The Role of CVP Analysis in Strategic Decision-Making for Small and Medium Enterprises

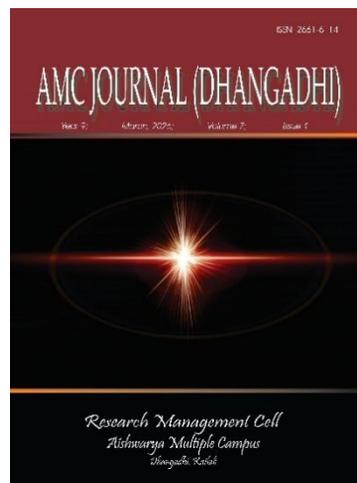**[1] Tirth Raj Joshi, [2],*Shiba Prasad Sapkota, PhD**
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Abstract

This paper explores the connections between Cost-Volume-Profit (CVP) analysis, profit planning and pricing decision-making in small and medium-sized enterprises (SMEs) in the Kailali district. Correlational and descriptive analysis using convenience sample of 193 respondents showed positive perception with regards to CVP analysis and its managerial practices with the highest mean scores of Applying CVP (M = 3.98), Profit Planning (M = 4.05), and Pricing Decision (M = 4.10) higher than the mean score of 3.0. Analysis of correlation showed that there was a strong, positive and significant relationship between the three constructs: applying CVP and Profit Planning (r = 0.829, p=0.00), Applying CVP and Pricing Decision (r = 0.787, p =0.00) and Profit Planning and Pricing Decision (r = 0.837, p=0.00). Profit planning and pricing decision jointly explained 71.6% of the variance in the application of CVP analysis (R² = 0.716, p=0.00). The high explanatory power and high correlations of the model are an indication that SMEs that apply CVP analysis are in a better position to make data-driven decisions, which enhance profitability, efficiency in the pricing and financial sustainability in the long run. These results affirm that CVP analysis is an important management tool that will increase profitability and pricing efficiency. The research concludes that the successful use of CVP analysis helps SMEs to make data-driven and informed decisions, enhancing financial performance, and leading to long-term sustainability.

Keywords: *Cost volume profit analysis, decision making, financial performance, profit planning, small medium-size enterprises.*

Introduction

Small and medium enterprises (SMEs) are significant when it comes to the economic analysis because they can provide an invaluable insight into the health of the overall economy of a country in terms of industries and geographical location. These businesses are usually measured quantitatively as the number of workers, the total earnings of the organization per year, and the aggregated financial results reflected in their reports (Berisha and Pula, 2025). SMEs have well-known status as a key force of sustainable, inclusive, and robust economic development. They aid in stabilizing the macro-economic through supporting strong growth, job creation and strengthening value chain networks. SMEs are the

source of a significant segment of gross domestic product (GDP) in most national economies, sometimes much more than their size implies.

SMEs in Nepal are said to generate approximately 22 percent of GDP and they also offer jobs to approximately 1.8 million individuals, including more women thus increasing their contributions to gender inclusion and fair development. Majority of Nepali SMEs are in food processing, consumer and household goods manufacturing, and textile producing to both local and foreign markets (Verma, 2024). This is because the operations of SMEs are very diverse thus making decision-making difficult. Cost-volume-profit (CVP) analysis is one of the tools of management, which is the most viable in assisting managers make timely decision, especially, in cost control and profit planning. Basing on the concept of marginal costing, CVP is quite useful particularly when SMEs handle several products and require to identifying the most profitable combination (Lucey, 2002). It assists the companies in determining the financial implications of increasing production at various demand levels (Mitchell et al., 1993), and scenario planning using CVP models will aid in predicting the results and minimizing uncertainty (Drury, 2013). CVP enables SMEs to make better use of their limited resources through clarifying how the costs respond to different output levels, thus enabling them to design operation and strategic plans that are better (Abdel-Kader and Luther, 2008). It also assists in making pricing decisions because it analyzes the correlation of price and volume and cost (Amoako, 2013).

CVP analysis may be perceived as only an estimation of the break-even point where the total revenue equals total cost or seen broadly as a methodical way of knowing how changes in costs, sales volume, and output affect profitability. The tool gives a structure in which changes in operations can be evaluated in terms of the financial performance.

The CVP analysis, as one of the fundamental tools of managerial accounting, represents the relationship between cost structures, sales volumes and profit margins, allowing managers to predict the influence of operations changes on the income (Friescu and Branza, 2016). Since maximization of the profit is paramount to the business operations, it is important to understand how the production levels are affected by competition, innovation, fluctuation in the economy, response to demand changes, resource limitations and the pricing mechanisms. CVP analysis will help managers assess these changes and determine its financial consequences. Also, the approach assists in policy and strategy guidance as it demonstrates how changes in fixed and variable costs, selling prices, and product mix influence operating income (Abdullahi, Sulaimon, Mukhtar, and Musa, 2017). Consequently, CVP is essential in these decisions pertaining to pricing, product choice, managing costs, and optimization of its overall operation.

The Study Problem

Since the late eighties, Nepal has adopted an open-market economic system. The globalization and liberalization have redefined the trends of producing and development of enterprise as well as exposing the domestic industries to the international competition. The fact that the country has been integrated into the global markets coupled with low levels of innovation and non-existence of competitive advantages has made the country more reliant on imports. The government still dominates the private sector with traditional businesses, and the level of investment in research and development is very low, either public or private. The economic performance of Nepal has been rather modest over the past two decades with real GDP growth of about 4 percent per annum being lower than that of its neighbors such as Bangladesh and India (Bhandari, 2025).

The Ministry of Finance reports that several spheres, such as tourism and cottage, small, and medium enterprises were greatly impacted by the **COVID-19** pandemic, and the government stepped in to assist businesses to meet payroll demands to sustain operations. On top of the pandemic, the worldwide competition, the impact of long geopolitical disputes like the Russia-Ukraine conflict and increasing prices of goods and raw materials are still pressurizing business activities. Moreover, the structural shifts currently caused by **Gen-Z** and the changing socioeconomic environment of the 2025 are new obstacles to economic development and innovation in Nepal. All these trends are indicative of the fact that several Nepali SMEs are finding it difficult to survive in the new environment.

- ❖ Whether or not cost volume profit analysis play a role in managerial decisions of small and medium enterprises?
- ❖ To what extent does the use of cost volume profit analysis effect profit planning decision in small and medium enterprises?
- ❖ Does the use of CVP analysis improve pricing decision of small and medium enterprises?

Objectives of the Study

The main aim of this research is to examine the use of Cost-Volume-Profit analysis as a strategic management instrument of improving decision-making procedures in small and medium enterprises.

- ➢ To investigate the use of CVP analysis in the managerial decision-making process in SMEs.
- ➢ To ascertain the extent to which the CVP analysis usage can be used to improve profit planning among SMEs.
- ➢ To determine how far application of CVP analysis enhance pricing decision in SMEs.

Literature Review & Framework

Cost-volume-profit (CVP) analysis is an important managerial accounting instrument that is regularly used by manufacturing companies in Nigeria as a decision-making tool. It is proved that the selling price of a product and the volume produced have the positive impact on the profitability of a product (J.C. Ihemeje, Okereafor, and Ogungbangbe, 2015). Likewise, Vietnamese universities have also embraced CVP methods to guide administrative decisions but the information that is used has at most times been rudimentary and shallow when it comes to cost-control mechanisms. An extended and more versatile use of CVP analysis can provide managers in the Vietnamese state universities with the stronger tools to make the best decisions (Oanh Thi Tu Le, Tran, and Nguyen, 2020). In Mogadishu, Somalia, most of the production firms use the CVP analysis in making managerial decisions with the primary emphasis on the unit variable costs and the total revenue. Although these firms make decisions taking into consideration the variable costs and sales revenue, the fixed costs are often left out an omission that can lead to inaccurate decisions. The manufacturing businesses are thus advised to consider utilizing a more comprehensive interpretation of the CVP principles in reinforcing the quality of decisions (Mohamed, Mohamed, and Mohamed, 2022). More so, small business enterprises tend to practice CVP activities without intending to. Most of their daily managerial choices, even in the absence of explicit information on the terminology, are congruent with the principles of the CVP analysis. Even though this technique is explicitly applied or identified in only a portion of these enterprises, the underlying intuition of CVP is a significant portion of its operations and pricing decisions (Abdullahi, Sulaimon, Mukhtar, and Musa, 2017).

H1: SMEs are using CVP analysis in their managerial decision-making process.

Cost-volume-profit (CVP) analysis is a very important tool of managerial planning and decision-making. It makes the production levels dependable on sales performance hence aiding firms to make improvements in profitability in manufacturing as well as creation of value in service industries. CVP can be used to evaluate break-even, profit-planning, and business growth strategies by using it to describe the behavior of output, sales, and cost (Lulaj and Iseni, 2018). Managers are not able to make sound decisions on production, pricing and profit planning without credible cost data. Thus, the small businesses are urged to make use of CVP analysis in their strategic decision-making, especially in cases where the costs structure, sales volumes, and profit margins play a crucial role in the results (Nworie, Okafor, Igwebuike, and Onyali, 2023). Unit variable cost and marginal cost have a direct influence on the overall production costs in manufacturing, thus CVP analysis serves as a great guide to managerial decisions. Companies that fail to consider the break-even analysis or misunderstand the cost functions run a risk of making their decision based on an incomplete or misleading information (Okechukwu, Ekwunife, and Moneke, 2016). According to the economic cost theory, the CVP framework will also help calculate the indicators used in strategic planning, pricing and design of product or service offerings, including those in tourism (Sorin & Carmen, 2010). Its usefulness is also demonstrated by sector-specific applications. As an illustration, the bakery companies can use CVP models to analyze the different operational situations and those that maximize the significant financial measures. The comparative scenario analysis promotes more precise prediction of the short-term performance (Firscu & Branza, 2016). Since businesses exist in a dynamic and complex environment, the operation of decisions taken in science through tools such as CVP minimizes the business risk and maximizes economic efficiency.

To remain competitive, firms must leverage economies of scale, and expanded or dynamic CVP models help achieve this by accounting not only for changes in variable and fixed costs, output levels, and selling prices but also for variations in workload and operational intensity (Guo, 2022). These studies support the following hypothesis:

H$_{1.1}$: There is significant relationship between use of CVP analysis and profit planning decision.

H$_{1.2}$: There is significant relationship between use of CVP analysis and pricing decision.
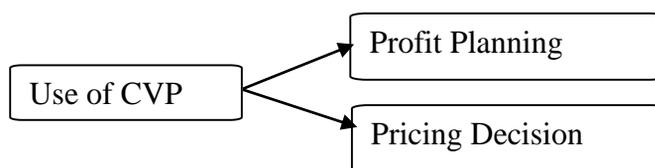
Cost-volume-profit analysis is a way to find out how changes in variable and fixed costs affect a firm's profit. Companies can use CVP to see how many units they need to sell to break even (cover all costs) or reach a certain minimum profit margin. CVP analysis involves using several equations for price, cost, and other variables, which it then plots out on an economic graph. CVP define markup i.e contribution margin (SPPU-VCPU) and explain cost-plus pricing.

Methodology

This study employed a correlational research design to examine the results and assess the relationships among the variables under investigation. The study area was selected in response to the growing concentration of small and medium-sized enterprises in the Kailali District. The population comprised all SMEs formally registered within the district. A five-point Likert scale, ranging from 1 (Strongly

Disagree) to 5 (Strongly Agree), was utilized to measure respondents' perceptions related to the research constructs. A total of 200 questionnaires were distributed, and 193 usable responses were obtained from managers or proprietors of SMEs in Dhangadhi Sub-Metropolitan City using a convenience sampling approach. Cronbach's alpha was applied to assess the reliability and internal consistency of the questionnaire. Descriptive statistics, including frequencies, percentages, means, and standard deviations, were employed to summarize the data. Furthermore, Pearson's correlation coefficient (inter-correlation matrix) and regression analysis were used to determine the relationship between the use of Cost–Volume–Profit analysis and the dependent variables.

Results and Major findings

This chapter provides a systematic presentation and analysis of primary data. Different statistical tools have been used for the study purpose. This chapter is divided into two sections. The first section deals with the presentation and analysis of the primary data and presents the results of the questionnaire survey. The second section covers the analysis of the relationship between use of CVP analysis and dependent variables using correlation analysis. The respondent's profile reveals the personal as well as business characteristic of respondents combined based on such as age group, types of business/firms, business category, capital etc. of Small and Medium Enterprises.

Table 1

Frequency Distribution Statistics

Details		Frequencies	Percentage
Status of Respondent:	Manager	74	38.3%
	Proprietor	119	61.7%
	Total	193	100.0%
Education Qualification of the Respondent:	Graduate	107	55.4%
	Postgraduate	65	33.7%
	Undergraduate	21	10.9%
	Total	193	100.0%
Age of Respondent:	30 to 50 years	81	42.0%
	above 50 years	38	19.7%
	Below 30 years	74	38.3%
	Total	193	100.0%
Firms/ Organization Profile:	Partnership	19	9.8%
	Pvt. Ltd.	59	30.6%
	Sole Proprietorship	115	59.6%
	Total	193	100.0%
Register on	PAN	56	29%
	VAT	137	71%
	Total	193	100.0%
Capital:	5 to 15 Corers	80	41.5%
	Below 5 Corers	113	58.5%
	Total	193	100.0%
No of Employees	Below 20	154	79.8%
	20-50	35	18.1%
	Above 50	4	2.1%

	Total	193	100.0%
Years of Existence	5-10 years	49	25.4%
	Above 10 Years	104	53.9%
	Below 5 years	40	20.7%
	Total	193	100.0%

The 1 frequency table shows the frequency distribution of respondents on their personal as well as business profile. A majority of the respondents (61.7%) are *proprietors*, indicating that most participants are business owners directly involved in decision-making processes. There are 38.3% managers who represent a reasonable proportion between the ownership and managerial point of view, and the number of postgraduates and graduates is substantial (55.4% and 33.7%), which implies a high degree of education among the respondents. The education level below the graduate level is only 10.9%, which means that the respondent population is highly educated. The majority of the respondents are middle aged (30-50 years) 42% with the younger entrepreneurs coming in second (38.3%). The number of respondents above 50 years (19.7) is less, which indicates active integration of young and experienced business professionals. The majority of the firms (59.6%) are sole proprietorship, which implies that there is a preponderance of individually owned firms. There is 30.6 per cent of the ownership of the private limited companies, which implies that the business is somewhat formalized, and the most uncommon are the partnerships (9.8 %). Most firms (71%) are VAT-registered, which means that the companies adhere to taxation standards. The other 29% of them are registered under PAN alone, which might indicate small scale operations or informal business status. The share of small and medium enterprises is high because most companies (58.5%) work on a capital of less than 5 crore. About 41.5% are between 5-15 crores capital which is a medium scale venture. Most businesses are micro and small in nature with a huge majority (79.8) of firms having fewer than 20 workers. Smaller-scale operations are represented by limited representation of large-scale operations of respondents (only 2.1% of them have over 50 employees). Over 53.9% of the firms are operating over 10 years, indicating that the firm is stable and experienced in doing business. The sample has a mix of established and young businesses with an average of 20.7% relatively new (less than 5 years).

Figure 1

Frequency Distribution
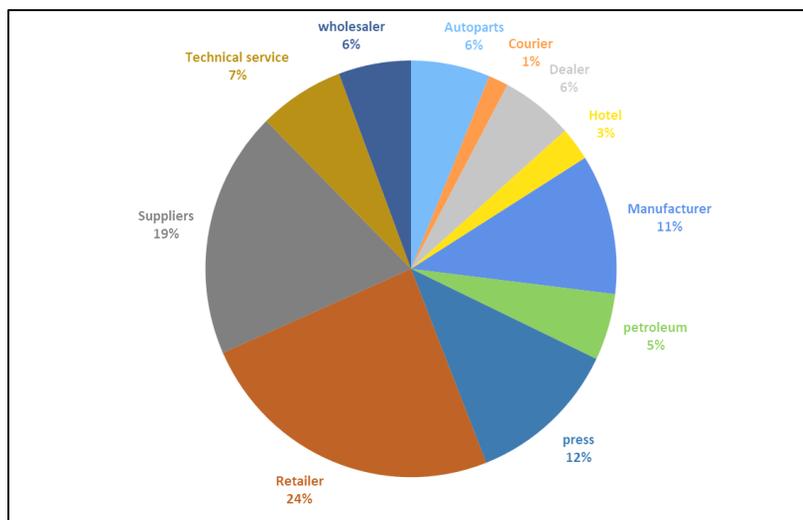
The figure above is an exemplification of a heterogeneous structure of SMEs that are regulated within the Kailali District and have a broad spectrum of businesses. The retail sector has got the biggest portion of 24% which means that trade and distribution business comprise the core of the economy of the district and reveals the significance of small-scale retailing of local markets. At 19% of SMEs, there is a strong demand in terms of supply chain and material distribution, and the press sector is 12% indicating increased demand of printing and communication services. The manufacturing firms constitute 11% of the total and this portrays that there are industrial activities which are limited in comparison to the trade and the services. The services of technical maintenance (7%) and auto parts enterprises (6%) indicate the increase of need in maintenance and special help in the district. The other moderate ones are dealers (6%), and wholesalers (6%), which highlights the suitability of the distribution-driven businesses. Petroleum businesses (5%) serve essential energy demands, whereas the hotel (3%) and courier (1%) sectors have minimal representation in the sample data.

Table 2

Reliability Statistics

Cronbach's Alpha	Cronbach's Alpha Based on Standardized Items	N of Items
.910	.898	15

Table 2 represents; the internal consistency of the research instrument was evaluated using **Cronbach's Alpha**. The analysis yielded a **Cronbach's Alpha value of 0.910**, while the **Cronbach's Alpha based on standardized items** was **0.898** for a total of **15 items** signifies that the measurement items are highly consistent and reliable in assessing the intended construct.

Table 3

Result of question: use of CVP on managerial decision-making process

	Mean	Result
1. CVP1	4.54	Accept
2. CVP2	3.91	Accept
3. CVP3	3.95	Accept
4. CVP4	3.65	Accept
5. CVP5	3.87	Accept
Valid N (listwise)	193	

According to the table 3 above, mean score that is greater than 3.0 implies that the statement in the questionnaire is generally accepted on average. More number of the respondents agreed that there is practice of CVP analysis on managerial decision-making process in small and medium scale enterprises in Kailali district.

Table 4

Result of question 2: use of CVP analysis on profit planning (PP) decision

	Mean	Result
1. PP1	4.58	Accept
2. PP2	4.35	Accept
3. PP3	3.96	Accept

4. PP4	3.43	Accept
5. PP5	3.94	Accept
Valid N (listwise)	193	

According to the table 4, The results indicate that respondents generally agree that the **use of CVP analysis contributes positively to profit planning decisions**. All items have mean values above the neutral point of 3.0, ranging from **3.43 to 4.58**, showing favorable perceptions across respondents. Overall, the findings suggest that **CVP analysis plays a significant role in improving profit planning decisions among SMEs**, reinforcing its importance as a managerial tool.

Table 5

Result of question 3: use of CVP analysis improves pricing decision (PD).

	Mean	Result
1. PD1	4.32	Accept
2. PD2	4.53	Accept
3. PD3	4.45	Accept
4. PD4	3.87	Accept
5. PD5	3.32	Accept
Valid N (listwise)	193	

According to above table 5, the results show that respondents generally agree that the **use of CVP analysis improves pricing decisions**, as all mean values are greater than 3.0. The mean scores range from **3.32 to 4.53**, indicating a positive perception across all five items. Overall, the findings confirm that respondents believe **CVP analysis plays an important role in enhancing pricing decisions** among SMEs.

Hence, **H1 is accepted:** Small and Medium Enterprises are practicing CVP analysis on their managerial decision-making process.

Table 6

Overall Descriptive Statistics

	N	Minimum	Maximum	Mean		Std. Deviation	Variance
	Statistic	Statistic	Statistic	Statistic	Std. Error	Statistic	Statistic
Applying CVP	193	2.80	4.80	3.9834	.03924	.54518	.297
Profit Planning (PP)	193	2.80	5.00	4.0518	.04767	.66223	.439
Pricing Decision (PD)	193	2.60	5.00	4.0984	.04670	.64875	.421
Valid N (listwise)	193						

The general descriptive statistics give a positive perception of CVP analysis and its applications in management by respondents. The average scores of the three constructs of Applying CVP (M = 3.98, SD = 0.55), Profit Planning (M = 4.05, SD = 0.66), and Pricing Decision (M = 4.10, SD = 0.65) lie above the neutral mark which indicates that results are strongly supported that CVP analysis is of significant use in managerial decision-making. The low standard deviations of variables imply uniformity in the responses of the respondents, which imply that there is a common opinion among the respondents. Overall, these results indicate that CVP analysis has been commonly accepted as an efficient instrument of improving the profitability and pricing efficiency in the SMEs.

Table 7

Correlations Coefficient

		Applying CVP	Profit Planning	Pricing Decision
Applying CVP	Pearson Correlation	1	.829**	.787**
	Sig. (2-tailed)		.000	.000
Profit Planning	Pearson Correlation	.829**	1	.837**
	Sig. (2-tailed)	.000		.000
Pricing Decision	Pearson Correlation	.787**	.837**	1
	Sig. (2-tailed)	.000	.000	

**. Correlation is significant at the 0.05 level (2-tailed).

b. Listwise N=193

The results of Pearson correlation show that there exist strong, positive, and statistically significant relationships between the key variables of the study. The relationship between the applications of CVP and Profit Planning (r = 0.829) and Pricing Decision (r = 0.787) is highly correlated, which indicates that the systematic application of CVP analysis is strongly linked with profit planning and Pricing Decision. Profit Planning, on the same note, shows a high correlation with Pricing Decision (r = 0.837) and that is, more efficient profit planning is closely associated with making better pricing decisions. The value of the significance (p = 0.000) in all the correlations supports the fact that the relationships are very strong. The findings, in general, reveal that the CVP application is not only closely intertwined with key financial decision-making in SMEs, but it is also a strategic factor that enhances the effectiveness of managers.

Table 8

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics	
					R Square Change	Sig. F Change
1	.846ª	.716	.713	.29211	.716	.000

a. Predictors: (Constant), Pricing Decision, Profit Planning

The model summary in Table 8 presents there is a significant and statistically significant correlation between the independent variables (Pricing Decision and Profit Planning) and the dependent variable. The multiple correlation coefficient (R) of 0.846 shows that there is a positive association of high strength between the observed and predicted values of the dependent variable. The **coefficient of determination (R^2)**, valued at **0.716**, suggests that approximately **71.6% of the variation** in the dependent variable is explained by the model. The value of significance (**p < 0.000**) demonstrate that the regression model is highly significant, confirming that **pricing decision** and **profit planning** jointly have a substantial influence on variations in the dependent variable. The remaining **28.4%** of the variation is attributed to other factors not captured in the model, suggesting that additional variables may also affect decision-making processes in **small and medium-sized enterprises**.

Hence

$H_{1.1:}$ is Accepted, there is significant relationship between use of CVP analysis and profit planning decision.

$H_{1.2:}$ is accepted, there is significant relationship between use of CVP analysis and pricing decision.

Conclusion, Discussion and Implication

Discussion and Conclusion

The relationship between cost, volume and profit are related to each other's. CVP is a management accounting tools widely used in production and manufacturing firms for decision making process. Decision-making process is enhanced when appropriate models are used in providing information to increases the probabilities that managers make the best choice out of many alternatives. This is why managers therefore use Cost-Volume-Profit analysis as a tool to understand the relationships between costs, prices, volume, and profits.

The results of this study provide strong empirical evidence supporting the reliability, consistency, and statistical significance of the relationships among **Cost-Volume-Profit analysis**, **profit planning**, and **pricing decision-making** within small and medium-sized enterprises in Kailali dis**trict consistent with the results of previous research.** Descriptive analyses revealed that respondents demonstrated a **positive perception** of CVP analysis and its managerial applications. The findings show that respondents rated the use of CVP analysis quite highly. The average scores for Applying CVP (3.98), Profit Planning (4.05), and Pricing Decision (4.10) were all clearly above the neutral point of 3.0. In addition, the relatively small standard deviations indicate that the responses were closely grouped together, reflecting a consistent level of agreement among participants. The item-level results further reveal that most SMEs regularly rely on CVP analysis as a practical management tool. They acknowledge its value in supporting decisions related to profit planning and setting appropriate prices.

The correlation results demonstrate strong and positive relationships among the three variables. Applying CVP shows a high correlation with Profit Planning (r = 0.829) and with Pricing Decision (r = 0.787). In the same way, Profit Planning is strongly associated with Pricing Decision (r = 0.837) with significance value p=0.000. These results suggest that when SMEs make effective use of CVP analysis, it strengthens their ability to plan profits carefully and make sound pricing decisions. planning and pricing decisions, underscoring its strategic importance in managerial effectiveness and financial performance of SMEs. The regression results show that Profit Planning and Pricing Decision together account for 71.6% of the variation in Applying CVP analysis ($R^2 = 0.716$; Adjusted $R^2 = 0.713$). The multiple correlation value (R = 0.846) reflects a strong positive link between the predicted outcomes and the actual observations. This means the model explains a substantial portion of the changes in CVP application. However, 28.4% of the variation remains unexplained, indicating that other factors not examined in this study may also influence the adoption and use of CVP analysis. Future research could consider these additional factors to provide a broader understanding.

Overall, the findings confirm that CVP analysis plays an important role in managerial decision-making within small and medium-sized enterprises. Its use is closely connected to profit planning and pricing decisions. The strong relationships identified, along with the high level of variance explained by the model, suggest that SMEs that make proper use of CVP analysis are in a better position to plan profits effectively and set prices that support improved financial performance. The findings suggest that managerial decisions concerning pricing and profit planning play a critical role in influencing the adoption and effective use of CVP techniques for decision-making purposes within SMEs to enhance financial performance and long-term sustainability.

Implication of this study

This research helpful to the managers or proprietors of SMEs for applying CVP model in profit planning and pricing decision. Small scale businesses should deploy cost volume-profit analysis in making vital and reasonable decision associated with cost, volume and profit implications. Further research will be conducted on use of CVP analysis on policy formulation, planning, control and other dimension as well as carried on specialized nature of business such as manufacturing, agro-based, trading etc.

Limitations of the study

Limitations of the study signify constraints or weaknesses within a research design that may influence outcomes and conclusions of the research. Some limitations of this study are:

- ➢ This study focuses only profit planning and pricing decision by applying CVP analysis model. Other dimensions are excluded.
- ➢ Sample drained from Dhangadhi sub metropolitan city.
- ➢ Data analyzed based on data obtained from respondents considered for research purpose.
- ➢ The study conducted considering small and medium enterprises only.

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