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IMPLEMENTATION OF ABC IN BANGLADESH: REQUIRED PREREQUISITES AND THEIR AVAILABILITY

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ABSTRACT

Customised product designs and prominence on product quality asking for implementation of computerised manufacturing operations; Transforming product demands led by rapid technological changes; Accelerated production and delivery of products leading to reduction in inventory levels; Continuous improvement in manufacturing processes all these are culminating in increased competition and forcing today's companies to reassess and rebuild their cost management system. Activity Based Costing, being one of the decisive methods of cost control, needs to confirm existence of few technical, organisational, behavioural, contextual and cultural factors. When the required factors and their existence are studied in Bangladeshi companies' perspective, it can be concluded that most of these companies have still not experienced a dense implementation of ABC and the major factors that lack are those belonging to organisational, behavioural and contextual factors.

KEYWORDS

Activity Based Costing, Existing Prerequisites for ABC Implementation.

INTRODUCTION

In the modern days of cut throat competition, any business organisation has to pay attention towards their cost of production. Computation of cost on scientific basis and thereafter cost control and cost reduction has become of paramount importance. In recent times some major new challenges emerged in cost and management accounting. Companies rediscovered the critical role that manufacturing plays in creating a competitive advantage for their organisations. Among those are emphasis on quality control by continuous improvement in manufacturing process and product design, reduction in inventory levels and production lead time, introduction of computer controlled manufacturing operations and so forth. In the new environment, many companies found that their traditional cost accounting measures were inhibiting the introduction of innovative manufacturing processes and technologies. Today's management accounting systems must be designed to support the drive for manufacturing excellence through cost effectiveness, quality control, increases in productivity and shifting to just-in-time system. In today's business environment, characterised by highly-competitive global markets and complex operating systems, designing costing systems that provide accurate and useful information to help management in making strategic and accurate decision for its organisation is a key success factor for all types of organisations. To support manager's decisions, accountants go beyond simply determining the cost of products and services; they develop cost management systems. A cost management system is a collection of tools and techniques that identifies how management's decisions affect costs. Cost management system provides cost information for strategic management decisions and cost information for operational control. During the past decade cost accounting has come under vigorous attack on the grounds that traditional approaches to allocating costs are fraught with considerable arbitrariness and contain substantial errors which can lead to misguided decisions dealing with such matters as pricing, outsourcing, capacity planning, and profitability analysis for various product lines and other segments of business activity. Traditional costing systems work well with simple production and operating systems. But as companies grow and their operations become more complex, they often need to refine their traditional costing systems to maintain the accuracy of product or service costs. For achieving high level of cost accuracy and cost and operational control in such a complex environment requires a more detailed cost accounting system. Activity-based costing (ABC) system is that elaborate costing system we are talking about here. ABC system provides highly accurate product costs that a company can use for calculated decisions. There are some more of the benefits of ABC, which should be enough to make the companies in Bangladesh to embrace ABC system over the traditional ones, which are to identify various activities in the production process and further identify the value adding activities and thus help managers to identify the cause-effect relationships between activities and product costs, to distribute overheads on the basis of activities, to focus on high cost activities, to identify the opportunities for improvement and reduction of costs and last but not the least to eliminate non value adding activities. Despite these aggressive benefits of ABC system, except for some large and multi-national companies in Bangladesh, most of the local small companies are still pursuing traditional cost systems for their product costs. This paper tries to pin down the factors which are the apparent reasons as to why most of the companies in Bangladesh are still in favour of the traditional costing systems.

AIM OF THE STUDY

The objectives of this qualitative research paper follow:

- To acknowledge the factors that made ABC implementation successful in developed countries worldwide.
- To substantiate prevalence of the factors in Bangladesh.
- To learn about the currently applied overhead allocation methods by the business organisations of Bangladesh and also to get an insight of the future of ABC in Bangladesh.

IMPORTANCE OF THE STUDY

It needs not to be overemphasised that how crucial management of cost is for organisations residing in today's business world. Activity Based Costing, one of the most effective cost management tools; Pre- requirements of ABC implementation and their presence; Fields that needs to be improved for better implementation of ABC all these have become important matters to be studied. This write up can help the practitioners as well as the readers to evaluate the aforementioned factors with respect to Bangladesh.

PREREQUISITES LEADING TO SUCCESSFUL ABC IMPLEMENTATION

Grounded on the contingency theory, researchers often argue that the degree of success of ABC implementation can be traced to the different circumstantial factors faced by every organisation or every country. Thus success rates vary among firms and among countries. Many researchers therefore found this as an important area, result of which is the various studies on ABC implementation success. Some of the notable ones are the examination of various influencing factors by that of Anderson, Shield, McGowan, Klammer, Krumwiede and Anderson and Young.

TECHNICAL FACTORS

The ancient researches on prerequisites of successful implementation of Activity Based Costing (ABC) were based on few technical factors such as identification of activities, selection of cost drivers and accumulation of cost data. Two of those researches were conducted by Cooper (1991) and Morrow and Connelly (1994).

Further studies, carried out by various researchers, put more emphasis on other organisational, behavioural and contextual factors based on the idea that those factors have more influence on ABC success than that of technical factors.

ORGANISATIONAL AND BEHAVIOURAL FACTORS

According to an empirical study conducted by Michael D. Shields (1995), there were few variables found to effect the implementation of ABC naming top management support for the ABC implementation, ABC's link to company goals and strategies, its link to performance evaluation, compensation and training, non-accounting ownership, adequate resources and clarity of ABC objectives.

Innes et al (1995 & 2000) surveyed the UK firms to find which behavioural and organisational factors have the most influential impact on ABC implementation and found out that it was the top management of the firms who influenced ABC success significantly.

A research finding by Norris (1997) states that there is a stronger association between ABC success and behavioural and organisational variables than that with technical variables. There is another study by Cooper (1992 findings of which was in line with the findings of Norris).

McGowan and Klammer (1997) conducted a survey of 53 employees from 4 targeted sites in the U.S. to examine whether employees' satisfaction levels are associated with ABC implementation. It was designed to find the correlation of employees' satisfaction in successful implementation of ABC to various variables such as top management support, the degree of involvement in the ABC implementation process, objectives clearly stated and objectives shared, training, linkage of the implementation to performance evaluation system, adequate resources, and information quality. The survey result was such that the employees' satisfaction with ABC implementation was positively related with clarity of objectives and quality of ABC information.

In South Africa, in the year 2000, Sartorius, C. Eitzen, and P. Kamala investigated the effect of organisational factors on the success of ABC implementation. The identified factors called top management, adequate resources, coherence with organisational goals and strategy. They found top management support and resources as the most influential organisational factors impacting the ABC success.

A case study carried by Lana and Fei (2007) in China was to examine some key success factors pertinent to ABC implementation in China where the findings showed that top management support, organisational structure and high proportion of dedicated professionals were the significant factors in determining ABC success implementation.

In line with the view of Shield, Colin et al. (2007) in their research on manufacturing and service firms in the UK concluded that top management support, non-accounting ownership, adequate training were the crucial factors that determined ABC success in any organisation.

A case study by Majid et al. (2008) was aimed to find out the problems faced by a Malaysian company during ABC implementation. He found that the factors determining ABC success were top management support, suitable ABC software, and understandability and participation of employees in the ABC implementation stage.

CONTEXTUAL FACTORS

ABC and success of its implementation was researched on based on few circumstances that form the background for implementing an idea. These circumstances are regarded as contextual factors of an organisation in terms of which implementation of ABC can be fully assessed.

One of the most known research findings was of Anderson (1995) who conducted a case study from 1986 to 1993 on General Motors and investigated the impact of organisational variables and contextual variables on four different stages of ABC implementation where the stages are Initiation, Adoption, Adaptation and Acceptance. He found that organisational and contextual factors affect these stages differently. For instance, organisational factors, such as top management support and training for the ABC system affect various stages of ABC significantly, while contextual variables, such as competition, relevance to managers' decisions and compatibility with existing systems produce different degree of impact on different stages of ABC.

A research carried out by Gosselin (1997) on 161 Canadian manufacturing companies examined the effects of strategies and organisational structure on adoption and implementation of Activity-based costing. The research findings showed that a proper strategy and manager decision can effect significantly the adoption and successful implementation of ABC.

In a research finding of Krumwiede (1998), few U.S manufacturing firms were surveyed to find out how contextual as well as organisational factors, such as the size of firms, top management support, training or ownership affect implementation of ABC. He found that the contextual factors, such as usefulness of cost information, IT existence, less task uncertainty and large organisations were more related to ABC adoption than that of the organisational factors such as top management support, implementation training etc. However, according to him organisational factors are more useful in implementation of ABC.

Another study by Anderson and Young (1999) where the study was based on the relationship between organisational and contextual variables, such as organisational structures, nature of tasks, management support, information technology and ABC success, it was confirmed that the organisational factors (top management support and adequacy resources) are more important during the ABC implementation stage.

In another study conducted by Khalid (2003) on 100 largest firms in Saudi Arabia, ABC adoption was found to be positively related to diversity of products. Some other factors also came out as influencing factors in Malaysia under a study by Ruhanita et al. (2006) such as cost distortion, decision usefulness, information technology and other organisational factors.

CULTURE

Apart from the above factors, there were some studies conducted based on culture. Some concentrated on national culture and others on corporate culture.

Brewer (1998) examined the relationship between national culture and Activity-Based Costing system. In the study, Hofstede's work was applied at plants in Malaysia and the USA. The result was such that the level of ABC success in Malaysia was higher than that of U.S due to high-power-distance and collectivist cultures in Malaysia.

In addition, another study result showed that one accounting technique can be successfully adopted in one country does not mean it also can be successful in another country (Supitcha, 2001).

Thus, it is necessary to examine whether ABC could be successfully implemented and which factors influence ABC success in Asian context, particularly in Bangladesh, the study area.

DO THE PREREQUISITES EXIST IN BANGLADESH?

Being a developing country, Bangladesh has started implementing modern cost accounting tools and techniques only recently. A few studies have been conducted from 21st century in Bangladesh regarding the adoption and usage of cost accounting tools and almost all of them indicated that ABC has been of little use since then.

TECHNICAL FACTORS

To carry out ABC, it is necessary that cost drivers are established for different cost pools. A cost driver is any activity or event or measure that causes or drives a cost to be incurred or being allocated. Identification of proper cost driver or activity measure is thus seemed to be a factor which is important but has little impact on the success rate of such a project like ABC. Any project like ABC, to be successful, needs to have a distinguished cost centre for a particular process or practice to be carried out properly. It can be said on the basis of learning from previous studies that not all but in many manufacturing companies in Bangladesh

there is no dedicated cost centre to define variable and fixed cost properly and to pull off a plan like ABC (Shil and Pramanik, 2012). However, technical factors are generally not perceived to be main hindrance to the success of ABC in Bangladesh.

ORGANISATIONAL AND BEHAVIOURAL FACTORS

There are some factors covered by the studies put earlier in the report which are found and examined in the context of Bangladesh to identify their effects on the success rate of ABC implementation in Bangladesh. Top management support from all is the primary concern for ABC implementation in Bangladesh. Top management's support by all means can drive the success of ABC system far enough single handedly. Top management should invest considerable financial resources to purchase ABC software and hardware, provide training for employees at adoption and implementation stage of ABC. Successful ABC system should possess adequate resources like manpower, capital, operational employees' participation, involvement in ABC implementation. Companies in Bangladesh face lack of top management support (Hasan and Akter, 2010) in connection with the awareness of detailed information about the features, advantages, possibilities and consequences of ABC system. The employees of Bangladeshi companies have only heard of the name ABC system but they are ignorant of the characteristics of this operation and they face lack of experience with this approach (Shil and Pramanik, 2012). Moreover the complexity of the operational system of ABC plays a vital role in the negligence and resistance from ABC being executed in Bangladesh. The employees here are more prone to the old techniques which they are more comfortable with than with the new ones. There is also lack of top management support in case of sufficient employee training (Hasan and Akter, 2010) and involvement in the process of ABC system which is considered as an obstacle in the path of ABC implementation as well. Although resource like manpower has not been a problem in ABC adoption and execution in Bangladesh (Hasan and Akter, 2010), but lack of proper guidance, knowledge and training made them unskilled for aforesaid purpose. Also the initial set-up cost of ABC system makes it nearly impossible for the local small companies to take on the process replaced by the old one. Another problem which the companies in Bangladesh usually encounter with is the costly software friendly for the ABC system. Besides, the elderly employees of many companies are not well learned as to how to use the tools and software (Shil and Pramanik, 2012) However, ABC's link to organisational goals and strategies in large and establishment of clear ABC objective are not measured as problem for adoption and operation of ABC system in Bangladesh (Hasan and Akter, 2010). That can be said because the companies which took this system instead of the traditional ones do not find these two factors as problematic for ABC implementation. Though the clarity of ABC objective is served by the management who adopted ABC but the adequacy and quality of ABC information, lack of employee involvement, training and employee resistance to change still happen to impede employee satisfaction and performance evaluation, two important behavioural factors linked to successful ABC accomplishment.

CONTEXTUAL FACTORS

In Bangladesh the problem most common in people is that they do not pay much attention to the contemporary change that takes place globally. The same canon applies in case of ABC adoption and implementation too. The employees who are accustomed to applying old techniques and practices are likely to be reluctant to use the new ones (Hasan and Akter, 2010). Probably this is the reason why 'compatibility with existing system' is the noticeable contextual factor hampering execution of ABC system in most of the companies in Bangladesh. The other factors for instance organisational structure and size of firms turn out to be substantial factors in respect of acceptance of ABC system in Bangladesh. Small sized firms in Bangladesh are seemingly happy with their existing costing system; first of all they are familiar with the traditional costing system and second of all they cannot implement the costly system even if they want to because they do not have enough money to yet initiate the system. On top of that the small firms in Bangladesh still prefer to work manually and thus they do not possess sufficient expertise necessary for ABC system. For these above mentioned reasons most local companies in Bangladesh do not opt for ABC system nevertheless most of the multi-national companies with heterogeneous products operating in Bangladesh have chosen ABC system.

CULTURE

From the learning by now, it goes without saying that culture within the organisation is gradually developed by the personnel working inside the organisation for long. So the characteristics and nature of the employees working in an organisation create the culture of that organisation. They can take or abandon any process or plan according to their open-mindedness towards that particular process. Hence it can be said employee resistance to change in organisational culture can be a problem for adoption and implementation of ABC system in Bangladesh. Developing countries generally tend to avoid any upcoming uncertainty or ambiguity. They are always hesitant to any innovation. This type of uncertainty-avoidance culture also prevails in Bangladesh that perhaps counters innovation and implementation of a huge project like ABC system in most of the companies in Bangladesh. If the employees come to know that ABC information is linked to their performance evaluation and accordingly to their compensation they become more cautious about their situation and purposefully hinder the implementation of ABC system in the organisation.

CONCLUSION

Companies adopt cost accounting systems that are consistent with their management philosophies, company strategies and technologies. Changes in philosophies and technologies often make it necessary for changes in cost accounting systems. Almost all small local companies still use traditional costing systems that are simpler in operating and less expensive to pursue than the costly and more complex ABC system. Nonetheless a considerable amount of large and multi-national companies operating in Bangladesh are deploying ABC system to support strategic decision making, accurate cost calculation and operational and cost control as well. There are still some problems which are playing as obstacles in the path of ABC system being implemented. Apparently the major problems, from all in the context of Bangladesh, are top management support, lack of sufficient training and knowledge of personnel, huge initiation cost of ABC system and to some extent employee apprehensions about innovation and resistance to any change. To keep pace with the competitive world and new technologies the companies in Bangladesh, mostly medium sized, should come forward with open arms to adopt and execute ABC system. Great quality costing information, awareness about their benefits and possibilities, installation of new and improved technologies and training and development of employees will certainly be of great help in this regard.

SCOPE FOR FURTHER RESEARCH

The appraisal of this study suggests that Culture, one of the prerequisites for ABC implementation, is to be specifically studied with respect to the business organisations of Bangladesh which can be used as an indicator of the future of ABC in Bangladesh. Also there might be a scope for studying the existence of pre-required factors for ABC implementation within a particular business organisation.

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