

The Impact of Non-Accounting Ownership and Top Management Support on (ABC) Adoption among Service Companies in Jordan: Proposed Conceptual Framework

Mohammad Farouq Hussein Jebreel

PhD candidate, Faculty of Economics and Muamalat
Universiti Sains Islam Malaysia [USIM],
Bandar Baru Nilai, 71800, Nilai, Negeri Sembilan, Malaysia
E-mail: jebreelmohammad@yahoo.com

DOI: 10.5296/ijafr.v5i2.8833

URL: <http://dx.doi.org/10.5296/ijafr.v5i2.8833>

Abstract

Accurate costing information is crucial for services businesses and information for strategic decision, to maintain a competitive advantage over its competitor's Traditional costing system leads to cost information distortion, therefore the management of these businesses to Activity Based Costing (ABC) was introduced to address the shortcomings of traditional volume-based costing system. Prior research in developed countries showed impact adoption of ABC for many of companies for different sectors However in developing countries there are shortage in these studies. In order to achieve the high degree of adopting ABC in developing countries this paper proposes a conceptual framework to investigate the factors influences on the success of ABC through non-accounting ownership, top management and ABC adoption among Service Companies listed on the Amman Stock Exchange (ASE).

Keywords: ABC success, ABC adoption, Jordan.

1. Introduction

In nowadays competitive and incessantly changing business atmosphere, businesses need to be observant of the forces of alter in the business environment and develop suitable strategies to carry on and grow. Numerous changes in organizations are straight results of the dispersion of improvements. Even though organization accounting record is not loaded in such improvements (Johnson & Kaplan, 1987; Malmi, 1990) the increase of activity-based costing (ABC) prepares an attractive chance to revision the methods of such improvement. The increase and usability of ABC systems has verified it to be the final management accounting way for all businesses looking for to discover an exact determine of their slide parts (Valanciene, 2007). The body of past research about the impact of ABC has formed varied facts. On one hand, supporters of ABC have argued that ABC aims to imprison the economics

of construction processes, more strongly than customary cost-based systems, and may afford more perfect costing data (Cooper & Kaplan, 1991; Ittner, 1999). Previous research proposes that realization of ABC should lead to equipped and strategic advantages in organizations (Anderson, 1995; Ittner, 1999). Researchers have disputed that operational profits may start from enhanced visibility into the finances of the manufacture processes and fundamental charge drivers. Strategic benefits may happen from accessibility of better information for produce growth, sourcing, product blend and other strategic decisions service and has developed to cover most financial behaviors such as business, service, and industrial. People option to service although it might not be required by law.

2. Background

Jordan is a developing Arab country with a centralized state system. It is very attractive for foreign investments, due too many reasons such as safety, political stability and its central location in the Middle East. In view of the fact the industry sector in Jordan is separated into two: the first sector is Manufacturing (converting) part that contains of the Chemical, Electrical, Engineering and Construction, Food and Beverages, Glass and Ceramic, Tobacco and Cigarettes, Paper and Cartoon, Pharmaceutical and Medical, Printing and Packaging and Textiles and Leathers substantial. (Ministry of Planning Report, the Economic indicators 2007). On the other hand the most part in the economy is the service sector that includes 67% of the gross domestic product. Jordan has been a member from December 2000 in the world trading organization General Agreement on Trade in services and one of the seven Mediterranean associates that formally opened debates on liberalization on services and the right of institution at the Euro-Mediterranean Trade Ministerial Conference in Marrakech. Liberalization will prepare Jordan with contact to the European Union services market that it is the main in the world and prepares profits from European Union service technologies, company links and investment. (Ministry of Planning Report, the Economic indicators 2007)

3. Literature Review

In general activity based costing system play an important role in offering timely and exact important information to managers. Hence, they can make better decisions on business, which helps their firms achieve superior advantages over competitors (Fie, Z and Isa, 2010). Advancements in manufacturing and communication technologies have drastically changed the ways businesses conduct their activities. Adoption of advanced manufacturing technologies such as robotics and computerized manufacturing have resulted in significant changes in the manufacturing cost structure which have led academics and practitioners to argue that the traditional costing methods are no longer sufficient within this new manufacturing environment (Johnson & Kaplan, 1987)

ABC is an accounting technique that allows an organization to assign costs to products based on the resources they consume. It recognizes the causal relationship between cost drivers and cost activities by measuring the cost and performance of process-related activities and cost objects (MacArthur 1996). According to (Babad, 1993) ABC is an attitude providing accurate and helpful information that has direct effects in planned decisions about a company's fees,

fertility analysis, customer-relationships, supply channels, employee management and production rules. A number of studies tested that ABC system was extensively measured by companies in industrial countries. Whereas, the amount to which these corporations had really implemented ABC system is much poorer (Green,1992).Based on the contingency theory, researchers have argued that the reasons for different degrees of ABC success could be due to the different contextual factors faced by each firm (Fie, Z and Isa, 2010, Cooper & kaplan,1991) previous effort to recognize the key factors that affect an ABC execution was reverberated by some ‘factors studies’ in ABC studies (Chongruksut W,2002); Shield,1995; Anderson,1990;Malami,1990 ;Ministry of Planning Report, the Economic indicators 2007).In a linear research of ABC accomplishment process in General Motors (GM) between 1986 and 1993(Anderson,1990) approved (Cooper,1990) ‘Factor-Stage’ form to segment's ABC achievement into four steps such as initiation, adoption, adaptation and acceptance and found proof to connect key factors with different execution steps

4. The Conceptual Framework and Hypothesis Development

The characteristics of activity based costing system adoption are integrated in one conceptual framework. Figure (1) explains the propose framework. In this conceptual framework, the main factor ABC successes by (non-accounting ownership, top management support) and ABC adoption independent and dependent variables respectively. The current study thus attempts to bridge the gap by providing a basis for discerning the impact theABC factor successes. Through use this figure and the hypotheses that are developed from the conceptual framework.

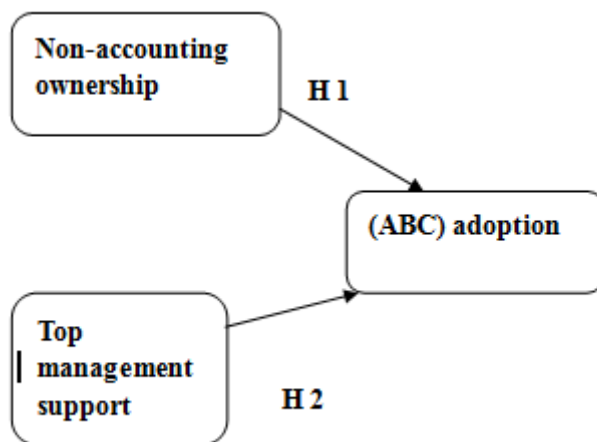


Figure 1: ABC success factor in ABC adoption

4.1 Non Accounting Ownership

When ABC is had possession of simply by accountants, there is a risk that it might be used only to please their requirements. A significant reason about some companies have not had good execution knowledge is that the accountants have keep possession and have not succeed in distribution possession with non-accountants. Krumwidev surveyed U.S service firms to

study how organizational factors, such as top management support, training or non-accounting ownership, affect each stage of ABC adoption process and ABC (Sheild, 1985; Johnson, 1987; Shield, 1996; Norries, 1995; Mohammed, 2007). So because of this both accountants and non-accountants should be seen as the proprietors of the new system. Non-accountants should be concerned in the primary decisions to devote in ABC, and in the plan and performance of ABC. So, the chances that non-accountants will hold and support ABC and be dedicated to its use and success will rise. ABC adoption. On the other hand(Cooper,1992) they found accounting staff can be retain and give effective role on ABC adoption and implementation Moreover, Organizational factors, such as top management support, Non-accounting ownership, affect ABC success adoption. In Malaysia, (Ruhanita ,2006) conducted by mail survey and case study they found top management support, Non-accounting ownership link ABC to performance measure and compensation influenced the ABC success adoption significantly. From the aforementioned discussion, it is argued that there is a potential relationship between none accounting ownership and ABC adoption. Thus, the following hypothesis is developed:

H₁: The Non-accounting ownership is positively related to ABC adoption among Jordanian listed services companies

4. 2 Top Management Support

The previous studies on innovation mentioned that is the stringent factors for the success of an innovation (Walton,1987; Hoffman,1999; Scott,1994). where the maximum ranking managements such as chairman or chairwoman, chief executive officer, managing director, president, executive directors, executive vice presidents that is responsible for the entire enterprise.(Cobb,1992; Johnson,1987; Lana,2007; Sheild,1995; Sheild,1996; Taba,2005). They conducted through survey targeted sites in US top management support the main factor can give the high degree in ABC implementation system .Moreover , (Ruhanita ,2006) a conducted by mail survey and case study they found top management support link ABC to performance measure and compensation influenced the ABC success adoption significantly.

Top management explains the policy into aims, goals, and plans, and projects a shared vision of the opportunity. It makes decisions that have an effect on everyone in the business and is detained completely accountable for the achievement or failure of the project.(Gosselin,1997) Surveyed U.S manufacturing firms to study how organizational factors, such as top management support, affect each stage of ABC adoption process So because of this both accountants and non-accountants should be seen as the proprietors of the new system. Considering the earlier discussion, we find that there is have a relationship between top management support and ABC adoption thus the following hypothesis is proposed:

H₂: The top management support is positively related toABC adoption among Jordanian listed services companies

5. Summary and Conclusions

In view of the discussion in the previous sections, the Following framework is proposed, depicted by Figure 1, for this research. Prior research test the relationship between ABC

success and many factors such as behavioral and organizational variables hence In particular, this paper intends to investigate the roles of the ABC successes factors on ABC adoption among service companies listed on the Amman Stock Exchange (ASE). The study serves as a wake-up call for reforming the management in Jordan. To achieve this characteristics are proposed, namely, Non-accounting ownership, top management support on the other hand the two hypotheses are developed to validate the hypothesis survey research will be undertaken.

6. References

- [1] Al-Khadash, H. and Feridun, M. (2006) ‘Impact of strategic initiatives in management accounting on corporate financial performance: evidence from Amman Stock Exchange, *Managing Global Transitions*, Vol. 4, No. 4, pp.299–313
- [2] A.M. Abu-Tapanjeh. (2). Activity-Based Costing Approach to Handle the Uncertainty Costing of Higher Educational Institutions: Perspective from an Academic College. *JKAU: Econ. & Adm.* 22 (2008), 29-57.
- [3] Anderson, S. W., (1995b). A framework for assessing cost management system changes: The case of activity based costing implementation at General Motors, 1986-1993. *Journal of Management Accounting Research*, 7, 1-51
- [4] Anderson, S. and YOUNG, S. 2001. The impact of contextual and process factors on the evaluation of activity-based costing systems. *Accounting, Organizations and Society*, **24**, pp. 525-559
- [5] Anthony, R.N., (1989) Reminiscences about Management Accounting, *Journal of Management Accounting Research*, 1, pp. 1-20
- [6] Armitage, H.M., and Nicholson, R., (1993) Activity-Based Costing: A survey of Canadian Practice, Issue Paper, No. 3, *Society of Management Accountants of Canada*, Issue Paper Series, September
- [7] Babad, Y. M. and B. V. BALACHANDRAN, (1993). “Cost Driver Optimization in Activity-Based Costing”, *the Accounting Review*, 68(3): 563-575
- [8] Chongruksut W (2002). The adoption of Activity-Based Costing in Thailand. Unpublished PhD, Victoria University
- [8] Cobb, I., J. Innes, and F. Mitchell (1992) Activity-Based Costing Problems: The British

Experience. *The University of Dundee, Department of Accountancy & Business Finance*

[9] Cooper, R.B., Zmud, R.W., 1990. Information technology implementation research: a technological diffusion approach. *Management Science* 36 (2), 123–139

[10] Cooper, R., and Kaplan, R. S. (1991, May-June). Profit priorities from activity-based costing. *Harvard Business Review*, 130-137

[11] Cooper R, Kaplan RS (1992). Activity-Based Systems: Measuring the Costs of Resource Usage. *Accounting Horizons*, 6(3): 1.

[12] Green, F.B. and F.E. Amenkhienan (1992) Accounting Innovations: A Cross-Sectional Survey of Manufacturing Firms. *Journal of Cost Management for the Manufacturing Industry*, (spring), pp. 58-64

[13] Gosselin, M. 1997. The effect of strategy and organisational structure on the adoption and implementation of activity-based costing. *Accounting, Organisations and Society*, 22(2), pp.105-122.

[14] Hoffman RC (1999). Organizational Innovation: Management Influence across Cultures. *Multinational. Bus. Rev.*, 7(1): 37.

[15] Innes, J. and F. Mitchell (1991) ABC: A Survey of CIMA Members. *Management Accounting (UK)*, October, pp. 28-30

[16] Ittner, C. D. (1999). Activity-based costing concepts for quality improvement. *European Management Journal*, 17(5), 492–500

[17] Fie, Z and Isa, C. (2010). Factors Influencing Activity-Based Costing Success: A Research Framework. *International Journal of Trade, Economics and Finance*, Vol. 1, No. 2, August, 2010.

[18] Johnson, H. T., & Kaplan, R. S. (1987). *Relevance lost: the rise and fall of management accounting*. Boston, MA: Harvard Business School Press

[19] Lana YJL, Fei P (2007). The implementation of Activity-Based Costing in China: An innovation action research approach. *Brit. Acc. Rev.*, 39(3): 249-264.

[20] Malmi, T., 1999. Activity-based costing diffusion across organizations: An exploratory

empirical analysis of Finnish firms. *Accounting, Organizations and Society* 24, 649–672.

[21] McGowan AS, Klammer TP (1997). Satisfaction with Activity-Based Cost Management implementation. *J. Manage. Acc. Res.*, 9: 217-237.

[22] Ministry of Planning Report, the Economic indicators 2007, Amman, Jordan, 2007

[23] MacArthur, J. B. 1996. From activity-based costing to throughput accounting. *Management accounting* (April): 30, 34, 36-38.

[24] Mohammed AO, Colin D (2007). Organizational and Behavioural Factors Influencing the Adoption and Success of ABC in the UK. *Cost. Manage.* 21(6): 38-48

[25] Norris G (1997). The Formation of Managers' Views of ABC and Their Impact on the Outcome of Its Use: A Grounded Theory Case Study' *Acc. Res. J.*, 10(2): 180-200

[26] Ruhanita M, Daing Nasir I. (2006). Activity Based Costing (ABC) Adoption Among Manufacturing Organizations - The Case Of Malaysia. *Inter. J. Bus. Soc.*, 7(1): 70-101.

[27] Scott SG, Bruce RA (1994). Determinants of Innovative Behaviour: Path Model of Individual Innovation In The Workplace. *Acad. Manage. J.*, 37(3): 580-607

[28] Shields, M. and YOUNG, S. 1989. A behavioural model for implementing cost management systems. *Journal of Cost Management*, winter, pp.17-27

[29]Shield, an empirical analysis of firms' implementation experiences with activity-based costing *Management Accounting Research* 1995. 7: p. 148-166

[30] Sheilds, M. and MCEWEN, M. 1996. Implementing activity-based costing systems successfully. *Journal of Cost Management*, 9(4), pp.15-22

[31] Taba LM (2005). Measuring the Successful Implementation of Activity Based Costing (ABC) in the South African Post Office Unpublished Master Thesis, University of South Africa.

[32] Valanciene, L., & Gimzauskiene, E. (2007). Changing role of management accounting: Lithuanian Experience case studies'. *Inzinerine Ekonomika Engineering Economics* (5), 16-23

[33] Walton RE, Susman GI (1987). People policies for the new machines. *Harvard. Bus. Rev.*, 65(2): 98-106.