combining the needs of employees with the development goals of the enterprise, can we maximize the enthusiasm of employees, let employees actively participate in all the work of the enterprise and give full play to their working ability.

Conclusion

The market competition situation is becoming increasingly fierce. In addition to developing technology and competing in technology, price and other aspects, enterprises should also actively carry out efficient cost management based on internal management, effectively reduce unnecessary costs, meet the needs of diversified development of enterprises, and improve business efficiency. In the research of this paper, there are many problems in enterprise cost management. The article only selects a perspective - performance incentive for in-depth analysis, but cost management is not only these problems mentioned in this paper, but also includes the inapplicability of cost management methods, the irrationality of cost accounting methods, high procurement costs and low material utilization efficiency. Therefore, the research of this paper has some limitations. Cost management is a long-term process, More and more in-depth research is needed in the future. I hope this research can lay a good foundation for cost management.

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