

# The Spectrum of Managerial Costing Applications

Financial Management Services  
Conference  
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# CG Comments To AGA's June Conference

“We are on a Burning Platform”

“Status Quo is Not an Option”

“We Must Examine the Base”

Conveyed a Strong Sense of Urgency for  
Use of Accounting Information

# Accounting's Contribution?

Accounting Has Little Inherent, Intrinsic, Stand-Alone Value

Value Comes Through Use

Great Progress Has Already Been Made on Measurement Capability

That Has Little Inherent Value

Management Use Lags Far Behind

That Has Great Potential Value

Perfect Audit Statements Won't Improve Management Use

# The Increased Importance of Management

Management Means Making the Best of What You've Got

Management is Not Needed or Important if Resources are Plentiful

Limited Fiscal Resources Make Cost Management Critically Important

# Government Management Improvement Strategies

Centralized

Decentralized

Discontinuous

A-76

Business Process  
Reengineering

Continuous

Budget Mgmt  
PART

Management Control  
Processes

# Government Management Improvement Strategies

Centralized

Decentralized

Discontinuous

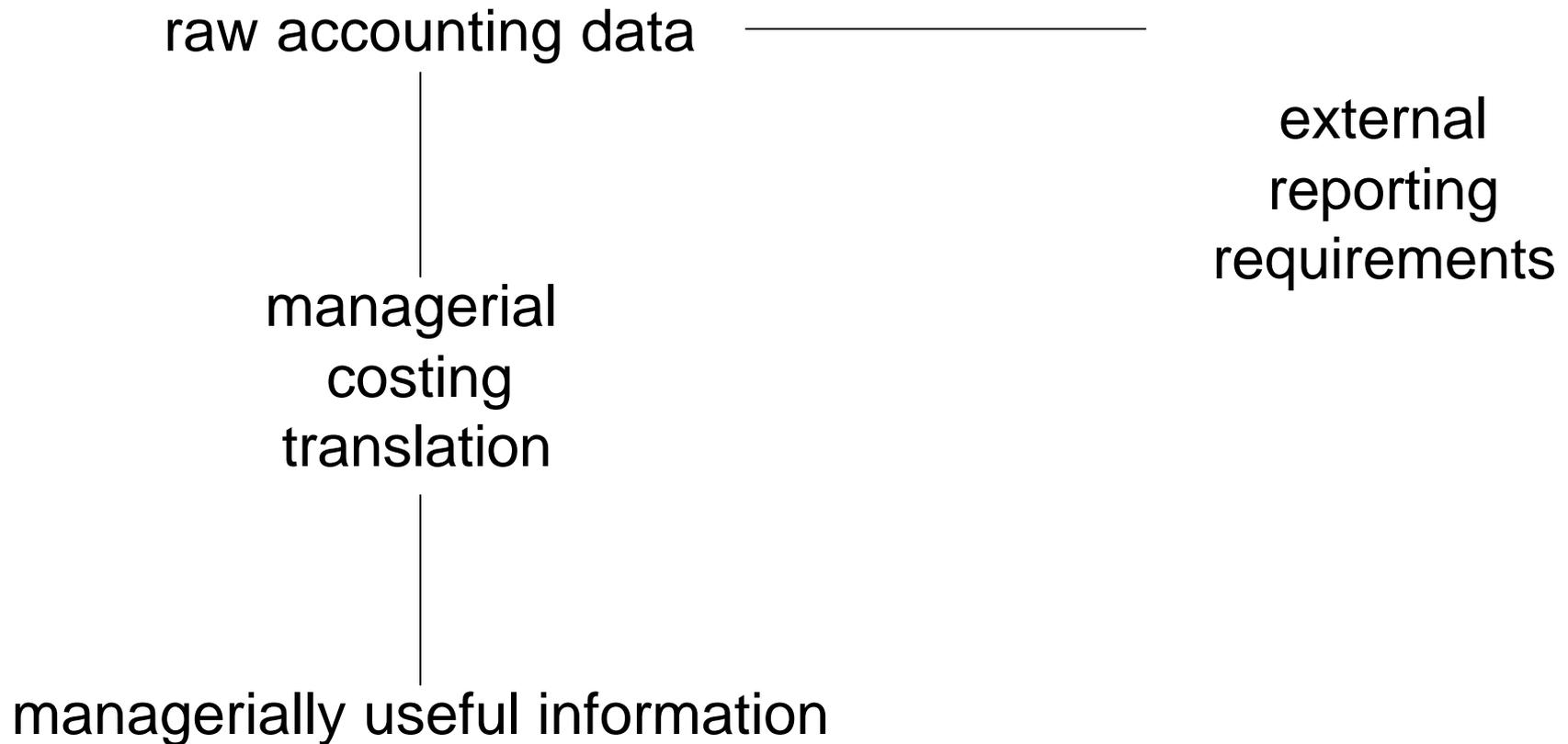
Served Adequately by Ad Hoc Costing

Continuous

Served by  
General Ledger  
Views

Needs  
Managerial  
Costing

# Differentiating Managerial Costing from External Reporting



# Why Control Cost?

Enhance Mission Execution

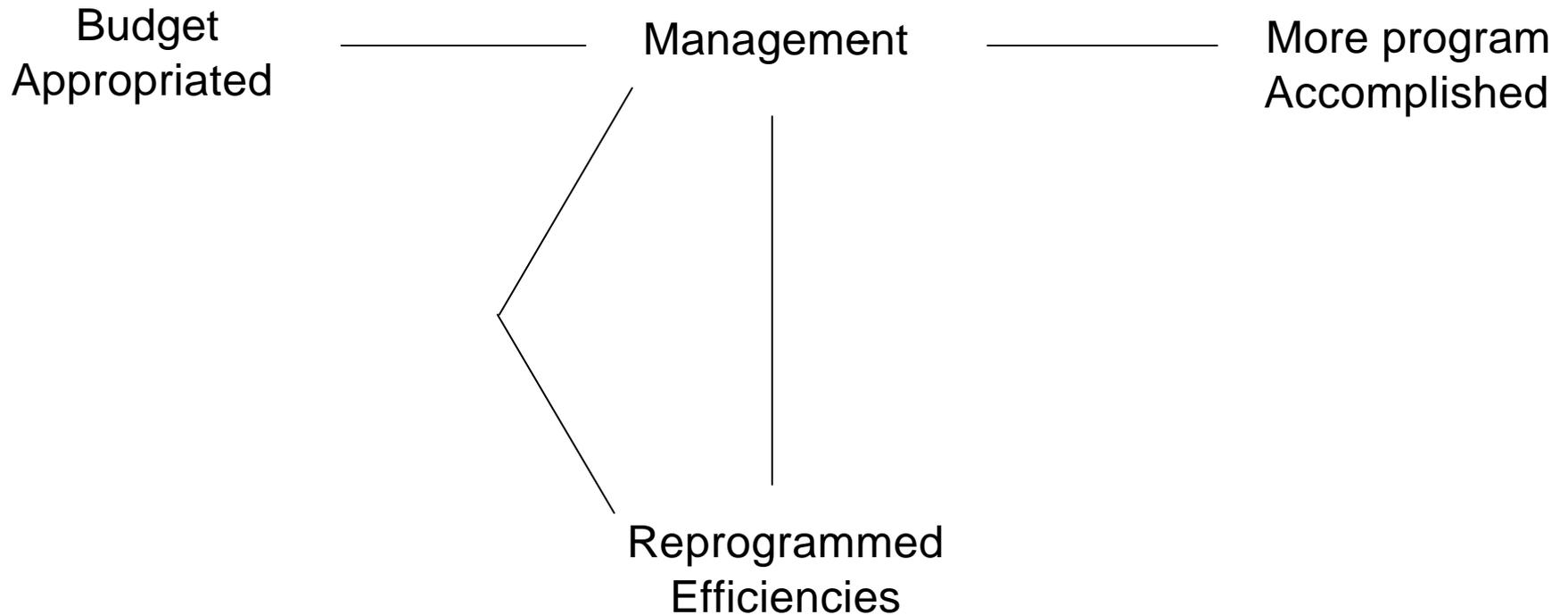
# Fiscal Constraint (Cost War) Threatens the Mission

The Cost War is the Struggle:

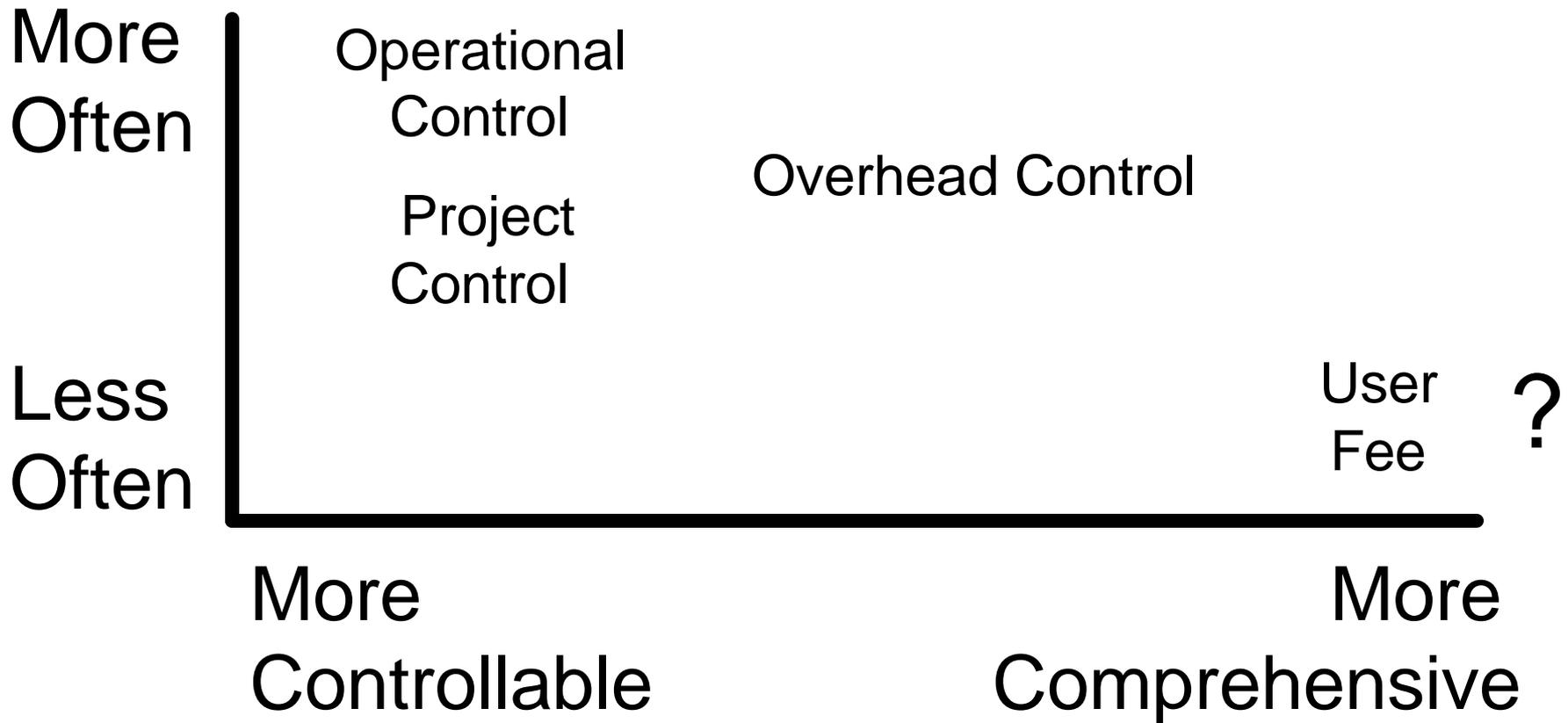
To Accomplish Your Organization's Mission  
With Fewer Financial Resources

While Meeting Specifications for Quality,  
Customer Service, and Ethics

# The New View of Budget



# Managerial Costing Spectrum



# Is User Fee Costing Managerial Costing?

Differs from Costing for Control Processes

Needs Less Frequency

Needs More “Fullness”

Often has External Viewers

Usually Subject to Some Oversight

# Common Features of Control Processes

Learning: Frequent Feedback with Institutionalized Management Interaction

Accountability: Requires Managers to Explain Performance in Cost Terms

Institutionalization: Imbedded in Organization's Culture

Purpose: Provide Challenge and Influence Behaviors to Improve Mission Execution

# Why is Operational Control Important?

Budget Management Objective to Spend 99.9% of Budget Can be Met Without Considering How

Tremendous Untapped Creativity Exists in the Decentralized Workforce

Even Modest Annual Continuous Improvement Gains Become Significant In the Longer Run

# How Does Operational Control Work?

“Winning the Cost War” Argues that Battlefield Management Paradigm Fits

Consider a Commander’s Goals

- Mission Accomplishment

- Casualty Minimization

Consider an Operational Manager’s Goals

- Mission Accomplishment

- Cost Minimization

# The Role of Managerial Costing

Develop Needed Reconnaissance for the  
Cost Manager

Needed: Credible Measurement of True  
Costs of Resource Consumption

Provide Information to the Cost  
Management Process

Needed for Decision Making, Planning  
Processes, and After Action Reviews

# The Role of Manager Pull

Specify Managerial Costing Requirement

Perform Intelligence Preparation

Determine Essential Elements of Info

Lead the Cost Management Process

Set the Agenda

Negotiate and Approve Plans

Critically Review Execution

Signal the Importance of Cost Management

# The Role of Cost Planning

Provide Proactive Alternative to Annual  
Budget Crisis

Stimulate Learning/Training in Financial  
Consequences of Alternative Actions  
Cheaply

Provide a Basis to Evaluate Mission  
Success

Clarify Short Term Assignments

# The Role of After Action Review

Document and Explain Performance

Evaluate Performance and Create  
Accountability

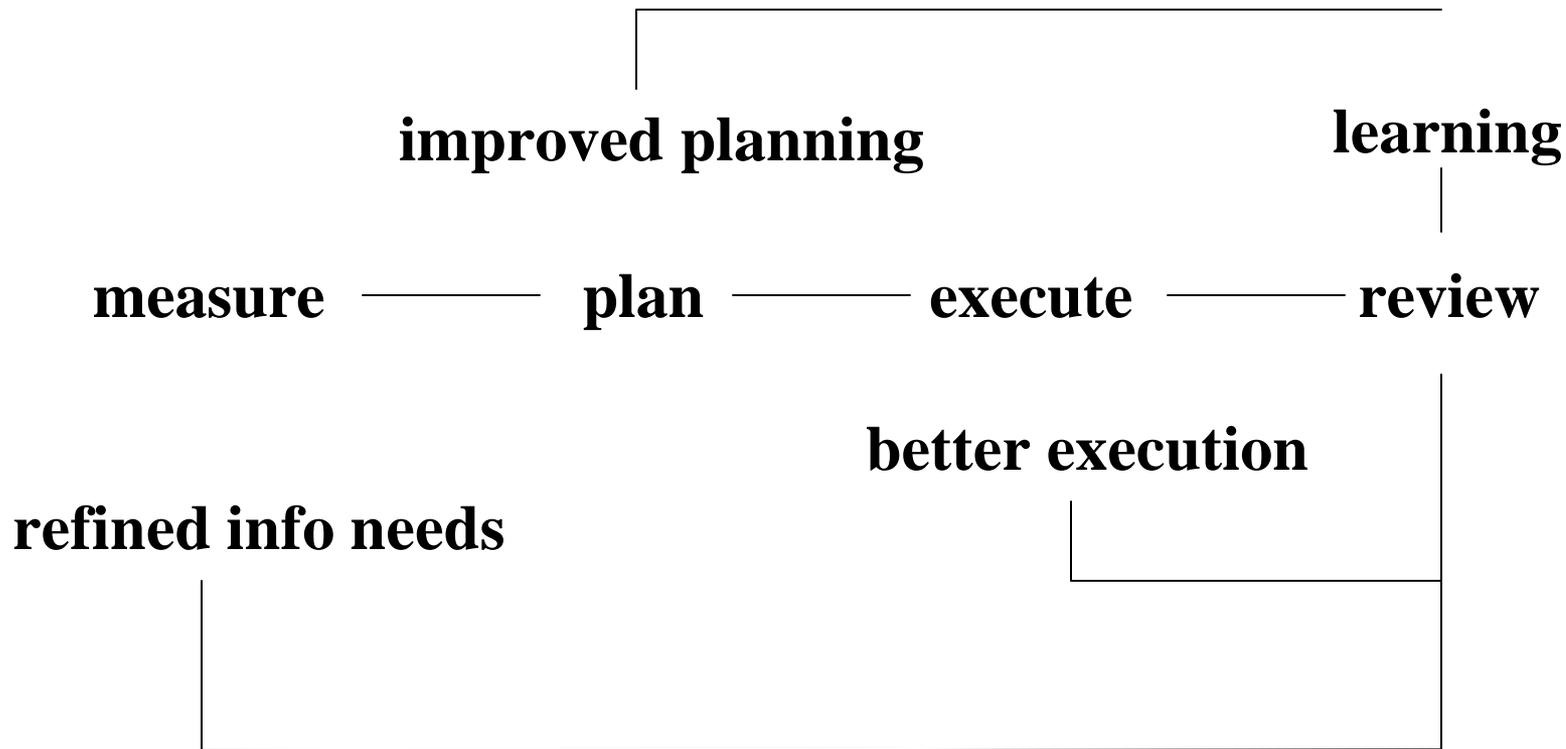
Stimulate Learning for:

- Better Reconnaissance

- Better Planning

- Better Execution

# The Learning Process



# Why is Project Control Important?

Projects Often Involve Unknowns With Considerable Schedule and Cost Risk

Unmanaged Projects Can Easily Result in Missed Completion Dates and Cost Overruns

Cost Overruns and Schedule Milestone Misses are Related

# How Does Project Control Work?

Similar to Continuous Improvement Paradigm

Updates Actual Progress Towards Completion versus Planned Progress

Determines Earned Value

After Action Review Compares Earned Value to Planned Value

# Why is Overhead Control Important?

Consuming Organizations Often Think of Support as Free

Free Goods Have Infinite Demand

Support Organizations Often Funded Independently of Line Organizations

Disconnected from Operations they Support

Missed Opportunities for Better Support

# How Does Overhead Control Work?

Similar to Continuous Improvement Paradigm

Differs in Scope and Depth

Measurement Process Distributes Overhead Costs to Consuming Orgs

After Action Review Has Senior Overhead Managers Present Costs and Allocation to Senior Line Managers

# Requirements for Successful Management Control Process

Aggressive, Knowledgeable Managers

Effective, Learning Oriented Review Process

Talented, Smart Staff Support

Good Cost Information

# Attributes of Aggressive, Knowledgeable Managers

Specify and Define Good Information  
Requirements

Participate Actively in Review Process

Signal the Importance of Continuous  
Improvement

Understand that There is Always a Better  
Way to Operate

# Managers, Not Systems Make Cost Management Work

A Hammer Doesn't Build a House

It is an Inanimate Object

The Managerial Costing System Doesn't  
Manage Cost

It is an Inanimate Object Also

Both are Simply Tools

Effective Use of the Tool is up to  
Management

# Attributes of an Effective Review Process

Document and Explain Performance

Create a Forum for Interaction and Creative Thinking

Stimulate Learning that Leads to Action  
Yielding:

Better Information

Better Planning

Better Mission Execution

# Specific Goals: Management Control Review Process

Establishment of Decentralized,  
Hierarchical Accountability

Institutionalized Meeting Process Where  
Managers Explain Their Costs

Learning Opportunity Necessary to Drive  
Continuous Improvement

Forum for Interaction and Change

# Document and Explain

Should Evolve to a Format that Fits  
Organizational Issues and Culture

Will Likely Have Control Elements:

What was Expected?

What Happened?

Why the Difference?

Should Focus on How Support Can Better  
Support Line Priorities

# Document and Explain Template

	\$K	FTE
Expected/Planned	1000	100
Actual Results	1200	90
Delta	(200)	10
Story:		
Retirement Savings	100	10
Early Retirement Cost	(175)	-
Replacement Contract	(125)	-

# Forum for Interaction

Principals Present and Answer Questions

Superiors or Customer Principals Listen  
and Ask Questions

Team Goal is Creative Approaches to Get  
Work Done More Efficiently

No Manual, Law, or Regulation Exists

# Common Implementation Issues

Many Managers Initially Threatened by Cost Disclosures

Many Managers Unsure of Their Abilities in Cost Management

Red Herrings Like:

- Demands for Excessive Cost Detail

- Claims that Cost is Fixed

- Claims that Cost is Uncontrollable

# Attributes of Good Staff Support

Understand the Organization and Its  
Business

Trusted by Management

Capable of Analyzing Data and  
Transforming it Into Information

Well Trained

# Attributes of Good Information

Must be Managerially Useful

Managers are the Users

Must be Technically Credible

Managers Must Trust

Must be Affordable

Managers are the Bill Payers

# Costing Systems Differ

Financial &  
Regulatory

Managerial

Goals:

Consistency  
Comparability  
Equity

Goals:

Fit  
Functionality  
Relevance

Users:

Shareholders  
Congress  
Regulators  
Tax Authorities

Externally  
Specified  
Require-  
ments

Internally  
Specified  
Require-  
ments

Users:

Managers

Methodology:

Laws  
Rules  
GAAP

Methodology:

Situation  
Dependent

# Two Sides of the Same Coin

external reporting

managerial costing

required

purpose

needed

compliance

goal

learning

structured

methodology

customized

audit

test

use

stable

dynamics

responsive

# Choosing What to Measure Offers Many Choices

Complex Organizations Have Many  
Potential Views of Cost to Measure

Organization Views

Process/Activity Views

Product/Service Views

Customer Views

Job Order Views

Budgetary Views

# There Are Many Possible Ways to Measure Costs

Consider the Following Types of Cost:

direct, indirect, variable, fixed, sunk, period, inventoriability, reimburseable, capital, standard, conversion, prime, carrying, incremental, separable, joint, controllable, current, historical, discretionary, full, project, responsibility, imputed, normal, opportunity, mixed, out-of pocket, relevant, target, absorption, average, quality, estimated, and unit

# Managerial Costing Spectrum

## Conclusions

Provides Relevant, Actionable,  
Decentralized Information to Enable  
Better Use of Fiscal Resources

Not Typical Budget Formulation/Execution

Driven by Internal Management Needs

Not External Oversight

Presents Highly Diverse Measurement  
Perspectives to Support a Variety of  
Management Processes

# For More Information: Treasury Agency Services

“Cost Management in Government”

August 16.... February 11.... April 6

June 1.... September 9.... November 17

“Fundamentals of Managerial Costing”

August 17-18.... February 15-16

June 28-29.... September 27-28

“Managerial Cost Analysis”

June 13-17.... October 31-November 4

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