

IMPACT OF APPLYING THE HIDDEN COSTS METHOD ON COSTS MANAGEMENT IN THE TEXTILE INDUSTRY

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Abstract. *The new approach of the economic management of the companies of the textile industry based on costs management calls for the covering of certain stages for the optimization of the management of the activities maintained, the definition of programs for the new activities introduced and the definition of new functional and high-performance structures. Among the approaches meant to optimize the management of the activities maintained, reducing/economizing hidden costs is a good opportunity to operationalize costs management in the textile industry. The hypothesis launched: "The impact of hidden costs is determining for costs management in the textile industry" is supported by a scientific research based on a survey by questionnaire and validated in the end of the study. The conclusions of this scientific research also confirm the importance of identifying hidden costs as a significant premise in the costs management approach in the textile industry.*

Keywords: hidden costs, cost management, questionnaire, management optimization, operational management.

JEL Classification: M41

1. Introduction

During the last fifteen years, the companies of the textile industry in Romania have been under the influence of a growing competition generated by the mondialization of the economic and social exchanges.

This context determines the companies in the textile industry, and actually all the other economic entities, to commit to activities reorienting the production and restructuring production management, so as to generate extra added value.

Increasingly more, the objectives of the company are related to budget management. Strategic orientations in the middle term, called strategic plans, represent a good approach in order to attain the objectives of the company in the future [1]. Consequently, it is stringently necessary for the companies in the textile industry to approach a new strategy related to costs management, aiming by this new trend to construct a new model of economic entity of the future, in this activity sector.

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The new economic management approach of the company in the textile industry, based on costs management supposes the covering of several stages, in essence operational, concerning: optimizing the management of the activities mentioned by the economic entity through the strategic plan; defining the action programs for the new activities introduced via the strategic plan; defining the new functional and high-performance structure of the activities to be achieved on objectives [1].

In order to restructure the management of the activities maintained by the economic entity by the strategic plan, using costs management, it is necessary to reduce and optimize costs, by: reducing production expenses; reducing commercial expenses; reducing general expenses and reducing/economizing hidden costs, all these using specific work methods and tools. The aim of this work is to highlight the impact of the application of the hidden costs method on the costs management in the companies of the Romanian textile industry.

2. Description of the scientific research theme

The present work, entitled “*Impact of applying the hidden costs method on costs management in the textile industry*” represents a starting point in the projection of high-performance costs management systems in the companies of the textile industry. The approach of our scientific paper starts with an introduction in the topic proposed in relation to the impact of the application of the hidden costs method on the costs management in the textile industry.

Next come the methodology of the scientific research, highlighting the objective of the scientific work and launching a scientific research hypothesis, namely: “*the impact of the hidden costs is determining for the costs management in the textile industry*”. To validate the hypothesis launched we continued by the realization of a theoretical research based on consulting the specialized literature, on the one hand, and using a case study based on the use of the survey by questionnaire made up of 5 questions, on the other hand, addressed to a sample of 216 people consisting of managers, technicians and specialist workers, from the companies of the textile industry in Olt, Argeş and Dâmboviţa County. Then, our approach continues by a determination of the impact of applying the hidden costs method on costs management in the textile industry by the use of the experimental results. The approach of our scientific research ends by conclusions and by the validation of the hypothesis launched, and therefore the attaining of the objective proposed.

3. Scientific research methodology

The specific objective pursued in this work is that of highlighting the importance of hidden costs in the context of using costs management. To check the hypothesis launched, respectively “The impact of hidden costs is determining for costs management in the textile industry”, we started by achieving a theoretical research

by investigating the specialized literature and the legal regulations, on the one hand, and we launched a survey based on a five-question questionnaire, using qualifiers and addressed to a sample of 216 people, made up of managers, engineers, technicians and specialist workers from 18 economic entities in the textile industry of the counties Olt, Argeş and Dâmboviţa. We have considered that for this work this sample with a distribution of 6 companies from this field in each county and 12 people interviewed from each economic entity might be relevant.

The elaboration of the sample required our covering of the following stages: preliminary research; designing the questionnaire; testing the questionnaire; drafting the questionnaire [2]. At the same time, in the elaboration of the questionnaire drafted to realize this scientific research we had in view the diversity of factors that could have influenced the scientific research; the format of presentation; the dimension of the questionnaire; the respondent's motivation; the letter of recommendation addressed to the respondent; the easy completion of the questionnaire; the deadline for the return of the questionnaire if it remained with the respondent.

The structure of the questionnaire includes the following 6 questions:

1. Do you consider that the economic entity you are working for records hidden costs?

Yes No

2. Which are the structures generating hidden costs in the economic entity where you are working?

	Yes	No
- production sections	<input type="checkbox"/>	<input type="checkbox"/>
- commercial service	<input type="checkbox"/>	<input type="checkbox"/>
- acquisitions service	<input type="checkbox"/>	<input type="checkbox"/>
- administrative service	<input type="checkbox"/>	<input type="checkbox"/>
- human resources service	<input type="checkbox"/>	<input type="checkbox"/>

3. Do you consider it necessary to reduce and optimize hidden costs in the economic entity where you are working?

Yes No

4. What is the mark that you would give for costs management in the economic entity where you are working?

1	2	3	4	5	6	7	8	9	10
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

5. How do you consider the impact of the hidden costs method on costs management?

		Yes	No
-	very small	<input type="checkbox"/>	<input type="checkbox"/>
-	small	<input type="checkbox"/>	<input type="checkbox"/>
-	average	<input type="checkbox"/>	<input type="checkbox"/>
-	large	<input type="checkbox"/>	<input type="checkbox"/>
-	very large	<input type="checkbox"/>	<input type="checkbox"/>

In order to profitably use the questionnaire, we used as a work method the direct questioning in the field of a number of 180 people (83.33 %) and the email for a number of 36 people (16.67%). The data were gathered in September 2015. All the questionnaires were marked with the formula "CONFIDENTIAL" and were accompanied by a recommendation letter concerning the quality of doctoral student-researcher. We allocated 216 questionnaires in all, 72 for each county, respectively 12 questionnaires for each economic entity.

4. Impact of applying the hidden costs methods on costs management

4.1. Information sources in determining the impact of hidden costs

In the work *Maîtriser les coûts et les performances* (Savall, H. and Zardet, V. define hidden costs as those costs that are not identified by the information system the economic entity has, namely: budget, accounting result, financial accounting, management accounting, dashboard etc. In order to optimize the activities maintained by the economic entity through the strategic plan, it is necessary to know the hidden costs and quantify them. The practical experience demonstrates the obtaining of remarkable results via the interview practice followed by the quantification of the information obtained. The pieces of information obtained in this way are not absolute; they have a relative value, close to the truth. Often, partial, episodic pieces of information are used, which do not have the systematic character of the information provided by the accounting system, but are pertinent and useful to efficiently correct some strategic decisions.

These are the main reasons why it is recommended to obtain these pieces of information via direct interviews addressed to the people involved in the production processes of the respective companies.

The evaluation of the hidden costs is realized subsequently by reconsidering the data not identified by the financial-accounting information systems. Usually, the information obtained concerns respectively economic consequences of dysfunctions, and resources involved or lost following the actions of regulation of dysfunctions, during the interventions carried out by the personnel directly involved [3].

Regarding the measurement of hidden costs, one has to start from the elementary apparently insignificant dysfunctions, yet visible for the persons directly involved along the technological or informational circuit. After the evaluation and measurement of hidden costs follow the corrective actions realized in order to diminish the effect of the dysfunctions observed or even to eliminate them. These corrective actions meant to regulate the dysfunctions observed involves consumption of human resources, expenses on products and services made by third parties and most often delays in the obtaining of the desired effect.

In principle, the information necessary to the evaluation and measurement of hidden cost relies on financial and management accounting and human resources management systems. Some hidden costs cannot be seized on informational support and require consulting, namely interrogating the specialized personnel directly involved in production processes or situated along the information circuit.

In principle, evaluating and measuring hidden costs is an intuitive, and even imprecise, approach, yet quite useful in costs management in the textile industry.

In the present case, following the interviews filled in by the 180 people who received the questionnaire directly and by the 28 people out of 36 who received questionnaires and answered by mail, we obtained a number of 208 questionnaires filled in, which represents an answer ratio of 96.30%, considered representative for the sample established.

At the first question, out of the total of 208 respondents, a number of 202 respondents (97.12%) affirmed that, in the economic entity they are working for, hidden costs are recorded.

At the second question, out of the total of 208 respondents, the structure of the answers of the 202 respondents who answered by “yes” is the following:

- production sections 71 respondents (34.13 %)
- commercial service 32 respondents (15.38 %)

- acquisitions service 17 respondents (8.17 %)
- administrative service 11 respondents (5.29 %)
- human resources service 77 respondents (37.03 %)

At the third question, out of the total of 202 respondents, the structure of the answers obtained is as follows: 198 respondents (98.02%) consider it necessary to reduce and optimize hidden costs, whereas 4 respondents (1.98%) consider that it is not necessary to reduce and optimize hidden costs.

Regarding the fourth question, out of the total of 202 respondents who said “yes”, the structure of the answers is as follows:

- mark 7 38 respondents (18.81 %)
- mark 8 55 respondents (27.23 %)
- mark 9 82 respondents (40.59 %)
- mark 10 33 respondents (13.37 %)

Regarding the last question, out of the total of 202 respondents, the structure of the answers of those who said “yes” is the following:

- very small 6 respondents (2.97 %)
- small 14 respondents (6.93 %)
- average 32 respondents (15.84 %)
- large 90 respondents (44.56 %)
- very large 60 respondents (29.70 %)

Using the study achieved based on this questionnaire, one can consider that the hypothesis launched according to the scientific research methodology is totally validated, since the number of those who considered the hidden costs method necessary in costs management is 202 respondents out of the total of 208 respondents who filled in the questionnaire, respectively out of the total of 216 people to which the questionnaire was addressed to confirm the need to apply this method. At the same time, we consider significant the number of respondents who estimated the impact of the hidden costs method as great and very great, actually 150 respondents (74.26%) out of the total of 202 respondents who said “yes”.

4.2. Methods of measuring hidden costs

Once established the information sources for the determination of the impact of hidden costs, the following stages, which are not the object of our research in this paper, are covered, namely:

- evaluating hidden costs via direct interviews (stage II) addressed to the people involved in the production processes in the respective companies;
- measuring hidden costs;
- regulating the dysfunctions noticed.

For measuring hidden costs, the literature recommends the methods:

4.2.1. The method of probabilistic estimate

Most hard sciences, engineering domains, and to a large extent the socio-economic ones currently use the probability theory.

In our case, in the domain of analysis of the causes of the dysfunctions existing in the companies of the textile industry, the aim pursued is to determine hidden costs ($h_1 \dots h_n$) associated to all the causes generating dysfunctions by interviewing all the categories of people involved in the production process in the respective companies. These people interviewed have the quality of expert ($e_1 \dots e_n$) during stage II, according to the method of probabilistic estimate.

According to this method, the researcher ($r_1 \dots r_n$) studies all the dysfunctions, combining the opinions of the experts involved by their own knowledge with the very precisely defined aim of determining the possible and probable value of the costs ($h_1 \dots h_n$). The total of the opinions expressed by the experts ($e_1 \dots e_n$) forms the set of probabilities for ($h_1 \dots h_n$).

Obviously, the precision of calculation of the hidden costs ($h_1 \dots h_n$) is largely determined by how reliable and especially how consistent the knowledge of the experts used ($e_1 \dots e_n$), in the present case respondents (stage II), is.

4.2.2. The SOF method

It is a method used mainly to evaluate hidden costs. Considering the objective of this method, namely maximizing the financial-accounting information and its aim, i.e. quantifying the financial resources mobilized to determine and regulate the dysfunctions noted during the information-gathering approach, the SOF method remains tagged as a hidden costs measuring method.

According to Savall and Zardet, the SOF method is structured into three modules, [3] with specific objectives (Table 3.1):

Table 3.1. Structure of the SOF method

<i>Module</i>	<i>Objective</i>
Social	<ul style="list-style-type: none"> - highlighting dysfunctions; - determining the causes of all the dysfunctions and the relations between them.

Organizational	<ul style="list-style-type: none"> - establishing the modalities of regulating the dysfunctions; - determining the economic effects of the corrections.
Financial	<ul style="list-style-type: none"> - establishing the costs of all the components regulating the dysfunctions; - quantifying the economic incidents related to the regulation of the dysfunctions.

(source: Savall & Zardet, 2010, p. 131)

At the same time, the model also foresees gathering techniques meant to collect the qualitative, quantitative and financial information needed.

4.2.3. Mathematical modeling

The human resources flow generates significant hidden costs in time. Largely, the economic entity makes decisions generating hidden costs following the human resources flow. Sometimes, these hidden costs are unpredictable both financially and motivationally. In the case of the departure from the economic entity of people with special skills and significant experience, the impact of hidden costs is significant, often masked by the factor time, during which the recruited, training and adaptation at the new job of the people hired in the place of the ones who left will take place.

The use of mathematical models permits to determine easily the hidden costs generated by the dysfunctions related to work organization, decreasing productivity or lack of experience.

4.3. Actual impact of applying the hidden costs method on costs management

Costs management in the economic entities, whichever they may be, represents an essential component of organizational management. Implicitly, a high-performance organizational management leads to the performance of the economic entities.

Identifying and measuring hidden costs in the companies of the textile industry, associated with the realization of corrective actions to reduce their value and effects, represent significant opportunities of increasing the added value of the production of the economic entities that are part of the system.

Identifying hidden costs in the companies of the textile industry leads to increasing performance by studying the cost-quality relation. In this situation, one needs to analyze, on the one hand, the cost of obtaining quality, and, on the other hand, the reduction of the costs of non-quality. Thus, while the quality-obtaining

cost supposes the level of investments in quality, the non-quality cost supposes the analysis of the cost and the diminution or elimination of dysfunctions.

M. Armstrong affirms, in “A Handbook of Management Techniques”: “according to the improvement of quality, certain categories of costs are reduced. Client complaints represent important levers in the discovery of mismatches or even errors, so that, in the future, corrections can be made, sparing the costs involved by the consumption of resources allocated for adjustments associated to complaints [5].

Identifying hidden costs is a method permitting a continual optimization of costs reduction. The current application of this method actually means continual cost control often leading to spectacular results. This option of continual cost control represents an optimistic method or an opportunity of realizing this desideratum. To manage administrative and operation costs, one should not neglect the productivity control methods.

Conclusions

Following the study achieved, one can note the confirmation of the hypothesis launched, namely: “The impact of hidden costs is determining for costs management in the textile industry”. At the same time, the specific objective pursued in this paper, namely, highlighting hidden costs in the context of the use of costs management has been reached.

To identify hidden costs, we examined the dysfunctions, the financial effects derived from there, and we determined the causes that led to the emergence of hidden costs.

The identification approach was realized after the survey based on a questionnaire was completed, using mathematical modeling, thanks to the ISHIKAWA diagram, and by improving the organization of the activities and of the information flow [6].

One can notice a reduction of hidden costs and implicitly of their effect, an approach generating the need of a continual process of search of causes and new solutions pertaining to them. Consequently, there emerged the idea of constructing an informatic project-program that can be used permanently, but which needs to be centralized whenever that is considered necessary [7].

“This work was supported by the project “Interdisciplinary excellence in the doctoral scientific research of Romania – EXCELLENTIA” co-funded from the European Social Fund through the Development of Human Resources Operational Program 2007-2013, contract no. POSDRU/187/1.5/S/155425.”

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