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Strategic Cost Management in A Competitive and Digital Economy: An Empirical Study with Reference to Indian Digital Enterprises

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Abstract

The rapid digital transformation of global economies has significantly altered traditional cost structures and competitive dynamics. Strategic Cost Management (SCM) has evolved as a crucial managerial approach that aligns cost systems with long-term business strategy to achieve sustainable competitive advantage. In a digital economy characterized by automation, artificial intelligence, cloud computing, and platform-based business models, traditional cost accounting techniques are inadequate. This research examines the role of SCM in enhancing organizational performance in a competitive and digital environment, with special reference to Indian enterprises such as Tata Consultancy Services (TCS), Infosys Limited, and Amazon India. The study develops a conceptual framework linking digital transformation, SCM practices, and organizational performance. Hypotheses are formulated and validated through secondary data analysis and interpretative research methods. The findings reveal that the integration of digital technologies with strategic cost frameworks significantly improves profitability, operational efficiency, and competitive positioning. The study concludes that SCM acts as a strategic mediator between digital transformation and sustainable organizational performance.

Keywords: Strategic Cost Management, Digital Economy, Competitive Advantage, Activity-Based Costing, Target Costing, Digital Transformation, Indian IT Sector.

Introduction

The contemporary business environment is driven by rapid technological innovation and global competition. The digital economy has transformed industries through automation, artificial intelligence, cloud platforms, and data analytics. As organizations increasingly operate in technology-intensive environments, cost behavior has shifted from variable labor-driven costs to high fixed technology investments.

Traditional cost accounting systems were designed for manufacturing-based economies. However, in digital service-oriented firms such as IT companies and e-commerce platforms, overheads dominate cost structures. Therefore, cost management must be strategic, forward-looking, and integrated with business objectives. Strategic Cost Management (SCM) refers to the use of cost information to develop and implement business strategies aimed at achieving sustainable competitive advantage. It emphasizes cost leadership, differentiation, value chain optimization, and long-term profitability. In India, the rise of IT giants like Tata Consultancy Services (TCS), Infosys Limited, and digital platforms like Amazon India reflects the importance of strategic cost frameworks. This study explores how these firms integrate digital transformation with SCM practices to enhance performance.

Review of Literature

The foundation of Strategic Cost Management is closely linked to competitive strategy theories proposed by Michael E. Porter. Porter (1985) introduced value chain analysis and cost leadership strategies, emphasizing cost as a source of competitive advantage.

Shank and Govindarajan (1993) formally developed the concept of SCM, arguing that cost systems must support strategic objectives rather than merely record historical expenses.

Kaplan and Cooper (1998) introduced Activity-Based Costing (ABC) to address distortions in traditional costing systems. Later developments such as Time-Driven ABC enhanced cost accuracy in service industries.

Recent literature highlights the influence of digital transformation on cost management. Bhimani (2015) observed that digitization changes accounting processes and increases the relevance of real-time cost information. Brynjolfsson and McAfee (2014)

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emphasized automation's impact on productivity and cost structures.

However, limited studies integrate SCM with digital transformation in the Indian context. This study attempts to address this research gap.

Research Gap

While extensive literature exists on SCM and digital transformation separately, few empirical studies examine their combined impact on organizational performance in Indian digital enterprises. Moreover, limited research evaluates SCM as a mediating factor between digital adoption and profitability.

Objectives of the Study

1. To analyze the concept and evolution of Strategic Cost Management.
2. To examine the impact of digital transformation on cost structures.
3. To evaluate SCM practices in selected Indian digital enterprises.
4. To develop and test hypotheses linking SCM and organizational performance.
5. To propose a conceptual model integrating digital transformation and SCM.

5. Conceptual Framework

The proposed conceptual model suggests:

Digital Transformation → Strategic Cost Management Practices → Organizational Performance

Independent Variable:

Digital Transformation (Automation, AI, Cloud Systems, Data Analytics)

Mediating Variable:

Strategic Cost Management Practices (ABC, Target Costing, Lifecycle Costing, Value Chain Analysis)

Dependent Variable:

Organizational Performance (Profitability, Efficiency, Competitive Position)

This model proposes that digital transformation enhances SCM practices, which in turn improve organizational performance.

Hypotheses Development

H1: Digital transformation positively influences the adoption of Strategic Cost Management practices.

H2: Strategic Cost Management practices significantly improve organizational profitability.

H3: Activity-Based Costing improves cost accuracy in IT firms.

H4: Target costing enhances competitive pricing strategies in e-commerce firms.

H5: Strategic Cost Management mediates the relationship between digital transformation and organizational performance.

Research Methodology

- Research Design
The study adopts a descriptive and analytical research design based on secondary data analysis.
- Data Sources
Secondary data were collected from:
Annual reports (2020–2024) of TCS, Infosys, and Amazon India.
Industry reports and academic journals.
Published case studies and financial statements.

- Sample Selection
Three major digital enterprises operating in India were selected:

1. Tata Consultancy Services (IT services)
2. Infosys Limited (IT consulting and digital services)
3. Amazon India (E-commerce platform)

7.4 Tools of Analysis

Trend analysis of profitability

Ratio analysis

Interpretative content analysis

Conceptual hypothesis validation

Data Analysis and Interpretation

Case Study 1: Tata Consultancy Services (TCS)

TCS operates globally in digital consulting and IT services. Its cost structure includes high investments in digital infrastructure and skilled human resources.

SCM Practices:

Lifecycle costing for long-term IT contracts.

Digital dashboards for real-time project cost monitoring.

Workforce optimization through global delivery centers.

Findings:

Stable operating margins despite global competition.

Improved project-level cost visibility.

Efficient allocation of skilled resources.

Hypothesis Validation:

H1 and H2 supported — digital tools improved SCM and profitability.

Case Study 2: Infosys Limited

Infosys has adopted automation tools and ERP-based cost systems.

SCM Practices:

Activity-Based Costing for project-level cost allocation.

Automation reducing testing and deployment costs.

Data analytics for cost forecasting.

Findings:

Increased cost transparency.

Reduction in overhead misallocation.

Enhanced profitability in digital services.

Hypothesis Validation:

H3 supported — ABC improved cost accuracy.

Case Study 3: Amazon India

Amazon India operates in a highly price-sensitive and competitive market.

SCM Practices:

Target costing based on market price.

Predictive analytics for inventory management.

Optimization of last-mile delivery costs.

Findings:

Reduced logistics cost per order.

Dynamic pricing strategies.

Enhanced competitive positioning.

Hypothesis Validation:

H4 supported — target costing enhanced pricing strategy.

Mediating Role of SCM

Across all case studies, digital transformation alone did not directly improve performance. Instead, improved performance occurred when digital tools were integrated with strategic cost frameworks.

Thus, H5 is supported — SCM acts as a mediator between digital transformation and organizational performance.

Major Findings

1. Digital transformation significantly changes cost structures.
2. SCM enhances profitability and operational efficiency.
3. Activity-Based Costing improves accuracy in service industries.
4. Target costing strengthens pricing competitiveness.
5. SCM mediates the relationship between technology and performance.
6. Indian digital enterprises effectively integrate SCM with digital tools.

Conclusion

The study concludes that Strategic Cost Management is a vital strategic tool in the digital economy. As organizations adopt automation, artificial intelligence, and data analytics, cost structures become more complex. Traditional cost systems are insufficient in such environments. Indian enterprises such as TCS, Infosys, and Amazon India demonstrate that integrating digital transformation with strategic cost frameworks leads to sustainable competitive advantage. SCM enhances cost transparency, improves decision-making, and strengthens profitability. Therefore, organizations operating in digital environments must adopt strategically aligned cost management systems to ensure long-term growth and resilience.

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Conflicts of interest

The authors declare that there are no conflicts of interest regarding the publication of this paper

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