

INTERNATIONAL JOURNAL OF RESEARCH IN COMMERCE & MANAGEMENT

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A REVIEW OF RESEARCH ON FACTORS INFLUENCING IMPLEMENTATION SUCCESS OF ACTIVITY BASED COSTING

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ABSTRACT

In spite of ABC's superior over traditional costing methods, its spread has remained rather slow and it has not been as widely adopted as was expected. As a result many researchers have used empirical studies in an attempt to examine how ABC could best be implemented and to find answers to the key question: why ABC implementation is successful in certain firms and not in others? Many studies provide evidence that the reason for different degrees of ABC success is the different contextual factors faced by each firm. The objective of this paper is to review the academic researches on ABC that have examined pertinent issues related to successful implementation of ABC. Through the review it seeks to identify the most important factors that are influencing success of ABC implementation, and from the review research gaps in this field will be identified. The review reveals that a majority of research emphasizes on the association between ABC success and behavioural and organizational factors such as top management support, involvement and training. Furthermore, the different factors affecting the various stages of the implementation and the degree of importance of each factor varies according to the stage of the implementation. There are very few empirical studies that have been done to examine the roles of organizational culture/structure on ABC implementation success. Moreover, in contrast to the western countries there is a dearth of studies that examines success and success factors of the implementation of ABC in the Asian context.

KEYWORDS

Activity based costing, ABC success determinants, behavioural and organizational factors.

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1. INTRODUCTION

In today's world of advanced manufacturing and competitive environment, more accurate cost allocations are needed. Activity based Costing (ABC) was introduced by Cooper and Kaplan in 1988 to address the limitations of the traditional costing system. ABC system is a costing method based on all activities in the Organization. The central idea of ABC is to change the way of overhead costs allocation on products/services. Instead of allocating the indirect costs as a fixed percentage of direct costs, it assigns costs with the help of activity-drivers according to the resources used for producing the products/services. Since its origin in the late 1980s in the USA, ABC has been enjoying rapidly increasing popularity not only in the USA but also in other developed and developing countries. Early in the 1990s, academics and practitioners who observed or participated in ABC implementation, found that there were other advantages, such as the capability to better manage costs and activities than just an improved calculation of costs (Gosselin, 2007). ABC is claimed by a large number of authors to be able to provide more accurate product costs in comparison to traditional costing system. It also possesses useful information for performance measurement, cost control and strategic decision-making. In addition, ABC can help firms in cost reduction, improved profitability and performance measurement. Despite ABC's superiority over the traditional costing methods and therefore favourable context for its adoption and implementation, many researches have shown that its diffusion has remained slow and it has not been as widely adopted as was expected (Gosselin, 2007). The proportions of ABC users have fallen and the percentage of firms rejecting it has risen slightly. Out of those firms that have adopted ABC, the majority of them are using it tentatively. In practicality, many firms are unsuccessful in attempting to implement and sustain ABC systems (Velmurugan and Nahar, 2010). As a result many researchers have used empirical studies in an attempt to examine how ABC could best be implemented. Furthermore they studied its diffusion to find answers to the key question: why is ABC implementation successful in certain firms and fails in others? To implement an ABC system, one has to take into consideration certain determinants necessary for successfully implementation. The reason for different degrees of ABC success is the different contextual factors faced by each firm. Many previous studies (such as: Shields, 1995; Anderson, 1995; Innes and Mitchel, 1995&2000; McGowan and Klammer, 1997; Anderson and Young, 1999; Krumwiede, 1998 and Byrne, 2011) have attempted to recognize assessing factors that influence ABC implementation success.

2. OBJECTIVES OF THE RESEARCH

1. To identify the most important factors that influence the success of the implementation of ABC.
2. To identify research gaps.

3. RESEARCH METHODOLOGY

Various sources of secondary data, like for instance articles published in journals / magazines, were accessed to gather data for this research, Google search engine was extensively used locating relevant articles on line. Besides, references from various chapters of relevant accounting and financial text books were also helpful in gathering data.

4. FACTORS INFLUENCING THE SUCCESS OF ABC

A. TECHNICAL FACTORS

Many earlier studies of ABC adoption and implementation (such as are Cooper and Kaplan, 1991; Morrow and Connelly, 1994) focused on the technical factors as the major determinants for the success of ABC implementation. Example of these factors: identification of main activities, selection of cost drivers and problems in accumulating cost data. However many firms that implemented ABC were still experiencing various problems. Cooper and Kaplan (1992) argued

that the key problem during ABC implementation stage was that the companies focused on only technical factors. They suggested that to make ABC implementation more effective, non-technical factors such as involvement of non-accounting in ABC implementation process, top management championship, adequate training program to employees about the objectives and benefits of ABC should be emphasized as well (cited from Zhang and Isa, 2010a). "An important reason is that the introduction of ABC in many firms has focused on the architectural and software design of ABC, with insufficient attention being given to behavioural and organizational factors involved" (Shields, 1995, p. 148).

B. BEHAVIOURAL AND ORGANIZATIONAL FACTORS

Shields and Young (1989) developed a comprehensive theoretical model "Seven Cs model" for implementing cost management systems, including an ABC system. The main idea of this new model is to develop a strategy that focuses on behavioural issues rather than technical, mainly from recognizing the significant role human behaviour plays in cost management. The model assumes that ABC is an administrative innovation in organization. Consistent with other administrative innovations, the successful implementation of a cost management system does not depend on technical resources (Ruhanita and Daing, 2007). They argue that the adoption decision and implementation are determined more by seven behavioural and organizational factors. The seven factors as success determinants in that model are culture, controls, champion, change process, commitment, compensation and continuous education.

In eight case studies conducted to provide additional insight into why firms are having implementation problems, Cooper and Kaplan (1992) found that most of these firms had experienced delay and difficulty in getting ABC used for decisions and actions. While these firms used state-of-the-art technical approaches to ABC design (e.g., hierarchical cost driver analysis, activity mapping, canned ABC software, external consultants), Cooper et al. attribute these implementation problems to specific behavioural and organizational problems. In most of the firms, there was a lack of non-accounting ownership of ABC and the ownership remained with the accounting employees. Moreover, there was no link to performance evaluation and compensation. Cooper et al. (1992) stated that the most successful implementations occurred when specific target individuals were identified in the early stages of the ABC project, and there was a sponsor who was a member of top management. They noted further that even when these conditions are present, there still remains a large possibility of failure because employees frequently resist initiating the change implied by the ABC information. They added that a key source of resistance to the use of ABC is ABC advocates who focus on technical issues and not on the people and organizational issues involved with introducing change. They suggest that implementation of ABC will be more effective when ABC advocates begin the project by focusing on early involvement of non-accountants who will be the primary users of ABC information, the sponsor is a member of top management, and the training programs emphasize the logic, design, implementation and use of ABC. Cooper et al. conclude that success with ABC primarily depends on effectively dealing with the same behavioural and organizational variables that are in Shields and Young's (1989, 1994) model (Shields, 1995).

Cobb, Innes and Mitchell (1992) carried out a survey among 62 firms in 1990 to investigate problems they experienced with ABC. They found that the major problems experienced with ABC, or sources of ABC failure were lack of adequate internal resources, particularly employee time and computer resources.

Argyris and Kaplan (1994) sought an alternative way of explaining ABC failure by developing a behavioural model of employees who resist both the introduction of ABC and taking up the action implied by ABC information. They stated that management of the change process focuses on overcoming the barriers that oppose and obstruct change and exist at the individual, group, intergroup and organizational levels. They identified the series of initial processes necessary to introduce effectively a new technique such as ABC. These included education and training to explain the need for a new costing system and reduce fear of the unknown, sponsorship of the process by key individuals who then persuade others, and, alignment of incentives such that the systems and structures reward and reinforce effective change. Argyris and Kaplan emphasized further the importance of non-accounting managers' commitment in the implementation of ABC. Their behavioural model is consistent with Shields and Young's (1989) model.

Based on Shields and Young (1989)'s model, Shields (1995) conducted a survey among 143 manufacturing firms in the U.S.A in 1994. This study is one of the first academic studies on ABC and the first survey study that tried to identify the factors that influence the perceived success of ABC implementations (Gosselin, 2007). This study has been presented in the following order: characteristics of 143 manufacturing firms that were known to be ABC implementers, characteristics of the individuals, measures of 17 ABC implementation variables, measures of two ABC success variables (dollar improvement resulting from ABC and management evaluations of overall ABC success), and finally, statistical associations between the two ABC success variables and 17 implementation variables. Seven behavioural and organizational variables were identified as being important to the implementation of ABC: (1) top management support; (2) linkage to competitive strategies, particularly quality and speed strategies; (3) linkage to performance evaluation and compensation; (4) sufficient internal resources; (5) training in designing, implementing and using the system; (6) non-accounting ownership; and (7) consensus about and clarity of the objectives of the cost management systems. Shields (1995) claims that ABC success will be increased when these variables are used in concert, as part of an integrated implementation strategy. Furthermore the results of this study showed that successful implementation of ABC does not depend on technical resources. However, the technical resources can help increase the success of ABC if they are used in conjunction with and support the previously-identified behavioural and organizational variables. The author did not specify the ABC implementation stage and the determinants of ABC success in various stages of the implementation. Similar results were obtained by Shields and McEwen (1996) who found that a significant cause for unsuccessful implementations of ABC of several companies could be due to the emphasis of architectural and software design of the ABC system and less attention given to behavioural and organizational issues, which were identified by Shields (1995).

Another study undertaken also in the U.S.A. was by Anderson in 1995, who investigated ABC process in General Motor (GM) from a period of 1986 to 1993. The aim of the study was to examine the effects of organizational variables and contextual variables on the implementation of ABC. What distinguishes this study from the previous studies is that this study segmented ABC implementation into four major stages, namely initiation, adoption, adaptation and acceptance. The study finding reported that organizational factors, such as top management support and training for the ABC system affected different stages of ABC significantly, while contextual variables, such as competition, relevance to managers' decisions and compatibility with existing systems produced different degrees of impact on different stages of ABC.

While the research of Anderson (1995) was case study based, Krumwiede (1998) undertook a survey of 225 U.S. manufacturing firms to study how some contextual factors, such as the potential for cost distortion or size of firms influence the initiation and adoption stages of ABC. Moreover, the study aimed to investigate the effect of various contextual and organizational factors, such as top management support, training or non-accounting ownership, at each stage of ABC implementation process. The study empirically tested the model developed by Anderson (1995). The findings of the study showed that the different factors affecting the various stages of implementation of ABC and the degree of importance of each factor varies according to the stage of implementation. These different factors become important as higher stages of ABC implementation are reached. The following table outlines the stages and factors that have some significant influence.

TABLE 1: FACTORS INFLUENCING THE ATTAINMENT OF STAGES OF ABC IMPLEMENTATION (Krumwiede, 1998)

Stages	Factors
Initiation	
Adoption	Perceived degree of potential cost distortions, size
Analysis	Perceived degree of potential cost distortions, top management support, degree of decision usefulness
Acceptation	Degree of decision usefulness, information technology, number of years since ABC was adopted
Routinization	Perceived degree of potential cost distortions, top management support, number of years since ABC was adopted, number of purposes identified for ABC
Integration	Degree of decision usefulness, information technology, training, level of non-accounting ownership

Source: Gosselin (2007)

Similar opinions were expressed by Krumwiede and Roth (1997). The authors argue that unsuccessful implementation of ABC may be due to not recognizing the unique behavioural aspects of each stage in the implementation. They stated that barriers of ABC implementation can be overcome if firms could give importance to behavioural and organizational factors at each stage of the implementation.

To understand the conditions which lead to successful ABC implementation, it is important to indicate the importance of users' perceptions in implementing successful ABC system. User satisfaction may affect behaviour and, consequently, the success of a system change (McGowan and Klammer, 1997). McGowan and Klammer (1997) extended the models developed by Shields and Young (1989) and Shields (1995) by including additional technical (quality of output) and situational variables (user involvement). The aim of this study was to examine the correlation between preparers' and users' satisfaction with ABC implementation and behavioural, technical and situational variables. The Employee's satisfaction is, according to this study, a measure of success of ABC implementation. They found that top management support, the degree to which objectives are understood, the adequacy of training, and the linkage of the ABC system to performance evaluation criteria are significant correlates of satisfaction with ABC implementation.

Another study by Foster and Swenson (1997) examined the insights gained into Shields (1995) and Shields and Young (1989) by using alternatives to a prior success measures. The results show substantive support for at least five of the seven factors included in the Seven Cs model presented by Shields and Young (1989) as success factors for ABC implementation. Consistent with the prior literature discussed above, the authors find support for success determinants such as top management support, and the use of ABC data in performance evaluation/incentive systems. Two factors not included in prior studies, namely number of applications and time-in-use of application-individually, are also significant in explaining success differences across ABC sites.

Anderson and Young (1999) used three measures to evaluate the success of ABC: perceived overall value of ABC, perceived accuracy of ABC data, perceived use of ABC data. They found that the process of implementation clearly influences the outcome of an ABC implementation. Managers and evaluators are also more likely to evaluate the ABC system positively in environment with high reward expectancy. In regard to the perceived accuracy of ABC data they found positive relationship with the adequacy of resources devoted to system development. In addition, they found that the use of ABC data is influenced by a wider array of contextual and process variables such as top management and union support of the ABC project, adequacy of project resources. Thus, these results confirmed the importance of organizational factors (top management support and adequacy resources) during the ABC implementation stage.

In the U.K., Innes and Mitchell (1995) and (2000) surveyed in 1994 and 1999 the extent of ABC adoption among the largest firms. The results of both studies showed that the support of top management has a strong impact on the success of ABC, and in this respect, the results are consistent with the findings of the prior researches reviewed above.

To the existing pool of research in this field from the perspective of a developing country, Chongruksut (2002) carried out a mail survey of 292 firms in Thailand to determine the behavioural and organisational factors influencing the success/failure of ABC. The research results indicate that the consensus and clarity of the objectives of ABC implementation among ABC designers and users had an effect on the degree of ABC success. Although other factors could not sufficiently explain the difference of the degree of ABC success, the findings suggested that they are important to the successful implementation of ABC because they all built environment and opportunity for employees to learn about ABC and motivated employees to work with it. This study indicated further that the majority of Thai firms implementing ABC (adopters) (58.4%) had reached the highest stage (routinization and infusion stages) of Krumwiede and Roth's (1997) implementation stages model, however it did not address the relationship between these factors and ABC success in various implementation stages.

Ruhanita and Daing (2006) conducted their study in Malaysia. Ruhanita and Daing sought to investigate the relationship between certain factors (Cost, Decision, IT, Top Management, Non-Accounting ownership, Training, and Performance Measurement) and the adoption stage of ABC in the manufacturing industries. The data collection methods of this study include both survey and case study. They found that the significant factors were cost distortion, decision usefulness, information technology and organizational factors. In addition, the findings showed that decision usefulness, top management support, linking ABC to performance measure and compensation influenced the ABC success adoption significantly. One year later, Ruhanita and Daing (2007) carried out a new mail survey among the manufacturing industries in Malaysia with the similar factors. The findings showed that decision usefulness, organization support, and internal measures are statistically significant in relationship between the proposed variables and the ABC adoption, while the other four variables Cost, information technology, Training, and Learning and Growth are not significant. This study didn't mention the reasons for the difference in results between the two studies. Additionally, the authors pointed out that their preliminary study indicated that ABC practices in Malaysia are still at an infancy stage and there are a small number of adopters in Malaysia and the concentration is at the early stages. Therefore, the differentiation in this study was made based on whether the organization is ABC adopter or non-adopter.

Agbejule (2006) used two business units as case studies which approached ABC implementation with different motivations in Finland. This study focused on the factors that affect different stages of the implementation process. The results of this study support Anderson's (1995) and Krumwiede's (1998) findings that factors associated with ABC implementation differ and vary in importance during the several stages of implementation. The study found that top management support, training, and level of information technology as significant factors that affect different stages of implementation. Top management support, the level of information technology, and skill become the dominant factors at the adaptation stage. However, training and commitment seem to be important at the acceptance stage. The crucial factors at routinization stage were information technology, top management support, training, and time.

Pierce and Brown (2006) carried out a survey among the largest companies in Ireland. The Findings showed major differences from the previous studies. It found that the organizational variables such as top management support and non-accounting ownership were not associated with the success of ABC. However, linking with performance evaluation and adequacy of training were found to be the variables which show a significant association with the ABC success. In addition, the study suggested a third variable which was not included in previous studies, i.e., accounting involvement, as a determinant for the success of ABC.

In the East Asian context, China, Zhang and Isa (2010b) attempted to examine whether ABC could be implemented successfully in Chinese manufacturing firms. They replicated Shields's (1995) framework to examine the effect of behavioural and organizational variables on ABC success. They indicated that only top management support was found to be associated with ABC success positively and significantly. Similarly, Byrne's (2011) agreed with this finding. She surveyed thirty Australian firms, which had adopted full ABC and was at a mature stage of use. Byrne indicate that top management support is the key determinant of ABC success. Moreover, she found that continuous training, resource adequacy, performance evaluation/reward link, and competition intensity were associated with perceived success at the early adoption stage.

Charaf and Rahmouni (2010) surveyed 66 firms through a mail survey and interviews with financial controllers in France. The study attempted to explore the impact of organizational and technical factors on the success of an ABC project. This study provided empirical evidence that only training and the complexity of the information technology are helping to improve the success of ABC project. In contrast to the results of the previous research findings this study found no support for a relationship between top management support and the success of the ABC project. The authors stated that the result can be explained by the fact that in this study, they focused on the overall success of the ABC project, and it is possible that the variables management support, consensus about objectives, and complexity of the ABC model may influence the success of only certain stages of the ABC project.

Al-Omiri (2011) conducted a survey of 75 largest Saudi Arabia manufacturing and service companies which had adopted ABC, to examine the degree of success of ABC and the determinants of that success. To explore the determinants of ABC success the survey identified 13 variables as possible explanatory variables, including Shield's success factors. The four highest correlated variables with the ABC's success were - widespread support for ABC within the company, managers understand and are knowledgeable about ABC information, managers are capable of using ABC information for decision-making and cost reduction, and non-accounting ownership interest in supporting ABC's success. The respondents that had implemented but later abandoned ABC identified inadequate training, the unclear purposes, non-linkage to competitive strategies performance, insufficient internal resources and inadequate top management support as success determinants.

C. ORGANIZATIONAL CULTURE OR STRUCTURE

Gosselin (1997) is one of the first academic studies which tried to investigate the association between ABC implementation and organizational structure. He surveyed 161 Canadian manufacturing firms to examine the effects of influencing factors, strategic posture and organizational structure, on the adoption and implementation of general forms of ABC. He segmented the ABC implementation stage into adoption and implementation. The research findings showed that vertical differentiation, the variable used to operationalize the organic and mechanistic model was significantly associated with the adoption of ABC, while

centralization, horizontal differentiation, and formalization were not associated. During the implementation stage centralization and formalization were significantly associated with ABC success implementation. If an organization is highly centralized, it will be more difficult for operating managers to revise the decision made by top management. Thus, the organization will carry on with the initially adopted innovation and will complete its implementation. Furthermore formalized organizations will also prefer to continue all the way the implementation process.

As a step in the same direction of Gosselin's (1997) study, another survey by Al Bhimani and Gosselin (2002) was conducted to examine the success of ABC implementations and their association with several Strategy and Organisational structure in seven countries: Canada, France, Germany, Italy, Japan, USA, and UK. Four hundred questionnaires were returned and analysed in this study. This study found that ABC implementations are perceived as more successful among defenders than among prospectors. The prospectors have been defined in this study as innovators that create change in their respective industries, while defenders have a strategy that is the polar opposite of the prospectors. In addition, the results emphasized that Centralisation and planning are associated with ABC success, while formalization was not associated.

Baird, Harrison and Reeve (2007) examined the relationship between success of ABC and the organizational factors and organizational culture in the Australian businesses. The research finding showed in particular that the organizational factors of top management support and training are relevant to the success of most new practices, while the link to quality initiatives is specific to other practices. In addition, the outcome orientation and attention to detail of organizational culture were associated with ABC success. Although both organizational and cultural factors were found to be associated with success of ABC, the organizational factors were found to be more important than the cultural ones, both in aggregate and at the individual factor level.

Zhang and Isa (2010c) conducted a mail survey among 106 Chinese manufacturing firms to examine the relationship between ABC success and organizational culture and structure, namely outcome orientation, innovation, team orientation, attention to details, formalization and centralization. The research findings showed that, mechanistic structure, formalization structure were significantly associated with the success of ABC, while centralization was not associated. Higher level of ABC success implementation could be achieved by adopting higher level of mechanistic structure. Moreover, the study indicated that the success of ABC implementation was significantly associated with outcome orientation and team orientation. However, attention to details and innovation were found not associated significantly with ABC success.

5. CONCLUSION

As reviewed and discussed in the previous section, a majority of studies provide evidence that the main factors influencing the success of ABC were organizational and behavioural factors that identified by Shields (1995). Almost all these studies concluded that top management support is the most crucial factor in the success of ABC implementation.

Other studies have examined the success factors of ABC implementation from the perspectives of organizational culture or structure (such as Gosselin, 1997; Al Bhimani and Gosselin, 2002; Baird et al. 2004, 2007; and Zhang and Isa, 2010c). However, they are very few, in comparison to the number of studies which support the positive relationship between ABC success and organizational and behavioural factors. The results of these studies emphasize the association between ABC success and organizational culture or structure of the firms.

A few of the studies focus on ABC implementation stages and factors influencing the success in various implementation stages such as Anderson, 1995; Krumwiede, 1998; Foster and Swenson, 1997; Al Bhimani and Gosselin, 2002; Agbejule, 2006; and Majid and Sulaiman, 2008). These studies provided evidence that different factors may impact the various stages of ABC implementation. Separating the implementation of ABC into separate stages is important.

In addition to the above the majority of prior researches were carried out in western countries. Little research has been done in the eastern context.

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