

# The Method of Appraising Needs and Possibilities of Activity-Based Costing Implementation

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## INTRODUCTION

Changes that occur in the environment of a given company and a constantly growing competition make the managers enhance the management system. The managers consider which management-support methods and tools could appear effective in fighting competition and ensure the company's survival or development. Introducing a new management method or tool is in general a complex project, incorporating many aspects and frequently calling for considerable changes in the company's IT system. Taking up the right decision needs thorough consideration of all the factors supporting or rejecting the project. The decision-making process concerning the implementation of a specific method or tool should address the following questions:

- Does, in a given company, there exist objective reasons for which the implementation of a given method would be recommended?
- What are the possibilities existing in the company which would make the implementation success realistic?
- What tangible benefits will be available due to the new method implementation, in other words, what is the effectiveness of the project?

To cut a long story short, one shall determine whether the change is needed, whether it is possible, and whether it will be beneficial to the business. Replying to the third question, different kinds of investment project effectiveness evaluation methods are used, including the internal return rate (IRR) or the net present value (NPV). Their application for the management system improvement project, however, faces many difficulties and can be very time consuming. Yet, one shall remember that before an attempt is made at replying to the third question, positive answers to the first two questions must be given.

An important area of management system improvement is the cost calculation subsystem the objective of which is to provide credible information on costs. The information is of key importance when evaluating the profitability of the goods manufactured and customers served. Traditional cost systems, commonly applied by many companies, are frequently criticized both by management theoreticians and practitioners. Instead, they propose the implementation of *activity-based costing* (ABC). There are both the proponents who stress the potential application benefits and the opponents who list many concerns limiting its application potential (Cokins, 2001; Kaplan & Anderson, 2004; Turney, 2001). The results of numerous research demonstrate a considerable interest in the ABC method, but also many difficulties to be faced when implementing the method (Bhimani & Gosselin, 2000; Bescos, Cauvin, Gosselin, & Yoshikawa, 2001; Cobb, Innes, & Mitchell, 1992, pp. 20-25; (Innes, Mitchell, & Sinclair, 2000, pp. 349-362; Leahy, 2004).

The research usually tried to establish the percentage of companies using the ABC method but they did not determine the number of companies in which the ABC implementation could be recommended and possible. These questions were addressed by the author of this article in his research project "Diagnosis of Needs, Possibilities and Obstacles for ABC Implementation in Polish Enterprises<sup>1</sup>." This article presents the method of the ABC implementation justification verified upon a sample of 79 enterprises.

The companies which feel they need changes in the costing system and face a decision to be made on the ABC application should answer the three questions given at the beginning of the *Introduction*. The method given in the article is to facilitate the decision-making process by providing a thorough evaluation of the needs and possibilities of implementing such a project.

**BACKGROUND**

**State of ABC Implementation in Companies in Poland**

In spite of a wide variety of applicable literature available in Polish, the use of ABC in Polish enterprises has not been considerable. In 1994 ABC was not applied in any of the 90 enterprises researched in the north of Poland, whereas in 1998 the figure reached only 6% of the total of 200 entities (Gierusz, Radek, & Szwarz, 2000, p. 9-18). According to Sobańska (2002, p. 9), between 1999-2000 only two companies with foreign capital investment (out of 92 surveyed) launched programs leading to introducing ABC. Zielinski (2001) claims that in 2000 ABC was implemented in not more than 30 companies and only some of them declared using its full potential. On the other hand, Szychta (2001, p. 108) revealed that out of the 60 companies surveyed, only one (with foreign majority shareholding) had undertaken serious preliminary steps to implement ABC fully. The research reported by Szadziewska (2003, p. 60-62), conducted over the period of 2000-2001 on a sample of 246 companies showed that ABC was not applied in those organizations at all.

As compared with the previous data, the results reported by Arthur Andersen in 1999 seem to be definitely overestimated. They suggest that 10% of Polish companies used ABC on regular basis, 20% of them applied ABC models to a certain extent, and 73% of them declared to introduce the method in the nearest future.<sup>2</sup>

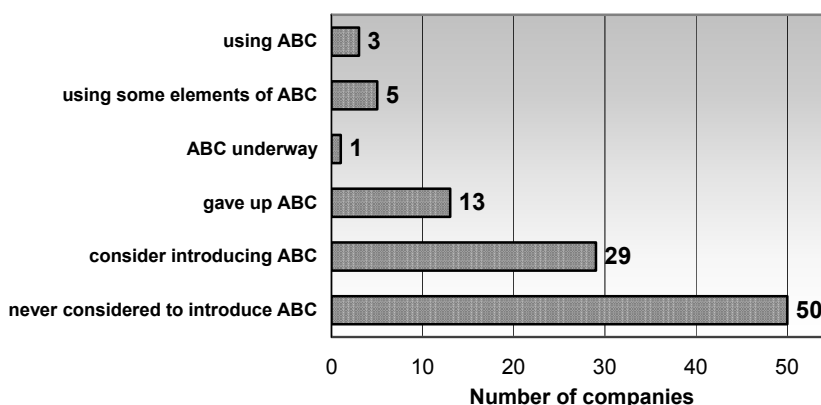
The research of the present author focused on big-sized companies in the north of Poland, that is, those that employed over 250 people. The sample of 101 companies consisted in 65% of manufacturing, in 25% of service-providing and in 10% of trading companies and banks.

The survey outcomes revealed that 50 out of 101 entities had never considered to put the ABC method into operation, 13 of them thought of this but gave up for various reasons, and 29 companies were considering this option. Using any kind of ABC system was declared by 8 enterprises but, having verified the surveys, the author drew a conclusion that in 5 companies only some ABC elements could be found. One company declared ABC implementation to be underway (Figure 1).

**Why and How to Investigate the ABC implementation Needs and Possibilities**

An exceptionally low rate of the companies in Poland which implemented the ABC method must be due to different reasons. The objective general reason can be a delay in the application of modern management methods and tools found in Polish companies, as compared with the highly industrialized countries. This observation is supported by the results of the present study which demonstrate that the costing systems are best developed in private companies with foreign capital, which is due to the need to develop the existing cost measurement and recording systems, required by the new owners, bringing capital and, along with it, new management methods.

Figure 1. State of the ABC implementation in 101 companies in the north of Poland



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