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ADOPTION OF CONTEMPORARY COST MANAGEMENT TECHNIQUES FOR BETTER MANAGEMENT OF COSTS

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ABSTRACT
The paper presents the importance and use of modern cost management techniques for better management of costs. This paper describes different ways of working and link between the modern and traditional cost management techniques. The paper as well as explains that the reason of adoption of modern cost management techniques is the failure or the limitations of traditional cost management techniques though different companies are used traditional cost management techniques but due to their limitations now companies are moving to adopt modern cost management techniques. The study also investigates similarities and differences of modern and traditional cost management techniques. It is revealed that various costing techniques and methods are covered under traditional and contemporary cost management techniques but modern cost management techniques are more useful.

KEYWORDS
cost management techniques, management of costs.

INTRODUCTION
The development of today's international markets and the fast spreading use of the internet or computer technology have created a highly competitive and transparent market environment. The present business environment is characterized by global competition, the high rate of automation, environmental and safety issues, short product life-cycle and consumers' need for innovative and high quality products at sound prices. In today's time of fast technological change, strong global and domestic competition, for manufacturing companies especially total cost management is essential to maintain corporate profitability and competitiveness. "In today's environment, nothing is constant or predictable - not market growth, customer demand, product life cycles, the rate of technological change, or the nature of competition" (Hammer & Champy 1993). Today the management mantra for a company is conquer the costs before the costs conquer you and cost refers total cost to the customer. The cost leadership strategy does not suggest compromise in technology, quality or product differentiation. Low costs of product have no advantage, if the customers are not ready to buy the low cost product of company. Hence management of cost must be driven with customer as the focus. The survival triplet in current environment for any company is how to manage the cost of product/service, quality and performance.

COST MANAGEMENT
In recent years the management accounting system has developed in new form to control activities. This new role influences the members of the organization to realize effective cost management to chase every potential cost reduction chance. In literature cost management is defined in different ways. Cost management is used for planning and controlling costs and it has different methods. Monden & Sakurai (1989) stated that some people consider cost management as cost reduction and cost control activities while other as only cost control. Accountancy SA (2009) defined cost management as a "proactive process of identifying causes of costs, with the objectives of managing and minimizing the total costs associated with the production of products and services to customers". Cooper (1996) opined that companies need to refined cost management systems to improve their performance. Horngren et al. (2006) defined cost management as the set of actions that managers take to satisfy customers while continuously reducing and controlling costs. Cooper (1995) defined cost management as the creation of stress to reduce and control costs. Kato (1993) mentioned that in today's ever changing environment cost reduction is good but it should without sacrifice quality, functions and characteristics of the product. Therefore effective cost management requires that managers should enthusiastically look for cost reduction opportunities with the maintenance of product value for the customer's point of view. Furthermore, Cooper (1995) argued that cost management includes all aspects of production and distribution of the product like the supply of purchased parts, design of products and other.

On a basic level cost management is used for two aspects: (1) managerial decision making and (2) productivity improvement. The appropriate costing methods provide right type of information at the right time which helps the managers in decision making and these methods can be used for better productivity also. Cost management is presently one of the main topics of attention in the area of project management. High technology companies which were mainly worried and working with time-based competition now under the highly competitive conditions they are focusing on cost based competition. If companies are aware about new costing methods then costs are still controllable for companies. Cost management is similar to wringing out a wet cloth even when the cloth seems dry. There is also a need to improve project cost control (Nixon1998). Cost management system is like a planning and it is established to attain mainly four goals: (1) measuring cost of consumed resources used in core activities of the organization, (2) elimination of low value added activities and related cost, (3) decide the efficiency and effectiveness of key activities performed in organization and (4) determining value of new activities that pick up future performance of the organization (Lisa 2002).

Cost Management is the area in accounting that deals with methods of costing products and services and it provides managers and higher authority relevant information to planning and control of costs in the short run and in the long run (Horngren et al. 2006). The intention of cost reduction says correct and improve cost management, prevention of wasted and non-effective costs and also prevention of wasting resources not the cutting of improvement costs. Cost management should be involved each stage of a product's life cycle and cost reduction in different stages individually does not direct whole cost reduction of product. Shields & Young (1991) argued that the whole life costs should be the primary focus of cost management in changing market environment. Cost management can be used as a performance measure to facilitate an organization to incorporate change into the quality of product or service (Brimson & Antos 1994). Costs cannot be managed if the origin of cost is not identified or causes of costs should be identified and costs do not simply occur but costs are caused by activities. Langfield et al. (2006) defined cost management, as the improvement of a firm's cost effectiveness by understanding and managing the real causes of cost. However the critical focus of cost management is on costs though it also tries to improve other aspect such as quality and price of product. Drury (2008) said that cost management refers to those actions that managers take to reduce costs and the ideal situation is to take action that can both reduce costs and enhances customer satisfaction. Hilton et al. (2006) defined cost management as a philosophy of seeking increased customer value at a reduced cost, an attitude that all costs are caused by management decisions and a reliable set of techniques that increases value and reduces costs.

Therefore finally cost management can be concluded as a system which involves actions taken by managers to reduce cost, to increase customer's value and managers are aware about the effect of their decisions on the costs. In cost management both financial and nonfinancial information has importance for the success of the company and due to this reason the function of cost accounting and management has extended. Cooper (1995) argued that behavioral and organizational factors such as top management support, sufficient internal resources, training, commitment, motivation etc. influencing the success of cost management systems implementation. Cost management and cost control are sometimes used as similar terms. Drury (2008) stated cost management includes all those actions that are taken by management to reduce costs by studying the cost drivers and suggesting improvements in processes. This helps in process improvements and related cost reductions with customer satisfaction.

According to Drury (2008) cost control denotes the comparison of actual results with the budget or standard, analyzing variances that occur and finally establishing remedial actions to prevent deviations from the set standard. At present the firm's cost management systems must be dynamic to adjust with the quickly changing environment, increasing range of products and manufacturing processes. Now cost management has turned from a traditional role to strategic cost management. Monden & Hamada (1991) pointed out that in keen competition cost management is essential to launch new products at lowest cost which can also meet customers' demands as well as reduce costs of existing products by eliminating wastes.

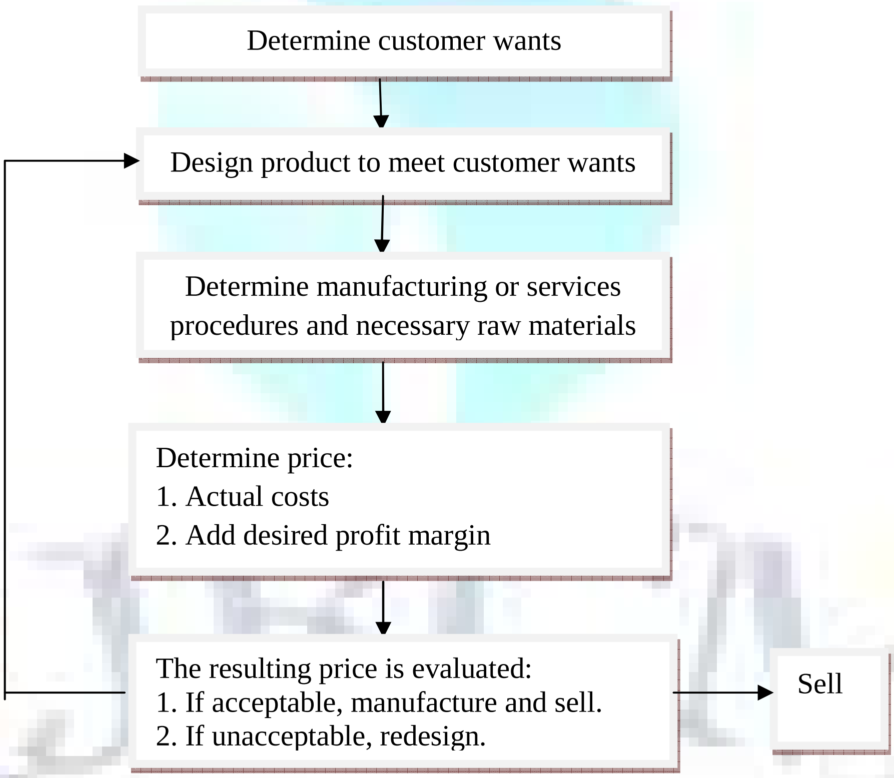
TRADITIONAL COST MANAGEMENT SYSTEMS

Volume-based systems are also known as traditional/conventional costing systems. Traditional costing system was developed in the 1920s (Johnson & Kaplan 1987). In 1920s manufacturing companies were working on mainly labour intensive techniques and production processes were also very simple (Kidd 1994). The overhead cost was allocated on labour basis therefore, a product consuming more overheads cost because single absorption/allocation base was used to allocate overheads cost and it may not be appropriate and this is the key reason that traditional costing systems provide inaccurate product costs. Traditional costing systems perform a poor job of attributing the expenses that do not support adequate allocation of resources to the production (Cooper & Kaplan1988a). In traditional costing total manufacturing cost is the sum of direct materials cost, direct labour cost and direct manufacturing costs and to obtain a full cost estimate including indirect or non-manufacturing overheads and the indirect manufacturing overheads cost for each product were usually distributed through two stage processes. First separate out the indirect cost which is directly used in the manufacturing processes of the concerned product like plant depreciation, supervisors' wages and factory cleaning. Second for overheads cost allocation departments use different factors which are seemed most appropriate as base like direct labour cost base, direct materials cost base or machine hours base for overheads cost allocation which cannot be separated or for common costs.

Traditional costing methods are used to hold only the financial accounting requirements and the costs allocated to a specific product are not causally related to its value. Traditional costing methods focus primarily on lowering product costs.

Traditional cost-based pricing which is illustrated in figure 1.2 is used to determine price of new product when products were long-lived and there was comparatively little competitive markets.

FIGURE 1.2: TRADITIONAL COST-BASED PRICING FOR A NEW PRODUCT



Source: Adapted from (Morse et al. 1996)

FAILURE / LIMITATIONS OF TRADITIONAL COST MANAGEMENT SYSTEMS

Traditional cost-accounting approaches have been used by manufacturers well over a long period but due to the changing nature of the modern manufacturing environment traditional cost-accounting approaches are no longer think suitable (Gagne & Discenza 1993). Conventional cost management and cost plus pricing strategies are not very effective in current environment (Castellano & Young 2003). In the same way Monden & Lee (1993) said that standard cost systems are being used as the primary cost control measure for the last several decades but now this seems not much effective in present market environment. In today's competitive environment such traditional cost-based pricing methods may not be successful. Morse et al. (1996) argued that fierce competitive pressures have reduced the lifecycle of products and the time to bring new products to the market. Morse et al. (1996) outlined that the cost-plus pricing methods do not involve suppliers in the early stages of product design even after the final product is designed, therefore the failure to involve suppliers causes of delays and it reduce possibilities of low cost production. Druker (2005) used the cost-driven pricing as a "deadly business sin" and stated that most American and European companies were using this system and often they dropped a perfectly good product because it was priced incorrectly. Morse et al. (1996) said that cost-based

prices are no longer suitable in today's competitive environment. Several old management methods and techniques are useful to improve one or more functions or processes in an industry but the old methods do not take the complete life cycle of product into consideration.
Traditional cost systems provide distorted information and too late to be used in reducing cost. Conventionally, the cost of products was constructed for balance sheet purposes and for information not for improvement. In traditional costing methods companies firstly develop products then calculate the product's costs and after this add a profit margin to determine sale price but this price can be accepted or not in market. These limitations of traditional costing methods demanded the implementation of new management accounting systems that focuses on entire value and profitability of the product (Maskell & Baggaley 2002). Cooper & Kaplan (1987) revealed that the main limitations of traditional costing systems occur from the use of volume related bases and traditional costing systems were appropriate decades ago for a less competitive environment considerably different from that of today. The major criticism of traditional costing systems is the distortion costing information which is not according changes in production technology. Cooper & Kaplan (1988) highlighted a number of factors that root the distortions of information resulting from the use of traditional costing systems and these factors are production volume diversity, complexity diversity, size diversity, material diversity and set-up diversity. Mishra & Vaysman (2001) stated that the implementations of traditional costing systems are less expensive though these systems provide distortions in product costing. Managers if take decisions about the product-mix, cost control, pricing and other decisions according the distorted information then these may lead long-run losses for company. Kaplan (1988) pointed out some reasons of traditional costing systems failure these are: (1) lack of feedback about the use of resources and operational control (2) measurement difficulty of individual product costs and profits (3) not realization of competitive advantages, (4) depends on outside competitors and suppliers (5) not draw attention to those activities which generate the extra overhead cost and (6) weak control on activities.
Bastl et al. (2010) stated that traditional costing practices are unable to work in an inter-organizational focus and not allied costing information. Drury (1996) highlighted the main criticisms of conventional management accounting practice as: (1) these practices do not meet the requirements of today's manufacturing and competitive environment, (2) traditional costing systems give misleading information for decision-making and (3) conventional management accounting focuses entirely on internal activities and give little attention to the external environment. Johnsons & Kaplan (1987) stated that traditional management accounting systems turn out ambiguous management information and the traditional bases of cost allocation become irrelevant in current environment. Many firms have realized that traditional costing systems like standard costing are inadequate to identify appropriate costs in manufacturing processes and now manufacturing firms are moving to adopt target costing and kaizen costing as an emerging strategic management tools. The old cost management systems fail to provide correct and quickly product costs information. Traditional cost systems have been severely criticized by different authors since the late 1980s. Finally the main drawbacks of traditional cost systems is that they provide inappropriate measures for indirect or overhead costs allocation and leading distorted product costs information.

TRADITIONAL COST MANAGEMENT SYSTEMS VS. NEW COST MANAGEMENT SYSTEMS

According to Drury (2008), during 1980s, traditional management accounting practices were criticized and new approaches that are more adjustable with today's business environment are advocated. The center of attention of the traditional management accounting practices was on just comparing actual results with fixed standard (typically a budget), to identifying and analyzing variances and taking corrective action to ensure that upcoming outcomes conformed to budgeted outcomes. Therefore the traditional management practices were based in the preserving of the standard or status quo and the ways of performing existing activities were not changed. The stress of the traditional management accounting practices was on cost control/containment rather than cost reduction while new approaches to cost management focus on cost reduction than cost containment (Drury 2008). Traditionally, manufacturers were worried only about the cost incurred up to production time and not much attention was shown for the cost incur after production. Intensified competition of present market along with the high technology have been increased the responsibility of the manufacturers. New cost management systems become more important as manufacturers become more conscious about both environmental and customer service costs. Traditional management accounting systems were designed to use an era in which people worked without technology.
Now in cost management systems, costs become a device for continuous improvement and it is used by management to achieve a competitive advantage. Traditional cost management methods focus on cost containment (control) which tries to sustain previous condition while modern cost management methods focus on cost reduction and try to lower costs to pre-established levels. The traditional management accounting practices are criticized in the literature though these are used even in today's environment by many manufacturing companies but big enterprise are now moving towards new management accounting systems for cost management. Traditional costing systems have a tendency to control the work of employees, not learning effect on the employees (Kaplan & Cooper 1998). The new methods of cost accounting help to remove this problem by using financial information with non-financial information (Kaplan & Cooper 1998).
According to Langfield et al. (2006) the major differences between the concepts of traditional and modern cost management systems are shown in table 1.2.

TABLE 1.2: TRADITIONAL COST MANAGEMENT SYSTEMS VS. NEW COST MANAGEMENT SYSTEMS

Traditional cost management systems	Modern cost management systems
• Manager's control costs through predetermined goal, with the use of budgeted or standard cost and these systems mainly focus the cost results or outcomes. • The major focus is on controlling costs of products in the organization. • Managers control costs through reporting results on the basis of the functional areas like production, marketing and administration.	• Reduces costs by finding wasted resources and eliminating these wastes through finding the factors that force costs. • The major focus is on controlling costs and achieving better quality or value for the customer. • Recognizes the customers' requirements which are met by processes in cross functional areas.

Source: Adapted from Langfield et al. (2006).

Due to the criticisms of traditional methods changes or innovation take place in management accounting. The innovations in management accounting offer more significant, accurate and appropriate information for decisions within a proper time period to resolve the problems of traditional management accounting techniques (Preda & Watts 2004). Hence managers are encouraged to use the new costing systems to avoid wrong decisions regarding products. As global competition has enlarged it has increased pressure on firms to follow excellence in terms of quality and cost, and with the use of outdated costing systems it is difficult to attain excellence in quality and cost. However, literature states that the conventional cost management focuses more on running processes and less on innovations. Nevertheless, later due to the better awareness of target costing in the 1990s (in the Western world), cost management give more attention on innovation processes and new product development (Cooper & Slagmulder 1997).

ADOPTION OF MODERN / STRATEGIC COST MANAGEMENT

Cost management is often associated with cost reduction programs. However, the endeavors of cost management are to remove costs that stand no longtime potential of success (Voigt & Sturm 2001). To keep costs down today the competitive environment demands the use of sophisticated cost management practices. Hence mainly in the field of innovations, cost management which is proactive can be fruitful. Now cost management focuses on change, cost reduction and continuous improvement. Cost management and management accounting has developed to response present business environment. Many cost management methods are known and developed by engineers to adjust and response against industrialization (Johnson & Kaplan 1987). High competition requires adoption of modern cost management techniques to manage costs. To achieve higher global ranking and stability in international markets companies' management are moving to consider new management style called strategic cost management. Today manufacturing firms focus on different aspect of cost management. To fulfill their goals mostly manufacturing companies have adopted a number of modern techniques such as just-in-time, total quality management, lean manufacturing, target costing and process improvement etc. and the objectives of all these techniques is to reduce cost of product and improve quality. Today the critical objective of manufacturing industries is increasing productivity, management of product cost and incremental improvements which can be achieved by using modern cost management techniques like kaizen costing and target costing. Now companies are taking interest in modern cost management systems and have moved to use these techniques. Modern cost accounting systems are effective and appropriate and provide information with multi-dimensional focus on customers, functions, processes, products, services, and activities.

Strategy is defined as a set of goals and precise action plans which leads the desired competitive advantage (Thompson 1995). Clark & Fujimoto (1991) said that strategic thinking is merely the ability to adapt the organization so that it can do well in its future environment. Chandler (1962) defined strategy as "the determination of the basic long-term goals and objectives of an enterprise, the adoption of courses of action, and the allocation of resources necessary for carrying out these goals". Strategy is about performing different activities from competitors or similar activities performing in different ways. In general strategic management is related to long term planning about the organization's future performance. The goal of strategic cost management is to create sustainable competitive advantage and it is difficult to maintain a competitive advantage in current market situations. Strategic management involves the execution and identification of goals and action plans. The rising pressures of technological innovation, global competition and changes in business processes have proved strategic cost management essential for any firm. As the part of strategic cost management long-term thinking involves expected changes in products and production processes to accommodate customer demands where flexibility is important. The capability to make fast changes is critical (Blocher et al. 1999). Strategic cost management is not a technique or a tool but it is a philosophy or the process of integrating cost management, the objective of which is to reduce costs to best possible products/services with available resources. It is a specific term which helps in major strategic decisions and covers the use of cost and management accounting and all costing methods have a role to play in this system. According to Hansen & Mowen (2003) strategic cost management requires integrative thinking to identify and solve problems through a cross-functional view. The integrative approach combines skills of all functions like marketing, production, finance and accounting at the same time though the cross-functional teams. The integrative approach is suitable in a dynamic and competitive environment and it organizes cross-functional teams of specialists from different departments that all endeavors for a certain goal such as cost, quality, and lead time through integrated planning and execution system (Holland et al. 2000). The strategic variables cost, quality and time are rising as important cost management factors and these has moved from a traditional role to broad product costing and operational control in strategic cost management (Blocher et al. 1999, Hansen & Mowen 2003).

Strategic cost management is not merely cost management but it can improve revenues, productivity, customer satisfaction and position of the company. Strategic cost management is the success-driver of the company which can contribute in shaping the future of the company. Cooper & Slagmulder (1998) discussed that strategic cost management is the application of cost management techniques to reduce costs and to improve the position of the company. Shank & Govindarajan (1993) stated that strategic cost management is the managerial use of cost information to hold the strategic objectives of the company. Strategic cost management has been studied for the use of target costing technique (Ansari & Bell 1997). Literature states that cost management includes two main aspects in its scope namely, cost management system and cost management structure. Where cost management system includes activities like cost planning and cost monitoring and the techniques which can hold cost management activities and objects like resources, processes and products while cost management structure is related with cost management framework. Granlund (1996) acknowledged that strategic cost management is about managing costs for two aspects financial and competitive advantage. Cooper & Slagmulder (1997) noted that highly competitive markets have low profit margins and low customer loyalty. Now fierce competitions between competitors and consumers demands have increased the importance of strategic cost management. Cooper (1995) pointed out that a firm has to reduce its products costs as speedily as its competitors to maintain its profit margin for long time. Therefore all firms have to handle costs forcefully in order to survive in market.

CONCLUSION

There are different traditional and contemporary cost management techniques. The traditional cost management techniques are used by many organisations but these have limited area of work and also due to their limitations modern cost management techniques are adopted by organisations to manage their costs. It is noted that traditional and contemporary cost management techniques focus different aspects for cost management. The traditional cost management techniques can be used for cost management but performance of a firm can be improved with the use of contemporary cost management techniques because contemporary cost management techniques are better than traditional cost management techniques. The limitations of traditional cost management techniques was the main reason of the adoption of contemporary cost management techniques by many organisation in the changing business environment and limitations of traditional cost management techniques can be removed with the use of contemporary cost management techniques such as provide better decision making base, time to time information, correct cost determination etc. The main difference between traditional and contemporary cost management techniques is that old techniques focus only cost control while modern techniques focus on both cost control and cost reduction by elimination of wastes therefore the study suggests that adoption of contemporary cost management techniques is better option for companies to manage their costs.

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