A STUDY OF HOW THE UTILISATION OF OPTIMAL COST MANAGEMENT TECHNIQUES INFLUENCE MEDICAL SCHEME ADMINISTRATORS

ABSTRACT

Within today's competitive and cost-driven business environment, Medical Scheme Administrators are under tremendous pressure to ensure their operations are at the pinnacle of financial performance, through stable but profitable business structures, whilst achieving maximum return for member's contributions. The purpose of the study was to identify the factors that affect the optimal 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 Medical Scheme Administrators currently use costing principles. This is achieved through semi-structured interviews with individuals, who are directly responsible for this function within their respective organisation. The study concluded that a conceptual cost management framework, which is made up of a number of key models to assist an organisation, is more frequently used in more mature organisations.

PURPOSE

The purpose of the study is to assess how active, mature and prevalent, cost management featured within South Africa's Medical Scheme Administrators.

PROBLEM INVESTIGATED

A great amount of literature exists on the subject of cost containment and effectiveness of system employed in MSA environment. There is however, no conclusive evidence on the utilisation of optimal costing models and the techniques of how quality of care is affected by cost containment strategies is obtainable. MSA has changed the face of private healthcare in South Africa, but so little is known about its impact on cost and cost management technique employed. Therefore the problem statement is to identify that the MSA are achieving effective cost management performance through the utilisation of optimal cost management techniques.

METHODOLOGY

Due to both the economic and social implications faced by the Medical Scheme Administrators (MSA) regarding the cost techniques utilised, the research approach of the study was of a qualitative research. This approach was exploratory in nature with the core focus of the research the cost management techniques employed by MSA to achieve optimal cost management. A structured interview based research methodology was substantiated. The populations for this study were the MSA who are registered with the Council for Medical Schemes and are operational in South Africa, covering both open and closed medical schemes in South Africa. The population were all senior employees employed responsible for the cost management function of MSA in the South Africa environment. The population is a heterogeneous population. The sample size of the study were the number of the respondents that the researcher was able to interview within the set time frame/period, whilst ensuring sufficient coverage/ population representation is achieved.

Keywords:
Cost management
Medical Scheme Administrators
Full Absorption Costing
Activity Based Costing
Cost Management

INTRODUCTION

Since 1994, considerable progress has been made in transforming the South African health care system, implementing processes and practices that improve the health of the population, and improve access to health care services. However, amid escalating health care costs disparities continue to exist between the public and private health sectors. Although health care is recognised as a basic human right, the current position of private health care in South Africa is of great concern. Not only is the health care service almost unaffordable but, the future quality of health care is of great distress. With this in mind it is obvious that alternatives to conventional medical aids and health insurance are necessary to guarantee the continued availability of quality medical care to the South African public in the near future.

Most people would agree that the private sector health care system is characterised by a depressing history of inadequate planning, control and management. It is for this reason that amendments to the Medical Schemes Act were considered necessary. Certain of these amendments extended the role played by medical schemes in the management of health care resources. These resulted in the traditional boundaries and relationships between the public, health care professionals and health care facilities, and the financiers in the private health care system being altered and blurred.

Making matters worse is the apparent mystery as to who is the cause of medical inflation. Every week it seems another crisis and another culprit. It would be easy to draw the conclusion that private healthcare is in crisis and its participants, the likes of Medical Scheme Administrators (MSA), doctors and hospitals are either corrupt, incompetent, or both. The truth is quite the opposite: private healthcare is an essential national asset that strives to serve society in a cost-effective manner. Private healthcare can and must thrive, and it can and must expand its services beyond the minority of South Africans it currently covers. There are two general categories those who think healthcare is too expensive in South Africa and those who believe that the quality of private healthcare is interpreted with its costs.

The fact is, healthcare is expensive. The quality of South Africa's private system is excellent and all the local doctors and hospitals are on a par with the best other countries have to offer. South Africa also enjoys a particularly luxurious system, with members of medical schemes enjoying freedom of access, freedom of choice of doctors and hospitals, and access to the best technology available in the world.

Few economic issues elicit greater emotion and heated debate than medical inflation and its causes. What and who is behind it seems to be an intractable mystery. All stakeholders in the healthcare system consistently blame each other for the price and inflation pressures. The paradox is that each player's position, when considered on its own, appears noble and justified. Yet when considering them collectively, they contradict one another.

Within today's competitive and cost-driven business environment, MSA are under tremendous pressure to ensure their operations are at the pinnacle of financial performance, through stable but profitable business structures, whilst achieving maximum return for member's contributions. However, according to McLoed & Ramjee (2007:1), there is often a public misunderstanding between non-profit medical schemes and the high-profile multimillion rand companies that act as administrators. Acts Online (N.D) illustrates the Medical Schemes Act (1998) defines the 'business of a medical scheme administrators' as the operation of accepting obligations in return for a contribution in order to make provision for potential medical/health service costs incurred by members at a service rendered fee.

Medical schemes are the dominant vehicles for providing insurance for health care in the private sector in South Africa. Medical schemes reimburse their members for actual expenditure incurred on healthcare costs. They operate on a "not-for-profit" basis and are essentially mutual societies, governed under the Medical Schemes Act (Act 131 of 1998) and managed by boards of trustees. According to McLoed & Ramjee (2007:1), Medical Schemes are surrounded by a number of "for-profit" entities that provide administration, marketing, managed care, consulting and advisory services. In the minds of consumers there is often confusion between the not-for-profit medical schemes and the high-profile listed companies that act as administrators to these schemes.

The prevalent competitive environment in today's economy, consumers are demanding lower priced and superior quality services while, firms are concentrating on ways to best identify their cost drivers and improve profit. Nowadays, repurchase decisions based solely on brand loyalty are becoming a thing of the past as customers do not hesitate to switch their allegiance to firms that provide excellent quality services at competitive prices. In the changing technological environment, firms have come to realise that traditional cost accounting systems do not provide accurate cost information, thus making its decisions about price, service and technology precisely wrong based on cost systems relying on accrual bases. The practice of Activity Based Costing (ABC) focuses has gained popularity because of these changing forces. ABC focuses on the activities associated with the costs and assigns costs by using multiple cost drivers. This principle is not only confined to manufacturing operations, but also service operations.

MSA have limited control over medical costs incurred by members whilst utilising medical services. However, they do have the capability to effectively control the administration fee charged to "manage" the member's contributions and service offerings provided as specified by Fisher-French (2012:1). Administration fees are classified as Total Non-healthcare Expenditure (NHE), and include services rendered to medical schemes such as membership management, claims processing and health risk management services.

Both Fisher-French (2012:1) and Nkosi (2008:1) captured the essence of the current MSA dilemma in the South African economy, with the MSA being under pressure to reduce costs whilst remaining competitive and profitable. This illustrates the public outcry regarding the higher than inflation increases for administrations fees charged by MSA, with member's questions how their money is being spent and utilised. The public's misconception regarding the inflated MSA administration fees has been predominately focused on the total administration fees charged, and not the various components encumbering the administration fee.

Larsen (2012:1) identified the need of MSA to achieve effective utilisation of member contributions, MSA have been forced to implement strident cost management techniques, to ensure they provide the most effective and efficient value-added services both to members and service providers. Cost management should be closely aligned with and made part of corporate growth strategies, the challenge is not just to lower costs but also to 'out invest' competitors on growth.

The general opinion of the public has been focused on the administration costs of MSA in its entirety, but this should rather be looked at as a whole package. A higher admission costs charged by a scheme is justified if it results in greater efficiency and costs containment practices and better services, than a scheme with a lower administration cost without the process efficiencies and cost management controls in place as stated by Fisher-French (2012:1) and Planting (2014:1).

PROBLEM STATEMENT

The problem statement of the study is that even though there is a great amount of literature that exists on the subject of cost containment and effectiveness of system employed in Medical Scheme Administrators (MSA) environment. There is however, no conclusive evidence on the utilisation of optimal costing models and the techniques of how quality of care is affected by cost containment strategies is obtainable. MSA has changed the face of private healthcare in South Africa, but so little is known about its impact on cost and cost management technique employed. Therefore the problem statement is to identify that the MSA are achieving effective cost management performance through the utilisation of optimal cost management techniques.

The objective of the study was to identify what are the factors that influence optimal cost management within South African Medical Scheme Administrators.

LITERATURE REVIEW

Kren (2008:18) elaborated that often, when managers are faced with cost management decisions, the practice usually entails making arbitrary cuts, which could result in eliminating value-adding activities. However, successful cost management practices (e.g. Activity Based Management) are meant to provide a framework to understand and control costs within an organization. Kren (2008:18) expanded that this framework for cost management involved the implementation of a costing methods and practices within the organization aligned to the strategies and objectives.

IFAC (2009:10) identified that the design, implementation, and continuous improvement of costing methods, data collection, and system should reflect a balance between the required level of accuracy and the cost of measurement, based on the competitive situation of the organisation. IFAC (2009:10) further stated the cost information should be collected and analysed systematically and in such a way as to ensure comparability overtime, whether in a routine information system, or for a specific application and/or purpose. Finally, IFAC (2009:11) noted that the definitions and sources of cost data, the operational and other non-financial data underpinning them, and the methods of calculating costs, should be transparent to users and recorded and capable of review, risk analysis, and assurance.

According to Lockamy (2003:593), 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:

Traditional or Full Absorption Costing

Narong (2009:11) stated that the Full Absorption Costing is fundamentally based on the allocation of indirect expenses by a fixed percentage to direct costs. It becomes clear that allocating costs in this way, distorts the cost of a specific product or service. Narong (2009:13) 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 (2003:598) 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 (2008:21) noted that the most common issues and shortcomings of traditional costing could be summarised as the cost of services and products are unrealistic and inaccurate; the general costs which are increasing in every company, are allocated, based on one or two drivers and not on use; the cost reduction is hampered, as costs are grouped by function, rather than activity, the administrative areas are ignored and; that these do not identify the real cost driver.

Activity Based Costing

Grahame (2009:1) detailed that 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 business practices. The required changes which qualified the need for new systems were the growth in overheads relative to direct costs; the increase in operational complexity; the increased levels of non-production overheads and; the growth in the service sector

Grahame (2009:1) stated, that the new methodology emerged and, 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 (2009:1) thus further indicated that, a more effective way of allocating costs were created, which were called “cost pools”. Bushong, Talbott & Cornell (2008:386) stated that there are numerous literature sources and articles relating to ABC are quite vast. Of the various cost methodologies discovered, ABC has received a lot more attention and focus. Bushong et al. (2008:391) further elaborates, that ABC has

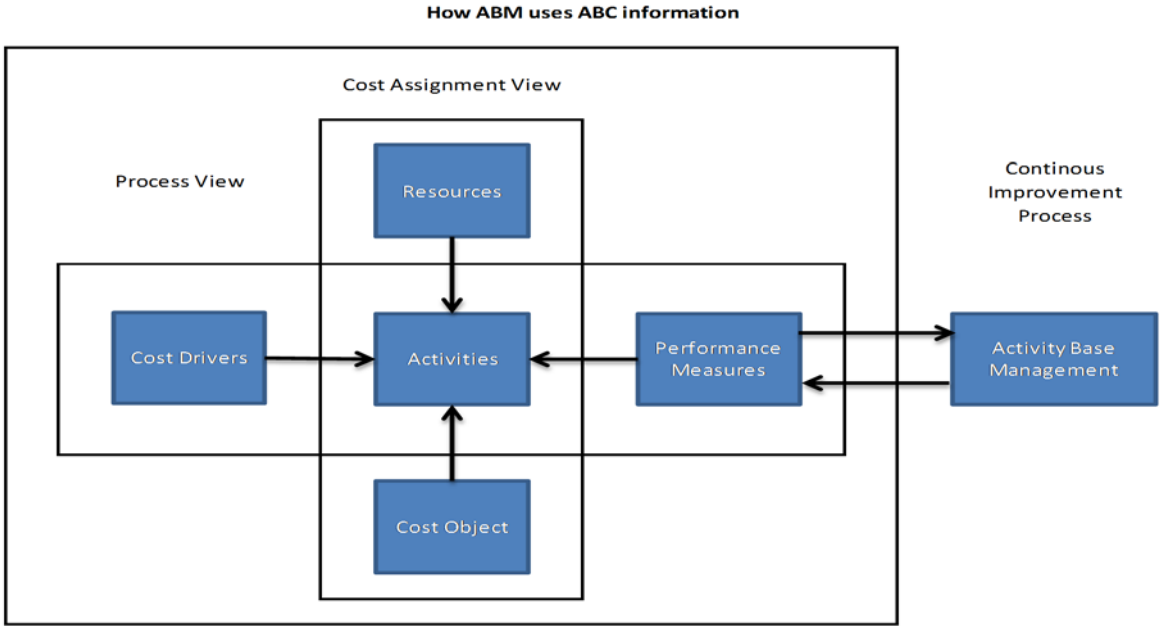
received much attention, due to its seemingly effective application. Anderson and Young, (1999:525); and Ostrenga, Ozan, McIlhattan and Harwood, (1992:669); Cooper and Kaplan, (1991:1); Kren, (2008:23) all elaborated that some of the accolades of ABC are the pricing, product mix, process improvement, lower costs, improved quality and reduced manufacturing cycle time. In order to realise the benefits for-mentioned, any organisation trying to implement ABC will be faced with some constraints and difficult implementation action/tasks.

Hicks, Olejniczak III & Curell (2009:4); Kren (2008:24) further elaborated that as mentioned above; costing has evolved through a number of years. The initial development of ABC was unstable. However, due to its simplicity, even for non-accountants, ABC has gained vigorous momentum on the path of fame as noted by Hicks et al. (2009:8). Hicks et al. (2009:12) elaborated that over a period of time various "spin offs" of ABC were born, such as Resource-Consumption Costing, Time-Driven ABC and, Value-Stream Costing. However, the premise of ABC remained unchanged. Lockamy (2003:599) stated that the premise being that the underlying assumption of ABC is that costs are incurred in an organisation through its activities. 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.

Trussel & Bitner (1998:441) stated that ABC falls under the umbrella of Activity Based Management (ABM). They further explain that it is a system that understands the cost of services and products. Di Montezemolo & Tardivo (2009:67) stated that 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 Activity Based Management (ABM). Further, Di Montezemolo & Tardivo (2009:69) detailed that ABC is not only a new accounting methodology, but rather a trigger for a new management style called ABM. Di Montezemolo & Tardivo (2009:70) noted that 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 in isolation. 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 financial improvement.

Di Montezemolo & Tardivo (2009:72) stated that the correlation between ABM and ABC can be explained in the following diagram (Figure 1):

Figure 1: How ABM uses ABC Information



Di Montezemolo & Tardivo (2009:74) stated that the three main elements of ABC or ABM are that it can identify the activities performed by the company's processes; determine the cost of the identified activities and; assign activity costs to cost objects

Kren (2008:26) explains that ABM provides useful cost management information by, identify and manage non-value adding activities as well as excess capacity; performance improvement targets and; end of period cost variance analysis

In conclusion, Di Montezemolo & Tardivo (2009:77) noted that ABC or ABM, has advantages in the long and short-term range. In the short term, Di Montezemolo & Tardivo (2009:78) identified that the main decisions that arise are the prioritising and optimising marketing initiatives, as well as the redetermination of considered services provided. In the long term strategic range, Di Montezemolo & Tardivo (2009:81) noted that it allows an organisation to reduce the resources required, through the determination of a more efficient performance of activities applied.

Cost Management practices

Barrett (2004:71) explained that when revenue targets get seemingly more and more difficult to achieve, Chief Financial Officers (CFOs) and a company's board, will find comfort when they are presented with an initiative that will help to deliver profitability and efficiency within the organisation.

However, Barrett (2004:72) did note that finding these initiatives is difficult, but ABC is considered to be one of these initiatives that deliver value. Barrett (2004:72) further stated that the reluctance of executives to implement ABC is because of the perceived implementation effort and practices, thus it is seldom utilised.

Schiff and Schiff (2008:49) noted that a recession is usually the catalyst that sparks an executive's or an organisation's interest in cost management. Schiff and Schiff (2008:50) further elaborated that often, an unprepared organisation will adopt a siege and execute mentality, which will result in more harm to an organisation than anticipated. These dysfunctional reactions will dominate a firm which is not proactive in its strategies to promote the effectiveness of a cost-leadership culture.

Fisher French (2012:1) stated that medical schemes were under enormous pressure to cut costs and remain competitive, especially in tough economic times, so these moves were understandable to remain focused on the optimal performance of MSA. Although the Council of Medical Schemes focused on administration costs, Fischer- French (2012:1) indicated that one should rather look at the whole package. If higher administration costs resulted in greater efficiency, cost containment and service, then a scheme with a 10% administration cost could offer better value than a scheme with an 8% administration cost.

Barrett (2004:73) stated that traditional software and cost models overcomplicate cost management, by providing a mammoth list of activities in an activity dictionary. Barrett (2004:73) noted that many of these activities amount to minute costs which are irrelevant to the basic understanding. Barrett (2004:73) elaborated that 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. In this regard, Barrett (2004:73) provides an informative view of the trade-off between complexity and accuracy within ABC practise.

Barrett (2004:74) stated that the intelligent analysis of costs can be more valuable to managers than the general management reports. Barrett (2004:74) noted that since a sophisticated model which provides little insight is irrelevant and of little value, reporting has become an imperative aspect of cost management. Barrett (2004:74) further stated that often, Business Intelligence tools are required to provide the level of insight required.

According to Barrett (2004:74, the accepted reporting intervals within organisations are quarterly, although the most value can be derived by, at minimum, a monthly report. Sapp, Crawford & Rebischke (2000:24) added that many financial institutions use the reporting of the cost system ineffectively, due to reports being provided too late, the operations are accounting focused rather than management focused and the level of information is too aggregated. However, Barrett (2004:74) indicated how 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 within the organisation.

Barrett (2004:74) stated that the availability of useful information would gain an executives support, which is paramount to the successful implementation of cost management practices. Barrett (2004:74) further stated that having the executive support is deemed to be the most critical success factor. Sapp, Crawford & Rebischke (2000:25), notes that the ABC is rapidly becoming the best approach in providing managers with relevant and accurate information about costs which relate to: products, services and customers. Sapp, Crawford & Rebischke (2000:26), further indicates that whilst executives and financial managers within financial institutions are subjected to a wide array of information needs, the understanding of the cost structure has become particularly relevant and important in their eyes. Sapp, Crawford & Rebischke (2000:26), showed that 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 (2000:28) stated that the success of the ABC model is rapidly gaining momentum in the global costing environment, as it matures from the manufacturing environment to become widely used in the financial industry. This is mainly due to the ability of the ABC model to align relevant costing information and data collection/analytics in a timeous manner, to the general financial accounting methodology. This is a major advantage in today's fast paced business environment.

Factors influencing effective cost management

Fortin, Haffaf and Viger (2007:231) present the need to conduct research into the factors which influence the success of cost management, particularly ABC. Brown, Booth, & Giacobbe (2004:329); Chenhail (2004:19); Amaboldi & Lapsley (2004:1) stated that with the evolution of cost management, these factors have evolved and improved, and can be attributed to a number of organisation and behavioural factors being experienced.

Medical Scheme Administrators (MSA)

Medical schemes are the dominant vehicles for providing insurance for health care in the private sector in South Africa. Medical schemes reimburse their members for actual expenditure incurred on healthcare costs. They operate on a "not-for-profit" basis and are essentially mutual societies, governed under the Medical Schemes Act (Act 131 of 1998) and managed by boards of trustees. According to McLoed & Ramjee (2007:1), Medical Schemes are surrounded by a number of "for-profit" entities that provide administration, marketing, managed care, consulting and advisory services. In the minds of consumers there is often confusion between the not-for-profit medical schemes and the high-profile listed companies that act as administrators to these schemes.

Slabbert (2013:1) elaborates that the Medical Schemes Act defines the 'business of a medical scheme' as the business of undertaking liability in return for a contribution in order to make provision for obtaining any 'relevant health service'. Medical schemes can grant monetary assistance to meet expenditure on a health service or can provide the relevant health services directly or by agreement with health care providers. Most medical schemes pay the account from the health care provider chosen by the member; some have attempted contracts with providers and very few offer health care services directly. Slabbert (2013:1) stated that medical schemes may choose to have 'restricted' membership

schemes if attached to a large employer, union or other defined group, but all others are open schemes that must freely admit anyone who applies as per the Medical Schemes Act (Act 131 of 1998).

Khanyile (2011:1) stated that the South African Medical Association has accused medical schemes of driving up health care costs with high NHE costs such as brokers' fees and administration fees. SAMA further made this accusation as the fight over the payment of prescribed minimum benefits between service providers and the schemes continued over the past few years. This fight illustrated the counter-productive working relationship between all major role players within the Healthcare industry in South Africa, with the public on the receiving end of high fees and below par services.

Khan (2012:1) stated that Medical schemes and MSA face fundamental challenges in the future as the South African healthcare industry evolves. MSA have to deal with increasing margin pressures while individual medical schemes must address member concerns over affordability and benefits. A major challenge facing MSA is their ability to generate sufficient earnings to remain attractive propositions for investors, whilst not overcharging of administrative fees.

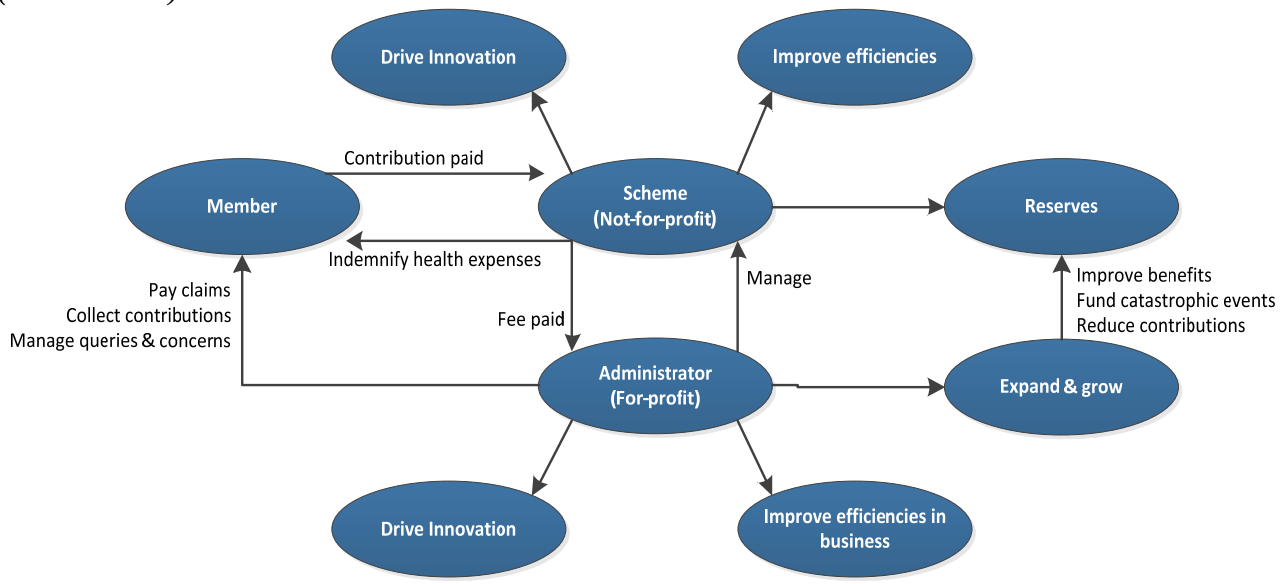
According Health-E (2012:1) the healthcare inflation is always higher than South Africa's general inflation, due to factors such as the high cost of healthcare technology and pharmaceuticals as well as an ageing membership that is likely to acquire more healthcare costs in the later years. These cost factors will outstrip the inflationary rate having a negative knock-on effect to the contribution rates charged by MSA to remain in the profitable and solvent.

Aron (2012:1), stated that the drivers of high healthcare costs are complex, and points out that the fact that healthcare inflation outstrips general inflation is not a purely South African phenomenon, but an international trend. Further to this, it was noted that primary among the causes of higher medical inflation are the escalating costs of hospitalisation and private healthcare, the fees of medical specialists as well as administration costs. Attributed to this fact is that while administration costs are not directly related to medical costs, a majority relate to healthcare administration and risk management staffing.

According Health-E (2012:1) there are three major aspects within the MSA which contribute to increasing costs. The first is the lack of bargaining power, especially amongst smaller schemes. The smaller schemes have very little negotiation power when it comes to negotiating prices for healthcare services, especially with specialists and private hospitals in the South Africa market. Secondly, schemes are not allowed to negotiate collectively on behalf of all medical scheme members, due to the Competition Commissioner's ruling of 2004 which prohibited this type of practice. The third, and probably most significant, is the actual system. The current system allows over-servicing, entrenching fraud and does nothing to align the incentives between the funders and the providers to ensure optimal transparency and efficiency for its members and services.

Deloitte (2013:1) stated to achieve the optimal cost structures within today's competitive MSA environment, MSA must ensure that participate and involvement from all stakeholders and role players is achieved. Deloitte (2013:1) further stated that the South African Medical Scheme industry constitutes three main players i.e. individual's members or consumers, the medical scheme itself and Third Party Administrators. The figure below summaries this transactional relationship within the industry:

Figure 2: Transactional Relationship that occurs in the South African Medical Scheme Industry (Deloitte 2013)



Deloitte (2013:1) indicated that from the member perspective, value and more effective cost management are created through the level and type of benefits (for the contributions paid) offered by a scheme; and the services provided from the administrator to the member, as well as the impact of interventions by the MSA which improves the quality of care received by Scheme members and/or the health status and wellness of scheme members.

Strokes (2008:1) noted that there's been plenty of public debate around the soaring costs borne by medical aids schemes of late. The Department of Health and CMS have been particularly vocal about the escalating costs of patient care at the country's private hospitals. In previous years government has intervened in the pharmaceutical industry in an attempt to bring down these prices. And it's only a matter of time before this price intervention strategy undertaken by government is rolled out to private hospitals and medical administrators too.

Hurribunce (2008:1) warns that the government is absolutely committed to driving down the private healthcare costs appropriately – demonstrated in the battle concerning the Medicines and Related Substances Regulations which related to a transparent pricing & professional fee system for medicines which went all the way to the Constitutional Court; and the current National Health Amendment Bill, which relates to the determination of tariffs for private health service providers. Hurribunce (2008) further pointed out that while there is a great deal of focus on costs by health providers, there is nothing currently regulating the costs for intermediaries such as MSA to any significant degree.

Fischer-French (2012:1) indicated that there is focuses on administrators to drive down fees in order to make more of the contributions received are available for the paying of claims. However, on the claims costs side, there is limited regulation and healthcare providers are free to charge as they wish. Fischer-French (2012:1) further stated that this creates a potential cost problem, especially with the low number of certain providers available such as specialists. Fischer-French (2012:1) stated that members should question MSA, especially as the CMS makes the point that larger administrators do not appear to offer any cost advantages over their smaller rivals, which suggests they have room to improve efficiency.

RESEARCH METHODOLOGY

The epistemological knowledge was obtained by conducting literature reviews on current literature that existed. The explanations for observations and problems were viewed from a pragmatic view which

drew an association between objects, processes and concepts (Apel, Jochen, and 2011:23). This included information such as the first population (primary population) the accredited Medical Scheme Administrators within South Africa medical scheme environment as noted by the Council of Medical Schemes (2015:1) as well as the second population (secondary population) consisting of anyone who has a direct influence and/or who is directly impacted by cost management practices within the MSA of South Africa. These individuals could vary on a functional or job level within these MSA organisations.

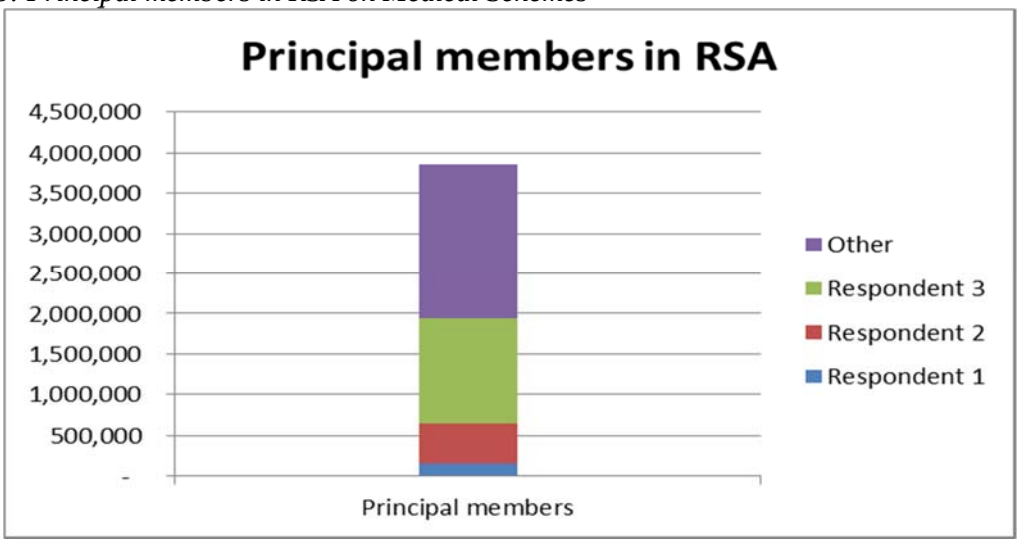
A summary of the demographic information of these respondents within these organisations are depicted in the following Table 1:

Table 1: Respondent Demographic Information

Factsheet	Category	ID	Demographic Information	Selection Options Mark with an X							
		D1	Medical schemes administrated	<1		2-5		6-10		>11	
		D2	Principal members	<1000		1001-10000		10001-100000		>100001	
		D3	Dedicated Customer relations office department	N/A		Yes				No	
		D4	Dedicated Information Communication (ITC) department	N/A		Yes				No	
		D5	Dedicated Managed Healthcare department	N/A		Yes				No	

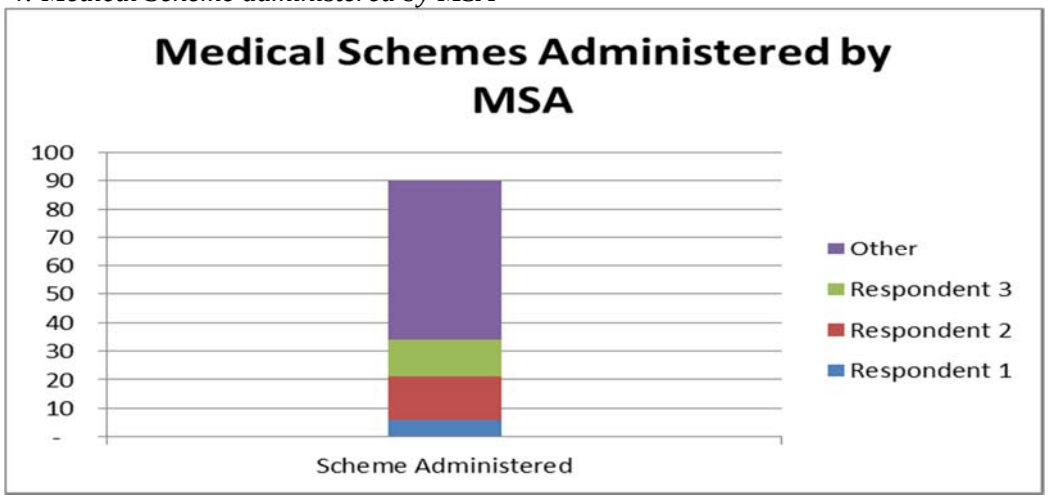
The 3 respondent's selected cover a significant portion of the South African medical scheme principal member population. This is represented by the figure 3 below:

Figure 3: Principal members in RSA on Medical Schemes



The 3 respondent's selected also cover a significant portion of the South African medical scheme administered (both open and closed/restricted scheme) population. This is represented by the Figure 4 below:

Figure 4: Medical Scheme administered by MSA



Emergent Themes for Research Question 1
What is the prevalence of Cost Management practice in the organisation?

Table 2: Question 1 interview list - Prevalence

Category	ID	Questions	Research Question
Prevalence	1A	Tell me about cost management within the organization	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 centralized or decentralized?	RQ1
	1E	What are the reporting lines for the cost management team?	RQ1
	1F	What cost management methodology is being used in the organization?	RQ1
	1G	What current technologies (software) are being used?	RQ1
	1H	What is the scope of the costing department?	RQ1
	1I	What is the maturity of the costing models and practices?	RQ1

The degree, to which cost management encompasses an organisation, is dependent on the vision and direction of the executives and top management. In some organisations where there is a specific focus on cost management, executives and management provide the responsible cost management team with support, and tools, so that they can manage and measure costs continuously. The following comments from the respondents support this concept:

- "...the Chief Financial Officer at the time, decided to get an external evaluation from a subject matter expert on activity based costing, specifically focused on the financial institution operations, to see how we measure up against best practice within the industry."
- "…the Financial Director emphasise that the multi-facet structure of the business required the correct cost allocation between the various business operations to a holistic and realistic overview of each operations/process in its entirety."
- "…being a large multinational publically traded organisation, the Financial Executives must ensure that we maintain the best practices and processes rewarding the cost management function within the organization. We must ensure we turn over every cent more than once".

FINDINGS AND CONCLUSIONS

In all three cases, it was evident that ABC is the predominant and desired practice. It is interesting to note, that even though Lockamy (2003:599) stated Constraint-Based Costing or Throughput Accounting (TA) as a highly practised methodology, it never featured in any of the MSA. Corbett (2006:11) also mentions that TA is a new paradigm for cost management.

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 mentioned 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 MSAs, cost information is used as a means to transfer price between business units. This brings us to the conclusion that cost management is not practiced adequately within the MSA sector of South Africa.

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. This is further confirmed by Shields and Young (1989:70), 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 MSAs reacted to cost management as an action, sparked by a major change, for example, a takeover, or an economic shift. This is supported by Schiff and Schiff (2008:49), 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, 2008:50). The literature supported the notion, that there are many benefits to proper cost management, as well as the benefits perceived by a wide group. However, these statements simply echo the point, that cost information is only used in the context of transfer pricing, not product and customer pricing.

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, 2004:71). South African MSAs 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. 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.

Barrett (2004:73) stated, there are web-based technologies that can provide the required business intelligence. But they are not adequately being implemented by the MSAs 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, 2004:74). Again, maturity plays a very key role on how and when costs are reported. South Africa's MSAs report on a monthly or ad-hoc basis. Oddly, the company with the reputable management programme, reports quarterly, which Barrett (2004:74) 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.

This research question endeavoured to assess, how active, mature and prevalent, cost management featured within South Africa's MSAs. It was evident that there are many gaps in practice, but it may vary, based on the maturity of the organisation.

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