

ACTIVITY-BASED MANAGEMENT (ABM), THE DIRECTION OF EXCELLENCE IN AN ORGANIZATION

UČINKOVITO UPRAVLJANJE: PUT K IZVRSNOSTI ORGANIZACIJE

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Abstract: Activity-based management (ABM) has the principle of evaluating costs and levels of activity with the purpose of identifying performance improvement opportunities. ABM combines cost analysis based on activities with the analysis of added value with the purpose of improving processes which bring value to customers and decrease resource waste. This has the role of identifying all the major activities of the organization located in the value chain, the rates of cost determinants, and the value perceived by the customer of each activity.

Keywords: cost sources, value chain, organization map, activity, process, functions

Sažetak: Učinkovito upravljanje je temeljeno na vrednovanju troškova i razine aktivnosti s ciljem utvrđivanja mogućnosti poboljšanja. Ono kombinira analizu troškova temeljenu na aktivnostima s analizom dodane vrijednosti u svrhu unapređenja procesa koji donose korist kupcima i smanjuju gubitak resursa. Svrha je prepoznavanje uloge svih važnih aktivnosti organizacije u vrijednosnom lancu, odnos cjenovnih determinanti kao i vrijednost koju uoči kupac.

Ključne riječi: izvori troškova, vrijednosni lanac, aktivnost, proces.



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1. Introduction

Cost analysis is often understood as a process of evaluation of the financial impact resulted from alternative managerial decisions. As opposed to this, strategic cost analysis is a cost analysis where the strategic elements become obvious and data regarding costs are used to develop strategies, the purpose being obtaining substantial competitive advantages. Shank and Govindarajan are two American authors who developed the strategic cost management concept, in a paper titled '*Strategic cost management: the new tool for competitive advantage*'.

In their conception, company management is a continuous, cyclic process, which consists of:

- formulating strategies
- communicating these strategies in the framework of the organization
- developing and implementing tactical solutions to build these strategies
- developing and implementing ways of controlling the monitorization of the success resulted from the implementation steps thus, achieving the strategic objectives.

2. The strategic cost management's components

The strategic cost management is the result of combining two main components: [1] Value Chain Analysis and Strategic positioning and cost sources analysis

The concept of value chain requires a larger coverage than the one covering production, extending even outside the company. Such an approach is vital for the efficient handling of costs. In any company, regardless of their domain, the value chain is that set correlated by valuer-creating activities which, starting from raw material from which the components are created, continued with making the product and including its delivery to the customer. That which constitutes the importance of such an approach is the maximizing of the difference between ins and outs, in other words, maximizing the added value.

The exploitation of connections with customers is the basic idea of life cycle costs, which deal with the link between the sum paid by a customer for a product and the total cost paid by a customer along the life cycle of using a certain product. Searching the perspective based on the costs of a life cycle, one gets to the conclusion that these can generate a growth in rentability. Moreover, the special attention given to post-acquisition costs can lead to a more efficient segmentation of the market and better positioning of the company, within the framework of the market, a known fact being that the design of a product with lower acquisition costs can be an important tool in gaining some competition advantages.

The map of the organization can be shown as a set of business processes placed on a horizontal level. These processes go through the compartments of the traditional organization. A function can participate in several processes simultaneously. The organization by process allows following the product from beginning to end, allowing the main focus to be on maximizing the value and eliminating the activities

with zero value. The whole business can be organized by focusing on these processes. Thus, there can be process managers that follow a process from beginning to end, its purpose being to lead it to success through productivity maximization (minimal time and costs). Choosing the process we want to follow is very important. Generally, the processes who are chosen are the ones that bring the most added value to the customers. The functions of the organization. The processes which are very structural, can benefit easily from the advantages of informational technology, can improve the company's performance, and processes with great impact over the customers, but also over other processes, these are the ones that must be chosen. The necessity for BPR (Business Processing Reengineering) is owed, in 50 percent of the cases, to the new products and services that the company offers. The products who will be designed again have to be identified from the start; the next step that follows after that is their integration in an ERP (Enterprise Resource Planning) system. To make the value of these products grow, we must know the impact of the process changes in the organization, changes that must be done before implementing the ERP system. This kind of process organization has its disadvantages too. Thus, it can lead to the loss of the learning capacity. Specialists follow a product starting from the moment when the components are ordered, up until sale and don't discuss the technical novelties in their domain with other specialists. Informatics can help with the process of learning through the creation of discussion forums, documentation servers or groups of user e-mails from a certain domain on the company's intranet network.

The strategical positioning concept - involves finding the answer to the question: What role does cost management have on a company? In strategic cost management, the role of cost analysis differs in conformity with the path chosen by the company in the struggle of competition. A company can compete either through low costs 'luring' the clientele through the low costs) or through offering superior products (differentiation). Because the differentiation and the priority of costs involve different decisions, they imply different cost analyses. In this context, the basic components of managerial accounting are:

- keeping the business accounts; problem solving; focusing the attention in a certain direction.

In strategic cost management, the idea that the majority of costs are caused by multiple factors, correlated in a complex way is accepted. The understanding of cost behavior involves the understanding of the complex interdependence of the cost source's set. In some people's opinion, the production volume is a wrong criterion to accurately explain the cost's behaviour. This is why Porter and Riley have tried to establish a complete cost source list. In this list, the first category is represented by 'structural' cost sources. They look at the company's economical structure and depend on: scale, action range, experience, technology, and the production's complexity.

The second cost source category is 'the execution sources'. These refer to the ability to execute the operations well. Unlike structural sources, for each 'execution source', 'more' always means 'better'. The main sources of execution include:

- > The work force; the work force's participation to the continuous improvement of the activity;
- > The total quality management (hopes and realizations regarding product and process quality);
- > The use of capacity (depending on the scale chosen to build production capacities);
- > The products' configuration (the design's efficiency);
- >-The exploitation of the links with the suppliers and/or customers, as the value chain of the company indicates

Sales – Pre-sales activities-Receiving the order-Emptying the stock-Making the bill for the customer-Charging the customer for the purchase

Production-Orders-Planning stock-Planning production resources-Production-Quality check-Sale

Provisioning-Acquisition requests-Choosing the supplier-Acquisition order-Receiving the merchandise-Checking the bill-Paying the supplier

As a conclusion to the above said, whichever the retained cost sources are, the basic ideas are still the following: in strategical analysis, the volume doesn't explain best the costs' behaviour; in a strategical way, it's more useful to explain the costs' position in terms of structural options and execution aptitudes which make the company's competitive position more obvious.

3. The importance of Activity-based management (ABM)

ABM has two purposes, common to all companies: 1)Improving the utility value received by the customers and 2)Improving profits through the increase of said value, meaning to improve the stock's value. These objectives are made through focusing on guiding the activities. The customers have simple needs, they request products and services that respond to a certain need, they want quality,service, reasonable prices and promptitude. Fulfilling these requests is one thing, but fulfilling them in a profitable way is another. It's not enough to say to the shareholders that the products or services offered to clients are of the best quality or that they are always satisfied. The investors want their investment to bring a profit. The two objectives don't contradict each other, because they both follow the company's long term interests. The company's profitableness is also important to the customers, because they want to collaborate on a long term basis (something that will not happen if the firm isn't lucrative). The management of activities is a continuous improving process regarding all aspects of the company. It implies a restless searching for improvement opportunities, which means careful and methodical observation of activities that must take place and the way they carry on. Cost-based activity management includes all of the company's value chain aspects: supply, production, marketing and sales, distribution, and general and administrative expenses. ABM is a global directional system which tends to reunite the changes generated by ABC (Activity-Based Costs) in management under the same roof, and better prepare the company for the global competitiveness. It involves a new conception about the whole business behaviour of the company. It implicates detaching oneself from the traditional, functional conception

over the company's structure and making a representation about the company functioning from the activity efficiency and work process point of view. Activity-based management must influence the whole organization's mentality and it involves reeducating employees, from director to worker, after an excellence centered conception. ABM must not be thought of as a pilot project, or a reallocation of costs, but as a permanent project.

4. Conclusions

Cost management allows the energy to be focused on opportunities, strength and issues of every company. Information about the cost management can indicate, for example, that a company can improve the quality of its products and reduce costs through the usage of services offered by other people who are specialized in supplying them. The informational technology, particularly the e-commerce through World Wide Web, allows a company, that is located anywhere in the world, to supply products to any customer located at any place in the world. E-commerce is the process of ordering and paying for goods and services through electronic connections between customers and suppliers, without paperwork. The delivery of physical goods is set up electronically and takes place through traditional methods. Informational cost management allows decisional factors to identify the suppliers with the lowest costs for goods and services.

5. References

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