

ACTIVITY-BASED MANAGEMENT METHOD – NECESSARY ELEMENTS IN DECISION-MAKING

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Abstract: *activity-based costing method, conditions the decision-makers to use the activity-based management method in order to make the best decision. The mechanism ABC / ABM represents the shift from cost management system, based on a functional division of expenses, towards an activities-based system. All processes and activities of an entity represent its nervous system, while the cost inducers are the benchmark in resource allocation. The CAM-ABM model is the concept framework or implementation guidelines based on two essential components: resource planning system and continuous improvement processes. The cost includes all activities divided based on cost inducers. The performance of each activity marks the contribution of each of them to the added value of the entity, ultimately measured by customer satisfaction.*

Keywords: *management model, Activity-Based Management, cost drivers, analysis of activities.*

МЕТОД ACTIVITY-BASED MANAGEMENT – ОДИН ИЗ НЕОБХОДИМЫХ ЭЛЕМЕНТОВ ПРИ ПРИНЯТИИ УПРАВЛЕНЧЕСКИХ РЕШЕНИЙ

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Аннотация: *организация бухгалтерского учета на основе метода ABC - управленческое условие для обеспечения наилучшего решения. Механизм ABC/ABM означает переход от системы, основанной на функциональном разделении затрат, на систему, основанную на деятельности. Процессы деятельности предприятия представляют собой нервную систему, а драйверы стоимости являются ориентиром при распределении стоимости ресурсов. Модель САМ-АВМ является концептуальной базой или гидом по внедрению на основе двух основных компонентов: система планирования ресурсов и постоянное совершенствование процессов. Стоимость объекта включает все виды деятельности, разделенные на основе драйверов стоимости. Производительность каждого вида деятельности является вкладом каждого из них в добавленную стоимость предприятия, в конечном счете измеряется удовлетворенностью клиентов.*

Ключевые слова: *модели управления, Activity-Based Management, драйверы стоимости, анализ деятельности.*

I. Introduction

The ABC (Activity-Based Costing) appeared as a result of the need for more accurate information about costs, increasing diversity and complexity of products, short product life cycles, increased quality experiences and is part of the activity-based costing method. Although it is considered a modern method, it does not provide sufficient information for strategic planning and current decisions. ABM (Activity-Based Management) aims to complement the ABC, transforming data regarding costs into useful information for managers. Cost inducers of and performance indicators serve as a basis for long-term strategic decisions through ABM.

The reference point in investigating the ABM is the analysis of the vision belonging to the Chartered Institute of Management Accountants-CIMA, 2001 and the Consortium for Advanced Management-International (CAM-I). The presentation and the detailed analysis of each component of the CAM-ABM model is designed to ensure the completeness of our study.

II. Structure of the activities -based cost management model

The Chartered Institute of Management Accountants - CIMA, 2001 published a technical summary of the activities-based management model conducted by Miller (1996) based on the works Texas-based Consortium for Advanced Manufacturing-International (CAM-I). ABM is not limited to production entities, but contains well reasoned ideas for entities offering services and non-profit organisations. Weetman (2010) explains that according to the provided data, ABC becomes ABM when it is used for:

- modeling products and services for customer satisfaction and profit;

- providing indices needed in quality improvement and efficiency of works, as well as the duration of activities;
- guiding decisions about product mix and investment;
- contribute to choosing the best alternative of suppliers;
- choosing methods of forwarding markets, customers, supplies and services provided to customers;
- improving the value of products or services of the organization.

Consortium for Advanced Manufacturing-International (CAM-I) together with the Chartered Institute of Management Accountants (CIMA) have developed a conceptual basis necessary for entities wishing to implement the ABM method (Figure 1).

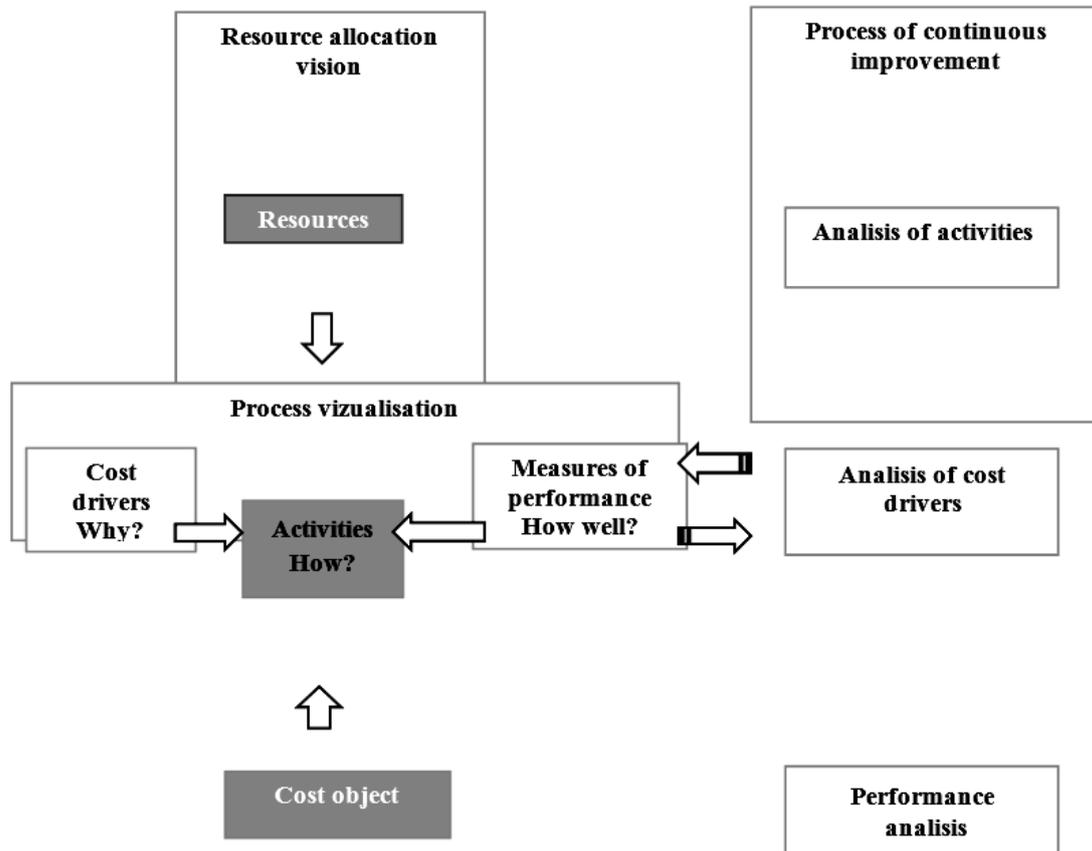


Fig. 1. CAM-ABM Model
Source: [4], [2, 4], [1].

Processes and activities within the entity (Figure 1) represent the nervous system of the organization and the core of what makes the entity in creating added value for customers and shareholders. Depending on how well are organized the activity levels, their correlation with processes ensure its survival eventually. Performance of activities (Miller, 2001) represent the cornerstone and the common denominator of initiatives systematization.

III. The object of cost and cost drivers

In the process of ABM management technique implementation, the cost object includes: the cost of each activity and business processes, performance indicators of each activity, the exact cost of products (services) which includes the cost of activities without added value. In addition to activities and business cost, the ABM system must report information about the activity performance. Knowing the total cost of an activity is insufficient to measure business performance. Activities concerning the quality assessment, the duration of an activity, productivity and services provided to customers are required when assessing performance.

Management has an important role in determining the cost drivers. While customers have a crucial role in providing sales revenues, which implies an exhaustive examination of costs drivers for customer retention and loyalty (Figure 2).

Location of customers: distance and geographical spread of customers, contracting cost, communication and delivering to customers	Sales and promotion costs: these will be higher if there are more potential customers or potential markets and can be lower if the business relies on established customers	Quality costs: standards of quality cause additional costs; If the quality is not sufficiently high the customers may be lost
Supply and delivery costs: Ordering small amounts of product generate higher costs associated with taking orders, making up delivery packages and arranging delivery	After-sales service or warranty costs: Customers may have paid additional fees for after-sales service but it is still important to control costs within that amount in order to avoid losses while offering a competitive service	

Fig. 2. Cost drivers and factors necessary for their analysis
Source: elaborated author based on [5, 49]

Managers must correctly interpret the drivers of costs in order to make appropriate strategic decisions regarding marketing initiatives (Figure 2). A small number of high-value customers generate strategies to invest effort in customer retention and loyalty. An alternative strategy considers a larger number of smaller-value customers and accepts a higher rate of customer replacement. Each strategy drives customer-related costs in a different way.

IV. The process of continuous improvement by analyzing activities

The analysis of activities is an important component of the ABM method. It aims to constantly examine the activities contributing to the increase or decrease of cost, customers' satisfaction. In this context, the activities are divided into: value added activities (VA) activities without added value (NVA). A value-added activity contributes to increasing the value of a product or service in the customer's view and for which the customer is willing to pay. Alternatively, an activity without added value, contributes to increasing the time necessary to obtain a product or service, but does not contribute to price rise. Activities are useless without added value in customer's point of view [3]. Despite efforts made by the entity in costs, most prices are established on the market. Therefore, removing or reducing NVA activities contribute to increase profit margin by selling at the market price at lower cost than the cost of competing entities. In addition, if an entity sells at prices lower than the market price as a result of cost reductions, it can have the chance to increase market share.

The analysis begins with identifying the business organizational processes. A process is a series of activities linked to the achievement of a specific goal. Companies engage in processes for achieving various functions of production: distribution, sales, administration etc. Most processes take place horizontally at the level of all organizational functions, and therefore, overlap in several functional areas. Each separate process requires a detailed process map in order to indicate each step to be conducted in each area. Having drawn up the map of processes, is determined the time required to perform each activity, classified in one of the following ways [3]:

- processing time: real time to perform all functions necessary to produce the product or service ;
- inspection time: the time required to perform an external quality control by external bodies. Consumers are willing to pay for this check (pharmaceutical or food industries);
- transfer time: time consumed for movement of products or components from one place to another;
- idle time: the time while the goods are in the warehouse or waiting time from a manufacturing operation to another [3].

Weetman [5] specifies certain limits on cost management guidance:

- a possible cost reduction of 50% indicates that activity can not continue in its current form;
- a possible cost reduction of 25% - 50% reveals a major opportunity for improvement;
- a possible cost reduction of 15% - 25% indicates an opportunity for improvement;
- a possible cost reduction of 5% - 15% means a modest share can offer opportunities only for marginal improvements;
- a possible cost reduction of 5% stresses that work is already effective.

V. Conclusion

The ABC method has emerged as a result managers discontent over traditional methods of costs determining. The need to implement the ABC method has emerged at a time when the share of indirect costs in total costs is significant. At the same time, any approach to cost management is achieved through the prism of two elements: cost accounting and control. Under these circumstances, ABC can not be considered exhaustive and does not include the specific mechanisms to control them through ABM.

The control areas of the ABM method refer not only the costs but to the entire activity. The key elements of this method include: checking the list of suppliers, quality of acquisitions, means of receipt and management of

assets, product engineering and design, and determining the composition of materials, measuring customer preferences, form of employment and use of human resources, organization of production process. Accounting has a key role in each of the aforementioned elements because it quantifies every economic transaction of the actions and processes in a quantitative manner. At the same time, accounting is used for paying the suppliers, salaries, and records the goods in a warehouse and production facilities and receives funds from the sales.

Finally, the ABM technique becomes a management tool to use the information provided by the ABC method in making decisions on increasing production efficiency, determining the costs with greater accuracy, making control and performance evaluation.

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