



GORDON INSTITUTE
OF BUSINESS SCIENCE

University of Pretoria

Factors influencing effective cost management within South Africa's retail banking sector

Kirtan Shirishkumar Mistry

29686131

A research project submitted to the Gordon Institute of Business Science, University
of Pretoria, in partial fulfilment of the requirements for the degree of Masters of
Business Administration

10 November 2010

Abstract

Today, organisations are faced with drastic economic challenges which include, the global financial crisis, credit crunch, globalisation and increased competitive forces. As market share shrinks, organisations strive to find new customers, and increase its bottom line, by adequately managing costs.

The objective of cost management practices is to ensure that organisations have a true understanding of costs, so that it can continuously make the right decisions with regards to product mix, price and market.

This research uses a qualitative methodology to uncover how the South African banks currently use costing principles. This is achieved through semi-structured long interviews with individuals, who are directly responsible for this function within their respective organisation.

The conclusion offers a conceptual cost management framework, which is made up of a number of key models to assist an organisation mature in their cost management practices. It is evident from this research that the banks in South Africa are relatively immature; therefore, they require a focus on efficient and effective cost management practises.

Keywords

- Cost Management
- Strategy
- Activity Based Costing
- Banking

Declaration

I declare that this research project is my own work. It is submitted in partial fulfilment of the requirements for the degree of Master of Business Administration at the Gordon Institute of Business Science, University of Pretoria. It has not been submitted before for any degree or examination in any other University. I further declare that I have obtained the necessary authorisation and consent to carry out this research.

Kirtan Shirishkumar Mistry

Date:

Acknowledgements

First and foremost, I would like to offer my most gracious acknowledgements to my beloved spiritual master, Srila Bhakti Tirtha Swami (1950-2005). You were, and will always remain an icon, of someone who had mastered the spiritual and material realm, by being the living embodiment of one, who was in this world, but not of this world. You continue to show me guidance, protection, inspiration and love. I offer my success and this qualification, very humbly, to you.

To my spiritual mentor – Srila Bhakti Vasudev Swami, thank you for your guidance and encouragement in these two years.

To my supervisor, Thea Pieterse, thank you for your valuable supervision and input throughout this research.

To my family, thank you for your unwavering support. I would especially like to thank Nanda for always being available and giving me advice based on your own personal experiences on this program.

To the members of Krsna Balarama Youth Group – you were patient, tolerant and you motivated me. I am honoured to have each and every one of you in my life. You are all special souls, sent down to this earth to achieve many spiritual goals.

To my darling, beloved wife Poovendree – I cannot explain how much you mean to me. You are my life air and have been my inspiration throughout. Thank you for your patience and tolerance, as we achieved this milestone. You are the personification of the perfect wife. I count my blessings every day. I now look forward to spending the rest of our days together.

Table of Contents

Abstract	ii
Keywords.....	ii
Declaration	iii
Acknowledgements	iv
Table of Contents	v
List of Figures	x
List of Tables	xi
1. Definition of Problem and Purpose	1
1.1. Research Problem.....	1
1.2. Research Objectives	2
1.3. Research Aim.....	3
2. Literature Review	4
2.1. Introduction to Literature Review	4
2.2. Cost Management and Strategy.....	4
2.3. Cost Management Methodologies.....	8
2.3.1. Traditional or Full Absorption Costing.....	9
2.3.2. Activity Based Costing	10
2.3.3. Constraint Based Accounting.....	13
2.3.4. Other Costing Methodologies	15
2.4. Cost Management Practices	16

2.5. Factors which influence effective cost management	19
2.6. South African Banks	23
2.7. Conclusion on Literature Review	25
3. Research Questions	26
3.1. RQ1 - What is the prevalence of Cost Management practice in the organisation?	26
3.2. RQ2 - What are the internal and external factors that influence Cost Management within the organisation?	27
3.3. RQ3 - What influence does Cost Management exert on strategy?	27
4. Research Methodology	29
4.1. Research Concept and Design	29
4.2. Research Method	31
4.3. Population and Unit of Analysis	33
4.4. Sampling Method and Size	34
4.5. Data Collection	35
4.6. Interview Schedule	35
4.7. Data Analysis	38
4.8. Limitations & Assumptions	39
4.8.1. Limitations	39
4.8.2. Assumptions	40
5. Results	41

5.1. Respondent Demographics	41
5.2. Interview Observational Feedback	41
5.3. Emergent Themes for Research Question 1	42
5.3.1. Cost Management is Driven by an Executive Vision.....	42
5.3.2. Organisations focus on Cost Management in Harsh and Competitive times	43
5.3.3. Cost Information is Valuable to all within an Organisation	44
5.3.4. Cost Management is a Decentralised Function – with a Centralised Specialist department	47
5.3.5. The Most Adequate Fit is for the Costing Department to Report to Finance	49
5.3.6. Within the Banks, it's difficult to Pin Point a Specific Applied Cost Methodology	50
5.3.7. Valuable Information takes Precedence over Technology	52
5.3.8. Ideally an Organisation Would Like to Partner Revenue and Cost	53
5.3.9. Cost Managers are required to have a Hybrid of Skills	54
5.3.10. Banks have, on Average, a Higher Fixed Cost Ratio. Therefore, it's Difficult to Manage Cost in the Short Term	55
5.4. Emergent Themes for Research Question 2	57
5.4.1. Internal Factors with High Influence on Cost Management.....	58
5.4.2. Internal Factors with Low Influence on Cost Management	62
5.4.3. External Factors with High Influence on Cost Management	64

5.4.4. External Factors with Low Influence on Cost Management	66
5.5. Emergent Themes for Research Question 3	69
5.5.1. The Degree to which Cost Management & Strategy are linked is determined by Maturity	69
5.5.2. The Respondents Rated Cost Management between 5-8, Out of a Scale of 10, as an Influence on Strategy.	70
5.5.3. Cost Information Usually Vets Business Cases	71
5.5.4. Inter-bank Comparison of Costs are of Little Value.....	72
5.5.5. Cost Management has Influence in Major Aspects of Business	72
5.6. Conclusion on Chapter 5	73
6. Discussion of Results.....	74
6.1. RQ1 - What is the prevalence of Cost Management practice in the organisation?	74
6.2. RQ2 – What are the internal and external factors that influence Cost Management within the organisation?	87
6.3. RQ3 – What influence does Cost Management have on Strategy	98
7. Conclusion	103
7.1. Business Implications	105
7.2. Recommendations for Future Research.....	106
7.3. Research Limitations	108
References	109
Appendices.....	115

Appendix 1 - The main phases of ABC provided by Di Montezemolo and Tardivo
(2009): 115

Appendix 2 - The five focused steps of the Theory of Constraints (Goldratt, 2004;
Ahn, Schmitz & Souren, 2005): 115

Appendix 3 – Formula to measure productivity, utilisation and efficiency..... 116

Appendix 4 - How the four main concerns of Through Accounting are addressed
(Corbett, 2006). 116

List of Figures

Figure 1: The Strategic Decision-Making Process.....	7
Figure 2: How Activity Based Management uses Activity Based Costing Information	12
Figure 3: Trade-off between Complexity and Accuracy in ABC.....	18
Figure 4: The Seven Cs Model of Shields and Young (1989).....	20
Figure 5: Formulating Questions for an Interview Guide	36
Figure 6: Respondent's Formal Qualification.....	55
Figure 7: Internal & External Factors which Influence Cost Management	58
Figure 8: Cost Management Maturity Model, Own Source	81
Figure 9: CMMM Application to Bank 1	82
Figure 10: CMMM Application to Bank 2	82
Figure 11: CMMM Application to Bank 3	83
Figure 12: Internal & External Factors which Influence Effective Cost Management	96
Figure 13: Cost Management Conceptual Framework, Own Source.....	102

List of Tables

Table 1: Differences between Qualitative and Quantitative Research.....	29
Table 2: Respondent Demographic Information	41
Table 3: Detailed Explanation of CMMM	84
Table 4: Factor Management Matrix, Own Source	97

1. Definition of Problem and Purpose

1.1. Research Problem

South African banks have been under close scrutiny of late (Nevin, 2008). A comprehensive set of analysis and research, has been conducted to assess performance of South African banks and the relative fee structures charged to their customer base (Nevin, 2008). Nevin (2008) states, that, these banks receive higher profit margins than any other bank in the world.

These complex fee structures are also used to abuse their market power, hence, Nevin (2008) argues that there is no inherent competition within the banking sector. The South African Competition Commission (SACC), conducted a 22 month probe into the sector's price structure and competitive behaviour. This resulted in the commission making 28 recommendations to reduce bank charges, opening the industry for competition and making banking accessible to the poor (Okeahalam, 2009).

Okeahalam (2009) states that core elements which determine cost behaviour are:

1. Business and Regulatory environment
2. Operational efficiency

This brings upon the first question, how does a bank's cost behave in light of these elements?

The Management Accounting System (MAS) theory, was developed during the early industrial activities in Europe and USA (Lockamy 2003). Cost Management practices, traditionally formed part of the MAS and had undergone significant changes since the 1970s (Lockamy 2003). Today, finance and accounting roles have

evolved to manage change and meet the firm's strategic needs (Schiff & Schiff, 2008).

Even though there had been a major influx of research conducted on cost management practices since the 1970s (Lockamy 2003), there has been little evidence to show its application and factors within South Africa's banks. This omission can have detrimental effects on banks for these reasons: given the role the banks play in the economy, regulatory pressures and the relaxed entry barriers. With this in mind, these should be considered of high important: the relevance of understanding the definition of cost management in a banking context, the presence of this management technique within this industry, the factors which influence cost management and the degree to which they impact an organisation.

1.2. Research Objectives

The key question, this study aims to answer is: "What are the factors that influence effective cost management within South Africa's banks?"

In order to answer this questions, the following main objectives of the research are defined:

1. Determining which are the predominant cost management practices within SA's banks
2. Determining which factors influence effective cost management (as a driver for strategy) at SA's banks
3. Ranking the factors that influence effective cost management

1.3. Research Aim

The aim of this study, is to identify the key factors which influence the effective use of cost management practices within SA banks. This will allow the business environment to ensure that they have sufficient mitigation factors in place to manage these factors.

A framework with the key attributes of a successful cost management practice will be developed. This will assist leaders of SA banks to measure its cost management success and ensure the development thereof to reach an acceptable state by which it can effectively align strategy and cost management.

This research will also aim to stimulate further investigations in this area.

2. Literature Review

2.1. Introduction to Literature Review

In this section, literature in support of effective cost management, factors which influence cost management and its alignment with strategy is presented. Literature on the existing methodologies and cost management practices are explored. A brief description of South Africa's banking sector is offered, which provides the context of this research.

2.2. Cost Management and Strategy

The teachings of Porter provide three generic strategies for an organisation (Allen, Helms, Takeda, & White, 2007). These generic strategies remain the most supported compared to other theories (Dess, Lumpkin & Taylor, 2004; David, 2002; Wheelen & Hunger, 2004; Thompson & Stickland, 2003). These key strategies are defined as follows (Allen, Helms, Takeda, & White, 2007):

1. Cost Leadership – Cost advantages result from:
 - 1.1. Process reengineering
 - 1.2. Economies of scale
 - 1.3. Product designs that reduce manufacturing time
 - 1.4. Process innovation
 - 1.5. Learning curve benefits
2. Product Differentiation – Charging a premium price, by tailoring a product or service, in order to meet the needs of a unique customer.
3. Focus – Narrowing the scope in an industry and operating in a niche market, thus creating market penetration and potential.

What defines a company's success? A company's success is determined by its positioning against its competitors. The essence of strategy formulation, is about the coping mechanism of a company, with the competition it is faced with (Porter, 1997). The degree to which new competitors enter and threaten a market is determined by the barriers which exist within the market (Porter, 1997). These barriers are grouped into six major sources (Porter, 1997):

1. Economies of scale;
2. Product differentiation;
3. Capital requirements;
4. Cost disadvantages independent of size;
5. Access to distribution channels;
6. Government policy.

In order for a company to outperform its competitors, it needs to establish a unique differentiating element from them, which it can preserve (Porter, 1996). It also needs to have an Information System that can give an accurate representation of the costs associated with product, the customer, services and activities (Sapp, Crawford, & Rebischke, 2000). Thus, a company has two options: it can either deliver greater value to its customers, resulting in high unit prices. Or it can operate on greater efficiency, hence, reducing its average unit costs (Porter, 1996). It is now evident that in both cases, understanding and managing costs are of paramount importance. As a result, the relevance of cost management and strategy is highlighted. Further to this, understanding cost within financial institutions has intensified due to the following developments (Sapp, Crawford, & Rebischke, 2000):

1. Deregulation of financial institutions;

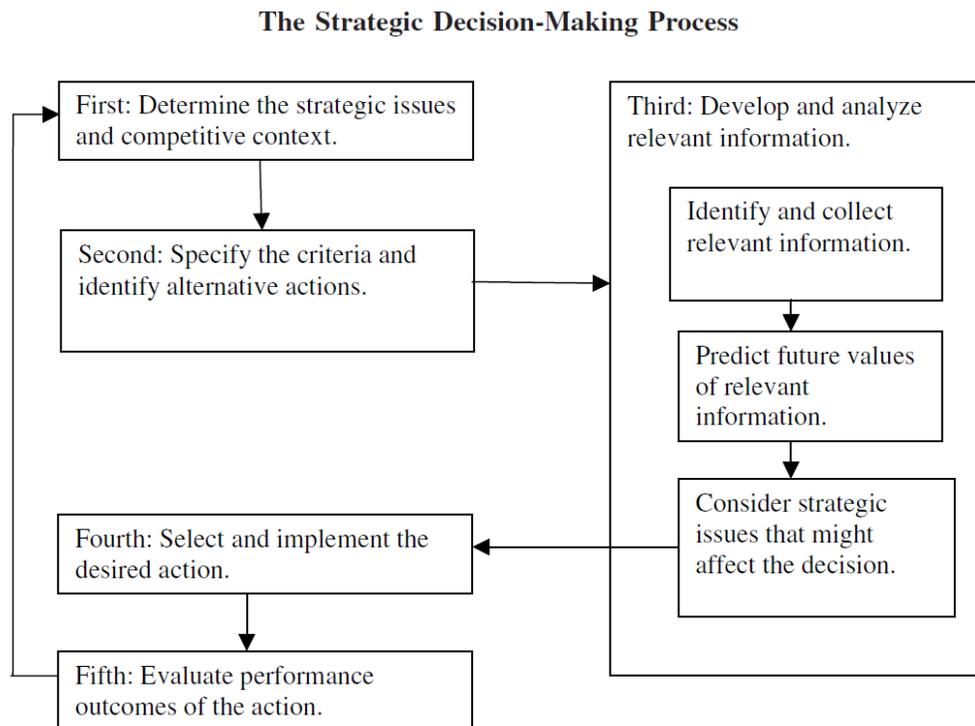
2. Increase in the cost of interest-bearing sources of funds;
3. Expansion of non-fund services;
4. Unbundling of products and services;
5. Automation of transactions.

How does this feature apply in South African banks? This research will aim to answer this important question.

Kaplan and Norton (2004) have stated that, Porter's framework is relevant and has stood the test of time as a pivotal point of reference for discussions on strategy. In this connection, Blocher (2009) stated that cost decisions without strategy are biased and usually only influence short-term decisions. This highlights the need to align cost and strategy. The short-term decisions are called "qualitative factors" because they only exist to assure completeness of a decision (Blocher, 2009). Blocher (2009) then provides an alternate strategic approach which begins with the deliberation of strategic issues which face the problem. In this connection, he presents a model (Figure 1) which applies to [cost] decision making (Blocher, 2009).

Peacock (2005) supports Blocher's (2009) theory. Peacock (2005) states that when a strategy culminates into a decision, on whether to provide a specific product or not, (either in Cost Leadership, Product Differentiation or Focus); understanding the costs for the requested processes, as well as availability and utilisation of workload for scheduling is key. In this way, Peacock (2005) is merely pointing out that having a well managed cost management programme can assist in strategic customer decision making.

Figure 1: The Strategic Decision-Making Process



There is little value, should the use of a costing methodology only be used to deliver a costing exercise and not for strategic decisions (Devine, Ealey & O’Clock, 2008). In the case of Activity Based Costing, Devine *et al.* (2008) mentions that cost information uses include:

1. Performance measurement;
2. Strategic planning;
3. Product/Service negotiations;
4. Product/Service management.

Previously, cost management was purely used for measurement, score keeping and problem solving (Blocher, 2009). Today, the requirements of cost accountants and process specialists (or anyone using costs) have changed dramatically (Blocher, 2009). Now, the aim is to implement strategy, with proper cost management

practices (Blocher, 2009). Of late, management accountants were no longer viewed as financial experts, but rather key advisors who help the business develop and implement its strategy (Blocher, 2009).

In modern times, companies are faced with unexpected economic reactions, like the economic meltdown in 2008. These reactions are the result of three threats: (Devine *et al.*, 2008)

1. Poor financial performance;
2. A sudden loss of important clients or big contracts;
3. Price reduction or price war in the face of competition.

When these, and other, unexpected events occur, managers often panic and make arbitrary cuts, thus removing value-added services and resources (Kren, 2008; Schiff & Schiff, 2008; Fisher, Richard & Gupta, 1994). These reactions can result in the reduction of the organisation's overall value (Kren, 2008).

These reactions can often dominate the organisation negatively and destructive ways, which therefore substantiates, the need for an effective cost management approach (Schiff & Schiff, 2008). This approach should include strategy and should be supported by consistent planning, initiatives and actions (Schiff & Schiff, 2008).

2.3. Cost Management Methodologies

Often, when managers are faced with cost management decisions, the practice usually entails making arbitrary cuts, which could result in eliminating value-adding activities (Kren, 2008). However, successful cost management practices (e.g. Activity Based Management) are meant to provide a framework to understand and control costs within an organisation (Kren, 2008).

According to Lockamy (2003), there are predominantly three prevalent cost management approaches, namely: Traditional Accounting, Activity Based accounting and constraint-based accounting systems. Each of these practices is described herein:

2.3.1. Traditional or Full Absorption Costing

Full Absorption Costing, is fundamentally based on the allocation of indirect expenses by a fixed percentage to direct costs (Narong, 2009). It becomes clear that allocating costs in this way, distorts the cost of a specific product or service (Narong 2009). Narong (2009) further explains, that, in the past decade there was an increase in overhead costs and these overheads became misinterpreted as direct costs relating to the final product or service. In this way, knowing if a product is profitable, becomes cumbersome and often misinterpreted.

Lockamy (2003) points out that this type of costing methodology has impeded the growth and progress of organisations in reaching world class status. He further points out, that inherent to this flaw, is the inability for this method to aid investment and business decisions in the context of business strategy.

In this connection, Kren (2008) noted that the most common issues and shortcomings of traditional costing could be summarised as follows:

1. Cost of services and products are unrealistic and inaccurate
2. General costs which are increasing in every company, are allocated, based on one or two drivers and not on use
3. Cost reduction is hampered, as costs are grouped by function, rather than activity
4. Administrative areas are ignored

5. These do not identify the real cost driver

2.3.2. Activity Based Costing

In the 1980s and 1990s, accounting experts felt, that absorption costing needed to be replaced by another cost methodology, which would be more applicable to modern day businesses (Grahame 2009). The required changes which qualified the need for a new system were (Grahame, 2009):

1. Growth in overheads relative to direct costs
2. Increase in operational complexity
3. Increased levels of non-production overheads
4. Growth in the service sector

Grahame (2009) stated, that the new methodology break through, became known as Activity Based Costing (ABC). The realisation was that most overheads should not be allocated based on units made (single volume basis), because these units may not be driven by these overheads (Grahame, 2009). Thus, a more effective way of allocating costs were created, which were called cost pools (Grahame, 2009).

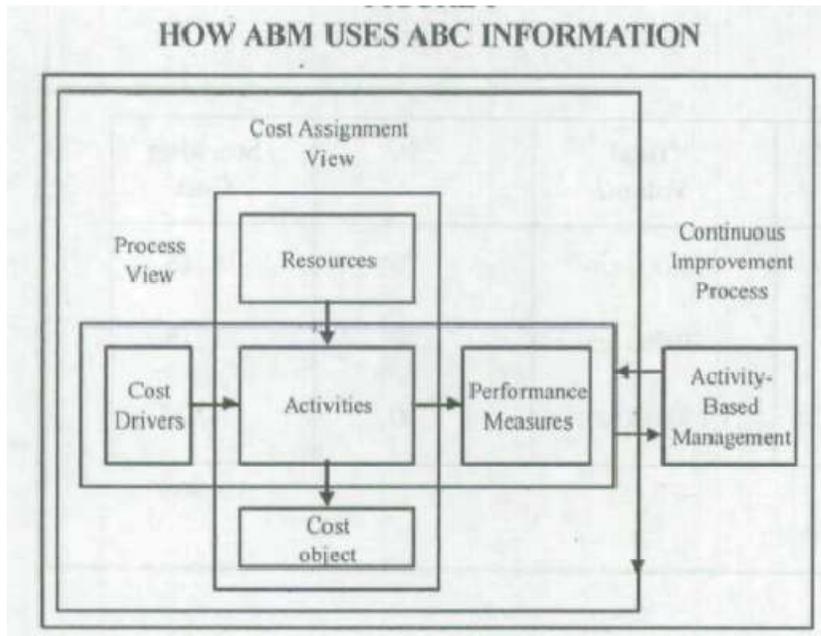
The literature relating to ABC is quite vast (Bushong, Talbott & Cornell, 2008). Of the various cost methodologies discovered, ABC has received widespread attention and focus (Bushong *et al.*, 2008). Bushong *et al.* (2008) further elaborates, that ABC has received much attention, due to its seemingly enticing promises. Some of the promises include: pricing, product mix, process improvement, lower costs, improved quality and reduced manufacturing cycle time (Anderson and Young, 1999; and Ostrenga, Ozan, McIlhattan and Harwood, 1992; Cooper and Kaplan, 1991; Kren, 2008). In order to realise the benefits for-mentioned, any organisation trying to implement ABC will be faced with some constraints and difficult implementation.

As mentioned above, costing has evolved through a number of years. The initial development of ABC was unsteady (Hicks, Olejniczak III & Curell, 2009; Kren, 2008). However, due to its simplicity, even for non accountants, ABC has gained vigorous momentum on the path of fame (Hicks *et al.* 2009). Over a period of time various “spin offs” of ABC were born, such as Resource-Consumption Costing, Time-Driven ABC, Value-Stream Costing and Grenzplankostenrechnung (GPK) (Hicks *et al.*, 2009). However, the premise of ABC remained unchanged. This premise being: The underlying assumption of Activity Based Costing (ABC), is that costs are incurred in an organisation through its activities (Lockamy 2003). This leads to the conclusion, that costs should be first assigned to activities which cause them, and then these accumulated costs of activities should be assigned to services and products which consume those activities.

ABC falls under the umbrella of Activity Based Management (ABM) (Trussel & Bitner 1998). They further explain that it is a system that understands the cost of services and products. The use of ABC is to: guide the adoption of strategies, meet competitive pressures and forces, improve these strategies and improve business. This is called ABM (Di Montezemolo & Tardivo, 2009). Thus, ABC is not only a new accounting methodology, but rather a trigger for a new management style called ABM (Di Montezemolo & Tardivo 2009). ABM is a very powerful executive tool to support the implementation of a company’s strategy. Its basis is; a competitive advantage may be achieved by focusing on the controlling operations carried out in the value chain, instead of looking only at the product view (Di Montezemolo & Tardivo 2009). Based on this, it is clear that ABC and ABM have received much acclaim by specialist in this field. It has become known as a very powerful tool for delivering performance and improvement.

The correlation between ABM and ABC can be explained in the following diagram (Di Montezemolo & Tardivo 2009):

Figure 2: How Activity Based Management uses Activity Based Costing Information



The three main elements of ABC or ABM are (Di Montezemolo & Tardivo, 2009):

1. Identify the activities performed by the company's processes
2. Determine the cost of the identified activities
3. Assign activity costs to cost objects

Appendix 1 provides a view of the main phases of ABC.

Kren (2008) explains that ABM provides useful cost management information in the following ways:

1. Identify and manage non-value adding activities as well as excess capacity
2. Performance improvement targets
3. End of period cost variance analysis

In conclusion, ABC or ABM, has advantages in the long and short-term range (Di Montezemolo & Tardivo, 2009). In the short term, the main decisions that arise are the prioritising and optimising marketing initiatives, as well as the redetermination of considered services provided (Di Montezemolo & Tardivo, 2009). In the long term strategic range, it allows an organisation to reduce the resources required, through the determination of a more efficient performance of activities (Di Montezemolo & Tardivo, 2009).

2.3.3. Constraint Based Accounting

ABC, as discussed above, determines a firm's profitability on the cost of its products. Constraint Based Accounting Systems have an alternate view, which determines a firm's profitability based on throughput, inventory and operating expenses (Lockamy 2003). Constraint Based Accounting, is closely linked to the Theory of Constraints (TOC), which was formulated by Goldratt (Sheu, Chen & Kovar 2003). Therefore, this theory is also sometimes called Throughput Accounting (TA).

There has been some debate on the value of TA (Corbett, 2006). Some have said that it is a new paradigm for management accounting, whilst others have said that it is a depiction of old costing methods, like variable costing (Corbett, 2006).

TOC methodology include: operations strategy tools, performance measurement systems, and thinking process tools (Cox and Spencer 1998, Gupta 2003). TOC is also summarised into five focused steps, with a central element being continuous improvement (Goldratt, 2004; Ahn, Schmitz & Souren, 2005). Appendix 2 provides a view of these five focused steps.

The first two steps are in support of short term, product mix decisions, and the rest of the steps are, long to medium term decisions (Ahn *et al.*, 2005).

The idea behind Throughput Accounting, is that it endeavours to move the manager's mind set from micro cost management practices, to system wide focus on the bottleneck, which determines the rate at which throughput is achieved (Sheu, Chen & Kovar 2003).

Ahn *et al* (2005) noted that TOC & TA can offer a fresher look at problems in order to gain higher profits; however, these practices may not be able to solve all decision problems. The main focus of TA, is product mix decisions, which are focused on the short and medium term decisions (Ahn *et al.*, 2005), which contradicts Corbett's (2006) argument.

TOC or TA, is not very different to linear programming. However, it does offer advantages over linear programming, such as: it is easier to use and more comprehensible for managers (Ahn *et al.*, 2005).

Critics against TA cite four main criticisms towards TA (Corbett, 2006). These are:

1. It is the same thing as variable costing
2. Only valid when there is a bottle neck
3. It regards operating expenses as fixed
4. It is only a short term decision tool

Management Accounting is aimed at providing managers with an answer to the question, "If this action is taken, will it increase the organisation's performance in relation to its goal (Corbett, 2006)?" Goldratt (1992) states, that the goal of any company is to make money now and in the future. He further defines productivity as the method of bringing a company closer to this goal (Pretorius, 2004). Pretorius (2004) goes on to further define throughput accounting, as the science by which the

constraint is first considered, and then provided with the appropriate importance. However, product costing (for example ABC) treats all resources as equal and does not consider the existence of a constraint, thus resulting in incorrect decisions.

Appendix 3 provides an explanation on how TA, productivity and the goal of making money are interrelated.

However, Corbett (2006) points out that TA is relevant to costs and revenues to any decision. His argument is that TA creates a bridge by answering three essential questions (Corbett, 2006):

1. What will be the impact of the decision, on the amount of money the company generates?
2. What will be the impact of the decision, on the amount of money spent to operate the company?
3. What will be the impact of the decision, on the amount of money captured by the company?

2.3.4. Other Costing Methodologies

Based on the volume of literature, the above mentioned cost management methodologies prevailed as the most commonly used and researched. However, other methods were also encountered, and its brief description and attributes are mentioned below.

Standard Costing

At the start of the industrial revolution standard costing aided managers with the make-or-buy decisions, pricing, outsourcing and other decisions (Fleischman &

Tyson, 1998). In the 19th century, standard costs were promoted to control operations and reduce waste (Fleischman & Tyson, 1998).

Marginal Costing

Marginal costing can be seen as an alternate, flexible form of standard costing, in that it separates fixed costs from proportional costs, relative to output of products or objects (Wiesbaden, 2002). Marginal costing uses resource drivers as a method of planning and monitoring costs (Wiesbaden, 2002). It also ignores sunk costs, or cash flows that won't be affected by a proposal (Grahame, 2005).

2.4. Cost Management Practices

When revenue targets get seemingly more and more difficult to achieve, CFOs (Chief Financial Officer) and a company's board, will find peace of mind when they are proposed with an initiative that will help to deliver profitability (Barrett, 2004). However, finding these initiatives is difficult, but ABC is considered to be one of these initiatives that deliver value (Barrett, 2004). The reluctance of executives to implement ABC, is because of the perceived implementation effort, thus it is seldom practised (Barrett, 2004).

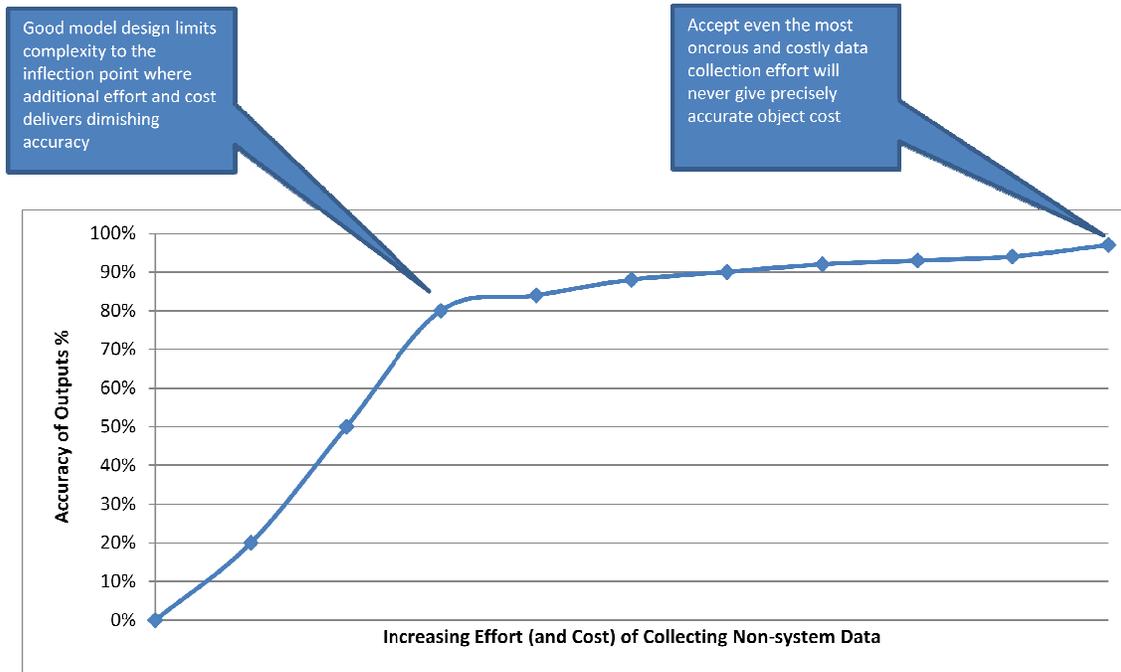
A recession is usually the catalyst that sparks an executive's or an organisation's interest in cost management (Schiff and Schiff, 2008). Often, an unprepared organisation will adopt a siege and execute mentality, which will result in more harm to an organisation than anticipated (Schiff and Schiff, 2008). These dysfunctional reactions will dominate a firm which is not proactive in its strategies to promote the effectiveness of a cost-leadership culture (Schiff and Schiff, 2008). A case in point for this argument has been proven by companies like Chrysler Corp, Johnson &

Johnson and General Electric whom have adopted a cost-leadership structure and survived the ill effects of a recession (Schiff and Schiff, 2008).

Salonen's (2009) key finding, is that cost cutting is ranked as the absolute priority in the minds of CFOs. In this regard, he (Salonen, 2009) provides the following priorities on CFO's agendas: Cost cutting (64%), mitigating risk (39%), increasing profitability (37%), and following environmental practices (24%).

Traditional software and cost models overcomplicate cost management, by providing a mammoth list of activities in an activity dictionary (Barrett, 2004). Many of these activities amount to minute costs which are irrelevant to understand (Barrett, 2004). Usually, practices within an organisation involves an intensive effort to balance the cost model against the General Ledger to the cent, which results in large, overcomplicated, resource intensive models, which bewilder the manager and his/her understanding of costs (Barrett, 2004). In this regard, Barrett (2004) provides an informative view of the trade-off between complexity and accuracy within ABC practise.

Figure 3: Trade-off between Complexity and Accuracy in ABC



The intelligent analysis of costs, can be more valuable to managers than the general management reports (Barrett, 2004). Since a sophisticated model which provides little insight is irrelevant and of little value, reporting has become an imperative aspect of cost management (Barrett, 2004). Often, Business Intelligence tools are required to provide the level of insight needed (Barrett, 2004).

Currently, the accepted reporting intervals within organisation is quarterly, although the most value can be derived by, at minimum, a monthly report (Barrett, 2004). Many financial institutions use the reporting of the cost system ineffectively, due to: reports are provided far too late, it is accounting focused rather than management focused and the level of information is too aggregated (Sapp, Crawford, & Rebischke, 2000).

However, web-based ABC technologies, have made the implementation of ABC, cost reporting and the jobs of cost accountants much easier, thus cost management has become heavily dependent on information systems (Barrett, 2004).

The availability of useful information would gain an executives support, which is paramount to the successful implementation of cost management practices (Barrett, 2004). Having the executive support is deemed to be the most critical success factor (Barrett, 2004).

Sapp, Crawford & Rebischke (2000), make a note of saying that ABC is rapidly becoming the best approach in providing managers with relevant and accurate information about costs which relate to: products, services and customers. Whilst executives and financial managers within banking are subjected to a wide array of information needs, the understanding of a bank's cost structure has become particularly relevant and important in their eyes (Sapp, Crawford, & Rebischke, 2000). Even though the practice of ABC within manufacturing has gained wide spread acceptance, it has not yet had the same impact within financial institutions (Sapp, Crawford, & Rebischke, 2000).

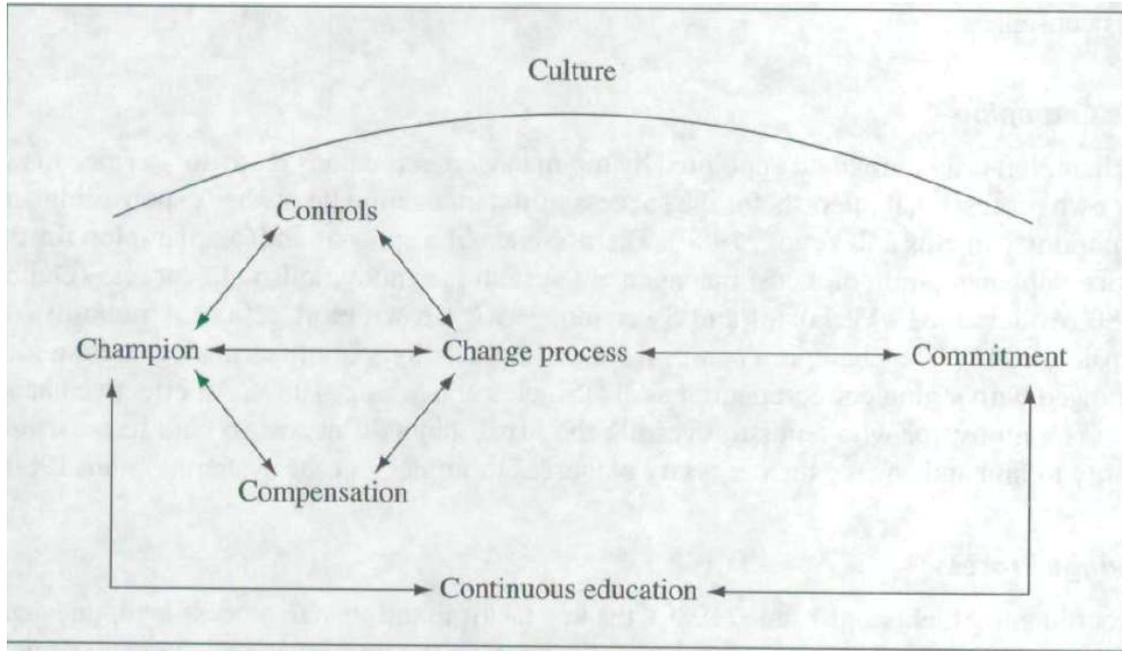
2.5. Factors which influence effective cost management

Fortin, Haffaf and Viger (2007) present the need to conduct research into the factors which influence the success of cost management, particularly ABC. With the evolution of cost management, these factors have evolved and improved, and can be attributed to a number of organisation and behavioural factors (Brown, Booth, & Giacobbe, 2004; Chenhail, 2004; Amaboldi & Lapsley, 2003,2005).

Based on extensive research, the author was only able to find one model by Shield and Young (1989) which provided the factors influencing cost management. Even

though this model is outdated, Fortin, Haffaf and Viger (2007), still found present relevance of this model (Figure 3).

Figure 4: The Seven Cs Model of Shields and Young (1989)



Culture

Culture ensures efficient cost management systems, by aiding continuous improvement (Shields & Young, 1989). Culture influences an organisations operation and this culture may vary from company to company (Fard, Rostamy and Taghiloo, 2006). Schein (1990) indicates that organisational culture can be categorised into visible and invisible characteristics (Fard et al, 2006). Visible characteristics include external building, behaviour modes, regulation, rites, language, stories and myths (Fard et al, 2006). Invisible characteristics include, norms, values, faith and assumptions of organisational members (Fard et al, 2006). Employee participation and involvement, long-term employee commitment, alignment of objectives, and a pervasive sense of team, are the characteristics which Fortin et al (2007) states as being the fuel of culture. In this connection Anghelache, Capusneanu and Barbu

(2009) point out that cost management success can be classified as a behavioural problem, since it is a technique that changes the political landscape of the organisation.

Champion

The champion is someone who has been appointed by top management. This champion should be positioned in the top echelons of management and should possess strong entrepreneurial skills (Shields & Young, 1989). It is important that the champion is objective and has the organisation's interest at heart, rather than being influenced by selfish motives (Shields & Young, 1989).

Change Process

A key factor to ensure proper and effective change management, is top management support (Shields & Young, 1989; Abdallah and Li, 2008; Anghelache et al, 2009). Anghelache et al (2009) eludes, that lack of management support is the key reasons for cost management failure. Abdallah and Li (2008) also include resistance to change as an agenda item for failures in cost management.

Commitment

In order to reinforce organisational changes, commitment is required (Shields & Young, 1989). Anghelache et al (2009) defines this area as a property problem, whereby, no one is willing to take ownership of the cost management system. By ensuring that the understanding of the cost management system is in place and by ensuring everyone is involved in the process, an organisation can gain employee participation and commitment (Wetherite and Kim, 2006).

Controls

Controls are required to ensure that an organisation's strategy is met and that continuous improvement and cost management is dynamic and active (Shields & Young, 1989). It is also worthy to note, that often cost management systems can be perceived as a threat, if no proper compensation controls are in place (Anghelache et al, 2009).

Continuous Education

Shields and Young (1989), state that education should be an ongoing process. Education is linked to continuous improvement, of which cost management systems are fundamental (Shields & Young, 1989). Abdallah and Li (2008) have also ranked inadequate education and training as an item which affects cost management practices and success.

Other Factors

There are other factors that have not been highlighted by Shield and Young (1989). These factors could play a significant role in how banks operate in South Africa. Sapp, Crawford, & Rebischke (2000) provide for certain factors by making a comparison between manufacturing institutions and financial institutions. These factors can be summarised as follows (Sapp, Crawford, & Rebischke, 2000):

1. Intangibility of products and services. Thus, banks may not have a true understanding of the elements which may comprise a product or service, except a market-orientated description
2. The nature of raw materials. Most financial institutions struggle with the allocation of interest expenses (e.g. Cost of Funds) to products, services and customers

3. Instantaneous nature of banking. Cost systems are required to capture the fast-moving costs in a way that manufacturing may not have to deal with
4. Lifecycle of a bank's products and customer relationships. These may vary in length of time. When the lifecycle extends over multiple periods, costs systems may struggle to associate the relationship between resources and product or services
5. High amounts of indirect costs. This makes it difficult to associate costs to products, services or customers
6. Skill and education. Tertiary education focuses on the theory of cost management, in the context of manufacturing organisations and scenarios, as well as the issues faced by these types of environments. Thus, a heavily reliance is placed on in-house training in order to meet a financial institutions cost information needs

There are external factors like regulation, economy, environment, public & societal issues. There are also internal factors which include, skills, technology and complacency. The purpose of this research topic is to uncover other factors, as well as to test how the above factors from academia, relate to the South African banks.

2.6. South African Banks

Nevin (2008) classifies South Africa's banking industry, into what he calls as, the 'Big Four' – ABSA Bank, Standard Bank, First National Bank and Nedbank.

Features of the banking industry, within South Africa, are (Okeahalam, 2009):

1. It is highly concentrated
2. Has low efficiency
3. Incumbents have market power

4. Operates in the context of an exchange control regime

Generally, in developing countries, there have been pressures and inquiry into the level of competition, which has forced the banks to minimize costs (Okeahalam, 2009). However, Okeahalam (2009) elaborates that this behaviour is not proven to exist in South African Banks. He also states that South Africa's banking sector can be classified as an oligopoly structure.

During South Africa's early history, competition in the banking sector was of little concern for the regulatory commission (Okeahalam, 2007). However, when South Africa's fourth largest bank, Nedcor Banking Corporation (Nedcor), submitted a bid to take over the largest bank, Standard bank Investment Corporation's (STANDIC), eyebrows were raised at the Competition Commission, which prompted an inquiry and the bid was rejected (Okeahalam, 2007).

Due to the absence of competition and the presence of market powers, banks had little motivation to remain efficient Okeahalam (2007). Their cost-to-income ratio still remains higher than the global benchmark of 51%. This should be a motivator to observe correct cost management practices (Okeahalam, 2007).

SA banks are considered to be the most profitable in the world (Nevin, 2008; Okeahalam, 2007). Their high profit margins are attributed to the relatively small, high income market segment which it serves, and therefore, they can charge the high rates (Nevin, 2008; Okeahalam, 2007). Okeahalam (2007) further points out, that due to the little research conducted into the management of costs and market power, understanding the nature of issues faced within banks becomes difficult (Okeahalam, 2007). Hence, this study has relevance and substance for inquiry, research and analysis.

2.7. Conclusion on Literature Review

This section presented academic theory on the practice of cost management in relation to strategy. There was a clear conclusion that cost management should not be practised in isolation from strategy. Thereafter, descriptions of various cost management methodologies were discussed, showing how they are practiced in organisations. Many years ago, a model was formulated, which provided some factors that influenced the successful management of cost and its methodology (ABC). There were also some factors which were highlighted, after one considered the differentiating factors within a manufacturing and financial service industry. However, the author found that, within the South African context, some of these factors may be relevant, whilst other factors are not considered at all. The uniqueness of SA's banking finally highlighted the need, to further study cost management in the country. These sections formulated a consolidated cost management puzzle. The sections that follow will put together the cost management puzzle of SA's banking sector.

3. Research Questions

3.1. RQ1 - What is the prevalence of Cost Management practice in the organisation?

Within the literature review, a vast array of research presented the various cost management methodologies which have evolved into practices today. Year to year, month to month and day to day, an organisation will remain focused on ways to improve the bottom line by increasing revenue and managing its costs. This is becoming increasingly relevant with the current state of affairs within the banking sector. Consumers are becoming more and more aware of their rights, and it is no longer difficult to move from one banking institution to another. This has its advantages for the consumer and the economy, but adds strain on an organisation. They are forced to become transparent with their costs, as well as understand it well enough to make strategic decisions. Regardless of this, cost management in action remains murky. Therefore, the rationale for this question becomes apparent. By focusing on cost management in action, a deeper understanding emerges, in terms of how cost management is practiced, its level of dilution, as well as its uniqueness in alternate organisations. The research question aims to answer key cost management questions, which include:

1. Prevalence of management support
2. Methodologies
3. Team structures
4. Scope of practice

3.2. RQ2 - What are the internal and external factors that influence Cost Management within the organisation?

This question aims to unravel the factors which influence the effective practice of cost management. The literature review provided a number of factors that influence its implementation and practice. This question will build on existing literature, as to determine the existence of drivers for effective cost management, as well as drivers which inhibit cost management progress. This unpacking will be aided, thus providing further insight, by understanding cost management practice within its context.

The uniqueness of this question is that it considers cost management and its factors within the South African banking context. South Africa, having a very strong banking sector is unique, in a sense, due to the political, economic, regulatory powers at play. The literature could not provide for some of these factors which influence effective cost management, and hence the value of this question is realised. How can we uncover the factors at play in South Africa?

3.3. RQ3 - What influence does Cost Management exert on strategy?

The two previous questions will highlight the understanding and characteristics of cost management. This question aims to identify the existence of any link between cost management and strategy, as well as the level and weight that they have between themselves.

Surely key strategic decisions cannot be made in isolation from costs? However, how effective is the cost management philosophies in aiding these decisions. These decisions could vary from price, product mix, investment decisions and key cost management decisions (like retrenchments etc.) This conclusion will inform the

relevance of cost management in an organisation as a key attribute, rather than a functional practice.

4. Research Methodology

4.1. Research Concept and Design

In relation to the research objectives, the following methodological definitions were considered to determine the design and paradigm for the research (Welman and Kruger, 2001).

Table 1: Differences between Qualitative and Quantitative Research

No.	Qualitative Research	Quantitative Research
1.	Qualitative data deals with subjective data that is produced by respondents.	Evaluates objective data consisting of numbers.
2.	Based on flexible and exploratory methods in order to gain a deeper understanding of the topic.	Uses a process of analysis based on complex structured methods.
3.	Investigates the constraints of day to day events.	Deals with abstraction of reality.
4.	Tries to achieve an insider's view, in a subjective way.	Investigation from an outsider's view, with a level of objectivity.
5.	Deals with the dynamic and changeable nature of reality.	Focuses on the causal aspect of behaviour. It is the collection of facts that won't change very easily.
6.	Holistic approach is used through the collection of a wide variety of data.	Specific measurement instruments.
7.	Focuses more on validity.	Focuses more on reliability

No.	Qualitative Research	Quantitative Research
		(consistent, stable and replicable).
8.	Involves small samples, studied by means of in-depth methods.	Aims for larger numbers and the analysis of results are based on the statistical significance.

Jary and Jary (1991) support the aforementioned differences between qualitative research and quantitative research in an interesting manner. For them (Jary and Jary, 1991), qualitative research depends on the skill of the researcher, as an interviewer or observer in gathering data. However, quantitative research places a dependence on specific research instruments, which is to gather data, so as to analyse or measure it (Jary and Jary, 1991).

Welman and Kruger (2001) further summarises the differences between qualitative and quantitative methods, by stating that quantitative methods may be more useful in cases of hypothesis testing. Qualitative Methods on the other hand, has evolved from ethnographic methods, which were applied by anthropologists in their study of communities and social groups (Welman and Kruger, 2001). These methods can be successfully used in the study of groups, small communities and organisations, as well as cases which do not fit into sets of particular theories (Welman and Kruger, 2001).

When an author is required to dig deeper to answer certain research questions, qualitative research methods should be used (Leedy and Ormrod, 2001). Miles and Huberman (1994), aptly presents that when one wants to get a strong handle on

what “real life” is like, qualitative data should be the methods of choice, because it focuses on naturally occurring, ordinary events in natural settings.

The use of qualitative methods is also influenced by the sensitivity of data in question (Miles and Huberman, 1994).

After careful consideration of these distinguishing factors, as well as the specifics of this topic, it becomes evident that qualitative exploratory research is the relevant methodology. This rationale is supported by the fact that little research has been conducted in this area and the researcher’s intention is to probe and dig deeper in order to gain a depth of understanding. This understanding is dependent on an organisation’s individuality. Hence, to understand the relativity of behaviour and practice, qualitative analysis surfaces as the dominant method of study. This is defined by the key points of: availability of information, the need to understand the behaviour and characteristics of organisations, the need to gain a deeper understanding of a specific topic, the need to deal with reality and the concern about the validity of cost management.

In summary, the aim of this study is to diagnose a situation, screen alternatives and discover new ideas (Zikmund, 2003).

4.2. Research Method

Burgess (1982) summarises the need for an interview, by stating that an interview is an “opportunity for a researcher to probe deeply to uncover new clues, open up new dimensions of a problem and to secure vivid, accurate inclusive accounts that are based on personal experience.”

There are three types of interviews: Structured, Semi-Structured and Unstructured interviews (Easterby-Smith, Thorpe, and Lowe, 1991). The use of these interviews is relevant when (Easterby-Smith *et al*, 1991):

1. One needs to understand the constructs an interviewee uses as the foundation of their beliefs about a particular problem
2. One needs to understand the respondent's "world," so that the researcher might influence it
3. The logic is unclear
4. The subject matter is highly confidential and/or commercially sensitive
5. The interviewee may be reluctant to be truthful due to confidentiality. A one-on-one interview will provide some security to the interviewee

The first issue a researcher would need to consider when conducting an interview, is the degree of the structure (Jones, 1985). A structured interview is when the interviewer puts forth a collection of questionnaires (interview schedule) to the respondents, face-to-face (Welman and Kruger, 2001). The interviewer is restricted to the questionnaire and has very little freedom to deviate from it (Welman and Kruger, 2001). For unstructured interviews, it is usually impossible to compile a schedule (Welman and Kruger, 2001). An unstructured interview is usually employed in exploratory research, and is used to identify important variables, in order to formulate penetrating questions and to generate further hypothesis on these questions (Welman and Kruger, 2001). In semi-structured interviews, structured questions are posed to all participants, and some open-ended questions are asked, in order for the respondent to answer without limitations (Easterby-Smith *et al*, 1991). The disadvantage of a semi-structured interview, is that the open-ended questions is difficult to analyse in a meaningful, objective manner. The advantage of a structured

interview is that, the researcher poses the restrictions to the questions. The researcher then allows the respondent to qualify their answers.

Based on the research topic, an interview based research methodology is substantiated. Due to the nature of the information required, a structured interview will be used, as the interviewer will have a structure of set questions to assess internal and external factors. However, the interviewee will be given the flexibility and freedom to explore other factors of influence over cost management. The researcher's role, is to contain the topic, which will become very important.

4.3. Population and Unit of Analysis

The first universe (primary population) for this research will be all retail banks within South Africa. There are a number of banks in South Africa, which are: ABSA, Standard Bank, Nedbank, First National Bank, African Bank and Capitec bank.

The second universe (secondary population) consists of anyone who has a direct influence and/or who is directly impacted by cost management practices within the retail banks of South Africa. These individuals could vary on a functional or job level. Therefore, for this research, individuals on these varying levels will be interviewed. The rationale behind this, is that the view and practice of cost management could be relative to the maturity of the individuals experience, skill and exposure.

Therefore, the population will be all employees who are responsible for cost management, that work for any of the retail banks in South Africa. The population is a heterogeneous population.

The unit of analysis will be, any employee responsible for cost management within any South African retail bank.

4.4. Sampling Method and Size

On the basis of the two universes outlined above, this research will require, a two phased approach to sampling. The first phase of sampling is for the first universe – company selection. The second phase is for the second universe – the individuals who will be interviewed.

There are two sampling methods, non-probability and probability samples (Page and Meyer, 2000). Probability samples are used to generalise findings, as opposed to, generating ideas, as with non-probability samples (Page and Meyer, 2000). There are four commonly used non-probability sampling methods. They are: judgemental, quota, snowball and convenience sampling. In the case of the first phase of the sampling methods, convenience sampling will be used (Page and Meyer, 2000). The sample will comprise of at least two out of the “Big Four” banks.

For the second phase of sample, i.e. selections of individuals, judgment sampling will be used. In this method respondents are selected by the judgement of the researcher, based on who will be able to supply the required information (Page and Meyer, 2000). Zikmund (2003) supports this by stating that the researcher selects the sample, based on judgment, due to an appropriate set of characteristics required by the sample. The rationale for selecting this sampling method, is primarily time constraint. Access to the appropriate individuals is important and a priority.

The judgmental sampling method does not allow for randomisation, but does cater for stratification (Page and Meyer, 2000). In this sample, the researcher uses experience, ingenuity and previous research, to select the sample. The disadvantage of this approach is that different researchers may obtain such a sample in different ways and therefore, it becomes difficult to evaluate the extent to which these

samples are representative (Welman and Kruger, 2001). However, it was indicated in the sections above, that the aim of this research is to probe deeper questions which may support further research.

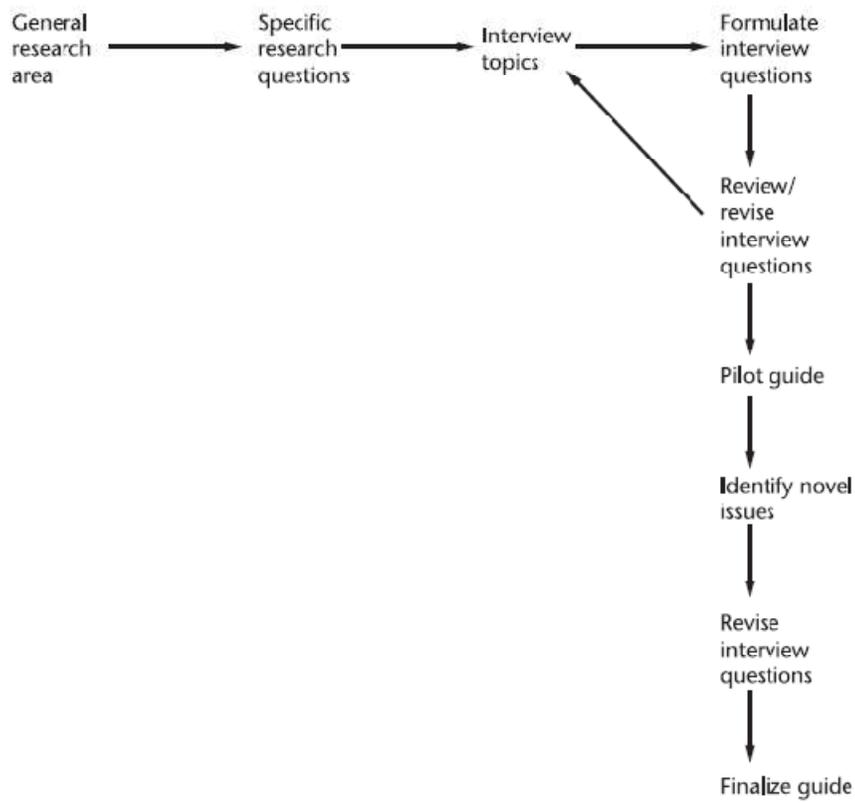
4.5. Data Collection

When interaction is required between an individual and participants, data is collected through interactive procedures (Page and Meyer, 2000). This procedure can give rise to a number of issues which can bare unwanted prejudice and errors to the results (Page and Meyer, 2000). However, this method can also allow for the researcher to take personal care and pay more attention to detail (Page and Meyer, 2000). In many ways, interviews are similar to the one-on-one administration of a questionnaire, other than that, the interview process is directed by the flow of responses rather than specific items set by the researcher (Page and Meyer, 2000).

4.6. Interview Schedule

Interviewing in Qualitative Research (2000) indicate, that when determining an interview schedule, a series of steps would need to be followed. This is highlighted in figure below (Interviewing in Qualitative Research, 2000):

Figure 5: Formulating Questions for an Interview Guide



They suggest the following basic factors which need to be accounted for when preparing an interview guide (Interviewing in Qualitative Research 2000).

1. Ensure that the questions flow reasonably well by creating order under specific topic areas. The interview should be prepared to alter the order of questions in the interview.
2. Ensure that the interview questions will help with answering the research questions.
3. Ensure that the language used is understandable and relevant to the interviewee.
4. Do not ask leading questions.

5. Ensure that a factsheet is recorded and compiled. This factsheet should include general information (name, age, gender, etc.) and specific information (position, number of years, title, etc.). These types of questions help to contextualise answers.

Interviewing in Qualitative Research (2000) suggests nine types of questions which should be part of a qualitative interview. These questions are as follows:

1. Introducing questions
2. Follow up questions – this aids elaboration
3. Probing questions – follow up on answers through direct questions
4. Specifying questions – to assess reactions to certain events
5. Direct questions – these questions should be left towards the end so as to avoid influence
6. Indirect questions – in order to get the interviewee's own view
7. Structuring questions – in order to move from topic to topic
8. Interpreting questions – aimed at gaining more information

Based on these guidelines, the following interview schedule was developed.

Category	ID	Demographic Information	Selection Options				
			Mark with an X				
Factsheet	D1	Age	25 or under	26-32	33-40	41-50	51 or older
	D2	Gender	Male	Female			
	D3	Ethnicity	White	Black	Coloured	Indian	Other
	D4	Position					
	D5	Duration with Company	< 2 Years	2-5 years	5-10 years	> 10 Years	
	D6	Managerial Status	Non Manager	Junior Manager	Middle Manager	Senior Manager	Executive
	D7	Duration in Position	< 2 Years	2-5 years	5-10 years	> 10 Years	
	D8	Highest Education Achieved	Martic	Degree	Post Grad	Masters	Higher

Category	ID	Questions	Research Question	
Prevalence	1A	Tell me about cost management within the organisation	RQ1	
	1B	Who would be the typical users of cost information?	RQ1	
	1C	Is there a functional area which is responsible for cost calculation or management?	RQ1	
	1D	Is the team involved in cost management centralised or decentralised?	RQ1	
	1E	What are the reporting lines for the cost management team?	RQ1	
	1F	What cost management methodology is being used in the organisation?	RQ1	
	1G	What current technologies (software) are being used?	RQ1	
	1H	What is the scope of the costing department?	RQ1	
	1I	How is cost management practiced together with revenue generation?	RQ1	
	1J	What sort of personnel is required to derive and apply costing methodologies?	RQ1	
	1K	How frequently are costing models updated?	RQ1	
	1L	How frequently are costing models reported?	RQ1	
	1M	What is the maturity of the costing models and practices?	RQ1	
	1N	What are the biggest drivers within channels and segments?	RQ1	
	1O	What is the split between fixed and variable costs? How are each managed?	RQ1	
	1P	How are costs used for budgets?	RQ1	
	1Q	What is the costing process?	RQ1	
	Factors of Influence	1A	What are some of the internal organisational issues which affect effective cost management?	RQ2
		2B	How does the organisation's culture influence cost management?	RQ2
2C		Is there a specific champion who runs with cost management in the organisation?	RQ2	
2D		Do the champions motives come in the way of effective cost management?	RQ2	
2E		Is there an inherent top down approach to cost management?	RQ2	
2F		To what levels do individuals take accountability of cost management (KRA, KPI, etc)?	RQ2	
2G		Are there adequate controls in place?	RQ2	
2H		Are there any internal cost training and awareness programs in place?	RQ2	
2I		How has technology influenced the roll out of cost management?	RQ2	
2J		What are some of the external factors which influence effective cost management?	RQ2	
2K		What are the economic factors which influence cost management and the application of cost drivers?	RQ2	
2L		What are the environmental factors which influence cost management within banks?	RQ2	
2M		How does regulation impact cost management (e.g. Basel II)?	RQ2	
2N		Is there a shortage of skills for this specialist function?	RQ2	
Cost Management & Strategy	3A	What is the relationship between cost management and strategy within the organisation?	RQ3	
	3B	How would you rate the influence (From 1 - 10) of cost management on strategy?	RQ3	
	3C	Regarding corporate strategy: what are the mandates to the level in which costs are driven down? (To what extent, at what cost?)	RQ3	
	3D	What are the sensitive issues considered when managing costs?	RQ3	
	3E	What are the perceptions of cost management through headcount?	RQ3	
	3F	How effective are costs used to determine business cases for project investment?	RQ3	
	3G	What sort of inter-banks comparisons exist for cost management?	RQ3	
	3H	How does cost management influence the customer? Is there a direct impact or is it internal?	RQ3	
	3I	How are costs applied to the following decisions:	RQ3	
	3J	Pricing	RQ3	
	3K	Capacity Management	RQ3	
3L	Investment Decisions	RQ3		
3M	Process Re-engineering	RQ3		
3N	Customer interaction	RQ3		

4.7. Data Analysis

Analysis of qualitative data through structured interviews should allow the researcher to achieve two things: to draw some of the key features from the data while allowing

some of the richness of the material to remain for illustration purposes (Easterby-Smith *et al*, 1991).

Easterby-Smith *et al* (1991) points, out that when analysing semi-structured interviews, the creation of conceptual frameworks are encouraged. These frameworks are used as boundaries and should not confine the analysis. They point out, that the most appropriate method of analysing data through semi-structured interviews, is by the use of an analysis sheet (Easterby-Smith *et al*, 1991). This typically means that the questions are drawn at the top of the matrix, and the respondents are drawn down the x-axis (Easterby-Smith *et al*, 1991). Their responses are mapped onto the analysis sheet, into the main themes the researcher was seeking after (Easterby-Smith *et al*, 1991). The outcome of such an analysis, is that visual patterns or themes can be qualified, based on the research outcomes (Easterby-Smith *et al*, 1991).

4.8. Limitations & Assumptions

4.8.1. Limitations

Another differentiating factor between qualitative and quantitative research, is that qualitative research needs triangulation, in order to convince the reader that the research makes sense (Merriam, 1998). In this regard, researcher bias as a question of validity, is flagged as a concern for this research. This rings true since the researcher works for one of the interviewed organisations.

The second limitation is that the interview schedule is drawn up based on the literature review, as well as on the general understanding of cost management by the researcher. This could indicate that certain important questions may be

excluded; however, the researcher hopes that any additional factors will reveal the nature of structured interviews, allowing respondents some room for elaboration.

Due to time constraints and access to resources at the banks, this research may be limited, such that the sample includes two of the four major banks. Therefore, the researcher assumes that the sample is reflective of practice within the industry. Limitation in the individuals who are interviewed, could be subjective to the researcher's choice and approach.

Every effort will be made by the researcher, to mitigate these limitations by enforcing a principle of objectivity.

4.8.2. Assumptions

The researcher's assumption is that each interviewee will provide their honest responses to the questions put forth and that they have adequate understanding of the English language. The researcher also assumes, that an adequate sample of individuals (five) and organisations (two) participate in this research in order to infer a theory and an understanding with confidence.

5. Results

5.1. Respondent Demographics

In line with the sampling approach, seven respondents were interviewed for this research. These respondents were sourced from three of the four major banks in South Africa, with the selection based on individuals who are directly responsible for cost management within the respective organisation.

A summary of the demographic information of these respondents are depicted in Table 1:

Category	ID	Demographic Information	Selection Options									
Demographics	D1	Age	25 or under		26-32	1	33-40	4	41-50	1	51 or older	
	D2	Gender	Male	5	Female	1						
	D3	Ethnicity	White	4	Black		Coloured	1	Indian	1	Other	
	D4	Position	Head: Costing, Manager: Pricing, Manager: Activity Based Costing									
	D5	Duration with Company	< 2 Years		2-5 years	2	5-10 years	3	> 10 Years	1		
	D6	Managerial Status	Non Manager		Junior Manager		Middle Manager	4	Senior Manager	2	Executive	
	D7	Duration in Position	< 2 Years		2-5 years	5	5-10 years	1	> 10 Years			
	D8	Highest Education Achieved	Martic		Degree	1	Post Grad	4	Masters	1	Higher	

Table 2: Respondent Demographic Information

5.2. Interview Observational Feedback

The following, worthwhile, general observations were noted during the interview process. Of the four major banks in South Africa, it was relatively easy to secure interviews with three of the banks. Even though an organisation's cost structure and practices can be deemed as sacred and confidential, the key individuals in an organisation were seen to be eager to get an over arching picture of cost management within the industry. All the respondents felt that the topic was interesting and they expressed their desire to have a view of the finding once completed. This conclusion was based on the overall mood, energy and enthusiasm during the interviews, as well as the following comments received from the

respondents, *“I think it is very interesting, what you have chosen.”* and *“.. it has been an interesting discussion.”*

One respondent felt the need to extend this type of research to other limbs of banking or financial institutions, particularly: corporate banking and insurance. This is supported by this feedback. *“In banking you have retail and corporate. I think in all organisations [banks] or maybe some of them have an insurance body. Effective cost management from a strategic point of view, is to understand the top high level like that.”*

5.3. Emergent Themes for Research Question 1

What is the prevalence of Cost Management practice in the organisation?

Category	ID	Questions	Research Question
Prevalence	1A	Tell me about cost management within the organisation	RQ1
	1B	Who would be the typical users of cost information?	RQ1
	1C	Is there a functional area which is responsible for cost calculation or management?	RQ1
	1D	Is the team involved in cost management centralised or decentralised?	RQ1
	1E	What are the reporting lines for the cost management team?	RQ1
	1F	What cost management methodology is being used in the organisation?	RQ1
	1G	What current technologies (software) are being used?	RQ1
	1H	What is the scope of the costing department?	RQ1
	1I	How is cost management practiced together with revenue generation?	RQ1
	1J	What sort of personnel is required to derive and apply costing methodologies?	RQ1
	1K	How frequently are costing models updated?	RQ1
	1L	How frequently are costing models reported?	RQ1
	1M	What is the maturity of the costing models and practices?	RQ1
	1N	What are the biggest drivers within channels and segments?	RQ1
	1O	What is the split between fixed and variable costs? How are each managed?	RQ1
	1P	How are cost used for budgets?	RQ1
	1Q	What is the costing process?	RQ1

5.3.1. Cost Management is Driven by an Executive Vision

The degree to which cost management pervades an organisation, is dependent on the vision and direction of the executives. In some organisations where there is specific focus on cost management, executives and management provide the responsible cost management team with support, and tools, so that they manage

and measure costs continuously. The following comments from the respondents support this notion:

- *“...the Financial Director at the time, decided to get an external evaluation from a subject matter expert on activity based costing, specifically financial institutions, to see where we sort of measure up against best practice.”*
- *“Over and above that, we also have a PET programme, (Product Efficiency Programme) which was initiated by the Financial Director, specifically to drive the cost income ratio, down to below 50%.”*

Other banks who do not have this essential executive support mechanism, tend to chase revenue targets. Pertinent comments from the respondents which support this theme are:

- *“... cost management has never been a focus in the group, as it has always been a revenue target, getting 20% on that revenue.”*
- *“... whether it has always received the focus or the air time it deserves, it is yet to be discovered...”*

5.3.2. Organisations focus on Cost Management in Harsh and Competitive times

When “business times” are good, an organisation focuses on revenue generation, and less on efficiency (cost management). As a reaction to a takeover, recessionary demands, competition or constraints within the market, an organisation begins to look at its cost structures, creating specific plans to reduce those costs. These types of behavioural reactions are attested by the following comments made by the respondents:

- *“It is only since the recession that cost management has become more prevalent, because in the past, being retail, all you needed to do was sell and the rest would follow. That is not working anymore.”*
- *“... also the environment is changing with international competitors, others who are competing on low pricing, and the advent of the competition commission. This has made cost management a very important function.”*
- *“... but it is almost hand in hand with the [company name] take over, because there was a huge focus [on] efficiencies, especially with the take over and its initiative. I would actually say, that sort of kick started this whole thing; the fact that the Financial Director attended an international seminar on corporate performance management and learnt what sort of building blocks you [would] need to align in order to get to a corporate performance management framework. This led on to the efficiency programmes.”*
- *“Look, through this economic cycle that we have come through, I think there was little cost management and more cost cutting. So I think we might be going into a phase, where we will start looking again at ways [where] we can actually reduce or manage costs efficiently and not just cut cost as we did in the past.”*

5.3.3. Cost Information is Valuable to all within an Organisation

There are typically internal and external users of cost information. It was noted by the respondents that these users request this information on an ad hoc basis. It is also used as an input into the financial statement, which is reported to the market. These statements are quoted below:

- *“So they would use it, in their reporting to the market and the analysts, more a pre-read to the financial statements they put out.”*
- *“... it is not the primary focus of the report, but it is definitely used in explaining results.”*
- *“... with the press there, they would need some stuff. What are volumes doing? What are costs doing? So that is how it is used there, but it is more ad hoc.”*
- *“Internal is probably where it is used the most.”*

Predominantly, internal stakeholders use information relating to cost. Depending on the organisation, these users are either from finance or non-finance. Within the finance area, these users apply cost as a means to transfer support and head-office costs to products (commonly known as product houses) and segments. This methodology is often called Transfer Pricing. Product houses and segments are often appraised and rewarded based on their ability to reduce their cost to income ratio. Due to the concept of “willing buyer and willing seller,” the management of these transferred costs are the easiest to manage. Therefore, when considering efficiency, these are the costs which are focused on first.

- *“Internal is probably where it is used the most, because units are measured with their performance, individual bonuses and rewards are determined with SLA’s [Service Level Agreements – or Transfer Costs].”*
- *“... it is part of the reward structure, [therefore], it gets lots of attention. It is a bit easier to fight your SLAs, than it is to manage your own costs down or get revenue – because it is internal, it is easier to negotiate.”*

Non-finance users also use cost information. However, the adequate use of this information as a driver for change, is determined by the inherent desire of the specific business unit. Here are the statements which support this theme:

- *“Everyone. If you were to break it down you [would] have financial, the finance environment, and the non-financial – more business related.”*
- *“They [project areas] are not financial, they are not CFOs but they have their projects that they are trying to drive, and those projects they report on, [is] to their EXCO’s for example.”*
- *“So various areas in the bank have taken on costing and cost management at a slower or faster rate than others.”*
- *“Well it is mainly within finance, but I would also [say] planning.”*
- *“... in our strategic planning area and pricing area, they also make use of the information when it gets to new business cases and looking at the base and costs that are in and costs that are out and fixed and variable.”*
- *“... their channel, their marketing segment and product houses etc. Then they also have their business process optimisation part. So if you look at it from a full spectrum, all of those are potential users of it; whether all of them are, is not necessarily the case.”*
- *“... dominantly, a lot of the operational guys use that information, you also have a whole lot of the business process and optimisation [department], using a lot of information and this allows them to either vet projects or process etc. Then [recently] it is starting to be largely used for the guys in group from a transfer pricing point of view as well. So group finance is one of the biggest users of this and what I have also picked up, as a trend, is that the product*

houses are also now saying, but hang on a sec [second] we [need] this type of information.”

- *“The users of the information are finance, and predominantly for transfer pricing purposes.”*
- *“The problem we sit with, is the guys who pick up the costs aren’t the guys that are responsible for incurring the costs. So they will get a charge from IT and they won’t understand what it’s really for, and they can’t manage it, so they just see it on their bottom line...”*

Cost reporting seems to be dependent on the maturity of the business. To this extent, within South African banks, they are either reported monthly or quarterly.

- *“... our reporting is monthly.”*
- *“For some clients we report every single month, every time a model runs. Other clients [who] don’t use the results, the reports are never reviewed or actually worked on.”*
- *“... we do run the models monthly but we report on a quarterly basis.”*

5.3.4. Cost Management is a Decentralised Function – with a Centralised Specialist department

It was evident from the interviews that it becomes the responsibility of each business unit and division to manage their costs. However, there is often a centralised costing department which is responsible for the application of the methodology, maintenance of costing models and the supply of costing information. They also provide a governance function for areas that have the mandate and desire to in-source their cost models. It was interesting to note, that the in-sourcing of costing models was only found in the bank with a federated structure.

The relationship between the business unit and the costing department is mutually beneficial. The business units partner with the central costing team in order to understand their costs, as well as to gain “professional” and “experienced” means so that they can manage their costs. This partnership is reiterated with the following statements from the interviewees. Special attention should be focused on the fact that, the respondents mentioned that their costing departments are central, while the actual management of costs lies within business.

- *“Yes, based on a central function, more a governing or guiding function where clients do the costing with us – which is most of them.”*
- *“... in terms of governance principles and what you can and can’t do, that, is controlled centrally.”*
- *“Yes, we are definitely more centralised, people [who] don’t have their own capacity, [to build models], will ask us to help. Where they have their [own] capacity, we are [there] to vet it. Then if you have people who need a focus in their area and they want to have their own view of their costs and then it will be more decentralised.”*
- *“They have their own financial managers who are playing a dual role of understanding their costs and charge outs, but they don’t actually cost them.”*
- *“... it is centralised to the bank; the model we came up with was to centralise a certain so-called SME [Subject Matter Expert] capabilities, where we have developed the processes. We have automated it and we basically make a skeleton model available to business.”*
- *“Within a business, there is a business representative which [who] is also a finance person, and we refer to them as a profitability analyst, who then sits in the business and actually owns the model.”*

- *“The function isn’t a central function: each business unit has their own costing models, but it all flows into one big costing model and it is all managed centrally.”*

5.3.5. The Most Adequate Fit is for the Costing Department to Report to Finance

In the early stages of cost development and maturity, the costing function forms part of either, the Data team, the Operations team or the Business Process Management team. Here are some of the comments to bear evidence to this theme:

- *“... within [bank name], we were part of more the data side, because data is a large input into the cost of models...”*
- *“... first, we actually reported into the operations department. That soon changed, then we started reporting to business process management...”*

However, as organisations mature in its practices, they begin to realise that the correct reporting structure for the costing team is within the finance area. Here are the respondent’s answers to support this:

- *“... it was seen as a small financial function, because if you look at the GL [General Ledger], there is lots of input into the GL, the fixed asset register, the revenue register, procurement, and cost are probably the four biggest items. So clearly, we should be closer to finance and GL.”*
- *“We report into business performance management and that is within the Finance Director cluster, so it is a group function with a group responsibility.”*
- *“... they started reporting to finance. And I actually, firmly believe, that is exactly where they belong.”*

5.3.6. Within the Banks, it's difficult to Pin Point a Specific Applied Cost Methodology

The practice of philosophies, methodologies and management, varied within the three organisations. Based on the maturity of the practices, they could range from having a dynamic view of the levels of cost (direct, support, etc.) or just a full absorption, “peanut butter” method. These practices are described by the respondents as follows:

- *“... the methodology is unique to the area we are dealing with, so if it is a people orientated area, then it will be more of a time based methodology and if it is electronic, like an ATM (Automatic Teller Machine) or online, then it is more volume driven.”*
- *“... Standard and ABC [Activity Based Costing]. But there has definitely been a bastardisation of that, where you have a mixture between the two, where you kind of doing ABC but you are not.”*
- *“Mainly ABC. Also some Standard Costing as well.”*
- *“It is Full Absorption, ABC Costing and then normal financial cost; the headline earning, growth sort of thing. So there is... I don't know if it is a balance, but there are both.”*

The organisation which was recognised by an independent party as a cost mature organisation, has a more accurate view of costs per activity or cost object and has a purist approach to the methodology.

- *“It is pure ABC, the basics of activity based costing. We do sort of enrich our data with the use of certain cost stages, where we have got a complex transfer pricing methodology, as well as in the group, where there is support*

functions, service providers and then business units. Only the business units get measured on their performance.”

- *“... cost stages, where a stage one, would be a business units own costs and a stage two, would be a service provider’s direct costs and three and four would be the overhead costs of a business unit and service provider. While a stage five is for group allocation.”*

Regardless of which methodologies are being used, it is apparent that the biggest driver for cost is headcount. The nature of financial institutions is centered around service, hence, this high amount of headcount costs. Headcount also substantiates another driver for cost, which is volume. The respondents expressed their view in the following way.

- *“People: depending on the area you are looking at, [people costs are] somewhere between 50% and 55% of the cost.”*
- *“In a retail services environment, where we are [in], where we produce no product, there is a bit of cash costs and CIT (Cash in Transit) [costs], but they are very unique. It is by far people.”*
- *“I know staff is a big part of the bill...”*

However, as one isolates specific areas within banking, it may emerge that there would be other predominant cost drivers. For example, within an ATM environment; IT and infrastructure costs would be deemed as the biggest driver.

- *“... if you look in terms of different channels, whether it is your branch network or your ATM or your internet tracking, it is very much volume driven.”*

5.3.7. Valuable Information takes Precedence over Technology

When technology fit and pervasiveness was discussed, the organisations seem to experience a growth learning curve. The organisation usually goes through an iterative process of identify, a suitable software and technology platform that will suit its business model and objectives. At a more mature state of management, technology becomes secondary in relation to valuable information to the users. The following statements support this notion:

- *“So tools are becoming irrelevant. It is more the outlook that is important.”*
- *“People are not just looking for analysis. They want you to tell them what is wrong and what to do.”*
- *“... five or six years ago, costing software was the thing. I mean, you had to have it, and it worked pretty well, until a couple of years ago, when clients were [starting to] looking for costing on the next level...”*

However, due to the natural complexity and volume of data that needs to be processed, technology is a dependency for efficient reporting. SQL is the prevalent backend processing technology that is used to manipulate data, whilst a variety of vendors are used as a front end reporting mechanism. The respondent's comments are testament to this:

- *“... we run a lot of our stuff through SQL.”*
- *“... some of the costing will be done in Excel in the smaller areas, whilst your more distributed areas, will do an Excel model.”*
- *“SAS ABM.”*

- *“... data drops made from services in SQL 2005. It is all programmed, to run at the background, and what the user sees, is what gets published in that SAS ABM.”*
- *“... [the company] has had an evolution of software that they used over time... They were using Oros, and then they moved to SAS ABM, and then they started using TM1 and Valuemax, and then I introduced them to Cost Perform, which is what they are currently using. They also use Excel and Access to a large extent.”*

5.3.8. Ideally an Organisation Would Like to Partner Revenue and Cost

The end goal, or ideal situation, is the practice of cost management with revenue generating targets. This partnership, and to the degree it is practiced, is dependent on the maturity of the organisation. Below are a set of the remarks from the respondents:

- *“... it [cost management] worked very well and there is some sort of need for that, in terms of pricing and that sort of thing, but more and more clients want to see revenue next to it [cost], so we actually started a department a few years ago that adds revenue to the costs, so we get profitability.”*
- *“Profitability, is by far, our end result, more than a unit based productivity, because that unit base only makes sense once you have got something to bench mark to.”*
- *“We do look at revenue streams, interest and non-interest income, and we then match that to our cost information.”*
- *“It is very much in isolation and that is actually a phenomenon throughout South African organisations.”*

- *“I think they [the bank] are actually only waking up to cost management in a sense, but prior to that there was nothing.”*

5.3.9. Cost Managers are required to have a Hybrid of Skills

Typically, Cost Managers may be associated with accountants or those with financial skills. The interviewees in this research hold senior management positions within the organisation. These respondents emphasised the need to develop a special set of unique individuals, who can become responsible for cost management. These individuals need to possess three spheres of skill and knowledge. As a respondent so aptly said, *“We [cost managers] must have a financial aptitude. They [we] must have an IT aptitude and they [we] must have a client relationship kind of attitude to be able to work with a client and still be able to do most of the business type of stuff.”*

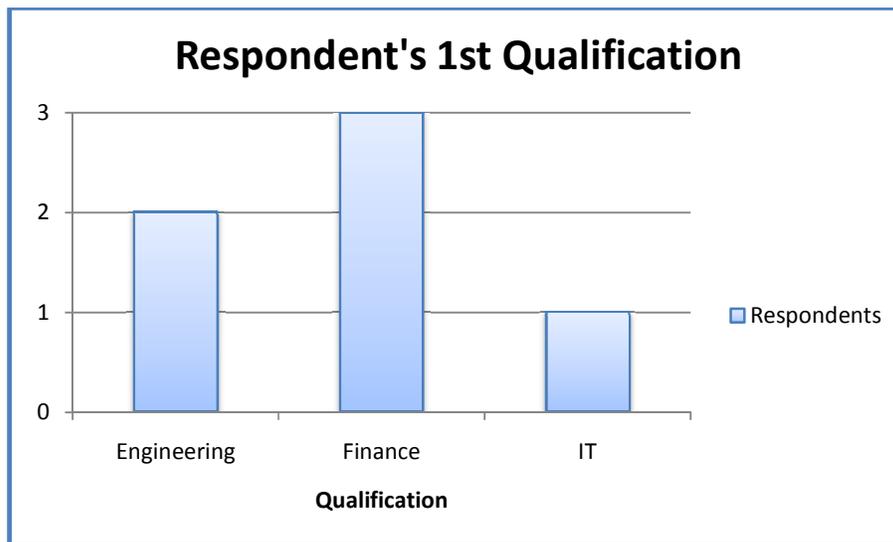
There was also an indication that practical experience will out weight theoretical knowledge, which was exposed as a flaw within the current educational system.

- *“... having this knowledge of Activity Based Costing and that sort of hybrid, is difficult, because people do have a background of activity based costing, but they have never worked with it or implemented it.”*
- *“... we do offer these things at our educational institutions, universities and technikons, but I think it is very much theoretical. Because of the fact that there is such little exposure to the practical side, you find people have theory but no practice on how to implement costing.”*

In summary, this unique individual is required to have a host of hands-on skills. They would need to understand the financial statement, but also know how this is linked with process. They also need to possess a certain IT acumen, which should be complemented with an understanding of business. If an individual possesses two of

these qualities, they can be identified as a worthwhile asset. The remaining gaps will be and can be developed. However, if the individual possesses only one of these qualities, the task to develop the individual becomes cumbersome. Figure 6, provides a view of the respondents qualification and indicates that their background may vary between IT, Engineering & Finance.

Figure 6: Respondent's Formal Qualification



When asked for the specific level of qualification, the respondents expressed preference of individuals with degrees over those with diplomas.

- *“We generally try to hire someone with a B.Com qualification.”*
- *“Not to say we won’t look at a diploma, but generally we have found the degree provides a different thinking.”*

5.3.10. Banks have, on Average, a Higher Fixed Cost Ratio. Therefore, it’s Difficult to Manage Cost in the Short Term

Theory indicates that variable costs can be classified as controllable costs whilst fixed costs are uncontrollable (Narong, 2009). Cost Management initiatives generally target the controllable or variable cost, as confirmed by a respondent: *“... the split is*

a 90% fixed and 10% variable, which actually sounds ludicrous, because which are the ones you lever to do cost improvements? ... the 10% (variable)”

Over time, the banks are beginning to realise that time is an important factor in cost management. It is also a factor which defines fixed costs and variable costs. Due to the high ratio, between fixed and variable costs with the consideration of time, it can be concluded that managing costs is a gradual, medium to long term, time dependent process. Pertinent comments from the respondents that support this theme are:

- *“... that view is changing on how variable is determined or that fixed costs are determined by the period.”*
- *“The official rule is three months; anything that can be managed within three months becomes variable and we use that variable on our models and in our sales commissions, we use that variable. But if the purpose was a business case to downsize an area, then we would reconsider its variable.”*
- *“... there is not one fixed cost in the bank at all, it is just a matter of how long it will take you to remove that cost.”*
- *“... 80% fixed, 20% variable and over time, everything is variable...”*

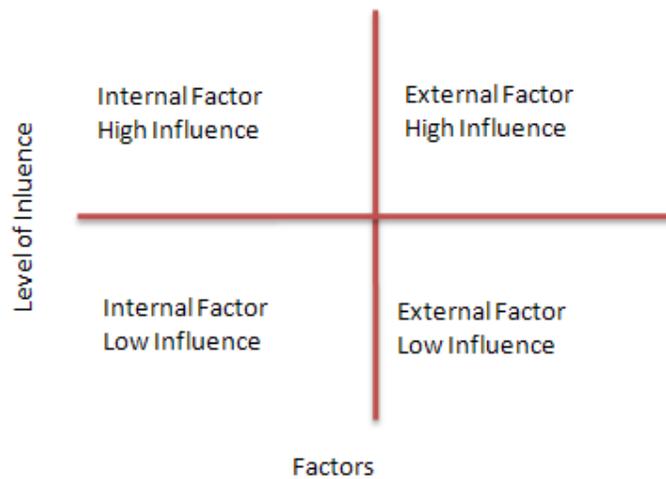
5.4. Emergent Themes for Research Question 2

What are the internal and external factors that influence Cost Management within the organisation?

Category	ID	Questions	Research Question
Factors of Influence	2A	What are some of the internal organisational issues which affect effective cost management?	RQ2
	2B	How does the organisation's culture influence cost management?	RQ2
	2C	There a specific champion who runs with cost management in the organisation?	RQ2
	2D	Does this champions motives come in the way of effective cost management?	RQ2
	2E	Is there an inherent top down approach to cost management?	RQ2
	2F	To what levels do individuals take accountability of cost management (KRA, KPI, etc)?	RQ2
	2G	Are there adequate controls in place?	RQ2
	2H	Are there any internal cost training and awareness programs in place?	RQ2
	2I	How has technology influenced the roll out of cost management?	RQ2
	2J	What are some of the external factors which influence effective cost management?	RQ2
	2K	What are the economic factors which influence cost management and the application of cost drivers?	RQ2
	2L	What are the environmental factors which influence cost management within banks?	RQ2
	2M	How does regulation impact cost management (e.g. Basel II)?	RQ2
	2N	Is there a shortage of skills for this specialist function?	RQ2

In order to adequately understand & analyse the results for this section, the following overarching model will be used as a framework. The model describes the factors which a business would need to be cognisant of, i.e. internal and external factors. The second dimension of the model is the level of influence exerted by these factors towards the banks (i.e. high influence & low influence). The model is presented in Figure 7 (own source):

Figure 7: Internal & External Factors which Influence Cost Management



5.4.1. Internal Factors with High Influence on Cost Management

Culture

All respondents share similar sentiments when posed with this question: What is the influence of culture over cost management within the respective organisation? Majority of the respondents alluded to the fact that culture is dictated by the structure of an organisation. This culture dictates the behaviour of the individuals belonging to the organisation. Centralised and Decentralised structures are within the sample of this research, i.e. federated or non-federated designs. The following comments are expressed by the respondents:

- *“... it is extremely challenging at [bank name] because of the decentralised structure.”*
- *“... other banks [who] don’t have a decentralised function, therefore, cost management is a little bit easier.”*
- *“So culture, philosophy, structure are very apt to the cost.”*
- *“I would say there is a huge influence.”*

- *“Corporate culture is a very important thing; a 9 on my scale, if 10 is [considered] great.”*
- *“[The Bank] operates in silos, and that I think, is one of the biggest hindrances”*

One of the banks that achieved recognition and accolades for its mature cost management practices, indicated that it was imperative for the organisation to break down the decentralised structure.

- *“... breaking down silos was the major focus in [the organisation]. That eliminates the duplication of effort, because you start thinking of the one [bank]. What one area does, is looking at how things in [the bank] can be streamlined by putting people together, instead of having these decentralised centres.”*

Culture is also motivated and driven by senior management. They adapt an organisation’s culture according to its economic stance, competitiveness and its overall standing. The following respondents commented on this:

- *“So there has been that shift and I think it is a forced culture change as well.”*
- *“When times were good, I think there was not a culture of cost.”*
- *“And a lot of the culture is defined by your new senior management.”*
- *“... where you have people who are open to costing and the critical analysis of their costs, I think there will always be a good culture. Where you have people who are defensive and don’t want to be open, you are going to have people hiding costs or hiding the truth or what is not [is] relevant.”*

Champion

The interviews indicate, that there may not be one specific, individual champion within an organisation who is responsible for cost management. As highlighted in the section above, senior management buy in and focus are important. Regardless of the presence of a champion, the role of cost management is function of a financial manager or strategist who operates within the specific business units. This decentralised function was provided as a very important driver for effective management.

- *“The financial manager (FM), is the Chairman of the costing, and it is his job to make sure we are moving forward.”*
- *“... financial community needs to buy into these numbers. So having him [FM] as the champion, puts a stamp of authority and he has an influence in governance, in that, he has the authority to influence people around him.”*
- *“... every area has someone designated to do something.”*
- *“There have been specific champions in the organisation reporting on cost management.”*

Mandate

The objective of this section is to test whether cost management is practised as a top-down or bottom-up approach. The answers differed, based on the organisational structure. A federated company is bottom-up, where the initiatives and actions are taken up by the “shop floor.” A more centralised company indicated a top-down approach. The key factor within the federated bank, is that, the directive may be top-down, but implementation and strategy are often bottom-up.

- *“Not at all. I mean there are certain high-level directors, but it is mainly bottom.”*
- *“... in terms of directives, but in terms of strategy, and that it is bottom-up.”*
- *“Definitely top-down.”*

Score Cards & Performance Measures

In one bank, profitability, which includes cost management, is the fundamental measure of a unit's or an individual's performance: *“What you will find out, depending on the business, is that, it is a profitability target, and that implies, cost management. So you can either choose to chase the revenue or you can manage costs.”* The degree of accountability of costs, is related to the market or business environment, i.e. when the business is going through a good patch or a bad one, as stated here: *“... in tough times when revenue is down, we are cutting costs further than the declining revenue.”*

The overall feedback states that there are no individual staff measures relating to cost management:

- *“It gets discussed. It is not as much engaged, and signed on a KPA level, but in general, there is enough awareness within the group to get everyone's attention to that.”*
- *“You will not find yourself managing your unit rates to 10% of what it is now, in anyone's score card, including mine.”*

However, a respondent did indicate that this accountability should exist.

- *“... cost management should become part and parcel of peoples key performance areas.”*

Experience, Understanding and Buy-in

The right people, the right experience and the right understanding of costs, were highlighted earlier in the interview process. There was a strong sense of importance to these factors.

- *“That is, typically, people that are successful at cost management, are people that understand the drivers of the cost.”*
- *“It is people who have a very thorough understanding of the income statement and what you can expect. Half the time, we will get to an area and they don’t accept there is a problem.”*
- *“So the business unit buy-in is probably the biggest component of cost management, and the second, is the understanding of the area, of their own costs. I have got to say, experience does count a lot as well.”*
- *“I think [there] is a lack of understanding of costing. And you need to be careful on that, because I think it is sometimes the financial managers who don’t always understand indications.”*

5.4.2. Internal Factors with Low Influence on Cost Management

Controls

Having adequate controls, seem to have featured lower than most of the internal factors. As stated by one respondent, controls is not a primary factor in cost management within the organisation: *“... is definitely not primary.”*

Usually, the controls take the form of budget processes, unit rate efficiency measures and governance committees.

- *“There are lots of controls in place. The one yard stick is budget, that everyone uses, to make sure they stay within the agreed boundaries. The*

second one is probably a few years ago, when we introduced unit rated efficiency into the budget. The result is that you can only increase your costs by 20% if you can show similar efficiency in your unit.”

- *“... all these things will be presented and debated in an open forum across all stakeholders. We will have that presentation where everyone is there, so that all costs are transparent.”*
- *“... there is tracking of initiatives. There is a mechanism on the cost, to see what the value is.”*
- *“... [we] started a governance committee, where they have actually put costing as a focus as one of the sign off areas, in terms of vetting projects up front, and then obviously being responsible for measuring and monitoring these.”*

In-house Training

This factor deals with the need to have cross department training within an organisation. As indicated in the previous sections, skilled staff is required to manage and calculate costs. However, there is a need to educate others within an organisation, on the meaning of those costs and in the manner in which they have been calculated. This is important, especially if an organisation wants this to form part of an individual’s scorecard. However, from the response, it was indicated that cross-training is a low factor of influence. Here are a few views to support this: *“A user of information would probably rate it quite low.”* and *“From my personal point of view, in terms of costing, I would give it a poor rating.”*

Time seems to be a constraint for individual, class room like training. Therefore, self-help options are working better, as opposed to formalised training programs. *“... we are finding more self-help options, where the individual can read a document at night*

or these kind of training materials which are low touch. They seem to be working better.”

Of the five respondents, one felt that training is being done often in their organisation, as it helps the receiver to decide what information they want and how to interpret it. However, this was not the overall consensus. *“What we find a lot, with the people we give information to, is that, they first and foremost don’t know what they want, and when you give them something they don’t actually know what it means to them. So we find ourselves by default, doing that a lot.”*

Technology

Due to the volume of data, technology becomes an important factor for those who are responsible for building and reporting on costing models. However, it is clearly stated that, an end-user may not have a requirement for “fancy” software; they simply want to view the results in a value adding manner.

- *“... they don’t care how you do it, they just want it.”*
- *“... they care about what they are getting, not the technology behind it.’*

This research is aimed at the general management of cost; hence, technology has been rated as a low factor of influence over effective cost management in a bank.

5.4.3. External Factors with High Influence on Cost Management

Economic Factors

An economic environment is pivotal to effective cost management. During the time of this research, the global economy was recovering from an economic recession, which made it clear that organisations need to look internally, so as to increase profit margins, as the constraint is shifted to the market. Customers have less of an

opportunity to extend their debt options, which added pressure to banks worldwide, and South Africa.

- *“Right now, we are probably an 8. Very important. Maybe in two or three years from now, it won’t be so.”*
- *“When times are tough and your market is not growing and the only way you are getting the market share, is by poaching. The only way to poach is through pricing and the only way you get your pricing right, is with costs.”*
- *“... you can’t get it from a margin. You need to look at your costs and that is where it impacts.”*
- *“... the economy most definitely.”*

Regulatory Requirements

In South African Banking, regulation has played a key role in exposing banks and therefore, requested them to validate their costing structures and pricing decisions. The banks need to justify their decisions; hence, cost management becomes very important. The following statements attest to these feelings: *“So where you get told to justify your costs, you have to put it together and do it.”* and *“It has become very important, not from the methodology we are using, but where we have incurred a cost that we can’t charge a client. Costing is used to highlight transactional processes that need to change.”*

It also plays an important role in Business Continuity Management, as stated by one of the respondents: *“So regulatory has a positive and a negative effect. It brings some discipline, but also cost and business continuity management (BCM), [it is becoming] a huge focus. All business units identified their core risk processes,*

putting BCM principles in place and making sure that when something happens, the organisation can pickup and continue.”

Shareholders

The expectation of the shareholder, is to be the fundamental driver and factor of influence. If an organisation’s goal is making money to satisfy their shareholders, the pressure from these parties are paramount to an organisation’s reaction to cost management. *“... the market out there, which is our shareholders, expect [that] we drop costs, when revenue is not good. So those are all factors.”*

Customers

How can a bank exist without its customers? A respondent highlighted the customer, as a high factor of influence. This was the respondent’s view: *“Because [we are] in the service industry, the driver behind [cost management], at the end of the day, is the customer who takes your products. What organisations haven’t got right yet, is the central view of the customer. So from a cost point of view, if you had to measure from the day a customer had opened the account, to the lifespan of the account, to ultimately the diversifying of the products they might utilise within an organisation. I think the customer has a lot to do with it [influence].”*

5.4.4. External Factors with Low Influence on Cost Management

Environmental Factors

During the discussions, the environment and the notion of banks “going green” were seen as relevant and important, at all banks. It is deemed as a high cost factor, in terms of energy usage, generators, etc. *“Not affecting the cost methodology we are using, but the cost base as a group, incurred a lot of expenses for “going green” – generators and switching off lights and all of that.”*

The environment, as a factor, is seen as a low influence that effectively manages costs. Usually, the directives come from top management (*“the responsibility of the CEO to make sure that the company is compliant with that.”*), and only when the opportunity arises, for example, when a new building is being constructed (*“when the opportunities are there, they sort of focus on that, like the new Towers West building, which we are busy constructing”*), do these environmental variables play a role. Hence, it does not seem to be an active factor.

Market Supply of Skilled Resources

The education system within South Africa, offers cost accounting courses, however, the necessary practical skills are absent in these institutions. There is an adequate supply of qualified individuals. However, they require a considerable amount of handholding, in order to reach the bank’s required skills level. *“There is definitely a shortage in the market, but the hindsight of that, is that, a lot of people have a cost management accounting qualification, but may not necessarily having costing skills.”*

Given the lack of adequate skills, most respondents felt, that skilled resources at this stage are of a low influence. Perhaps, as an organisation may mature the rating may change, but within the current context of banking in South Africa, it is a low factor.

The following comments are noted in this regard:

- *“The influence is more a negative factor, i.e. to get the person up to speed.”*
- *“... you could get by with someone who you know is qualified but you wouldn’t have the same quality costing.”*
- *“... when we lose someone, it is difficult to replace that position. We take a knock for a while, but it is not like I am going around saying, we need another 10 business analysts or developers and there is a shortage. I think when the*

company or industry recognises that costing is like a massive drive and then starts up, then you will have a problem.”

- *“There is a shortage of skills, but we don’t have clients coming and saying we need them.”*
- *“It is a shortage, but not critical at this point.”*

5.5. Emergent Themes for Research Question 3

What is the influence of Cost Management on strategy?

Category	ID	Questions	Research Question
Cost Management & Strategy	3A	What is the relationship between cost management and strategy within the organisation?	RQ3
	3B	How would you rate the influence (From 1 - 10) of cost management on strategy?	RQ3
	3C	Regarding corporate strategy: what are the mandates to the level to which costs are driven down? (To what extent, at what cost?)	RQ3
	3D	What are the sensitive issues considered when managing costs?	RQ3
	3E	What are the perceptions of management of cost management through headcount?	RQ3
	3F	How effective are costs used to determine business cases for project investment?	RQ3
	3G	What sort of inter banks comparisons exist for cost management?	RQ3
	3H	How does cost management influence the customer? Is there a direct impact or is it internal?	RQ3
	3I	How is costs applied to the following decisions:	RQ3
	3J	Pricing	RQ3
	3K	Capacity Management	RQ3
	3L	Investment Decisions	RQ3
	3M	Process Re-engineering	RQ3
	3N	Customer interaction	RQ3

5.5.1. The Degree to which Cost Management & Strategy are linked is determined by Maturity

There was consensus amongst the respondents, that cost management and strategy are linked. Once again, the maturity of practice within the respective banks, dictated the degree of intensity between the links. Those banks which are mature, have a clear link between cost management and strategy, whilst others lag behind. In the bank which is highly functional, this intrinsic link is determined by the business units.

- *“Yes, definitely. It is not communicated as such but it is definitely implied.”*
- *“... strategies are with processes, responsible profits, with green in mind, [laughter] but in driving that process, costing and cost management [are] there.”*
- *“I definitely think so, we spoke about the tough clients [internal business units] the last time, and I think they are linking their strategies, customer service and value propositions to effective cost management.”*

- *“... there are certain product houses more than others. So [Product House A], is very cost focused, whereas [Product House B], is very cost focused and they drive it. I think it exists, because they have got the resources to investigate and analyse and I think their whole outlook is geared towards it. Other areas aren't as focused. I don't get the feeling, from [Product House C] that they are as driven towards reducing costs.”*

However, centralised structure comes with its own complexities, as a central area becomes responsible for the organisation's link to strategy. Here is one of the banks with a centralised structure, who currently fails to have this link. *“No. Not at this point of time; they are working towards it, like with the target operating model. They definitely want to close that gap, but at this point in time, it is sort of like an afterthought.”*

5.5.2. The Respondents Rated Cost Management between 5-8, Out of a Scale of 10, as an Influence on Strategy.

When the respondents were asked to provide a rating, on the level of influence cost management has on strategy, the average rating was 7 out of 10. However, it does not have any influence at an organisational level, but rather at a channel or product house level (*“Yes. And my feeling is that it is weighted, as there is more influence in the product house than there is in the channel.”* and *“... depending on the channel.”*).

Banks are Sensitive to its People

Business units usually dictate their cost management strategies (*“... again, they will look at revenue, people, technology, and they will do it by business unit.”* And *“it is basically prioritising and having sufficient justification for the actions.”*). As indicated above, staff account for a large portion of the bank's cost, and would presumably be

the easiest target for cutting costs. However, depending on the culture, specific banks have policies in place which protect staff, and enforce a more process-focused approach in managing costs, instead of just reducing headcount.

- *“There is definitely room given to people, for redeployment, so they [we] are very sensitive about that. I think we are less sensitive about property and equipment.”*
- *“People and the unions, you have to maintain a certain relationship and work together with the unions.”*
- *“[The bank] never prided itself on staff reductions or retrenchments; we have done that very well.”*

5.5.3. Cost Information Usually Vets Business Cases

Cost information forms just one part of a business case, and is usually there, to vet the business case. The partnership with cost departments and others, who are responsible for business decisions, could be stronger, but at present, it exists to a very small degree within the banks.

- *“Generally not. Generally the costing department is not called, when a new product is being developed, because there isn’t enough to do a cost on that.”*
- *“No, I think in all of those, there is a balanced score card approach in the decision. Cost obviously plays a role, particularly your NPVs (Net Present Value), and you look at other softer factors, like client perception or employee perception. I don’t think any decision is taken just on cost alone.”*
- *“It has started, but to the level of maturity it ought to be. No I don’t think so, not yet.”*

5.5.4. Inter-bank Comparison of Costs are of Little Value

Generally banks compete against each other on price. Natural supply and demand economics play a role, in how banks should price their products. Doing inter-bank comparisons of costs, add little value, because methodologies, cross subsidising of costs and costs structures are very different. The respondents have noted this and is evident in their comments:

- *“No, I have never seen that. It would be nice, but no. Inter-bank comparisons, look, I mean the banks report at bank level. The way you can sort of judge it, is by what they are charging their clients, that is fairly available in the market, but it doesn’t explain the costs.”*
- *“You can’t. The problem is, and we would have liked to have [this] investigated, but you have seen working and costing yourself, that changing any type of methodology can change numbers significantly.”*
- *“We will never have access to, for example [another bank’s] costing models, and to understand, ‘Are they absorbing all those costs?’ ‘Are they cross subsidizing?’”*
- *“... not within the banks of SA.”*
- *“Only from a pricing point of view, I have yet to come across a bank that doesn’t do it [price comparisons]. We price according to what the market can bear and needless to say, we have one of the world’s most expensive banking services.”*

5.5.5. Cost Management has Influence in Major Aspects of Business

When one considers strategies within a bank, it is often in relation to corporate strategies (organisations), business strategies (business units) and operational

strategies (operations). Costing is proven to have at least some influence in all of these areas. Once again, maturity is a key factor. The respondents indicated, that cost and strategy are interrelated, based on process efficiency, capacity management and customer decisions.

- *“It does play an important role, more in variable areas like sales, where you look at justifying the people, but it is more an ad hoc thing.”*
- *“... so typically your staff based areas, like branch. Branch has capacity management [models]. They will use our studies to work out their capacities.”*
- *“Re-engineering – Big!”*
- *“In terms of the tool they are using at the moment, they have the ability to do those types of analysis, but in terms of whether the department of costing plays a role in that, no. At this point in time, no.”*

5.6. Conclusion on Chapter 5

This chapter provided a consolidated view of the interviewed respondents. These views were grouped into logical themes. For research Question 1, the prevalence of cost management was discussed. A number of themes emerged, which the literature didn't highlight. Research Question 2 looked at the factors which influence cost management in the banks of South Africa. A model was presented, which indicated internal factors with high and low influence, and external factors with high and low influence. Finally, research Question 3, was addressed, which concluded the need to have strategy and cost management aligned.

6. Discussion of Results

6.1. RQ1 - What is the prevalence of Cost Management practice in the organisation?

The rationale for doing this question is to assess the degree to which cost management is practised within South Africa's banks. A correct cost management approach is essential, in order to avoid unnecessary removal of value-adding activities, which could be detrimental to the overall health of an organisation (Kren, 2008). This research analysed three of the four major banks within South Africa's banking sector. One of these banks was ranked as the top 5 financial institutions in the world, accredited to its cost management and ABC practices. This organisation had a very good view of their costs according, to levels and stages of costs (*"It is pure ABC, the basics of activity based costing. We do sort of enrich our data with the use of certain cost stages"*). While, the other banks had more of a combination of methodologies: *"[We use] Standard and ABC. But there has definitely been a bastardization of that"*. At this point, it is certainly worthwhile noting, that the bank with the purest approach to cost management essentially maintained the lowest Cost to Income (CTI) ratio amongst the four banks. Only in the last financial period, it did not, due to IT investment. To understand the correlation between these two variables could be parked for future studies.

Lockamy (2003) makes a note of saying, that according to vast amounts of research, there are predominantly three practiced cost methodologies to date, which includes: Traditional (or Full Absorption) Costing, Activity Based Costing and Constraint Based Costing. The following methodologies are practiced at three of Big 4: Activity Based Costing, Full Absorption Costing and Standard Costing. In many of the cases, a hybrid of methodologies is being practiced, as predicted by the author, during the

research proposal. The respondents in the interviews support this point. These are their comments:

- *“Standard and ABC [Activity Based Costing]. But there has definitely been a bastardisation of that, where you have a mixture between the two...”*
- *“Mainly ABC, also some Standard Costing as well.”*
- *“It is Full Absorption, [and] ABC...”*

In all three samples, it was evident that ABC is the predominant and desired practice. It is interesting to note, that even though Lockamy (2003) stated Constraint-Based Costing or Throughput Account (TA) as a highly practised methodology, it never featured in any of the banks. Corbett (2006) also mentions that TA is a new paradigm for cost management. What could be the reason for the lack of practice within South Africa’s banking? There could be a number of reasons. As noted in the literature review, critics complain that TA has only short term benefits (Corbett, 2006). However, as indicated by the research, South African banks require a long term management approach, due to the nature of their costs, i.e. a result of the high ratio of fixed costs. Therefore, long-run costing practices are required (*“80% fixed, 20% variable and over time on everything is variable”*).

The lack of implemented TA practises could be a result of the shear nature of the industry. As with ABC, the methodology, may have gained wide acceptance within manufacturing, but has yet to have the same impact within financial institutions (Sapp, Crawford, & Rebischke, 2000). This has a direct correlation to what educational institutions focus on during their training, as confirmed by the respondents (*“We do offer these things at our educational institutions, Universities and Technikons, but I think it is very much theoretical, because of the fact that there*

is such little exposure to the practical side. You find people have theory, but no practice on how to implement costing.”)

Even though the practice of ABC within manufacturing has gained wide-spread acceptance, it has not yet had the same impact within financial institutions (Sapp, Crawford, & Rebischke, 2000).

The benefits of implementing ABC is appealing to any institution, because its promises include an excellent input into pricing decisions, product mix, process improvement, lower costs, improved quality and reduced manufacturing cycle time (Bushong, Talbott & Cornell, 2008). It was evident from the results, that certain areas which are more mature than others in their practices use cost information to drive some of the above benefits. However, none of the respondents could confidently say that is it being used for all these benefits. In fact, the reputable cost management organisation also failed to adequately apply their cost management knowledge, for example, pricing decisions. In South African banks, cost information is used as a means to transfer price between business units (often called wooden dollars). This brings us to the conclusion that cost management is not practiced adequately within the banking sector of South Africa. The reasons and factors for this, will be addressed and discussed, in the next research question.

The degree to which executives focus and drive cost management, is directly correlated to the level of maturity practices possessed by the organisation. Again, the organisation with the reputable status, received direction and support from their senior manager, who drove the cost management strategy and ensured its implementation (*“...the Financial Director at the time, decided to get an external evaluation from a subject matter expert, on activity based costing, specifically*

financial institutions, so that he could see, where we sort of measure up against best practice.”). This is further confirmed by Shields and Young (1989), who support the notion that a champion for cost management needs to exist in an organisation, and this champion should be positioned within the top level or rank within an organisation.

All three banks reacted to cost management as an action, sparked by a major change, for example, a takeover (*“It is almost hand in hand with the [company name] take over”*), or an economic shift (the recession) (*“It is only since the recession, that cost management has become more prevalent*). This is supported by Schiff and Schiff (2008), who also indicate that a recession usually ignites an interest in cost management. However, they provide valuable evidence that shows how companies, who possess a proactive approach to cost management, thrive during good times and are protected during unpredictable times (Schiff and Schiff, 2008).

The literature supported the notion, that there are many benefits to proper cost management, as well as the benefits perceived by a wide group of. The respondents commented to this:

- *Internal, is probably where it is used the most, because units are measured with their performance. Individual bonuses and rewards are determined with SLA’s [Service Level Agreements – or Transfer Costs].”*
- *“... It is part of the reward structure [therefore], it gets lots of attention. It is a bit easier to fight your SLAs, than it is to manage your own costs down or get revenue – because it is internal, it is easier to negotiate.”*

However, these statements simply echo the point, that cost information is only used in the context of transfer pricing, but not product and customer pricing (*“We price up*

where we don't want the clients not to transact and we centralise where we want them to transact. I am sure all the banks are like that."). Which begs the question, "Does transfer pricing promote a culture of improvement and efficiency?"

The literature gave little indication, as to where the cost management function, within an organisation, should ideally reside. The literature did allude to the fact that cost accountants are ultimately responsible for the function (Barrett, 2004). South African banks struggle to find the right cost management position. For some organisations, this function existed in operations, process management or data warehousing. However, they ultimately realised that the function is best positioned within finance (*"...I actually, firmly believe, that is exactly where they belong."*). Their statements are related to the function of cost management as a mechanism for transfer pricing.

Regardless of the structural fit of cost management, the function should be seen as a consultative value-adding relationship to the business areas it supports. The cost models should be managed and governed centrally, but each profit and cost centre would have their own designated resource. These resources are responsible for the management of the SLA costs, and may not necessarily need to have an accounting background. As indicated by the research interviews, many of the respondents have an engineering or IT background. The literature could not find evidence to support a specific academic background, best suited to drive cost management.

An organisation may direct as much human resources at its disposal, banks will still have a particularly difficult task to manage costs; due to its nature as a service organisation, its scale (all four banks) and the amount of data it needs to process. Therefore, technology becomes a dependency to drive management success. As indicated in Figure 3, organisations on the scale we are referring to in this research,

can reach a point of “analysis paralysis.” This increased effort comes at a huge cost, which as complexity increases, delivers diminishing returns (Barret, 2004). Barret (2004) also affirms, that as an organisation matures, it begins to realise that technology is secondary to valuable information. Here are the respondent’s views which align to this opinion.

- *“So tools are becoming irrelevant. It is more the outlook that is important.”*
- *“People are not just looking for analysis, they want you to tell them what is wrong and what to do.”*
- *“... Five or six years ago, costing software was the thing, I mean, you had to have it, and it worked pretty well until a couple of years ago, when clients [started] looking for costing on the next level...”*

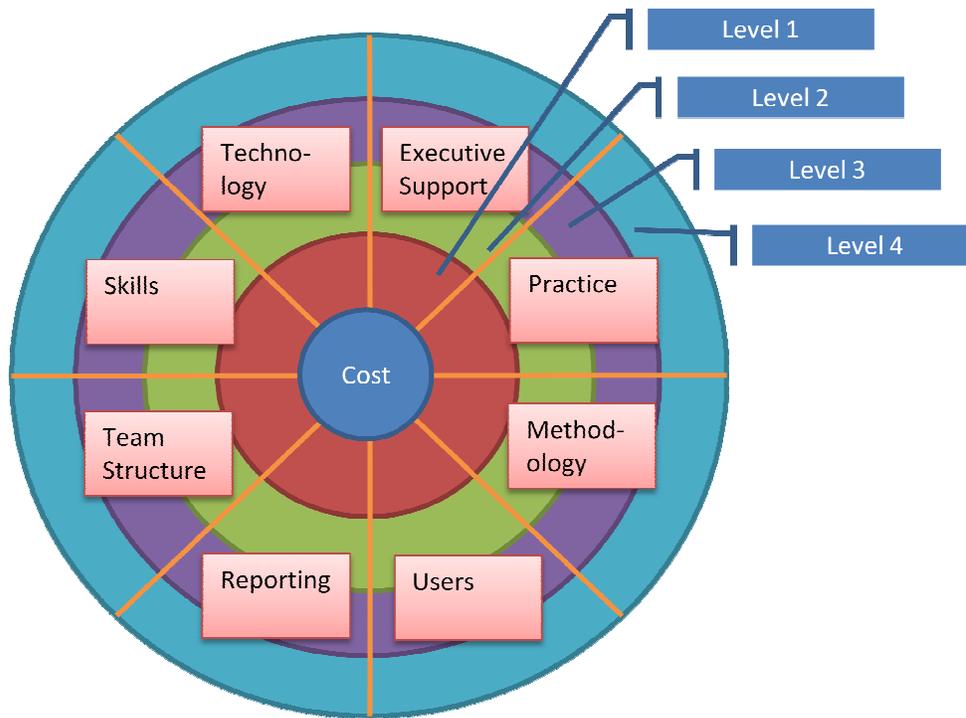
However, as Barrett (2004) stated, there are web-based technologies that can provide the required business intelligence. But they are not adequately being implemented by the banks in South Africa. In this regard, these intelligent tools should have the capability of reporting on a monthly basis. This will empower management to derive the most value (Barrett, 2004). Again, maturity plays a very key role on how and when costs are reported. South Africa’s banks report on a monthly or ad-hoc basis. Oddly, the company with the reputable management programme, reports quarterly, which Barrett (2004) mentions, is not often enough for key management decisions, whilst the other organisations report monthly. This is not surprising, because the reputable company’s scope of cost management, is limited to transfer pricing and not key to profitability, pricing and operational decisions.

- *“For some clients, we report every single month, every time a model runs. Other clients [who] don’t use the results, the reports are never reviewed or actually worked on.”*
- *“... We do run the models monthly, but we report on a quarterly basis.”*

An additional point of discussion which is relevant to this research is the notion that cost management cannot be practised in isolation. It needs to be partnered with growth and revenue targets.

This research question endeavoured to assess, how active, mature and prevalent, cost management featured within South Africa’s banks. It was evident that there are many gaps in practice, but it may vary, based on the maturity of the organisation. The question which arose in the author’s mind was: How can banks move up the maturity plane, be proactive, whilst ensuring they manage the complexities of a high fixed cost ratio. As a result, the following Cost Management Maturity Model (CMMM) was developed to assist organisations (service and product) adequately, by implementing and monitoring their cost management strategies.

Figure 8: Cost Management Maturity Model, Own Source



This maturity model can be explained and elaborated in Table 3: Detailed Explanation of CMMM. This table can be used to support the CMMM depicted above. The table and model was the result based on the compilation of the results from this research, as well as, from the literature.

It is important to note, that this model is meant to be a tool which assists executives to diagnose the maturity of cost management within their organisation, as well as prescribe relevant actions. The author has applied this model to the three banks which were interviewed. Over time, a cost champion can measure and monitor the growth of the organisation's cost management practices.

Figure 9: CMMM Application to Bank 1

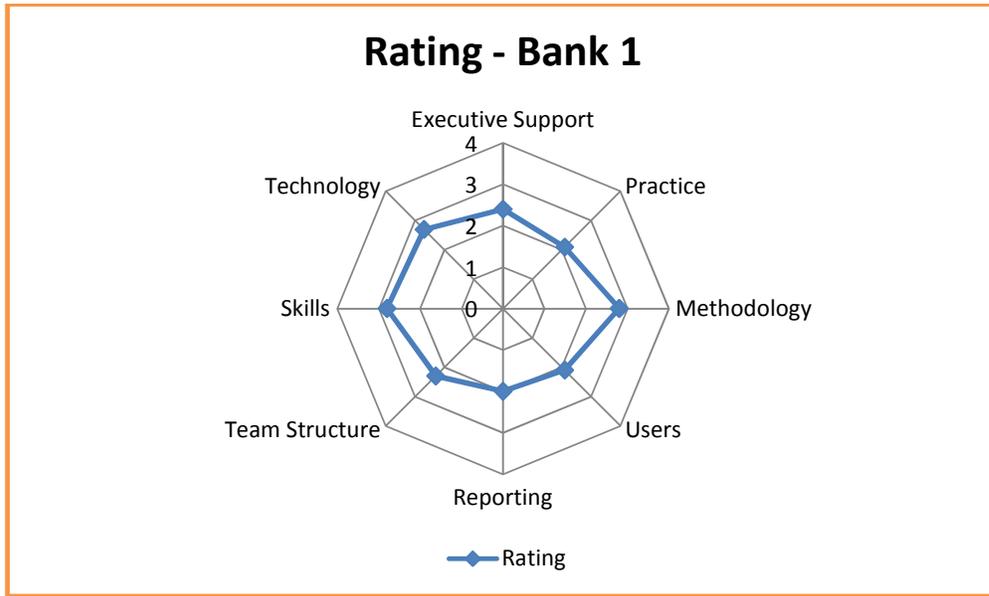


Figure 10: CMMM Application to Bank 2

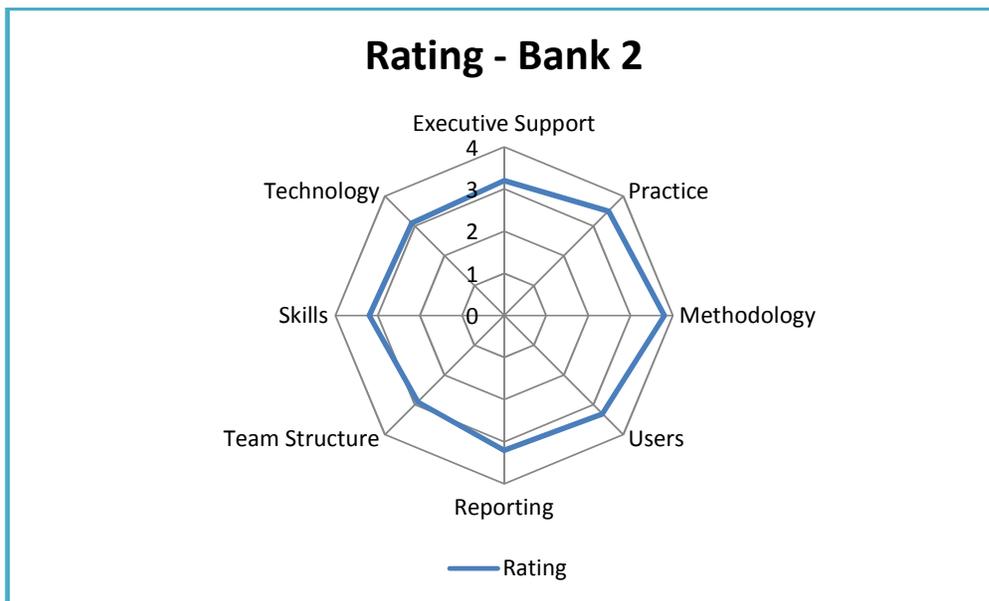


Figure 11: CMMM Application to Bank 3

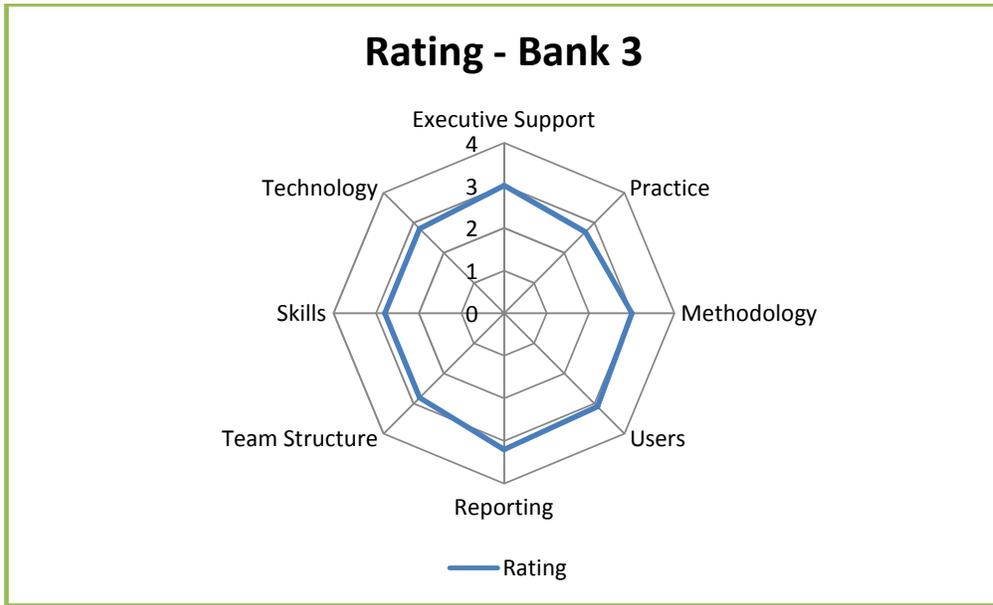


Table 3: Detailed Explanation of CMMM

Dimension	Level 1	Level 2	Level 3	Level 4
Executive Support	Has no executive support to drive a cost management programme. Their attention is limited to the current need.	Has no (or little) executive support. A small isolated area reports on cost.	Executive support and drive, based on a reactive approach to economic factors. Executive focus has always been on the generation of revenue.	Full executive vision and support, which are proactive, so as to maintain efficiencies constantly. The executive will partner cost management with revenue, and base performance on a combination of these two factors.
Practice (Cost Management Strategy)	Cost Management is practiced as a cost cutting effort, due to the economic state, competitive and takeover pressures.	Practice is based on budgeting or basic operational process costing, but not a combination of the two.	Cost management strategy, is to recover and adapt to the change in economic variables. Costs are used as a mechanism to transfer price (cost) between channels and product houses, in order to determine their profitability.	Costing done in stages, with a complex view of costs, at a group, business unit, function and activity level. These cost stages provide costs, which assist in key strategic decision making, therefore, business units, departments, overhead departments and activity cost information can be sliced and diced to provide in-depth view of levels on costs
Methodology	No methodology in place. Cost is cut at the discretion of managers.	Full Absorption Costing.	Hybrid practice between Full Absorption, ABC and Standard Costing.	Pure ABC costing, with dynamic cost stages and levels.
Users	Only executives and managers involved in the cost-cutting exercise are the users of the information.	Financial community or process owners.	Financial Community, business unit or product house financial managers and process owners.	All departments, process owners, financial managers and strategists. Everyone in the organisation understands cost and their part thereof



Dimension	Level 1	Level 2	Level 3	Level 4
Reporting Periods, Measure and Lowest level of Costing	Reporting is done once, during the cost cutting program. Costs are measured only as a Cost to Income (CTI) ratio and target. The lowest view of costs is at the business unit.	Reporting is done quarterly or annually. The measure of costs are based on CTI, cost per process, as well as, actual vs. budgeted costs. A user will find cost information, based at a departmental or process view.	Reporting is dependent on the user's need and understanding of cost. Therefore, it could vary, based on the area between quarterly, monthly or ad-hoc. The measure of costs is based on CTI, cost per process, actual vs. budgeted costs, as well as, basic product costing. A full absorbed cost to activity is made available to users.	Monthly, with the ability to provide scenario-based cost information on business cases. Everyone has an understanding of costs and its impact thereof. Costs can be measured in stages: from a group or division perspective, to department, to activity, to process, to product and finally to customer. Costs are made available at a process, activity, product and customer level.
Team Structure	No team structure.	A small team, in relation to the cost size of the organisation, which may or may not report into the finance department or process management department.	A cost focused team which builds the models and presents findings to business units and the user communities. Team could report to operations, finance or the data department.	Reports to the Financial Director or CFO, who owns cost management and has the mandate to manage it accordingly. The team governs and assists business, who owns their own models. Therefore, the team becomes more decentralised and offers a consultative function to business. Or it sits directly with business. A central team governs and manages the group view model.
Skills	Only the skill possessed by those cutting the costs.	Basic cost accounting skills.	Cost managers could have a range of qualifications and skills, however, it is essential to have a sound understanding of the costing principles and practices.	Cost Managers have a wide array of skills, which include, financial aptitude, IT aptitude and business-client relationship skills.

Dimension	Level 1	Level 2	Level 3	Level 4
Technology	No technology.	Excel or other basic software tools.	Complicated systems and tools in use, which take unacceptable time to run and produce results. Updating models can become a cumbersome and tedious process, therefore, reporting becomes very difficult.	Powerful back end systems, that can manage large amounts of data. However, a robust Business Intelligence tool provides a graphical view of costs. An adequate web-based tool is used by the user community.

6.2. RQ2 – What are the internal and external factors that influence Cost Management within the organisation?

RQ1, was aimed to assess the extent to which cost management is practiced within the banking sector of South Africa. It became evident by the end of Section 6.1, that thriving cost management is absent in many organisations, and it proves to be difficult for many financial institutions. The justification for this research question, was to uncover some of the factors that prevent effective management of costs, as well as, the factors which limit the growth and maturity of practices based on the CMMM.

In chapter 5, the results of the interviews were grouped into an over-arching model which was formulated by the author. Shields and Young (1989) also formulated a model (Figure 4) which was thought to be relevant today. However, the author felt that this model lacked certain factors, which are pertinent to South Africa and the banking context. These models are presented in Figure 7 and Figure 4 respectively.

This section, will first explore, the factors stated by Shields and Young (1989), in relation to the South African banking sector. Thereafter, all the factors which were uncovered during the interviews will be discussed. This will culminate into a more comprehensive model designed by the author.

Culture

The literature and research suggested that culture is an imperative factor which ensures that efficient cost management systems are in place within an organisation (Shield & Young, 1989). The statements by the respondents which bear evidence to this are as follows:

- *“So culture, philosophy and structure are very apt to cost.”*

- *“I would say, there is a huge influence.”*
- *“Corporate culture is a very important thing. A 9 on my scale, if 10 is [considered] great.”*

As noted by Schein (1990), there are visible and invisible cultures that pervade an organisation. During the interviews, respondents cited special consideration to the way an organisation is structured, i.e. whether it is a centralised or decentralised structure (*“So culture, philosophy and structure are very apt to cost.”*). The respondents noted that it is vital for a cost management company to break down organisational silos, in order to be effective in cost management.

- *“...It is extremely challenging at [bank name], because of the decentralised structure.”*
- *“... Other banks don’t have a decentralised function, therefore, cost management is a little bit easier.”*

The author felt, that a business model should not be dictated by cost management, as other factors also influence this decision (Schein, 1990). However, structure has an influence, which should be accounted for when designing a relevant cost management strategy.

Therefore, it can be concluded, that culture is an important factor of influence for an organisation. Based on the model presented by the author (Figure 7), culture is an internal factor with high influence.

Champion

Champion and top management support, work hand in hand. According to Shields and Young (1989), a champion is someone who should reside at top management level. In many of the banks, there wasn’t one specific champion who was responsible

for cost management for the entire organisation. However, the respondents felt that a champion is one, who is positioned at the right place to set the direction for change management. In the federated bank, each area or silo should have someone responsible for cost management. It does not currently exist entirely, but the respondents felt that it was important for this function to exist, in order to maintain the desired business model, whilst exploiting the opportunities of having such a model in each area (“... *every area has someone designated to do something.*”)

The function of the champion (which is currently a Financial Manager) is a mammoth task. Currently, their functions are limited to the maturity and prevalence of cost management, as indicated in section 6.1. Their function should not only be isolated to ensuring the business unit is performing well against budget. Rather, their function should to be evolved into a more strategic one, which assists the areas of product, pricing, process, investment, as well as, strategy. Therefore, to have a champion is of high importance. This is lacking in the context of this research and is an influential factor.

Change Process

The definition of the change process for Shields and Young (1989), is the supportive power of top management. As already discussed above, change process, top management and executive support are imperative factors. It was indicated in the maturity analysis for the three banks, in section 6.1., that all organisations do not possess this factor to the required level. This speaks to, and is directly related to, the mandate of cost management, as uncovered during the interviews. Mandates are specifically referred to as the approach and directive of cost management. The centralised organisations understood the need to have a top-down directive, however, the decentralised organisation felt that the top-down mandate was not

enough. A cost management strategy and implementation plan should be bottom-up. They substantiate this logic, because of the advantages of being closer to the “ground” and therefore, easier to ensure the implementation thereof (“... *in terms of directives, but in terms of strategy and that it is bottom-up.*”). There are trade-offs between a centralised and decentralised company model, which is out of scope for this research. A centralised structure has its limitations, with regards to the ease in which the organisation can achieve certain objectives, initiatives and mandates, as it involves many parties and a higher degree of bureaucracy. This resounds especially true for organisations, as large as South African banks (“Big Four”). Therefore, mandates and change processes are factors of high influence.

Commitment

Wetherite and Kim (2006) demonstrate the concept of commitment, by stating that it is about getting everyone on board, participating and committing to the cost management system. The respondents felt that this was directly correlated to the experience and understanding of cost management principles (“*That is, typically people that are successful at cost management, whom understand the drivers of cost.*”) and (“*I think it is a lack of understanding of costing. And you need to be careful on that, because I think, it is sometimes the financial managers who don’t always understand indications.*”).

Therefore, commitment is an imperative factor for successful cost management (“*So the business units buy-in is probably the biggest component of cost management. The second is the understanding of the area of their own costs. I have got to say experience does count a lot as well.*”).

Controls

According to Shields and Young (1989), controls are required to ensure alignment of costs and an organisation's strategy. Interestingly enough, the respondents didn't feel as though it was essential for controls to be in place within their organisations, even though Anghelache *et al* (2009) mentions that cost management can be perceived as an internal threat if there are no adequate controls in place ("*... it is definitely not primary*"). However, their perceptions are based on the current, lower, maturity level of their organisation, as a practitioner, only to the extent for transfer pricing.

Based on this, one can conclude, that currently, within the banking sector, controls are not a big influence on cost management.

Continuous Education

Continuous education is the seventh and final factor in Shields & Young (1989) Seven Cs Model. They refer to this process as an ongoing one, which directly influences continuous improvement. The interviewees for this research indicated that employees in modern day organisations, are always limited in their availability, and hence, pressed for time. Therefore, laborious training programs may not be adequate. They mention that having a "quick guide" type of training is adequate. When a respondent was asked to state their view to the extent in which training influenced them in managing cost, the reply was:

- *"From my personal point of view, in terms of costing and that, I would probably say, very poor."*

Based on the responses from the candidates, there seemed to be a gap between cost and the ability to explain it to an audience ("*They first and foremost, don't know*

what they want and when you give them something they don't actually know what it means to them.").

Other Factors

To date, Shield and Young's (1989) model, is more or less 20 years old. Hence, one can understand why they may not have considered other factors, which may have influenced cost management in the last two decades.

For financial institutions, Sapp, Crawford, and Rebischke (2000), provide a few factors to be cognisant of, as indicated in section 2.5.

During the interviews, the author uncovered the following factors which had merit to be discussed.

- Scorecard & performance measures
- Technology
- Economic factors
- Regulatory environment
- Shareholders
- Customers
- Environmental factors
- Market supply of skilled resources

These factors are discussed in detail below:

Scorecard & Performance Measures

Shields and Young (1989) stated, that controls are required to ensure alignment between strategy and goals. The respondents understood controls as a budgeting mechanism, whilst scorecards and measures were viewed as a link to targets. One

bank felt as though, some cost measures and accountability, should, to varying degrees, feature on an element in individual's scorecard (*"... cost management should become part and parcel of people's key performance areas*).

Technology

As indicated in section 6.1., technology is certainly relevant in South African banks, due to the nature and sheer volume of data that needs to be process. Nevertheless, the respondents felt, that valuable insight should take precedence over software. It was also apparent that there were many software vendors available, and organisations took some time to find the right application that suited the organisation. Therefore, they have indicated technology as a low influence on cost management.

- *"... They don't care how you do it, they just want it."*
- *"... They care about what they are getting, not the technology behind it."*

External Factors

There were a number of external factors which were not accounted for by Shield and Young (1989). Based on this research, it is evident that an organisation cannot ignore these external factors, as they have a direct impact on the organisation.

Economic factors

Schiff and Schiff (2008) indicated, that a recession usually sparks an executive's reaction to cost management. The global financial crisis had a major impact on banks around the world. These ripple effects were felt in the local banks of South Africa. Evidence from the respondents, who support the notion of the economic factors being a high influence, is indicated below:

- *“When times are tough and your market is not growing and the only way you are getting market share is by poaching, the only way you poach is through pricing and the only way you get your pricing right is by your costs.”*
- *“... you can’t get it from a margin, you need to look at your costs and that is where it impacts.”*

It is worth noting though, that a respondent still felt, that cost management focus may change in the long-run as the economy recovers. This is a direct indication of the robotic programming of many organisations, that only react to market changes, instead of being in the forefront of innovation and preparation.

Regulatory Environment

South Africa has a very strict regulatory environment, with institutions like the Competition Commission, which is always driving banks to become more and more transparent with their costs and pricing decisions (especially since South Africa is known to have the highest banking fees).

Therefore, the regulatory environment has a high influence on cost management for South African banks.

Shareholders

In a competitive environment, it is key to ensure that the shareholders are aware and happy with the performance of the organisation. They are usually very cognisant of the environment, which they have an invested interest in. For this reason, they often bear down on an organisation to become lean, when they are required to do so (*“... the market out there, which is our share holders, expect [that] we drop costs when revenue is not good. So those are all factors.”*)

Customers

Arguably so, “customer is king,” has substantial weight in this regard, as with the rise in competition, banks will always wage war for market share. Therefore, a customer has a high influence on cost management. As customers become wiser in their banking practices, they will constantly demand lower prices, which in turn adds stress to an organisation to manage and understand its costs adequately.

Environmental Factors

Environmental factors didn't seem to be high on the radar for the banks in question. However, as the world turns to a more conscious lifestyle, banks may need to adapt their strategies to meet environmental demands. One of the banks in South Africa, has already placed a lot of effort to become known as South Africa's first green bank. They offer simple solutions to their customers, for example, asking before printing a receipt at an ATM. For South African banks, the decisions to become more “green” are internal strategies, as the state usually enforces these pressures on more environmentally disturbing organisations. The overall consensus was that environmental concerns have a low influence over cost management.

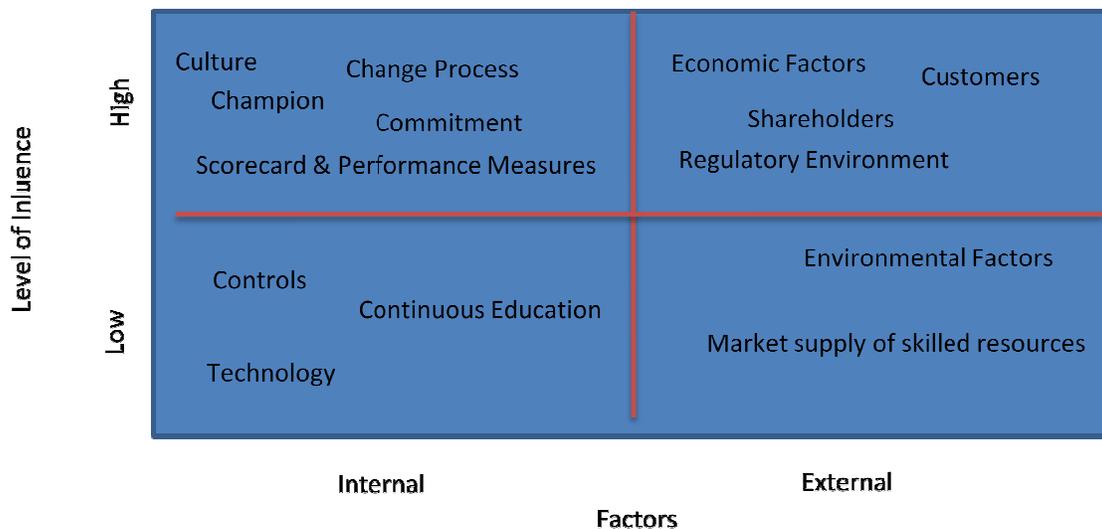
Market Supply of Skilled Resources

At the time of this research, the organisations didn't indicate that there is an inherent lack of skilled resources in the market. Perhaps due to the three dimensions of skill (finance, IT and business) required, for a successful cost manager, section 6.1., organisations feel that they can develop the skill internally (Sapp, Crawford, & Rebischke, 2000). Of the six respondents who were interviewed, only one had a specialised qualification in cost management. Therefore, it is evident that organisations look for a combination of skills, in order to meet their cost management

demands. Thus, the supply of skilled resources is ranked as a low influence on cost management.

Based on the aggregation of these factors, the author has formulated a model, which will depict the factors that influence effective cost management within South Africa’s retail banking sector (although, the author feels, that this can be relevant to any organisation). This model is depicted in Figure 12.

Figure 12: Internal & External Factors which Influence Effective Cost Management



It would be deemed to be of little value to have a view and understanding of these factors without a proper management plan to mitigate these factors, as well as to have the adequate controls in place. As a result, in conjunction with the CMMM and the Internal and External Factors model depicted above, the following tool will assist in the successful management of cost practices within an organisation.

6.3. RQ3 – What influence does Cost Management have on Strategy

RQ1 discusses an aspect of cost management and strategy, in terms of how it is implemented and applied within an organisation. As inferred by Allen, Helms, Takeda and White (2007), an organisation is faced with three key strategic choices:

1. Cost Leadership – Cost advantages, which is a result of process reengineering, economies of scale, product designs that reduce manufacturing time, process innovation and learning curve benefits.
2. Product Differentiation – Charging a premium price, by tailoring a product or service to meet the needs of a unique customer.
3. Focus – Narrowing the scope in an industry and operating in a niche market, thus creating market penetration and potential.

RQ2 then provides certain factors, which may influence the effective management of costs. These factors shape the decisions and choices of senior managers, as well as those who are responsible for forming an organisational strategy. For example, an external factor like economic change, regardless of the key strategic choices mentioned above, will force the organisation to re-evaluate its cost stance, whilst maintaining its specific strategic positioning. In this consideration, an organisation which is focused on cost leadership will need to take a deeper look at its operational processes and innovation stance, as the advantage of economies of scale, diminish in the competitive environment. An organisation which is involved in earning revenue, through product differentiation may not have the luxury of charging a premium price, as customers become more price-sensitive during the economic difficulty. Similarly, organisations which operate on the focus strategy, will also need to consider its cost stance, as other organisations within an industry may consider

entering into alternate markets, in order to increase their overall perform and satisfy their stakeholders. An organisation will become anxious to protect itself within a niche market, as the barriers to entry become relaxed. The essence of strategy formulation is about, how a company can cope in the face of competition (Porter, 1997). The degree to which new competitors enter and threaten a market, is determined by the barriers which exist within the market (Porter, 1997). Therefore, this research question is validated.

Sapp, Crawford and Rebischke (2000), fully support the idea, that for an organisation to outperform its competitors, they would need to have an information system, which gives an accurate representation of costs associated with product, customer, service and activities (for example ABC).

The respondents gave a 7/10 for the alignment and strategy. This signal was on a business unit level (*“Yes. And my feeling is that, it is weighted. There is more influence in the product house than there is in the channel.”* and *“... depending on the channel.”*). As indicated by quotes (product house vs. channel), specific areas may have a cost management focus through strategy, while others do not. This may tie into the notion, that practices are conducted in isolation and there is an inherent need to have a champion or senior manager, who can drive cost management through measurement and accountability across the value chain of the organisation.

These arguments need to be studied in the context of the respondents understanding of strategy, coupled with the maturity of practices within the organisation. So, the maturity of an organisation is highly dependent on this intrinsic link between strategy and cost management. In some organisations cost management is an afterthought (*“At this point in time, it is sort of like an*

afterthought.”). While in another organisation, there may be an alignment, it is not adequately communicated, but assumed (“*Definitely. It is not communicated as such but it is definitely implied.*”). In the cost managed, established organisations, business units understand the pressures of cost management. Therefore, they conduct their businesses accordingly (“... *they are linking their strategies, customer service and value propositions to effective cost management.*”)

Devine *et al* (2008) reiterates that cost management philosophies are becoming increasingly relevant within the strategic planning process. Often business is required to validate business cases which support a strategic decision. In this case, costs from cost management tools are often used to vet the business case (“*Cost obviously plays a role*”). However, costs can never be used in isolation for vetting a business case, or determining strategic direction (“*I don’t think any decision is taken just on cost alone.*”)

Finally, a bank may assess and bench mark itself against its competitors on price. Conversely, a comparison based on cost has little value. The Cost to Income (CTI) comparisons, may provide some value, but it cannot be used as a basis to assess which bank is winning the race, as strategies may differ. For example, during one of the interviews, the bank with the lowest historical CTI ratio, had recently lost this position. This was only due to the investments made into IT systems, which was a strategic decision and which would provide long term benefits (“*The cost income [ratio] is above the fifty [percentage marl]. However, we all know what led to it as well, it was in specifically IT areas [projects], huge sort of network system upgrades.*”)

What may also differ, are the means by which costs are practised. As indicated in this research, some organisations exercise a hybrid approach to cost methodologies,

whilst only one organisation has a pure ABC approach. It would not make any sense to compare the two companies in this case, because the allocation and cross subsidisation of costs may differ, hence, having an impact on the final analysis of numbers. Thus, cost management is very much an internal practice.

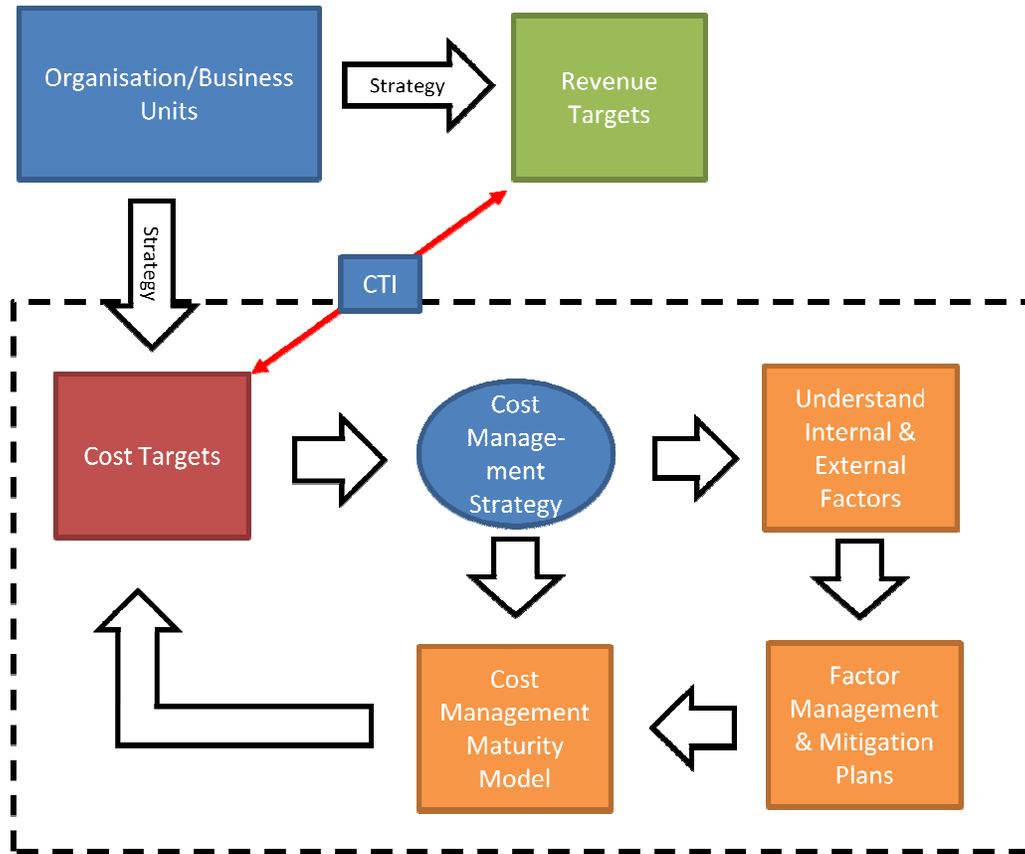
- *“You can’t. The problem is, and we would have liked to have investigated, but you have seen alone working and costing yourself that changing any type of methodology can change numbers significantly.”*
- *“We will never have access to, for example [another bank’s] costing models, to understand, ‘Are they absorbing all those costs?’ ‘Are they cross subsidising?’”*

As a result, it is imperative for organisations to have trained and skilled staff, who understand how costs are calculated within the context of their environment, so that the right decisions can be made.

It can be clearly concluded, that for an organisation to remain competitive and resilient, an alignment of business strategy, cost management strategy and strategy implementation are essential. Therefore, based on this research and the findings thereof, the author is proposing the following cost management framework, to ensure that this alignment is always in place. This framework integrates strategy with the models discussed in this research thus far. To summarise, here are the models formulated thus far.

1. Internal and External Factors which Influence Effective Cost Management, Own Source
2. Factor Management Matrix, Own Source
3. Cost Management Maturity Model, Own Source

Figure 13: Cost Management Conceptual Framework, Own Source



7. Conclusion

This research concluded that cost management is a relevant and necessary subject matter, which organisations need to be cognisant and responsive to. A lot of the literature available to date relates to cost management within a manufacturing environment. It is becoming increasingly important to permeate the right type of cost management systems and practices within financial institutions, in order to derive its intrinsic value.

Banking, in South Africa, is a particularly interesting context to understand cost management. Banks have received their fair share of demands, from regulatory institutions, to disclose cost and pricing structures. From this, it emerged that the practice of cost management within South Africa's banking sector is purposeful. However, the organisations have not exploited the opportunities and benefits, which can be derived from a successful cost management system.

A distinction emerged between organisations that have a matured cost management practice and those that lack in maturity. This resulted in the need to assess an organisation's maturity level, in relation to cost management. An analysis conducted of the three banks, in scope of this research, indicated that there are inherent gaps in the adequate practice and maturity of this science. These vital elements which dictate the maturity of the practice and its systems, are captured in the model depicted in Figure 8:

There are a number of factors that may influence this system. Previous literature proved to be limited in this regard; it was outdated and not entirely relevant to the South African context. As a result, it was determined that there was a need to

consider four perspectives or dimensions when attempting to address the cost management system. These perspectives are:

- Internal factors with high influence on cost management
- Internal factors with low influence on cost management
- External factors with high influence on cost management
- External factors with low influence on cost management

It became evident in the research that, an organisation needs to be proactive in its approach to cost management. Thus, in order to assist it, the framework, designed by the author, was captured in Figure 12.

This model creates an awareness of the factors which are pertinent to an organisation. In order to make the most of the opportunities presented by this model, management, cost accountants and strategists, require a practical tool to measure and track the influence of these factors against their current cost systems. Therefore, the comprehensive matrix, presented in Table 4, can be used by the respective parties to implement adequate controls, mitigate risk and manage the applicable factors which are important to the organisation's success.

Both, the CMMM and the Factor Management Model, are meant to be used in conjunction with the organisation strategy. This research necessitated the need to align strategy with cost management. It is becoming increasingly important for top management and cost champions, to understand the characteristics of cost management and the models presented above. Hence, a conceptual framework to assist them in this regard was developed. This framework is presented in Figure 13.

The overall conclusion of this research is that, cost management brings many positive aspects into the organisation; providing an edge over their competitors. South African banks, have a particularly difficult task by the sheer nature of the industry, thus the maturity of cost management practices are predominantly low.

Today, the reality is that the journey organisations find themselves on is filled with uncertainty. Without acceptance, awareness and pro-activeness, organisations who operate on a global or local scale, will simply find themselves on the back-foot of competitive success.

7.1. Business Implications

At the concluding period of this research, Standard Bank, one of South Africa's largest banks, with the highest asset base against its competitors and Africa, announced a 4% retrenchment, of its total work force (Mammburu, 2010). This retrenchment included 65 executives, 670 managers, 410 general staff and 600 contract workers (Mammburu, 2010).

According to the report, Jaco Maree, CEO of the group, mentioned, "The world of banking is a global business and it is also affected by global economy, especially a bank like us that has operations in many countries" (Mammburu, 2010).

Within the same time frame, UK based banking giant, HSBC turned down its interest in a takeover bid of Nedbank (Latham, 2010) They indicated dissatisfaction with some of the practices within the organisation (Latham, 2010). This decision had major implications to the local banks reputation and public opinion (Latham, 2010).

In the same breath, trade union Solidarity, has threatened to encourage its, almost, 65,000 members, to move their accounts from ABSA (Ashton, 2010). This was the

result of an analysis conducted by them, which indicated that ABSA had one of the highest banking fees in South Africa (Ashton, 2010).

Can organisations like these, on such a large scale, who employs such a large number of individuals, in an already highly unemployed country, have reacted differently, had it had the proper management systems in place to manage costs? This research has already proven, as the case in point, how other organisations that were proactive and mature in cost management practices, remained resilient in the face of recessionary and business challenges.

At minimum, an organisation must accept the uncertain and unstable forces which are at play within the economy. From the perspective of choice, an organisation can either choose to support cost management or remain oblivious to this phenomenon. By choosing to support cost management, an organisation can be geared in preparations from the uncertainty of this world.

The benefits have clearly been stated, they are, in fact, enhancing and supportive to organisational success, and therefore, should be grasped.

7.2. Recommendations for Future Research

Even though cost management is an age old practice, many of its practices are conducted within the manufacturing environment. There is insufficient evidence and research available for financial services.

Based on the research and the gaps which were highlighted, the following topics are suggested areas for future research:

- Cost decisions cannot be made without strategy. Can strategy decisions be made without cost?

- Uncovering the elements of the Cost Management Maturity Model within organisations in South Africa.
- The role of cost managers and cost accountants in the financial services industry.
- Factors which influence effective cost management in corporate and investment banking.
- Factors that influence effective cost management in insurance organisations.
- How do financial institutions differ in the way they subsidise costs?
- Throughput Accounting (Constraint-based Costing) for Financial Institutions.
- Are educational institutions providing adequately equipped cost accountants?
- Technology implication on cost management within South Africa.
- Does transfer pricing promote business improvement and efficiency?

7.3. Research Limitations

The following research limitations have been identified:

- The number of organisations offering financial services is increasing. However, there are four major banks in South Africa, called the Big 4. This research interviewed only three out of the Big 4. Further studies could be conducted on the other smaller banks.
- The researcher is not experienced in qualitative research.
- English was not the first language for some of the interviewees. Therefore, the researcher had to adapt the quotes in order to allow the research to flow. However, the respondent's core message and theme was always maintained.
- Limited time was available to do the research.

References

- Abdallah, A. & Li, W. (2008) Why Did ABC Fail at the Bank of China? *Management Accounting Quarterly*. 9(3), 7-14
- Ahn, H., Schmitz, C. & Souren, R. (2005) Optimal product mix decisions based on the Theory of Constraints? Exposing rarely emphasized premises of Throughput Accounting. *International Journal of Production Research*, 43(2), 361-374.
- Allen, R. S., Helms, M. M., Takeda, M. B., & White, C. S. (2007). Porter's Generic Strategies: An Exploratory Study of Their Use in Japan. *Journal of Business Strategies* , 24(1), 69-74.
- Allen, R.S., Helms, M.M., Takeda, M.B. & White, C.S. (2007) Porter's Generic Strategies: An Exploratory Study of Their Use in Japan. *Journal of Business Strategies*, 24(1), 69-74
- Amaboldi. M. & Lapsley, I. (2003) Activity based costing, modernity and the transformation of local government. *Public Management Review*. 5(3), 345-75
- Amaboldi. M. & Lapsley, I. (2004). Modern costing innovations and legitimation: A health care study. *Abacus*. 40(1), 1-20
- Anderson, S. W. and Young, S. M. (1999) The impact of contextual and procedural factors on the evaluation of activity based costing systems. *Accounting, Organizations and Society*, 24(7), 525–559.
- Anghelache, C., Capusneanu, S. & Barbu, C. (2009) Analysis over Critical Issues of Implementation or Non-implementation of ABC Method in Romania. *The Bucharest Academy of Economic Studies*. 57-62
- Ashton, M. (2010). *Solidarity ditches ABSA*. Fin24. Available from <http://www.fin24.com/Companies/Solidarity-ditches-Absa-20101103> (accessed 05/11/10)
- Barrett, R. (2004). Why There are No Longer Valid Excuses to Avoid ABC. *Wiley Periodicals* , 71-74.

Blocher, E.J. (2009) Teaching Cost management: A Strategic Emphasis. *Issues in Accounting Education*, 24(1), 1-12

Brown, D. A., Booth, P. & Giacobbe, F. (2004) Technological and organizational influences on the adoption of activity-based costing in Australia. *Accounting and Finance*. 44(3), 329-56.

Burgess, R.G. (1982). *Field Research: A Source Book and Field Manual*. London: Allen & Unwin.

Bushong, J.G., Talbott, J.C. & Cornell, D.W. (2008) Instructional Case – Activity-based Costing Incorporating both Activity and Product Costing. *Accounting Education: an international journal*, 17(4), 385-403

Chenhail, R. H. (2004) The role of cognitive and affective conflict in early implementation of activity-based cost management. *Behavioral Research in Accounting*. 16, 19-44

Cooper, R. and Kaplan, R. S. (1991) *The Design of Cost Management Systems* Englewood Cliffs, NJ: Prentice Hall.

Corbett, T. (2006) Three Questions. *Strategic Finance, Institute of Management Accountants*.

Cox, J.F. & Spencer, M.S. (1998) *The Constraints Management Handbook*. Boca Raton, FL: CRC Press LLC.

David, F. (2002). *Strategic management: Concepts (9th ed)*. Upper Saddle River, NJ: Prentice-Hall.

Dess, G. G., Lumpkin, G. T., & Taylor, M. (2004). *Strategic management: Text and cases*. New York: McGraw-Hill Higher Education.

Devine, K., Ealey, T. & O’Clock, P. (2008) A Framework for Cost Management and Decision Support Across Health Care Organizations of Varying Size and Scope. *Journal of Health Care finance*, 35(2), 63-75

Di Montezemolo, G.C. & Tardivo, G. (2009) Using Activity Based Management to Achieve Excellence. *Journal of Financial Management and Analysis*, 22(1), 67-84

- Easterby-Smith, M., Thorpe, R., & Lowe, A. (1991). *Management Research: An Introduction*. Thousand Oaks, California: Sage.
- Fard, H.D., Rostamy, A.A.A. & Taghiloo, H. (2006) How types of Organisational Cultures Contribute in Shaping Learning Organisations. *Singapore Management Review*. 31(1), 49-61
- Fisher, D.J., Rechard, E.W. & Gupta, V.K. (1994) Total Cost Management: A New Approach. *Financial Management*, May/June, 1-4
- Fleischman R.K. & Tyson, T.N. (1998) The Evolution of Standard Costing in the U.K. and U.S.: From Decision Making to Control. *ABACUS*, 34(1), 92-118
- Fortin, A., Haffaf, H. & Viger, C. (2007) The Measurement of Success of Activity-Based Costing and Its Determinants: A Study within Canadian Federal Government Organisations. *Accounting Perspectives / Perspectives Comptables*. 6(3), 231-266
- Goldratt, E.M. (2004) Presentation at the 2004 TOC-ICO International Conference, Miami, FL.
- Goldratt, E.M., (1992) *The Goal*. 2nd Revised Edition. Cape Town: Creda Press, 32
- Grahame, S. (2005) Management Accounting – Decision Management. *Financial Management*, July/August, 41.
- Grahame, S. (2009) *Performance Operations*. Financial Management: Caspian Publishing
- Gupta, M.C. (2003) Constraints management—recent advances and practices. *International Journal of Production Research*, 41, 647–659.
- Hicks, D.T., Olejniczak III, E.J. & Curell, B.A. (2009) Measuring Customer & Product Profitability at Regional and Community Banks. *Journal for Performance Management*, 3-18
- Innes, J., Mitchell, F. & Sinclair, D. (2000) Activity-based costing in the U.K.'s largest companies: A comparison of 1994 and 1999 survey results. *Management Accounting Research*. 11, 349-62

Interviewing in Qualitative Research (2000) Available from

<http://fds.oup.com/www.oup.co.uk/pdf/0-19-874204-5chap15.pdf>

Jary, D. & Jary, J. (1991). *Handbook of Qualitative Research*. Sage: Thousand Oaks

Jones, S. (1985). 'Depth Interviews' in R. Walker. *Applies Qualitative Research*. Aldershot: Gower

Kaplan, R. S., and D. P. Norton. 2004. *Strategy Maps*. Boston, MA: Harvard Business School Press.

Kren, L. (2008) Using Activity Based Management for Cost Control. *Journal of Performance Management*, 18-27

Kren, L. (2008). Using Activity-Based Management for Cost Control. *Journal of Performance Management* , 18-27.

Latham, D. (2010). *HSBC Says Nedbank did not meet its targets*. Business Day. Available from <http://test.businessday.co.za/Articles/Content.aspx?id=126020> (accessed 07/11/10)

Leedy, P., & Ormrod, J. E. (2001). *Practical Research: Planning and Design*. New Jersey: Prentice Hall.

Lockamy, A. (2003) A Constraint-based Framework for Strategic Cost Management. *Industrial Management and Data Systems*, 103(8), 591-599

Mammburu, L. (2010, 10 29). Standard Bank is Forced to Retrench. Retrieved 10 31, 2010, from Business Day:

<http://www.businessday.co.za/articles/Content.aspx?id=125344>

Merriam, S. B. (1998). *Qualitative research and case study applications in education*. San Francisco: Josey-Bass.

Miles, M. B., & Huberman, A. M. (1994). *Qualitative data analysis*. Thousand Oaks, California: Sage.

Narong, D.K. (2009) Activity-Based Costing and Management Solutions to traditional shortcomings of cost accounting. *Cost Engineering*, 51(8), 11-22

- Nevin, T. (2008) Greedy Banks Under the Spotlight. *African Business*, 01413929, August/September, Issue 345
- Okeahalam, C.C. (2007) Estimating Market Power in the South African Banking Sector. *International Review of Applied Economics*, 21(5), 669-685.
- Okeahalam, C.C. (2009) Product mix, transactions and cost behaviour: a study of South African bank branches. *International Review of Applied Economics*, 23(1), 71-88
- Ostrenga, M. R., Ozan, T. R., McIlhattan, R. D. and Harwood, M. D. (1992) *The Ernst & Young Guide to Total Cost Management* (New York, NY: John Wiley & Sons).
- Page, C., & Meyer, D. (2000). *Applied Research Design for Business and Management*. Australia: McGraw-Hill
- Peacock, E. (2005) Cost Management by Customer Choice. *Management Accounting Quarterly*, 6(3), 28-36
- Porter, M. E. (1996). What is Strategy? *Harvard Business Review* , 62-78.
- Porter, M. E. (1997). How Competitive Forces Shape Strategy. *Harvard Business Review* , July/August.
- Pretorius, P.J. (2004) Getting Back to Basics: Productivity Revisited. *International Engineering Management Conference*, Department of Engineering and Technology Management, University of Pretoria, South Africa, 1284-1288
- Salonen, A. (2009). How Companies are Bucking the Trends. *Financial Executive* , 11.
- Sapp, R. W., Crawford, D. M., & Rebischke, S. A. (2000). Activity-Based Information for Financial Institutions. *Journal of Performance Management* , 22-34.
- Schiff, J. & Schiff, A.I. (2008) Focusing On Cost Management During Economic Downtowns. *Financial Executive*, October, 49-50
- Sheu, C., Chen, M., & Kovar. S. (2003) Integrating ABC and TOC: for better manufacturing decision making. *Integrated Manufacturing Systems*. 14(5), 433-441

- Shields, M.D. & Young, S.M. (1989) A behavioral model for implementing cost management systems. *Journal of Cost Management*. 2(4), 17-27
- Thompson, A., & Strickland, A. (2003). *Strategic management: Concepts and cases (13th ed.)*. New York: McGraw-Hill Higher Education.
- Trussel, J. & Bitner, L. (1998). Strategic Cost Management: an Activity-Based Management Approach. *Management Decision*, 36(7), 441-447
- Welman, J.C., & Kruger, S.J. (2001). *Research Methodology: for te business and Administrative Sciences*. South Africa: Oxford
- Wheelen, T., & Hunger, J. D. (2004). *Strategic management and business policy (9th ed.)*. New York: Prentice Hall.
- Wiesbaden, G.G. (2002) Costing as a Management Accounting Tool. *Management Accounting Quarterly*, 5(2), 7-28
- Witherite, J. & Kim, I. (2006) Implementing Activity-Based Costing in the Banking Industry. *Bank Accounting and Finance*. 29-34
- Zikmund, W.G. (2003). *Business research methods*. United States: South Western

Appendices

Appendix 1 - The main phases of ABC provided by Di Montezemolo and

Tardivo (2009):

1. Identification of the main purpose of analysis. (This defined, is the company decision needed to be made, as well as the process identified).
2. Determining and grouping organisational units. Each group must have a clear mission. This aligns ABC with the relevant strategy.
3. Define the activities.
4. Rationalise the activities. This entails structuring and detailing activities at correct levels.
5. Classify activities between primary and secondary. Primary activities are those activities spent outside the division and secondary activities are those which are spent within the division to support primary activities;
6. Identify relationships between function, process and activity, within the company, by mapping the activities.
7. Document the activities.

Appendix 2 - The five focused steps of the Theory of Constraints (Goldratt,

2004; Ahn, Schmitz & Souren, 2005):

1. Identify system constraint.
2. Decide how to exploit the constraint.
3. Subordinated everything else based on the above decision.
4. Elevate the system constraint.
5. If the constraint is broken, revert to step 1.

Appendix 3 – Formula to measure productivity, utilisation and efficiency

The end result of performance measurement in an organisation is, Net Profit (NP) and Return on Investment (ROI) (Corbett 2006). Even though this measure shows the position of the company in relation to its goal, it does not provide a day-to-day decision making capability (Corbett, 2006). Pretorius (2004) emphasised the significant need to relate productivity and the goal of making money. In this way, he relates the definition in the following manner:

$$\begin{aligned} \text{productivity} &= \frac{\text{Output}}{\text{Input}} = \frac{\text{Net Profit}}{\text{Investment}} = \text{ROI} = \frac{\text{Income} - \text{Expense}}{\text{Investment}} \\ &= \frac{\text{Volume} (\text{Selling price} - \text{variable cost}) - \text{fixed cost}}{\text{Investment}} \end{aligned}$$

Pretorius (2004) emphasised the need to measure utilisation and efficiency of the constraint, rather than the other resources, since they are dependent on the constraint. He defines utilisation and efficiency as follows:

$$\text{Utilisation} = \frac{\text{Time Busy}}{\text{Time Available}}$$

$$\text{Efficiency} = \frac{\text{Standard Time}}{\text{Actual Time}}$$

Appendix 4 - How the four main concerns of Through Accounting are addressed (Corbett, 2006).

1. *Throughput Accounting is the same as variable costing:*

Variable costing is calculated as price less direct labour and direct material costs (Corbett, 2006). The biggest difference, is that variable costing considers other costs as fixed, while TA does not (Corbett, 2006). TA looks at the impact of the three essential questions mentioned above (Corbett, 2006).

2. Assumes that there is a physical constraint:

This assumption was born, due to the fact that, TOC started as a production scheduling tool. However, over time, TOC evolved, and the premise is that, no matter what organisation, there exists at least one constraint (Corbett, 2006).

3. Operating Expenses (OE) are not fixed:

TOC does not assume that OE are fixed, but rather, that it is not entirely variable, and the relevant time to analyse the increase and decrease in variability, is during decision making, because decisions make cost vary (Corbett, 2006).

4. TA is only for short term decisions:

Corbett (2006) states, that due to the above assumption, critics often state that TA is relevant only in the short term. However, TA is relevant in the long term, depending on the time frame applied, in the three questions highlighted above (Corbett, 2006).