Understanding Cost Management:
What Can We Learn from the Evidence on “Sticky Costs?”

Recent research (Anderson, Banker and Janakiraman [ABJ], 2003) provides evidence that the absolute change in SG&A cost that is associated with decreased sales activity is systematically less than that associated with increased sales activity (so-called “sticky” costs). Viewing an asymmetric cost response as incompatible with traditional cost accounting models in which costs are strictly fixed or variable with respect to activity, the authors interpret their finding as evidence of overt cost management by managers. In this paper we revisit the conclusion that ABJ’s evidence of “stickiness” implies managerial action in response to demand shifts as distinct from a mechanical alternative. We argue that the mechanical model is an empty theory because all cost realizations are logically the result of management decision making in some time period. That said, what motivates managers to adjust costs and how they do so are important questions. Thus we consider whether the empirical tests and data employed in prior studies are appropriate for testing theories about managerial motives for cost adjustments (asymmetric or otherwise). We first illustrate the fragility of empirical results related to the characterization of SG&A costs as sticky. Although we find weak evidence consistent with sticky SG&A costs, the results are quite sensitive to assumptions about what managerial behavior is implied by the sticky cost hypothesis. Specifically, if we constrain our inquiry to cases in which SG&A changes move in the same direction as sales activity, as implied by the theory of sticky cost behavior, we find only limited evidence of sticky costs. Further, we find no consistent mode of cost behavior when we test the sticky cost model using other types of cost (e.g., labor costs, R&D costs, PP&E costs) that, like SG&A, are subject to managerial discretion. The instability and general lack of significance of the tests for sticky costs demands that we consider whether the empirical test and the data are suited to the task of testing the hypothesis. Upon revisiting the economic theory of production and comparing the empirical test implied by theory to that which has been employed, we conclude that the methods and data employed to date cannot be used to distinguish between alternative theories of cost adjustment. We conclude by offering suggestions for how future research might more meaningfully identify the theories of management decision making and cost management that are most consistent with observed cost behavior.

Professor Anderson joined the Jones School of Management in 2001. Prior to that, she taught for nine years at the University of Michigan Business School. Her research has been published in a number of leading journals in accounting and operations management, including: The Accounting Review, Accounting Organizations and Societies, Management Science, Production and Operations Management, and the Journal of Management Accounting Research. She is also co-author of the book Implementing Management Innovations, which won the American Accounting Association's Notable Contribution to the Accounting Literature Award in 2006 and the Notable Contribution to the Management Accounting Literature Award in 2003. Professor Anderson also won the Notable Contribution Award to the Management Accounting Literature in 2006 for another piece of research.

Before returning to school to pursue her doctorate, Prof. Anderson worked as an engineer for General Motors Corporation. As a part of her research program, Professor Anderson has worked with firms in a wide variety of industries, including: airlines, automotive, pharmaceuticals, machine tools and industrial equipment, defense contractors, commercial construction, textiles, and industrial glass.

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