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Direct & indirect effects of top management support on ABC implementation success: Evidence from ISO 9000 certified companies in Thailand

Phaithun Intakhan*

Faculty of Management Science, Lampang Rajabhat University, Thailand

Abstract

The purposes of this research were: 1) to examine the direct and indirect effects of top management support (TMS) on ABC system training (AST), non-accounting ownership (NAO), links to performance evaluation (LPE) and ABC implementation success (AIS); 2) to explore the influence of LPE on NAO; and 3) to investigate the effect of AST on NAO. Data were collected from 95 accounting manager of ISO 9000 Certified Companies in Thailand which implemented activity based costing by using PLS-SEM as the instrument to test hypothesizes. The results showed that TMS had positive direct and indirect effect on AIS with more indirect effect. Therefore, in the implementation process the administrators should support the ABC project through AST, LPE, and NAO by commanding and motivating more than directly acting. The result also insisted that NAO had a high positive direct effect on AIS. Consequently, top managers have to build up involvement through LPE and AST. Moreover, AST and LPE also had a positive effect on AIS. In conclusion, this research contributed the benefit and suggested the future research direction.

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Keywords: Top management support; ABC system training; non-accounting ownership; link to performance evaluation; ABC implementation success; ISO 9000

* Corresponding author.

E-mail address: superkop_p@hotmail.com

1. Introduction

Activity based costing (ABC) is the accounting concept to estimate the cost of products and service which depend on the level of using resources of product and service. That means any product and service using more resources will have higher cost than the one using less resources by allocating the manufacturing overhead cost into “activity”. Then, product and service was allocated from overhead cost of “activity” by “cost driver” (Cooper & Kaplan, 1992). Data and information from ABC system is very useful to the decision making of the managers (Malmi, 1997) especially, getting the number of the right product cost leads to set the appropriate price, reduce the unnecessary expenses, Quality improvement, Cycle-time improvement, and profitability (Maiga & Jacobs, 2008). Prior academic researchers studied ABC system in variety of aspects such as cost driver, adoption, implementation, the success of ABC system measurement, and factors influencing ABC success. These two factors are technical factor, and organization and behavioral factor which Shield (1995) said that organization and behavioral factor had more influence than technical factor. Therefore, technical factor should be focused, and follow by organization and behavioral factor in order to build the sustainable ABC success.

Shield (1995) studied behavioral and organization factor and found 5 variables which influenced the success of ABC system. Those variables were top management support, ABC system training, link to performance evaluation, adequate training, and link to quality initiatives which top management support had the highest effect and was very agreeable to the prior researches such as Byrne (2011); Chongruksat and Brook (2005); Major and Hopper (2005); Baird et al. (2007); and Anderson and Young (1999); Cotton et al. (2003). Besides, there were another group of repeated research studied those variables on the success of ABC system (Innes et al., 2000; Krumwiede, 1998; McGowan & Klammer, 1997). The majority results were found that every variable had statistical significantly positive effect on ABC implementation in each stage. However, those variables have not been studied in the concept of causal and effect among them before. In the context of Thailand, ABC Adoption and implementation success were studied and found that non accounting ownership was another factor which influenced the success of ABC system (Choungruksut & Brook, 2005). Therefore, the characteristic of Thai society is a High power distance (Hofstede, 1983). So that, if accountants are the owner of ABC project, they might be afraid of losing the important data such as controlling, performance evaluation from sharing data which directly affect the success of ABC system (Murakul & Wu, 2001).

As mention early, top management support (TMS) was the highest influence on ABC implementation success. In this paper TMS refers to the visible support for ABC system to be able to use efficiently and effectively such as material, equipment and software including the emphasis on information from ABC system for decision making (Madji & Sulaiman, 2008). This variable is very important to build ABC implementation success, especially in the countries with high power distance such as Thailand and Malaysia (Hofstede, 1983). Due to the top manager is the last decision maker to carry out activity. So to implement policy, format and method of producing activity depend on decision making of the managers who represent the authority of executive position and affect on the success level in employment. In addition, TMS is able to link effectiveness and efficiency of ABC system training, to give an involvement policy from other employees, to link ABC information to performance evaluation system which distributes positive effect directly on ABC implementation success. Moreover, Cohen et al. (2005) claimed that lack of ongoing management support is the issue cause ABC system project to be abandoned and failure but no evident response how the level of top management supports in each stage of ABC project.

However, no empirical evidence study the relationship among behavioral and organization factor on ABC implementation success by direct and indirect effects. Hence, this paper focuses on the answers to the research questions; 1) How does TMS affect directly on ABC implementation success? 2) How does TMS affect indirectly on ABC implementation success (AIS) through ABC system training (AST), non accounting ownership (NAO), and link to performance evaluation (LPE)? 3) How does TMS affect on AST, NAO, and LPE? 4) How do AST, NAO, and LPE affect on ABC implementation success? 5) How do AST and LPE affect on NAO? Data were collected from 95 accounting managers of the firms with ISO certified company and implementation ABC. Therefore, the objectives of this research are 1) to examine the direct and indirect effects of TMS on AST, LPE, NAO and ABC implementation success, 2) to investigate the effects of LPE on NAO, and 3) to examine the influence of AST on NAO.

To clearly understand TMS, this research outstandingly attempts to increase theoretical contribution that is preliminary work revision direct and indirect effects among TMS, AST, LPE, NAO, and AIS. Moreover, this

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