Chapter 13
Cost Managerial Analysis to Prevent Arbitrary Cost Reductions in Times of Significant Crisis

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ABSTRACT

This chapter presents an innovative cost categorization model that can help understand costs in terms of their causes. The model incorporates categories that are now scattered in the literature, develops the categories more broadly, and connects with management control tools to monitor these costs. The model was applied in a Brazilian dairy company and made it possible for managers to discuss strategic aspects, hitherto not addressed in routine discussions. The model contributes to the literature by filling a gap in textbooks and contributes to practice by providing a cost categorization model, enabling the controller and finance professional to avoid arbitrary cost reductions, so common in times of crisis. However, they hinder the long-term performance of companies.

INTRODUCTION

Cost management controls are routinely used for monitoring the operations, including activities, expenses, resources, product margins, and customer profitability, and are useful tools to monitor the drivers of

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organizational performance (Cadez and Guilding, 2008; Fish, Miller & Pernsteiner, 2017; Kasanen et al., 1993).

In times of severe crisis, controlling and finance professionals are highly demanded for timely implementation of strategies aiming at cost efficiency, which is the most proficuous strategy at such times (Schoenberg, Collier & Bowman, 2013). Such strategies include various actions aiming to obtain "fast gains" to stabilize the short-run financial position so that more complex strategies can be prepared.

However, as in any strategy, the search for cost efficiency involves risks (Schoenberg et al., 2013). One of them is that cost-cutting actions may reduce the employees' commitment, and such a strategy cannot last much time. Otherwise, it can jeopardize the assets or resources necessary to sustain the core focus of the company. R&D, for instance, is one of the first areas to be cut down; however, such action can undermine the sustainability of the company for the future (Schoenberg et al., 2013). Headcount reduction is an easy and obvious way to cut costs in hard times, but it can erode both employee and eventually customer loyalty in the long run (Tikici, Omay, Derin, Seçkind, & Cüreoğlu, 2011). Such alerts can also be seen in the business literature, such as the situation that happened in 2015 in BRF, a Brazilian multinational food company. More than 80 senior executives and managers were dismissed, and many were hired by the main competitor so that "all business intelligence was, all of a sudden, in the competitor's hands" (Samor, 2018).

The traditional definitions and classifications used in cost management are the common expressions such as direct and indirect, fixed or variable and period or product costs. Atkinson, Banker, Kaplan and Young (2000) also explain the classification of costs based on function: manufacturing costs (direct and indirect), distribution costs, selling costs and so on which are commonly used in the financial statements. Horngren, Sundem and Strattion (2002), on the other hand, start his book with the introduction to cost behavior explaining how the cost drivers affect the cost behavior. They highlighted the importance of the cost drivers, which is defined as any output measure that causes costs, that is, causes the use of costly resources (Horngren et al., 2002). However, they also use the tradition categories of the costs as usually applied in general cost accounting.

Although Strategic Management Accounting SMA (Cadez & Guilding, 2008; Nixon & Burns, 2012) focuses on the costs under competitive strategies elaboration, a consolidated model of different cost perspectives is not known, mainly about what factors cause costs. SMA emphasizes the different tools used to measure the costs of products, customers, and activities.

Shank and Govindarajan (1997) presented two cost drivers, the structural and the transactional drivers, which allow identifying the causes of the costs. However, no framework was found comprising such costs with other aspects such as the strategic costs (Kaplan & Norton, 2008) and the so-called "discretionary costs." Our framework classifies the costs into four categories: structural, transactional, strategic, and discretionary costs. We also recommend the management control tools that can be used to monitor and influence the causes of the costs. Therefore, our framework focus is on identifying the causes and analyzing the performance impacts in the short and long run.

By presenting such a framework, our main objective is to contribute to the practitioners involved in the challenging task of searching for operational efficiency, trying to have information that can support more assertive decisions and preserve the company sustainability in the short and long horizons. Thus we expect to answer the call from Davila and Oyon (2008) so that the research can have a relevant impact on practice and contribute to the dissemination of the concepts of Strategic Cost Management so that they can be incorporated in the textbooks (Seal, 2010).