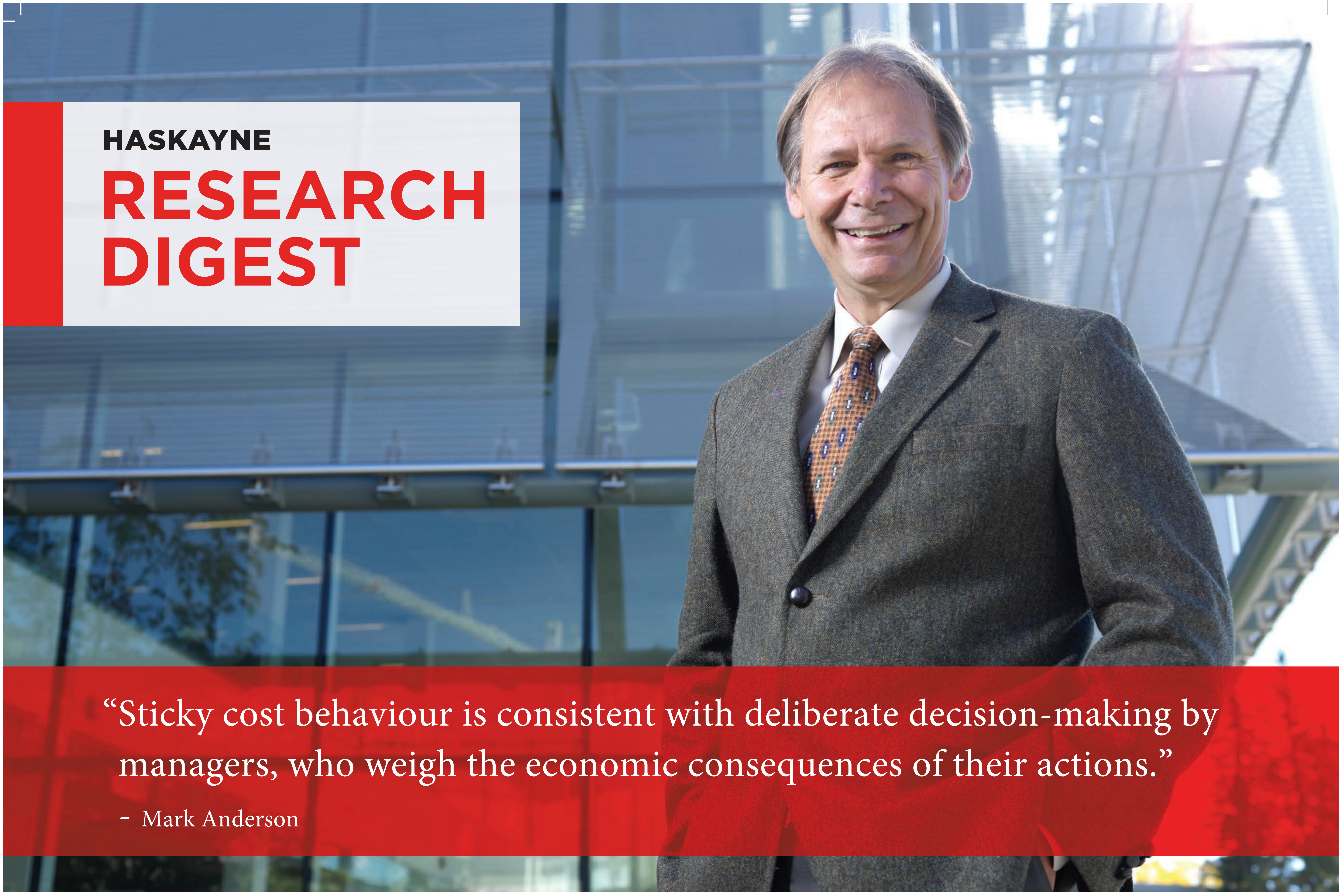

HASKAYNE

RESEARCH DIGEST

> "Sticky cost behaviour is consistent with deliberate decision-making by managers, who weigh the economic consequences of their actions."
>
> – Mark Anderson

Mark Anderson

STICKY COSTS – HOW PEOPLE'S BEHAVIOUR INFLUENCES COST BEHAVIOUR

'Cost behaviour' – how costs vary with a change in an organization's level of activity – is often viewed as fixed or variable depending on activity levels, but this approach overlooks other trade-offs that managers must make. Unfortunately, when sales revenue begins to decline, managers often make cuts that hurt the company in the long term; they decide to cut key employees or resources that will be needed when sales begin to increase.

Mark Anderson and colleagues study sticky costs – costs attached to resources that influence long-term growth – to determine whether they move symmetrically with changes in sales. They found that resource decisions are made differently depending on whether sales increase or decrease, and that costs drop less easily than they rise due to forces that restrain the downward adjustment process.

Managers may not want to get rid of certain resources in a period of declining sales, especially if it is predicted to be temporary. For some companies, the potential cost of losing sales due to lack of resources when demand picks up outweighs the cost of retaining resources when demand is low.

Anderson, Mark; Banker, Rajiv; Janakiraman, Surya. (2007). Cost Behavior and Fundamental Analysis of SG&A Costs. *Journal of Accounting, Auditing and Finance*, 1–28.

Anderson, Mark; Banker, Rajiv; Janakiraman, Surya. (2003). Are Selling, General, and Administrative Costs "Sticky"?. *Journal of Accounting Research*, Vol. 41. No. 1: 47–63.

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