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Is the activity based costing system a viable instrument for small and medium enterprises? The case of Mexico



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ABSTRACT

Small and medium-sized firms (SMEs) face serious challenges in order to be competitive, and they need to develop strategies enabling them to control their costs. This work aims to analyze and evaluate the impact, penetration and characteristics of Activity-Based Costs (ABC). This research is of a quantitative type descriptive design, with a sample of 180 SMEs. The results show low penetration of the ABC in SMEs using traditional systems, due to the lack of knowledge, and that there are enterprises that do not use any costing system at all. Finally the Mexican SMEs recognize the compatibility and usefulness of ABC, and that the most important fact is to understand the possible application of different costing methodologies for different purposes.

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¿El sistema de costes basados en actividades es una herramienta viable para las pequeñas y medianas empresas? El caso de México

RESUMEN

Las pequeñas y medianas empresas (Pymes) enfrentan grandes retos en materia de competitividad, siendo necesario desarrollar estrategias que les permitan controlar sus costes. Este trabajo tiene por objetivo analizar y evaluar el impacto, penetración y características de los costes basados en actividades (ABC). Esta investigación responde a un diseño descriptivo de carácter cuantitativo, con una muestra de 180 empresas. Los resultados muestran la baja penetración del ABC por desconocimiento de las Pymes que utilizan sistemas tradicionales y que hay empresas que no utilizan sistemas de costeo. Por último, las Pymes mexicanas reconocen la compatibilidad y utilidad del ABC y que lo más importante es la necesidad de entender la posible aplicación de diferentes metodologías de costeo para diferentes propósitos.

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O sistema de custos baseado em actividades é uma ferramenta viável para as pequenas e médias empresas? O caso do México

RESUMO

As pequenas e médias empresas (PMEs) enfrentam grandes desafios em matéria de competitividade, sendo necessário desenvolver estratégias que lhes permitam controlar os seus custos. Este trabalho tem como objetivo analisar e avaliar o impacto, penetração e características dos custos baseados em actividades (ABC). Esta investigação responde a um plano descritivo de carácter quantitativo, com uma amostra de 180 empresas. Os resultados mostram a baixa penetração do ABC por desconhecimento das

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PMEs que utilizam sistemas tradicionais e que há empresas que não utilizam sistemas de poupanças. Por último as PMEs mexicanas reconhecem a compatibilidade e utilidade do ABC e que o mais importante é a necessidade de entender a possível aplicação de diferentes metodologias de poupança para diferentes propósitos.

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1. Introduction

The activity-based costing system began as a response to the lack of information regarding companies' needs to achieve competitive costs and their inability to do so with traditional cost systems. The new system, created and spread by Kaplan & Cooper since mid-1980 (Kaplan & Cooper, 1988, 1991), changed the way of thinking about the usefulness of the cost system for decision making. From the academic viewpoint, it has represented an advance in knowledge. As such, it has been recognized by various authors in their research works and in their published work they have given evidence of the advantages of this system to manage costs (Baykasoğlu & Kaplanoğlu, 2008; Camaleño, 1997; Cárdenas, 2006; Carmona, 1993; Castellanos, 2003; Cavero & Trigueros, 2001; Cuevas, Chávez, Castillo, Caicedo & Solarte, 2004; Garbey, 2003; Granof, Platt & Vaysman, 2000; Hansen & Mowen, 2003; Hernández, Alfaro & Zamudio, 2006; Horngren, Sundem & Selto, 1994; Ittner, 1999; Muñoz & Cano, 2004; Ríos, 2011; Shank & Govindarajan, 1995; Stapleton, Sanghamitra, Beach & Poomipak, 2004; Stefano, 2011, etc.). Likewise, company managers have been interested in this philosophy and have sought to implement its methodology as an efficient help in increasing their competitiveness and developing strategies enabling them to control costs.

However, implementing it has led to a much more limited success than expected, with many failing in the attempt due to coming up against internal and external problems which could be as follows: (a) the system not properly fitting in with the organizational structure; (b) the firm's management has doubts as to whether the system can provide information for decision-making; (c) compatibility problems between financial accounting, analytical accounting and administrative control; (d) problems of rising indirect costs; and (e) problems of a fiscal nature or with auditing, etc. This situation has occurred even more in small and medium-sized firms (SMEs) since they have fewer resources than big firms, while facing the same competitive challenges in a globalized business world. For this reason, the authors of the work wished to ascertain whether, a quarter of a century after ABC was circulated on a worldwide basis, this methodology has been consolidated in business practice and especially in SMEs. This would make it possible to ascertain that ABC has become aligned with this social framework and has had a social repercussion.

Therefore, the aim of this work is to analyze to what extent the cost system according to activities has been implanted in SMEs and what has brought this about. For this purpose the small and medium firms of Mexico have been chosen for study where these firms account for more than 90% of the business fabric, a percentage comparable to that of many countries. Moreover, existing studies have previously been published on this topic in this country, and this leads us to think that the topic is a relevant one and can be taken as a point of reference for a comparison of the results obtained.

The analysis has been carried out with a sample of 180 firms, from which the greatest number of replies came from the industrial sector (46%), followed by the service sector (36%) and the commercial one (18%). The number of small companies taking part was the same percentage as that for medium-sized ones (50%), and the analysis was sent to directors, both managing directors and managers and those responsible for cost and accounting processes.

An analysis was performed of the characteristics of the production systems used by Mexican SMEs in terms of both their production volume and product range, the cost systems they adopted and what they were used for. Also analyzed were the use of information technologies in cost calculating, the reasons for implementing ABC, and the problems they had had in adopting it.

The findings from the work show that only 7.22% of the Mexican SMEs have put this methodology into practice and 54% of them are small firms, unlike what could be assumed with regard to the availability of resources and the view of the business held by the medium-sized firms. Another important aspect is that 66% of the SMEs using traditional systems were unaware of ABC methodology, even though all those questioned had knowledge of accounting and costs. This indicates that knowhow has not been updated as far as adopting methodology to improve the business is concerned. When asked why they did not use the ABC, there were many different replies, among the most significant of which are the loss of importance of the cost structure; the difficulty involved in fitting the activity-based costing and activity-based management (ABC/ABM) into their organizational structure; high costs involved in implementing ABC; problems in adapting to the firm's information system and accounting problems with the general accounting system.

Among difficulties encountered in putting it into practice it is important to mention problems in choosing activities and interpreting results; and complexity in acquiring data and problems related to auditing and fiscal aspects. However, in spite of these difficulties Mexican SMEs consider that applying ABC in combination with methods based on organic centres is compatible and useful. This shows us that in cost methodology, the usefulness lies not in the alternative methods but in understanding that it is possible to apply different cost methods for different purposes.

This research responds to a descriptive and quantitative design, and the main goal is to determine whether the ABC system has been accepted in firms, and the proportion of its use compared to the traditional systems. Likewise it aims to ascertain whether there exists unawareness of the ABC/ABM system among Mexican SMEs, and also whether its adoption is related to the increase in indirect costs.

This work is structured as follows: Section 2 reviews opinions on the ABC/ABM systems in the academic field and publications on ABC systems in Mexican SMEs; Section 3 is devoted to the methodology applied and Section 4 analyses data and findings, ending with conclusions.

2. Theoretical framework

The theoretical framework utilized in this study is composed of the most relevant international academic publications on this subject and practical experiences resulting from applying activity-based costing in Mexican small and medium enterprises. Both are described in the following sections.

2.1. System of activity-based costing and activity-based management in the academic world

The methodology of the ABC system was created in the U.S. by Kaplan and Cooper (1988, 1991) and developed by Miller and

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