

# Analysis over Critical Issues of Implementation or Non-implementation of the ABC Method in Romania

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***Abstract.** This article analyses the critical issues regarding implementation or non-implementation of the Activity-Based Costing (ABC) method in Romania. There are highlighted the specialists views in the field opinions and own point of view of the authors regarding informational, technical, behavioral, financial, managerial, property and competitive issues regarding implementation or non-implementation of the ABC method in Romania.*

**Keywords:** Activity-Based Costing; inductors cost; performance; competitiveness; management.

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### 1. Pro or against Activity-Based Costing (ABC) method

Many of the articles connected to Activity-Based Costing (ABC) method incurred in various professional and academic mediums from Romania are pleading pro or against implementation of this method. There will always be controversial opinions, but our aim is to highlight the main positive aspects and even the negative ones connected to implementation of the Activity-Based Costing method. Although, there are few enterprises and companies that actually apply the Activity-Based Costing method in Romania, and we think that an advertising of this method and a presentation of its advantages will lead to a promotion and implementation on a larger scale among small and medium enterprises of our country. As result of some studies conducted in the organizations and promotional institutes regarding the modern cost calculation methods, we found out that a part of these, although they are very involved in the implementation of the ABC method, the most of those interested in implementation agree that they should wait or use an alternative implementation method with lower costs.

### 2. Which are the problems underlying the application or implementation of the Activity-Based Costing method (ABC) in Romania?

Based on studies made by researchers from European Union and United States of America and also based on data collected

from different companies of Romania regarding implementation of the Activity-Based Costing (ABC) method, we have been identified few common application problems, as follows:

*a. Informational problem.* This problem is based on three critical main factors that lead to failure to implement ABC method, as:

- Huge work volume in collecting information that requires the ABC method;
- Accuracy degree of provided information of the ABC method;
- Confusion in elaboration of other bookkeeping in addition to financial accounts.

Linked to the first factor, many of the accountants are of the opinion that the ABC method supposes a very large work volume in collecting data, processing and elaboration of situations need different final users. But what is the reality? First, we must think to a data volume sufficiently significant to provide more accurate information. What will be the detail level of data that should be provided by the accountants as result of processing data? We have two situations: either we choose a very simplified calculation model, and the risk of obtaining deforming information is maximum, or we choose a very complex model, and the chance we obtain accurate information is very high, but the processing costs are also very high. So, we choose none of these solutions. We will choose an intermediary solution based on a rationally model that will highlight the relations between cost relevancy, information

significance, data accuracy and necessarily flexibility due to recording consumptions at activity and process level during several administrative periods. We need to have in mind what we lacked in traditionally methods, as visibility, relevance and information accuracy from the managerial accounting. In other words, to avoid a larger processing information volume and other supplementary costs we must realize a cost calculation system of which architecture should be orientated according to final decisions.

The second factor is connected directly to the first factor and depends on the degree of orientation to the final decisions. It must be retain in this context the famous remark made by the professor Robert Kaplan: “*It is better to be approximate correct than to be precisely incorrect*”. We have two situations: one connected of provisional calculation, another connected to absorption costing. In the case of provisional calculation, the work volume necessary for its achievement is very high, but it must be very correct. In other words, the information must be accurate to be used in the second stage of the absorption costing, where the cost drivers used in the first stage must not change for not having distortion of costs. We need very precise information in any moment!

Many specialists have been wondered, since the ABC implementation method, do we need the Large Register Book? Of course we need, because the ABC method “*is a translator inserted to extract general information and other data; it is used as an*

*optic correcting magnifier that evidences clarity*”<sup>(1)</sup>. As is known, the ABC method is a direct result of the full costing method (absorbing) which takes into account all direct costs, and the overhead (activities) are allocated based on specific allocation keys. As result, the ABC method uses surrogate for related cost in the case of activities costs. The ABC system is considered as an interface between existent data and tools that follows to be processed with its help. The experienced accountants consider that ABC system, once implemented and adequate maintained in function, facilitates enormously the collecting work and processing the obtained information. All depend on the degree of knowledge and accumulated experience in exploitation of the Activity-Based Costing system.

*b. Property problem.* This is a problem that goes beyond accounting. Not accepting and not applying the ABC method because of property lack leads to confusion among the employees and employers. In the most of the institutions and enterprises where initially it was presented the ABC method, it was a pretty big success from the interested specialists, but shortly after adoption and effective implementation of the method, it has came up periodical maintaining problems of the ABC system. Responsibility delegation regarding the ABC’s management it reverts more to the workers or direct productive personnel. The difficult problem remains the collecting responsibility and updating information and here it interferes the documentation degree

of the departments and direct involved persons. Each department or involved person must know “*the activity and cost drivers catalogue afferent of it*” to help to rule the specific methodology of the ABC method, avoiding any confusions and clearly establishing the responsibilities of the persons and departments involved in maintaining the ABC system.

*c. Technical problem.* This problem finds its solution in one of the factors that

could lead to implementation failure of the ABC method, namely the lack of software. The criteria underlying the choice and determination of cost drivers are very important. Two major categories that stand on base of description of different categories of cost drivers are optional (by choice) and defining (determination). The description form and disadvantages of the two categories of criteria are presented below.

Criteria categories	Description	Advantages
Choosing criteria	<ol style="list-style-type: none"> <li>1. Easiness of identification, usage and understanding.</li> <li>2. Existence of a direct rapport between overhead costs and cost drivers.</li> <li>3. Positive or negative influence on personnel.</li> </ol>	<ol style="list-style-type: none"> <li>1. Decreasing of evidence costs.</li> <li>2. Obtaining a real product costs.</li> <li>3. Explaining the cost driver concept to employees.</li> </ol>
Determination criteria	<ol style="list-style-type: none"> <li>1. The complexity degree of assortment range – always is chosen a rational number of cost drivers.</li> <li>2. The exactest degree of calculation – it is considering the rational number of cost drivers.</li> <li>3. Usefulness degree of information.</li> </ol>	<ol style="list-style-type: none"> <li>1. There are considered the two situations<sup>(2)</sup> generated in practice.</li> <li>2. It is kept a limit about choosing the cost drivers number.</li> <li>3. Justification the real costs achieved.</li> </ol>

The most of the specialists think that without adequate software we can't succeed to implement the ABC method, which from the point of view of work volume is particularly complex. It is known very well that 95% represents the effort made to achieve of the architectural ABC system and behavioral changes management and only 5% represents the effort made to implementation of the ABC system with software help. Initially, they thought that is absolutely necessary the presence of new software. If we think well the most of the software is created in a common language. Why spend more money on another software if we could adapt the old databases

to which we are interested?! The database administrator which is a good programmer can succeed to correlate more data levels creating this way a new program meant to adapt perfectly to the ABC method architecture. In other words we have two options: either call for a specialized firm that can create the needed software, either we use an updated existent database, making a data conversion according to the new requests specifically to the ABC method.

*d. Behavioral problem.* This problem brings out the fact that ABC system doesn't represent only a simple range of data and its analysis. It interacts through employees with of reality calculation technique,

financial or behavioral. The ABC technique changes the political landscape of organization.

*e. Performance problem.* This problem is suspected by the majority of employees when it focuses on a new system as ABC. According to it, the unitary costs and benefit margins vary significantly compared with volume based costs. If ABC method is not aligned to the compensation system and performance evaluation, it tends to become in the employees perception just a threat to their jobs.

*f. Financial problem.* This problem is a delicate one. Many of specialist's studies from the area have been indicated as main cause of ABC's system failure implementation the low financial performance of an enterprise. Impossibility of some managers to understand the real nature of costs and its amplitude could lead to ABC's failure implementation before to be tested, developed and implemented as enterprise specifically medium requests. In this case, the cost can be: tangible and intangible. From the tangible costs category are included: design costs, formation, application, maintaining, and from the intangible costs category are included: employee's morale and political decline. How can we obtain a maximum benefit? Among solutions we can remind: practicing prices on products lower than competition, elimination of non-benefit products from range of products, concentration on specific product promotion, practicing product mix that contribute to obtaining of efficiency and increased effectiveness etc.

*g. The problem of competitiveness.* This problem focuses on two directions: competitive degree on internal level and competitive degree on external level. Regardless of using a traditional system or advanced as ABC it won't provide us information about the satisfaction degree of a customer or about control degree of a process from the enterprise. The ABC system can't distinguish very clearly between a new customer and a loyal and satisfied customer of its given services quality. The ABC system, in its ensemble, doesn't offer the necessary time for a feedback on elements as efficiency and effectiveness of unfolding activities. The visualization of connections between processes that is unfolding in the enterprise and connective activities contribute to improvement of respective activities performances. Using operational systems along with ABC system it can contribute to successful implementation and functionally maintaining of the last one.

*h. Managerial problem.* This problem is the main reason for failure implementation of the ABC system into an enterprise regardless its size. For a successful implementation of the ABC system we need a powerful team which has to be involved in the project. This project has to be lead by a project director. The ABC project team has to dispose of adequate resources, labor, knowledge and organizational culture being available to learn and improve continuously to contribute on this way to successful implementation of the ABC system into the

enterprise and obtaining superior performances. It can appeal to experts or consultants specialized into ABC implementation, so that the implementation guaranty is successfully assured.

The problems presented in this article do not cover totally the area of influence factors in the implementation or non-implementation domain of ABC

method in Romania. In the future we will submit for attention other aspects meant to clarify the problems previously presented, and so, we launch the desire to contribute for research and deepen the aria of knowledge of problems that are confronting the enterprises from our country and not only, successfully implementation of the Activity-Based Costing (ABC) method.

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- <sup>(1)</sup> See Gary, Cokins "Activity-Based Cost Management – Making it work. A manager's guide to implementing and sustaining an effective ABC system", 1996, p. 202.
- <sup>(2)</sup> The situation of cost drivers' insufficiency (1-3 cost drivers) can lead to effectuation of inaccuracy allocation of overhead costs on carriers and, so an inexact production cost. With other words, as much costs share

of an activity is higher in the total costs, as bigger are the perturbations resulted from usage of a little number of cost drivers in the effectuated calculations. The situation of cost driver's excess (over 10) can lead to a production cost as closer to the reality, but the work volume made is very high.

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