

Why Look at German Cost Management?

by Larry White, CMA, CFM, CPA, CGFM

The IMA Foundation for Applied Research is dedicating a good deal of research to understanding a well-established form of German cost accounting, *Grenzplankostenrechnung*, known in the United States simply as GPK. I'm

frequently asked, "Why?" While German companies perform well internationally, they are not competitively dominant, though many have a reputation for superior quality, if at a cost.

Reason 1: GPK has been in wide use in German manufacturing and service companies for more than 40 years, and very little information on it has been translated into English or other languages. IMA has a responsibility to examine management accounting techniques and to bring the findings to its members so they can better serve the organizations employing them. Any technique this durable that is widely and successfully used by a major industrial nation should be understood.

German companies seldom export their costing methodology, though it appears they collect the raw data from foreign subsidiaries to support GPK analysis. Even SAP, which has the capability to do GPK built into its costing and controlling modules, doesn't push GPK to non-German markets. Those exposed to GPK are usually overwhelmed by its detail, and initial research results indicate even German practitioners focus on accuracy and detailed information rather than strategic impact.

Reason 2: German practitioners take what they do for granted and may have lost sight of the strategic uses of information they produce. The opportunity to leverage,

modify, and improve GPK is enticing as an international economic improvement.

Reason 3: Companies around the world are not using SAP's business analytical capability to anywhere near its full potential. The opportunity exists to leverage existing IT capability on a massive scale.

Reason 4: Finally, and most important, German managers appear to be very satisfied with the quality of their cost information. The June 2003 survey done by E&Y and IMA indicated that 98% of U.S. managers did not have confidence in their cost information. In the U.S., management accountants face a crisis in the cost management arena. GPK may not be the right answer, but new options need to be sought. ABC hasn't met with the broad success once anticipated, and standard costing is

clearly inadequate for strategic use.

IMA has already taken significant steps to bring knowledge of GPK into the English-speaking management accounting domain: Interim Executive Director Paul Sharman wrote two articles on GPK in *Strategic Finance*. With translation assistance from SAP, IMA published the first English translation of the opening chapter of the 11th edition of the GPK text in *Management Accounting Quarterly* in the Winter 2004 issue. Two articles on resource consumption accounting (RCA), which incorporates elements of GPK and a disciplined form of activity-based



LARRY WHITE

costing, were published in the April and May 2002 issues of *Strategic Finance*. An introductory article was published in the Fall 1999 issue of *Management Accounting Quarterly*. And IMA's Annual Conference in Chicago featured "The Battle of the Cost Accountants," where three world-class North American cost management specialists debated the merits of GPK, ABC, and RCA.

We have more planned: Two research projects will yield *Strategic Finance* articles supplemented with detailed reports in *Management Accounting Quarterly*; a case study on a trial implementation of RCA will be published in the October issue of *Strategic Finance*; Paul Sharman is preparing a case study on a large German service company with the current editor of the GPK textbook, Kurt Vikas; and IMA Chair-Elect Carl Smith will be publishing a case study of a GPK application by a German subsidiary based in the U.S.

If you're interested in finding out more, IMA will be creating a new E-mail Exchange called "New Costing." We have signed up some people knowledgeable about GPK and RCA to participate in the online community, and you are encouraged to review back articles and start a dialogue on these innovations in cost management.

Please let me know your thoughts. You can reach me at lwhite@imanet.org. ■