

BEYOND TRADITIONAL COST REPORTING - A WAKEUP CALL FOR CMAs IN EMPLOYMENT

Abstract

The need for un-learning re-learning the cost management competencies have emerged as a major game changer for a CMA in employment. The emergence of Cross Functional Teams in Cost Management in leading Companies, have shifted the CMA from under the Financial Reporting function to reporting directly to the Business Head. The cost reporting focus has also shifted to Business Strategy Driven from the Historical (Does) cost structure. The process owners need to have multi-dimensional cost sheets, at different levels, tuned to their needs, which talk in their (non-financial) language, so that they can take action then and there itself in case of deviations from norms. They also require a Real Time (Would) and Futuristic/Target (Should) Cost, for decisions on the go. The TCM methodology (© CII-TCM Division) has developed excellent TCM Architecture based on TCM Maturity Model Level 5 Companies' best practices. It provides a golden opportunity to the CMAs in employment to swim in the Blue Ocean rather than compete in a blood bath in the Red Ocean of Financial Reporting. The CII-ICMAI MoU can be a major enabler in this learning exercise.

Introduction - The Need for a Paradigm Shift:

As a profession, we seem to have been ensconced ourselves into the cocoon of traditional cost accounting and reporting, which seems to have outlived its usefulness in providing relevant information to the internal stakeholders, on whose decisions the enterprise performance depends. The traditional cost accounting



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and reporting has resigned itself to provide historical cost for inventory valuation and for the limited purpose of Financial Reporting. Although in the past the decision makers reluctantly used to accept the cost information spewed out by the traditional system, at present they seem to have junked it and have started using the “True Costs” as is being adopted by Continuous Improvement Solutions such as Kaizen, TPM, Target Cost and similar initiatives. They have found that the cost as reported by the traditional cost systems, based on EBITDA, have little use to them, and in many cases, they have

also refused to accept those reports as relevant to them. These have been made possible, with the humongous development of IT, GI, AI and BI driven systems, which provide the information and the trend analysis for decision making.

The major challenge the CMA profession is going to face in coming years will be an existential one. With the other arms of the business viz., production, procuring, supply chain, marketing, logistics, HR and administration are progressing in giant leaps taking advantage of transformational IT technology, our profession is yet to take the baby steps in this direction. The sad part of it is that the demand pull from the other arms of business on IT driven strategic cost management, will happen faster than ever before. If they are not getting the service they want, they will naturally shift to other competent professionals, who can deliver and whose tribe is growing, thanks to the entry of CIMA, IMA, IIMs and other leading management institutions in this field. These neo professionals would have already have one of the multidisciplinary qualifications in any of the fields associated with the business, already mentioned in this abstract. This article deals with the practical challenges faced by the CMA profession in employment, the “as is where is” situation and process of unlearning and relearning to emerge as IT driven tech savvy future proof CMA, who has mastered the (new) Management Accounting domain.

The Evolution of (New) Management Accounting:

It is time to recognise that a separate stream of (New) Management Accounting exists, which clearly can be defined as “creating value and ensuring sustainable success by contributing to sound decisions, through comprehensive analysis and provision of information that enables and organisations to plan, implement and control the execution of their strategy” (Ref: CIMA-UK in various publications).

Integration of Cost and Management Accounting:

Although Cost Accounting and Management Accounting exist as separate streams, the former based on history and the later one based on current and future, there has been a tendency to combine into a single terminology “cost and management accounting”, more for convenience rather than on conceptual basis. The professionals also find it convenient to lead themselves

to believe that once they are cost accountants, they also become Management Accountants, which is far from truth. The cost accounting and management accounting are like two rails in a railway line. Without any one of them, the line is useless. Like the railway line they run parallel to each other, one supporting the other and vice versa, providing a smooth passage to the business train. Obviously, they complement each other.

Challenges in Cost Reporting:

We saw in the first para of this article that the decision makers have started using their own True Cost calculations for decision making. The Traditional Cost System has not realised that the process is the owner of costs and have instead adopted the “average depth of the river” concept used in financial reporting for the cost information also. It was relevant in the distant past, when the IT systems were not that developed, and spread sheet was the God of cost computing. Even now, the Cost Module which is a part of the Finance Module of ERP aims at providing the “COGS” information mainly for financial reporting purposes. It has only transferred the outdated cost system to the ERP. Even now, many entities blindly believe that having a COGS deliverable is the end of cost reporting. But they do not understand that with the availability of COPA (Costing and Profitability Analysis) module, in the same ERP systems, they are also capable of real time and predictive cost reporting, albeit with external dedicated software support. Although the Traditional Cost system has to follow the process view, using cost objects, cost drivers, cause and effect relationships etc., for cost computing, they do not get reflected in the cost reporting.

Another factor which contributed to the juxtaposition of cost accounting with management accounting is the reason that cost accounting has always been within the financial accounting domain and the final presentation is dictated by the Financial Reporting concepts which are only in financial terms. The terminology such as Process View, Non-Financial Parameters, Cost Object, Cost Driver, Cause and effect analysis, efficiency, effectiveness etc., does not find any mention in Financial Accounting, but predominantly used in Cost Accounting system, is conveniently thrown by way side, when the final cost report is presented to the management (at all levels) morphing the Financing Reporting system.

The Management Accounting on the other hand

ensures “comprehensive analysis and provision of information” which is not restricted only to the financial terms. For example, when cost accounting system is based on “process view”, the process owners seek the results in terms of what they understand from their processes, Viz., Cost impact of a) process quality, b) process parameters, c) resource consumption trends, and d) deviation between planned and actual performance in terms of process metrics. The continuous improvement tools (CI Tools), to which they are exposed to makes them look at the deviations on real time and make course corrections, as and when they occur or immediately thereafter. The aim is prevention rather than cure. When they are handed down a cost deviation sheet, which talks about price variance, mix variance, volume variance, after a time gap, that also only in cost terms, they simply junk it. The CI Tools such as Kaizen, Total Productive Maintenance (TPM), Six Sigma, Lean Manufacturing, 5S Methodology, Value Stream Mapping (VSM), Poka-Yoke (Error Proofing), Kanban, Root Cause Analysis (RCA), PDCA (Plan-Do-Check-Act) Cycle, Gemba Walks, Just-in-Time (JIT), Theory of Constraints (TOC), Failure Mode and Effects Analysis (FMEA) and Statistical Process Control (SPC), provide more detailed information addressing the cost drivers, rather than the costs, making the output from Traditional Cost System redundant.

The Top Management at the Board Level look only from the macro point of view, which can be presented only in a summarised form in financial terms, which are sufficient enough to give them a ball-park view, which is what, is required from them. The same format when used across the organisation at all levels, leave the process owners perplexed and at the receiving end of the stick, on matters on which they don't have a clue about. The winner in this exercise is the CFO, who uses the fault-finding aspect of his audit qualifications, rather than the value creating aspect of management accounting.

The Role of Technology in Transforming Cost Reporting:

Business world has moved far beyond what has been provided in the earlier paragraphs. The tectonic shift in data analysis, computing and reporting have built up huge capabilities, which are able process huge volumes of data and convert them into meaningful information in microseconds. The GI (Generative Intelligence), AI

(Artificial Intelligence) and BI (Business Intelligence) developments have started replacing the RPA tools, which were the state of art till yesterday and now being thrown to the IT dust bin. The key capabilities of the GI, AI and BI, which learn from the past have started to quickly analyse the trends and provide a peep into the future, which is what is required by today's Business Leadership. We are seeing these capabilities being adopted at very fast pace in manufacturing, service and marketing domains. We also see the same in our day-to-day life, when we use the e-tailers, travel websites and healthcare service providers.

The best talent possessed by any professional stream is to convert the threats into opportunities. We have seen this happening amongst the medical fraternity, where even Super Seniors have become masters in using IT systems and Robotic advancements, enabling increasing the success rate of curing critical illness or complicated procedures. The healthcare providers look not only at real time analytical information, but also reach out to patients on a predictive mode.

The Path Forward:

While the need for a major transformation has been highlighted and justified so far, what are the means and mechanisms through which it can be achieved are to be identified. For this we have to revisit the definition of Management Accounting cited earlier, specifically the portion which talks about “planning, implementing and controlling the execution of business strategy”. The key terminology in the sentence is the “Strategy”, which is always about current and future. Therefore, the Management Accounting domain has to be integrated into the Cost Accounting System with a capability to provide what is “Current” and “Future”, in a systematic way. The GI, AI and BI capabilities, which were talked about earlier, are valued mainly for their real time and predictive analysis.

There is a common terminology “GOOB” used amongst the marketing professionals as to how to achieve marketing success, meaning “Get Out Of the Building”. Using the same analogy, “GOOF” should be terminology, the Management Accounting professionals should adopt, meaning “Get Out Of the Finance”. The developments which have taken place in various streams of businesses, whether in procurement, operations, quality, maintenance, logistics, marketing etc., are

phenomenal. For Eg, Sales Force App in marketing have created wonders in establishing the last mile connect with the customer on a real time basis. Similarly, the Industry 4.0 involving Real Time Data Acquisition (IOT), Connected factory, ML, Collaborative Robots (Cobots), Additive Manufacturing (3D Printing), to name a few, etc., have transformed the manufacturing operations. All these developments seem to have missed the bus in the finance stream, especially the cost accounting fraternity, who are in employment. It looks like they are more after going after the Finance Function, which have developed purely into a Financial Reporting System catering to shareholders and regulators. A big pool of users is waiting for the transformation to happen in the cost reporting system, which will relieve them of their “back of the envelope” approach and provide meaningful real time cost information, which can also guide them in providing predictive analysis as a part of the cost management system.

The Role of the ICAI-CII MOU:

Having said all these, what is the road map for reaching the indicated status, by the CMA profession. Readers may have noticed that ICAI has entered into an MOU with CII-TCM Division of Confederation of Indian Industry, in the recently held (Dec 2023) CII Cost Congress at Hyderabad. The initiative has got more than getting “Photo-Opps” on the occasion. Total Cost Management Division, which is one of the arms of Confederation of Indian Industry was started in 1997 and has evolved into a leading evaluator of Cost Competitiveness with connects with Top Corporate Groups and large no. of business process professionals, who are manning CXO positions in these corporates.

- ⦿ The Main Purpose of MoU between CII & ICAI as outlined in the MoU is
 - ▲ Improve industry connect, through members in employment.
 - ▲ Upskilling members, improve members connect, improve ‘TCM’ footprint in respective industries.
 - ▲ Enhance value to industry through driving cost competitiveness.

The Total Cost Management (TCM) Framework:

- ⦿ The Total Cost Management (TCM) { © CII-TCM

Division} Framework looks at the following aspects of the business.

- ▲ Strategically designed ‘competitive cost structure’ in a competitive business scenario
 - ▲ Cost structure reflecting business process
 - ▲ Enabling sustained cost advantage in a context of stressed economy and volatile global context
 - ▲ Create a blue-print for cost strategy in business
 - ▲ Optimized product and / or customer portfolio
 - ▲ Futuristic cost structure
- ⦿ The TCM Maturity Model, which is the Copyright of CII TCM Division, has assessed around 150 Companies, and fitted them into various Levels starting from Level 1 to Level 5, the last one representing exemplary cost management practices, which have been demonstrated to improve their bottom line, substantially.
 - ⦿ The TCM Maturity Model is assessed on 8 Platforms, starting with business strategy and followed by Marketing, Procurement, Logistics, Operations, NPD/R&D, ERM, ESG, IT, Costing and Finance. The aim to evaluate the Internal Cost Reporting system and its effectiveness to provide operational and strategic cost information to the business process owners on a near real time basis to enable informed decisions, for the present and future.
 - ⦿ The entire strategic direction to the TCM movement is provided by the TCM National Committee, headed by the CEO of one of the leading corporates, consisting of CEOs of leading business entities, Global Consulting Agency, Institutes of Management and assisted by two Mentors, including the author of this article, and CMA professional experts, who are drawn from the industry and consulting.
 - ⦿ A lot of effort has gone into the TCM framework, right from 1997 by CII, and has evolved into many initiatives such as Cost Congress, Training Workshops, Sectoral Handbook on TCM, TCM maturity model assessment, Training workshops etc.,
 - ⦿ The TCM addresses the industry professionals

who look at the cost and profitability from a multi-dimensional perspective. It helps the business process owners to understand and adopt the key TCM Principles given below:

- ▲ Resource Focus
- ▲ Strategic Context
- ▲ Future Outlook
- ▲ Integration with other Business Excellence initiatives
- ▲ Learning and Innovation
- ▲ Enterprise-wide involvement
- ▲ Aligned to business strategy.
- ▲ Process Orientation
- ▲ Performance Orientation and
- ▲ IT Integration

Leading the Change:

The Companies who have reached the highest level of maturity.



The Level 5 Companies who have reached the highest level of maturity (TCM Maturity Model) are in the forefront of changing the Cost and Management system structure through the CII-TCM division, so that the benefits accrued to them can be passed on to the Industry Members. They have developed a Cost Management Architecture, which delivers the TCM Principles outlined above. They have positioned their Cost Management Teams as a part of Cross Functional Teams, who work alongside the process owners such as strategy, procurement, operations, operations support, R&D, Quality, Marketing, Logistics, IT to name a few. The ongoing operational as well as strategic initiatives are discussed and the deliverables from the Cost Management System are embedded in the system,

wherever possible through IT enablement.

This makes it possible to have template which can be fine-tuned and can be customised as per the focus and requirements of the organisation based on their business models.

Conclusion:

It is time that the CMA professionals (including non-CMAs who are in costing domain), wake up to the reality of the demands that are beneath the surface from the internal stakeholders who are part of their organisation. The need for the present and future is to get released from under the Financial Reporting bandwagon and emerge into a value adding and value enhancing (real) Cost and Management Accounting domain. The traditional roles which are predominant in Financial Reporting like taxation (both Direct and Indirect) routines are slowly being evolved into automated systems, with no role being played by Finance Professionals. Even in practice, it has become a Red Ocean, where a blood bath is happening between competing finance professionals, whatever may be their qualifications. A Blue Ocean of Strategy focused Cost Management, is waiting in the wings to be taken over by CMA professionals with relevant training. The mute question is whether they will take the call?

The Institute being in the pole position of having 90% of their members on role in employment can provide a breakthrough opportunity, at the same time, re-establishing its role as a driver of Contemporary Cost Management Competencies.

In the forthcoming series of articles, we will look at the Contemporary Cost Management systems in depth and look at the links it has with the entire business process. **MA**

References:

1. CIMA-UK -Its various publications.
2. MoU between CII-TCM Division and ICAI.
3. Total Cost Management Framework -Version 0. By CII-TCM Division of Confederation of Indian Industry and Indian Institute of Management – Bengaluru.
4. <https://ciitcm.in/>