

ASSESSING AN ACTIVITY-BASED COSTING PROJECT

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Research dealing with the implementation of system changes such as activity-based costing (ABC) systems is founded largely on a presumption that the motivation for the innovation is economic. The definition of success or failure then rests on the project's reaching a stage of implementation where the new data are used in routine and/or unforeseen ways to improve economic efficiency. This paper presents a view of an ABC project where complex motivations, both economic and institutional, are identified, these held in turn by different groups within the organization as well as external groups likely to be affected by the project. Seen in terms of its institutional motivations, the project, documented in an internal review as a failure because it was abandoned without using the data, can be defined as a success by at least some of the affected groups.

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Introduction

This paper explores the motivations of different internal stakeholders with respect to an activity-based costing (ABC) project initiated by the Chief Management Accountant of a medium-sized Australian regional bank. It relies on industry and internal archival sources supplemented by interviews with banking industry personnel to understand the project's original design, the process of its development, and its ultimate lapse without use. The extant body of implementation failure literature rests largely on views of innovation motivated by rational economic, technical, or behavioural theoretical frameworks. This paper relies on insights from institutional theory to hypothesize another motivation for undertaking an ABC project, and to explore notions of hidden agenda, and different agenda at different levels within the organization, such as were proposed by Freidman and Lyne (1999, p. 10).

From the mid-1980s extending through the 1990s a stream of research literature has dealt with the challenges organizations face when implementing control system changes. Models for avoiding failure have stressed the behavioural challenges in successfully implementing changes either generally (Shields & Young, 1989) or

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specifically in relation to ABC systems (Argyris & Kaplan, 1994). Anderson (1995) developed a framework for assessing change using an ABC implementation at General Motors, and Gosselin (1997) defined different stages of the process of diffusion of ABC innovations. Other researchers empirically investigated variables associated with successful change (Shields, 1995), and with ABC implementation failure (Roberts & Silvester, 1996). Underlying this literature is the presumption that the motivation for implementing control system changes such as an ABC system is the pursuit of favourable economic outcomes such as can arise from improved processes and better data to support decision-making.

The definition of a successful ABC system is complex. Krumwiede (1998) defines successful implementation as the use of ABC for decision-making beyond the accounting function. By contrast, Malmi (1997) documents the case of an organization where one group of users assessed an ABC implementation as a success at the same time that another considered it to be a failure. In the case described by Malmi, the senior management group found the ABC data useful, not because of any decision-making capability it delivered, but because it confirmed their understanding of appropriate strategic direction. The operational group, who would normally be expected to use ABC for day to day decision-making, already had other informal data that they considered served this purpose well, and resisted the ABC study for reasons associated with their engineering culture and possible loss of autonomy to an accounting initiative.

Freidman and Lyne (1999) discuss the difficulties of defining success or failure of ABC systems, and describe five widely used criteria against which success and failure are regularly benchmarked. The five criteria are improved decision-making, regular maintenance of the system, improved financial position, meets general objectives articulated for the system, and passes an *ex post* cost-benefit evaluation (pp 8–11). Of the five, criteria one to three, and five, are unambiguously economic. The remaining criterion—described as “meets general objectives”—could be economic or not, depending on its definition by initiators and users of the project. Freidman and Lyne point out that success need not be absolute but can be mixed with some degree of failure, and offer the following definition of “clear” success (p. 15):

Clear success of an activity-based technique occurs either when a substantial proportion of the initial objectives have been met, or where significant benefits from the use of the technique have been recognized.

However, even this definition may be subject to dispute: for example, what is “a substantial proportion” of initial objectives? How would the definition be operationalized if the original objectives were altered during the course of the project? And of particular relevance to the case reported in this paper, what of the circumstances where there exist objectives beyond those that are formally set out for the project? Freidman and Lyne (1999, p. 10) describe this situation as “different groups and levels within an organization [having] hidden agendas”.

Whilst these studies have enhanced our understanding of the implementation process and its outcomes from both technical and behavioural viewpoints, there remain unanswered puzzles in the continuing stream of apparently justifiable

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