



Activity-based costing in the U.K.'s largest companies: a comparison of 1994 and 1999 survey results

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This paper reviews the results of two U.K. surveys of activity-based costing (ABC) in the U.K.'s largest companies. These provide an opportunity to assess the changes that have occurred in the ABC adoption status of companies over a recent 5-year period. For the ABC users, some comparative information is provided on the nature of the ABC systems in use, their designers, the uses to which they have been put and the levels of success and importance that participants attribute to them. For the non-users, the reasons for their lack of commitment to ABC are explored.

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1. Introduction

Activity-based cost/management (ABC)¹ has now maintained a high profile status as an important management accounting innovation for well over a decade (Bjornenak and Mitchell, 1999). However, despite a strong and durable advocacy (Cooper, 1988; Cooper and Kaplan, 1991, 1992, 1998; Kaplan, 1992), several reservations have been expressed concerning (a) the substance of its practical attraction (Bjornenak, 1997; Gosselin, 1997; Malmi, 1999), i.e. that it may be a fad or fashion, engendering a bandwagon effect rather than a genuine and useful technical enhancement, (b) its decision-making relevance (Noreen, 1991; Bromwich and Hong, 1999), i.e. that several restrictive (and practically unlikely) conditions must apply before the ABC information can legitimately be used to generate relevant costs for decisions, and (c) the problematic and costly design, implementation and operation of the systems required for ABC

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¹In this paper, ABC is used to encompass both activity-based costing and activity-based cost management.

in an organizational context (Cobb *et al.*, 1992; Malmi, 1997). These qualifications may contribute to an explanation of the relatively low adoption rates that have been consistently observed for ABC in surveys conducted in different countries (e.g. Lukka, 1994; Armitage and Nicholson, 1993; Ask and Ax, 1992), and imply that even practical experience of ABC may not necessarily lead to its permanent adoption. However, most survey research to date has produced only snap-shot evidence of the extent of ABC adoption at one location and at one point in time. Survey replication in the same location has been uncommon and consequently little is known about how the adoption of ABC has actually progressed at a general level over time.

This paper provides some empirical evidence of current general trends in the practical consideration, adoption and use of ABC. It is based on the results of two surveys of the U.K.'s largest companies undertaken in 1994 (Innes and Mitchell, 1995, 1997a, 1999). These surveys are used to determine and assess the nature and significance of changes during this period in ABC adoption rates and patterns of use.

2. The study design

To ensure comparability, the 1999 survey mirrored² the design of the 1994 study reported in Innes and Mitchell (1995, 1997a). It was conducted in January and February 1999 and involved two mailings. The second included a non-response sheet³ requesting a reason when the questionnaire was not returned. A total response⁴ of 44.9% was achieved. This, as shown in the Table 1 breakdown, represented a slightly lower overall return compared with that achieved 5 years earlier, and fewer usable responses were also obtained (22.8% in 1999, compared to 33.2% in 1994).

The usable questionnaires were provided by finance directors/company secretaries (54 respondents) and accounting staff (102 respondents), with other business staff (21 respondents) providing the remainder. Respondents had, on average, 9.4 years experience of employment in their organization. The usual limitations of survey-based research are acknowledged by the authors.⁵

²Both studies were based on the Times 1000 publication. Changes in this text occurred between the dates of the two surveys and affected them as follows. First, the choice and ranking of companies changed from a turnover- to a capital-employed basis. Second, financial companies and mutuals were listed separately in 1994, but in 1999, financial companies were integrated into the listing. Consequently, the surveys were constituted as follows: 1994, top 1000 non-financial companies plus top 60 financial companies and mutuals (investment management firms were excluded); 1999, top 1000 companies (non-financial and financial), but excluding investment management firms.

This means that the 1999 survey has a small bias towards larger companies. Note also that the previous *Management Accounting Research* paper by Innes and Mitchell (1995) was based only on the non-financial companies in the 1994 survey. This paper supplements the results reported in that study with the responses of the financial companies, which were published separately (Innes and Mitchell, 1997a), some additional late responses to the survey, which missed the cut-off date for the original write-up, and a few previously unusable responses, which were salvaged by subsequent investigations.

³The non-response sheet returns indicated that 72 respondents (9.3%) did not consider ABC applicable to their organization. A further 30 respondents (3.9%) had a standard policy of non-response to questionnaires, while 21 respondents (2.7%) cited lack of time as the reason for non-response. The remaining 16 respondents (2.0%) had not responded due to significant corporate changes, e.g. the company in liquidation.

⁴While this paper is based on the total response to each of the surveys, some additional analysis, based only on those who responded to both surveys ($n = 64$), has also been undertaken. The results of this are reported in Innes *et al.* (forthcoming).

⁵Some further discussion of this issue is contained in Innes and Mitchell (1997b), which was a response

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