

Neal Hannon, Editor

The Cost Accountant Is Dead; Long Live the Business Process Analyst

BY NEAL J. HANNON

The cost accountant was born in a business world that is far different from today. Beginning with the industrial revolution at the turn of the 20th century, the demand for people to account for manufacturing costs created a ground swell of jobs for cost accountants. In the 1950s, roughly 30% of all U.S. jobs were

still classified as belonging to the manufacturing sector. By 1970, manufacturing jobs as a percent of the total U.S. workforce had declined to 25%. Today, the figure is estimated to be close to 10%.

Recently, profound advances in technology have created both threats and opportunities for those employed in companies as cost accountants, cost managers, and business analysts. Cost accounting, or the application of business costs to goods and services, is changing into the new work of the business process analyst.

In the manufacturing accounting of years past, the primary duties of the cost function included the allocation of overhead costs, the preparation of budgets and forecasts, and the analysis of departmental variances. The cost of labor was a major

cost component of a manufacturing-based economy, and analysis of labor effectiveness and efficiency was a part of the daily routine of business. Material variances helped companies focus on changes in price and quantity. Reports centered on departments and the people who worked in them. The underlying premise was that the people who worked and supervised in specific areas of the company had the most influence on the factors of cost.

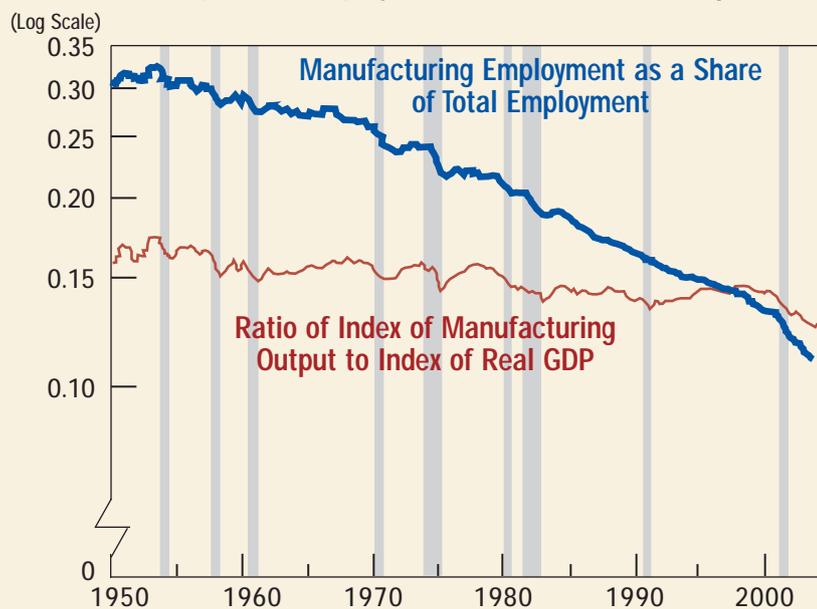
Sweeping changes in manufacturing productivity have occurred since 1950. As the number of people employed in manufacturing declined from more than 30% to near 10% of total employment, the Gross Domestic Product (GDP) from manufactured goods remained relatively steady at just over 15% in 1950 to slightly under 15% in 2003 (see Fig-

ure 1). Clearly, manufacturing is still an important part of the U.S. GDP, but significantly fewer people are employed in the sector. This shift in employment verifies what companies have known for years: The major cost drivers in manufacturing are business processes, not people. The cost accountants and the cost accounting systems of today need to adjust to a few new realities.

Enter the Business Process Analyst

The new work of the management accountant is to understand, analyze, and report on the major business processes of the company. The old focus on component costs of products such as materials, labor, and overhead organized around departmental silos has given way to realigning business processes to gain strategic insight and advantage. The performance of all business processes in the value chain, from suppliers to the customer, provides the key to how a business is doing today. New information technologies such as extensible markup language (XML), Web services, and virtual networks have created a whole new set of data points that tell a rich story about

Figure 1: Output and Employment in the Manufacturing Sector



Sources: Congressional Budget Office; Department of Labor, Bureau of Labor Statistics; Department of Commerce, Bureau of Economic Analysis.

Note: The vertical bars indicate periods of recession as defined by the National Bureau of Economic Research.

how value is added throughout an organization.

Service-oriented architecture (see last month's column) places new emphasis on the linkages of business activities. As information is freed up from underlying applications and exposed to new combinations of processes both inside and outside the company, the stakes of business reporting are raised.

Companies are driven to change by a threefold attack on their traditional reporting systems. First, they need to respond to terabytes of business data generated both inside and outside traditional applications. Second, regulatory agencies are demanding more information within shorter time frames. Third, business is moving at such a rapid pace that management teams are in desperate need of correct, actionable data as quickly as it can become available. This combination makes for a compelling reason to change

the way information is collected and reported within a business.

The real trick for companies will be to examine the business rules built to keep the business processes turning out high-quality products and data. A business process analyst must know the process well enough to judge the conditions under which

The New Help Wanted

BUSINESS PROCESS ANALYST

Requirements: Experience analyzing combinations of business processes

Must have working knowledge of XML, XBRL, Web Services and Service-Oriented Architecture, Business Strategy

Must work well with the IT department

Must have working knowledge of Sarbanes-Oxley internal control monitoring

Helpful: Exposure to balanced scorecarding, Information System design and analysis; exposure to cost analysis

it is unlikely to produce good output. The analyst also must be able to test the business process to assess the quality and performance of the operation and the data flowing to the reporting stream.

What happens when several business processes are realigned in a service-orientated architecture to create new linkages? The business process analyst needs to examine the new combination of processes to determine if the alignment will produce the desired results. Tests need to be set up in a way that ensures the validity of the information flowing from the new alignment. Management needs assurance that the new data flowing to senior management's desktop monitoring system is correct, actionable, and auditable.

New job descriptions will be needed for this position. Qualifications include a good understanding of XML and related technologies, an understanding of how processes forming different systems can be linked together to create new information networks, and a flare for turning business process information into valid business reports. A good sense of the business and an understanding of how a company's strategy needs to be aligned with business measurements rounds out the top-level requirements.

Will you be ready when the first advertisement appears in the business press? Stay tuned. ■

Neal Hannon is an accounting lecturer for the Barney School of Business at the University of Hartford. Author of two books and numerous articles, he is the IMA's representative to the XBRL International consortium. Hannon is a former member of the XBRL-US steering committee and former chair of XBRL International's Education Committee.