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UNIVERSITY OF CAPE TOWN

**THE APPLICATION OF ACTIVITY BASED COST AND
MANAGEMENT TO SUPPORT COMPETITIVE STRATEGY
IN THE BANKING SECTOR: A SOUTH AFRICAN CASE STUDY**

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DECLARATION

I hereby declare that this thesis is the product of my own work, both in concept and execution. It has not been submitted in the past, or is being, or is to be submitted, in whole, or part thereof, for a degree at this University or at any other institution.

Signature Date

DEDICATION

This thesis is dedicated to my children Nadine and Alexander, who have had to bear with me during this period. I am totally indebted for their patience and continuous understanding for my unavailability during the course of this study.

University of Cape Town

ABSTRACT

The rapid growth in technological changes, advances in information technology, globalization and deregulation of markets have had significant effects on businesses throughout the world. These advancements have altered the manner in which organisations succeed in business. The common trends found in today's business environment include decreased direct labour, higher operating overhead costs, reduced inventories, speed to market, shorter product life-cycle, faster and high frequency of new product development, improved sales, innovative supply chains, and so on. These developments have created the need and capacity to have better awareness and understanding of the costs associated with running organisations, (Cooper and Kaplan, 1998). Volume-based allocation methods traditionally used to assign overhead expenditures to products and services mainly on the basis of direct labour. However, this has resulted in distorted product cost information in situations where products and services are diversified in size, complexity or material requirement. Johnson and Kaplan (1987) challenged the role of management accounting in today's competitive environment to develop new and more flexible approaches to achieve effective cost accounting, management control, and performance measurement systems. Hence, among other management accounting tools, activity-based costing was proposed as a candidate to meet this challenge.

Mergers and acquisitions have promised significant savings, but apparent resource duplication is only one source of cost reduction and scaled economies have not materialised to the extent promised, (Max, 2005). Institutions continue to seek deep understanding of cost information as they strive to meet stakeholder expectations. Drucker (1995) noted that organisations are paid to create wealth, and not to simply focus on cost control. To do that requires information that enables executives to make informed judgments. Today's executives are responding to an unprecedented need for improved, sustained performance to meet growing stakeholder expectations, (Max, 2005). Sophisticated companies and their stakeholders realise that improved performance cannot come from cost cutting alone; rather comprehensive performance management approaches and a systematic management of information are emerging as the keys to profitable future. As such, the demand for actionable, accurate and transparent costs and profitability information has increased.

This research investigated the effect of activity-based cost management (ABC/M) on organisational strategies, specifically in the context of cost effective supply of products and services within the banking environments. Banking is a time-based business environment and its mission is to provide the most value at a lowest cost in the least elapsed time, (Sweeney and Mays, 1997). To achieve this, efficiency and effectiveness are of paramount importance.

Doing things right controls the pattern of resource consumption; doing the right things generates profitability. The prime inhibitors of banking efficiency and effectiveness include cross-subsidization among customers and cross-functional internal processes. Financial institutions are implementing the latest major improvement to management reporting. This change will significantly upgrade the quality and quantity of information available to support the professional management accounting. They are moving from top-down to bottom-up design for expenditure distributions and ABC/M is at the heart of it, (Nolan, 2005). This change is expected to provide actionable insights into product, customer and channel profitability, staffing and resource management, productivity and process re-engineering.

A case study method was used to investigate and gain in-depth insights into the application of ABC/M in supporting the business strategies of a South African financial institution with three strategic business units. Interviews were used to collect information on the approaches used in ABC/M that the organisation had adopted and implemented to support corporate strategy. The extent and role of ABC/M in corporate strategy was evaluated by drawing on four components, in particular; (i) the strategic change imperatives of the organisation, (ii) the nature and capabilities of the information systems, (iii) the strategic cost management processes, and (iv) the application of ABC/M to support corporate strategy. The use of a single-case study method to collect empirical evidence was most appropriate for this enquiry in order to investigate the contemporary phenomenon in the real-life context due to the fact that the boundaries between phenomenon and context were not clearly defined, and in which multiple sources of evidence were used, (Yin, 2003).

In order to provide an explanatory framework of the results of the study, the institutional theory was used. This strategy was of particular interest to gain a greater in-sight and in-depth understanding in the manner in which ABC/M supported change management in the process of implementing the business strategies. The use of institutional theory as an explanatory framework enabled the understanding of the process of adoption and implementation of ABC/M in supporting competitive strategies. It facilitated the investigation and evaluation of what was changed, what was left unchanged and the reasons thereof; for example, the traditional management accounting systems remained unchanged, but instead, an additional dimension to the management accounting systems in the form of ABC/M was introduced, in order to provide more accurate and reliable cost information for strategic decision-making.

The results confirm that ABC/M has the capability to support corporate strategies through the supply of more accurate information that is used to design, develop and provide cost-effective products and services, resulting in the creation and sustainability of competitive advantages. The empirical results demonstrated that ABC/M information supports business strategy in

areas such as cost visibility, activity analysis, process reengineering, accurate cost information, improved pricing on products and services, reliable management reporting for proactive decision-making, life-cycle costing of products and service and profitability. All these enhanced the management's capability in strategic planning, resulting in proactive decision-making.

Using a case-based approach, the results of this study have a number of implications for both practice and theory development. First, the research demonstrates the usefulness of ABC/M in supporting better product/service decisions. This finding supports prior research that has demonstrated the superiority of ABC/M over traditional accounting systems. Second, it also shows that the usefulness of ABC/M can be recognised in organisations in the developed countries as well as emerging and developing economies. Third, the research identifies the importance of diverse exogenous and endogenous factors that impact on the manner in which ABC/M can be adopted and applied in the organisations. This finding is significant in that it contributes to better implementation of ABC/M systems in organisations, and thus potentially reduce the failure rate, especially given the wide-spread failure of such systems in most organisations globally. Finally, it also contributes to the calls for management accounting systems to be examined in their organisational and institutional contexts.

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CHAPTER ONE

1.0 INTRODUCTION

This chapter presents the problems and challenges faced by organisations operating within the banking sector. It highlights the manner in which competition has become vigorous in general and also deals with the use of advanced management accounting technique in response to the inability of the traditional management accounting systems to generate reliable cost information.

1.1 Introduction

This research aimed at investigating and determining the manner in which Activity-based cost management (ABC/M) supports the strategic leadership role played by managers in the banking sector in the context of sustaining competitive advantages. Attaining a clear understanding of activities and their costs and the relevant decisions to be taken, requires the use of tools that create activity and cost visibility.

Activity accounting involves reshaping the way that organisations manage costs. Cost management is focussed on the sources of the cost irrespective of the strategic business unit in which it is incurred, (Cooper et al., 1992). In order to achieve cost management managers need activity information to make proactive decisions. It is crucial that management understand where organisation's resources are consumed and in detail, what the organisation does and how it does it, in order to improve profitability and enhance performance, (Drury, 2000; Cokins, 1996). One of the most well known tools that create adequate awareness of activities and their costs is Activity-based management (ABM). The Activity-based costing (ABC) system supports the management of activities as a way of achieving cost management, (Cokins, 1996).

In particular, this research investigated the application of ABC/M in achieving cost-effective advantage products in the context of a sustainable competitive advantage. More specifically, this research addressed the following question: ***How can Activity-Based-Cost-Management (ABC/M) support a sustainable competitive advantage through cost-effective-availability of products and services within the South African (SA) Banking Sector?***

This investigation was pertinent in the banking sector in SA due to the current extreme competitive position and it concentrated on the analysis of activities and review of overhead costs by means of direct activity based cost management. Given the fact that personnel, occupancy and data

processing are perceived as the primary expenditures, these are areas where cost cutting is initially made. There is also little research done to investigate the challenges, evolution and application of the management accounting techniques within the SA banking environment. Some of these challenges are highlighted in the next section.

1.2 Background

During the last decade or so, management and cost accounting researchers have advocated that costs to support operations, manufacturing, engineering, product development, supply chains, marketing and sales and so on, have been the most rapidly growing costs for many organisations, (Drury, 2000) and most significant performance improvement opportunities can be found among these costs, (Borjesson, 1994; Burns and Scapens, 2000). The recession that has been extensive in the global business environment, particularly in the service sector which has been growing for many years, has now started to decline and many organisations have gone into bankruptcy. For the management of service organisations it is now more important than ever to have access to good information for decision making, (Drury 2000; Burns and Scapens, 2000). Manufacturing organisations which formally competed merely on production capabilities and product characteristics discovered that success now required deep understanding of their customers, markets and costs and the ability to provide unique value proposition to their target customers, (Kaplan and Norton, 2004). Newly deregulated service organisations are faced with vigorous competition from organisations that have historically been outside their protected markets, while new competitors have entered their industries based on effective deployment of advanced information technology.

The essential point for market-driven organisations is the ever increasing needs and expectations of the customers. Increased competition demands improved planning and control, (Burns and Scapens, 2000), hence the call for management to be more conscious of the need to use accounting information for planning, control and decision making, (Drury, 2000; Hussain and Kock, 1994). Both cost finding and cost reduction require accurate cost information about operating expenses, yet many organisations in today's competitive environment find their cost accounting capacity insufficient in this respect, (Borjesson, 1994); as such, the calls for management accounting to take a broader business perspective have increasingly gained attention all over the world, (Drury, 2000).

Organisations generally responded to these challenges by developing new strategies, (Kaplan and Norton, 2004) and rededicated themselves through the application of values, mission and vision statements to deliver increased customer value creation. Research done by Chivaka (2003) noted that organisations have responded to some of these challenges over the years through vertical integration (which nevertheless failed to address the customers' ever changing needs due to its internal focus) and later on with strategic outsourcing (which gave precedence to strategic considerations rather than technical and conventional issues involved in customer needs). In particular, the challenges encountered in the SA banking environment are discussed in the following section.

1.3 Issues within the SA banking sector

Increased competition is quickly changing the nature of the SA banking environment. If customers want to open a checking account, for instance, they can go to the local commercial institution, savings and loan, mutual savings corporation or a credit union. They can go to a brokerage house or deal with a discount broker. They could also acquire bill payment services from other financial software companies that provide such.

Furthermore, customers can also maintain checking accounts in virtually any money market mutual fund or even a virtual bank, that is, a bank that only exists on the internet. If they want a credit card, they can get one from various depository institutions, gas companies, departmental stores and many national finance companies. These companies are now able to provide co-sponsored cards. Customers simply have more choices now than ever before when purchasing financial products and services. Not surprisingly, this competition puts a premium on innovation and precision in delivering service. Unfortunately, many banks are at a competitive disadvantage because of governmental regulations.

SA banks are set to face public grilling at an open competition commission inquiry into their fees, after it emerged that they earned approximately R30 billion per year from the national payment system, of which half was described as pure profit. The inquiry has led to a formal investigation into how banks arrive at the fees they charge customers and whether they are hindering competition. It was reported that the banks earned approximately 40% of total income from fees derived from the national payment system. The system facilitates the transfer of money between customers, merchants and banks.

There is little visibility between the costs associated with a transaction and the income banks receive from customers. More information is required from banks to show the link between their own costs and what they charge customers. The main concerns arising from the inquiry relate to bank costs/charges and access to the payment system. It is not transparent how the banks arrive at the costs they charge the end customers. The fees charged by SA banks are considered among the highest in the world and stand in the way of SA entering more into the formal banking systems.

Although the bank charges are currently a popular target of the SA government, watchdogs and consumers the world over, bankers counter that few consumers do much to manage charges or to seek cost-effective alternatives. The other aspect noticed by the competition commission was the recently released imperative to improve access by under-served consumers to competitive financial services, whether these are provided by banks or non-financial banks. In SA, for instance, the Mzansi account, launched as the low-cost product by major banks and post-banks in the year 2004, was a concerted initiative aimed at attracting the then under-served or un-banked consumers into the SA economic mainstream.

The competition authorities were concerned that banks might be colluding in setting the pricing of what was designed to be a standardised, easy-to-understand product, (Bradford, 2006). Though the banks agreed on a standard interchange fee between themselves for handling payment transactions, the different pricing charged to customers raised significant concerns about anti-competitive practices. The transactions on Mzansi account are limited to deposits, withdrawals, shopping or cash-back at shops and balance enquiries. Interest is paid on credit balances which cannot exceed a specific amount and there is no monthly service fee. However, some banks have added debit-order functionality, according to Bradford (2006), while others apply limits on the number of basic fee transactions that can be conducted before the costs start to ratchet up, generally more than five cash deposits or five withdrawals a month.

Some of these issues can be compared to Koch and Macdonald (2000) who identified five fundamental forces of change in this industry; these are (i) market driven competitive factors, (ii) product innovation and deregulation, (iii) securitisation, (iv) globalisation and (v) technological advances. The latter factors actually represent responses to deregulation and regulation; these combined forces have altered corporate balance sheets by inducing organisations to compete in new products, services and geographic markets and use new financial instruments to facilitate transactions and adjust their risk profiles. Koch and Macdonald (2000) argued furthermore that

although customers have benefited from these changes, the long-term trend for financial institutions entails consolidation, re-alignment of corporate objectives and diversification of product offered, as organisations attempt to develop a market niche.

As governmental organisations attempt to reduce the overall risk by raising capital requirements, banks, for instance, have moved assets off their balance sheets and tried to replace interest income with fee income. In these efforts, banks attempt to be more like insurance brokers, realtors and investment bankers competing with a broader range of organisations in more product markets. As capital becomes increasingly costly or impossible to obtain, individual organisations are forced to merge to continue operations, as recently seen in the merger of ABSA, a SA bank and the British giant, Barclays Bank.

Duffield and Summers (1981) and Koch and Macdonald (2000) argued that regulations take many forms, including maximum capital-to-asset ratios, minimum legal reserve requirements, limited geographic markets for full-service banking, constraints on the type of investments permitted and restrictions on the range of products and services offered. Hence, regulations specify who is allowed to manage a bank, where banks are permitted to locate and what products and services banks are allowed to offer, as well as specific portfolio constraints. Although regulations limited opportunities and risks, they virtually guaranteed a profit if management did not perpetrate fraud. Since World War II, banks and other global market participants have consistently restructured their operations to circumvent regulation and meet perceived customer needs. In response, regulators or lawmakers imposed new restrictions, which market participants circumvented again.

This process of regulation and market response with financial innovation and imposition of new regulations is the regulatory dialectic. One aspect of regulatory response is financial innovation, (Scott and Haslag, 1995; Koch and Macdonald, 2000; William and Roberts, 1982; Gary and Winton, 1998; David, 1990; Frederick and Parkinson, 1986; John, 1998). Securitisation, globalisation and new technologies are extensions of this response in the development of new products and international competition. The fear is that these five forces have influenced financial markets and institutions so rapidly that the aggregate risk of the global financial system has increased.

Deregulations is however the process of eliminating existing regulations, (Koch and Macdonald, 2000; Gary and Winton, 1998; William and Roberts, 1982), such as interest rate ceiling imposed on time and demand deposits offered by depository institutions, rate charged to borrowers and so on.

The various regulations are quickly expanding bank product choices as banks apply for permission to offer new products and services such as insurance, brokerage services and securities underwriting. Recent changes have produced greater price competition, a greater number of competitors offering banks services, a broadening of types of services provided banking customers and expanded opportunities across the global markets. Greater competition has in turn lowered aggregate return on investment as organisations attempt to establish a permanent target market.

Ralph and Lipin (1994) pointed out that the changing nature of banking can be examined in two distinct areas: the traditional role of banks as financial intermediaries and the evolution of banking into non-traditional roles as a result of changing regulation, technology and financial innovation. Banks' traditional role as an intermediary has declined as new products and services such as cash management accounts, mutual funds, commercial papers and bonds have become more prevalent. Banks have responded by accepting lower spreads, taking on more risks and expanding their customer and product base. Banks also expanded into non-traditional areas and products, especially off-balance sheet activities such as standby letters of credit, mortgage servicing and credit enhancement products to generate more fee income. They are actively pursuing the use of technology in the development and delivery of products such as business accounts and internet banking.

Financial innovation is the catalyst behind the evolving financial services industry and the restructuring of financial markets, (Koch and Macdonald, 2000; David, 1990). It represents the systematic process of change in instruments, institutions and operating policies that determine the structure of the financial system. Innovations take the form of new securities and financial markets, new products and services, new management processes and new delivery systems. Banks change the characteristics of financial instruments traded by the public and create new financial markets, which provide liquidity, (Koch and Macdonald, 2000).

The recent trends incorporate technological advances with the development of cash management accounts, including the use of automatic teller machines, development of smart cards, debit cards, home banking via computer and the internet and shared national and international electronic funds transfer systems. Innovation have many causes, (Gary and Winton, 1998; Frederick and Parkinson, 1986; John, 1998; Sydney, 1985); banks may stop the loss of deposits, enter new geographic areas, deliver services with cheaper and advanced technology, increase their capital base, alter their tax position, reduce their risk profile or cut operating costs. In virtually every case, the intent is

to improve the competitive position, by creating sustainable competitive advantage through cost effective availability of products and services. One competitive response to the threats of competitive pressure has been to substitute fee income for interest income by offering more fee-based services, (Frederick and Parkinson, 1986; Koch and Macdonald, 2000; John, 1998).

1.4 Problem Statements

1.4.1 Management Accounting

The debate on the relevance of traditional management accounting techniques and their practices has intensified since the late 1980s and the potential usefulness of advanced management accounting is presented as the backbone to the discussions of strategic cost management.

Horngreen et al. (2000) defined management accounting as an information system that enables organisations to formulate overall strategies and long term plans, allocate resources, control their operations, measure and evaluate the performance of employees and meet external regulatory and legal reporting requirements. CIMA (1996), on the other hand, has defined management accounting as the process of identification, measurement, accumulation, analysis, preparation, interpretation and communication of information used by management to plan, evaluate and control within an entity and to assure appropriate use of and accountability for its resources. But Horngreen et al. (2000) further reemphasised the fact that management accounting not only measures and reports financial information but also other types of information that assist managers in fulfilling the goals of the organisation.

Drury (2000) also aligned his arguments with Horngreen et al. (2000) by indicating that management accounting is concerned with both financial and non-financial information that will assist decision makers to make proactive decisions. Research done by Chivaka (2003) stated the differences in these definitions of management accounting developments over the years in the context of two main categories – the traditional management accounting and the advanced management accounting.

1.4.2 Traditional Management Accounting Systems

The key characteristic elements of the traditional management accounting include variable costing, absorption costing, standard costing, job-order costing, budgetary costing, process costing and cost and volume profit analysis driven by constant fixed costs, as well as the application of

labour hours, machine hours and unit of production to overheads for product costing. The result of these characteristics is the application of responsibility accounting, (Scapens, 1999).

Traditional management accounting systems were developed for physical products, (Drury, 2000; Shaw and Freeman, 1998; Stacey, 1993; Storbacka, 1994), because services were traditionally only perceived as a small part of the total problem solution offered to customers. Today, many research studies indicate that services are as important as physical products, perhaps even more important and that it is difficult to distinguish services from products. Sweeney and Mays (1997) indicate that it would be more reasonable to talk about service activities and manufacturing activities, irrespective of the kind of organisation in which they appear. Without services, most goods produced within the industrial sector cannot contribute to today's economic wealth.

Management accounting systems are needed in professional service organisations for two reasons, (Lee, 1992; Turney and James, 1990). First, increased competition demands improved planning and control and second, professional service organisations have grown in size and organisational complexity and now need systems comparable to those used by manufacturers. These accounting systems must be applicable to service organisations. Management accounting is beginning to reject standard cost systems, traditional variance analysis and the sole use of financial accounting for internal decision-making.

Instead, non-financial measures are supplementing traditional financial measures in evaluating performance. Additionally, the existing pace of technological and economic innovation in the financial markets illustrates the critical need for information as an aid for sound decision-making in financial institutions. Financial deficiencies and failures in banks and other institutions are no longer considered unique and yet, the production orientation of traditional cost accounting methods has led many observers to conclude that these methods are not useful for financial institutions that must cope with new environment.

A case study conducted by Malmi (1997) indicates that banks mostly focus on four different objectives: namely, (i) product development and pricing, (ii) achieving cost reductions, (iii) performance evaluation and (iv) industry cost comparison. Understanding the cost and value of service activities is a requirement of the competitive environment. Markets demand services that often increase business expenses without a corresponding increase in revenue. Organisations that understand and can quantify these costs are in the best position to control them. The objective is to

minimise the cost rather than the service through elimination of non-value-added activities. As services become a more significant part of the structure, management tools must effectively respond to the market's expectations, (Sweeney and Mays, 1997). The effective use of customer profitability information will greatly enhance the organisation's ability to detect the right customers. The objective is to increase customer satisfaction and, in doing so, achieve greater returns on investments.

ABM is an effective tool for an efficient decision-making framework for economic analysis when developing new products and improving existing product lines, (Silvestro et al., 1992; Scrace and McAulay, 1997; Player, 1998; O'Guin, 1990). It is also a powerful model in achieving competitive advantages and in providing operational excellence and discretionary product development data. The approach further provides a more factual basis for decisions involving strategic changes of the service or product options offered which, at present, are probably being made incorrectly and intuitively in many cases, (Barwise, 1997; Turney and James, 1990).

As a result of the emergence of ABC, the accuracy of product costing is receiving new emphasis, (Antons, 1992). This emphasis is also extended to performance reporting using multiple cost drivers allowing for more accurate budget calculations and thus for a more meaningful comparison of actual and budget costs. Operational measures, however, are increasingly important in the production environment because increasing emphasis is being placed upon real-time feedback together with operational measures. This emphasis also influences performance and, as a result, management must be seen as a total organisational approach focussing on customer's total perceived quality. So ABM is useful for management to find first, hidden profits and second, hidden losses in relationships with customers.

The traditional volume-based-costing systems in the manufacturing sector are only useful when direct labour and materials are the predominant factors of production, when technology is stable and when there is a limited range of products, (Feinberg, 2001; Blocher et al., 2002). Traditional costing systems measure the resources consumed in proportion to the number of individual products produced, hence producing poor costing information. However, accompanying the revolution taking place in the business world, many organisational resources, such as set-ups or material-handling costs for activities and transactions, are unrelated to the physical volume of units produced. The expenses are typically allocated to products using unit- or volume-based measures, such as direct labour-hours, direct materials costs, direct labour costs, machine hours or units

produced. The product costs generated by such allocation are distorted because products do not consume most support resources in proportion to their production volumes, (Johnson and Kaplan, 1987). These costing systems no longer reflect how specific activities cause variations in major cost categories. It appears that product costs typically have been monitored under three components: namely, direct materials, direct labour and overheads. Traditional costing systems were developed when the labour component constituted the bulk of total costs, particularly in the manufacturing arena, as products requiring the highest labour component dominated total cost. Hence, the focus of these systems was on measuring and controlling direct labour costs.

The major limitation of traditional costing systems is the use of volume based departmental or plant-wide rates. These rates produce inaccurate product costs when a large share of overhead costs is not volume-based and when firms produce a diverse mix of products or services with different volumes, sizes, categories and complexities and are therefore unable to produce cost-effective products and services in support of a sustainable competitive advantage. Johnson and Kaplan (1987) further advocated that products and services that differ in volumes, sizes, categories and complexity consume support resources in significantly different amounts. As product diversity increases, (in a banking sector for instance), the quantities of resources required for handling transaction and support activities rise accordingly, thereby increasing the distortion of reported product costs through the traditional cost systems.

Faul et al. (2001) indicated that organisations based on traditional costing systems using this type of accounting methodologies can also cause distorted inventory management (even if they are in perfectly compliant with financial accounting standards). This distortion, in turn, may cause undesirable strategic effects, such as incorrect decision-making on product lines, unrealistic pricing on products and inefficient resource allocation.

1.4.3 Johnson and Kaplan's Relevance Lost

Johnson and Kaplan's *Relevance Lost* (1987) has deservedly been greeted as one of the most significant monographs on the history of accounting published to date. The theme addressed the process by which management accounting systems (MAS) and management controls systems have developed to the stage where senior executives believe they can run their organisations by numbers. Ezzamel et al. (1990) however contested this historical interpretation. They saw managing by numbers as a perversion of the original and proper role and nature of MAS; they saw

it as inherent in the early 19th century genesis of MAS; nevertheless they correspondingly saw a different history in its development.

Johnson and Kaplan (1987) proposed remedies such as a return to a late 19th century on the principal of cost management, independent of financial accounting concerns and a Japanese style approach to production control. Ezzamel et al. (1990) again questioned the efficacy of either of these remedies for the UK or USA economy and focussed on the need for further understanding of the ways in which human performance in organisations interrelates with the manner in which that performance is measured, both internally through MAS and externally through financial accounting. Business is often keen to stress that it is operating in the real world, but this real world had to be invented. Its invention took place, according to Ezzamel et al. (1990), primarily in the USA in the decade between 1832 and 1842 and consisted in developing disciplinary practices, in the sense of being based on both practice of power and expert knowledge, which for the first time made it possible to manage by the numbers.

Ezzamel et al. (1990) further suggested that Western approach to managing by numbers, accountability based in financial measures of control, has become the most powerful form of control in the USA, and gradually in the UK business organisations, and an increasingly pervasive form of control in many aspects of social organisation. The method of managing by numbers, according to Ezzamel et al. (1990), has developed from techniques which have engendered the construction of a new kind of knowledge quite different from anything that preceded it, a knowledge that has enabled modern societies to regard individual performance as capable of objective measurement and to construct a new discourse of performance standards and deviations across a whole range of human behaviour.

Other developments in MAS occurred during the scientific management era, where emphasis was centred on improving the efficiency and utilisation of labour and materials by evolving physical standards for them. These physical standards were also converted into labour and material standards costs, which allowed investigation of variances between the standards and the actual for management control purposes. As in the case of conversion measures developed earlier, emphasis during that era was on cost management. Hence, MAS evolved independently of the principles governing the preparation of financial accounting, resulting in the use of standard costs for inventory valuation in financial accounts not being discussed until after World War II. But there was also interest among the engineers in many metal-working firms in the relation between efficiency of

individual processes and the overall profitability of the firm and in ensuring that products were priced properly by building up product costs, including allocation of overheads. In their view, overheads included not just factory costs, but all costs that were ultimately necessary to produce and sell the products, including selling, general expense and administrative costs.

From the conversion of cost management to cost accounting's perspective, Johnson and Kaplan (1987) traced out what they call the shift from management accounting to cost accounting and the consequent obsolescence of MAS in the 1980s. They argued that by 1925 virtually all management accounting practices used today had already been developed. The last years have been identified by Johnson and Kaplan (1987) as a period of stagnation where MAS failed to attend to the information needs of modern production technologies and global competition and thus became irrelevant. While acknowledging that a full historical investigation of the causes was still needed, Johnson and Kaplan (1987) attributed this stagnation, in part, to the dominant concern with financial accounting statements during the 20th century, a concern reflected in the belief expressed in many modern textbooks that cost accounting is only a by-product of financial accounting. The emergence of modern corporations with widespread public ownership, coupled with periodic crises in capital markets increased significantly the demand for audited financial statements. These were based on conservative accounting practices and emphasised objectivity and verifiability at the expense of relevance; for instance, by surging historical cost rather than replacement cost calculations.

They have also emphasised accuracy at the level of individual product costs. But the traditional management accounting irrelevance is getting worse as the cumulative effects of managing by inappropriate numbers built-up. Three particular damaging effects that have contributed to this irrelevance are:

- ◆ The short-termism, when financial accounts increasingly focus on short-term results/quarterly earning at a time when the research and development and the careful design of new products are increasingly long-term.
- ◆ The control function's failure, where the form and timing of accounting information is systematically unhelpful, being too aggregated and too late for operational control.
- ◆ The academic accounting's failure, with consideration of some writers in both the USA and the UK that have focussed on the fundamental inconsistencies of routing financial accounting techniques with the needs of management decision making.

In Johnson and Kaplan's (1987) point of view, most academic writing has stayed effectively within the financial accounting framework, by advocating direct versus full absorption costing, for instance. Methods of analysis have been mainly deductive and based on simplified decision making settings abstracted from experience of the major problems of MAS in operation. Hence, research in the business schools has lost touch with real world concerns, according to Johnson and Kaplan (1987).

Management accounting has supplanted cost management and systematically introduced major dysfunction into the whole management process, (Hoskin and Macve, 1988). First, present MAS are still focussed on the rational apportionment of overheads on the basis of direct labour, even though labour itself has become an insignificant proportion of total product costs. Precious managerial time gets wasted on engineering negligible savings in labour costs to reduce the burden of apportioned overheads instead of investigating and containing the substantial overhead costs themselves that are incurred by the organisation as a whole. Second, the modern manager, managing by numbers, has effectively become a portfolio investor characterised as Ferris and Haskins (1988) and Johnson and Kaplan (1987) pointed out, by being:

- ◆ Driven by the stock market demands for short-term performance.
- ◆ Re-inforced by an executive bonus scheme based on the financial accounting results.
- ◆ Typically a manager having little technical or production experience.
- ◆ Reliant on obsolete MAS for information about the performance of the business.

Johnson and Kaplan (1987) have stipulated three remedies to render MAS more relevant.

- ◆ The MAS should attend adequately to the different time frames for the activities undertaken by the organisation. Given the vast differences in relevant cycles for the different activities, they have proposed that different MAS are developed by each organisation to attend to these cycles.
- ◆ The role of cost allocations for process control should be different from that for product costing. Cost allocations for process control should reflect managerial responsibility and be focussed on flexibility budgets; hence only minimal allocations should be performed. In contrast, cost allocations for products costing should be extensive, given that the main objective is to trace virtually all costs to products so that informed strategic decisions can be made about product development and discontinuance. Cost allocations should be based on primary cost drivers, therefore, by identifying what are the product requirements that drive the level of overhead activities and in particular the level of transactions in service and central departments.
- ◆ The future performance measurement systems should move away from emphasising short-term profits towards long-term measures of performance and non financial indicators should be

accorded greater importance. These indicators can highlight organisational performance on various key areas, such as manufacturing, marketing, research and development.

Ezzamel et al. (1990) have however challenged both Johnson and Kaplan's (1987) diagnosis and their remedy and suggested alternative ways of explaining for the problem with cost accounting. Ezzamel et al. (1990) fundamentally concur with Johnson and Kaplan (1987), particularly with the way in which they have moved accounting's history centre-stage in the search for a better understanding of accounting's power. They disagreed with the precise history that Johnson and Kaplan (1987) recounted, and with the understanding of accounting and its power to which their history led them. Johnson and Kaplan (1987) recounted a history of a practice that in its inception and up to 1925 was basically good, hence in the right direction, but which then went increasingly wrong. Ezzamel et al. (1990) argued that cost management based upon accounting was problematic, and bound to be problematic, from its outset and that this is what the history of 19th century accounting shows, as in the debate on findings over how to identify true cost.

In the historical development of cost management and cost accounting, Johnson and Kaplan (1987) derived a diagnosis of the causes of a modern disease within the accounting field. But Ezzamel et al. (1990) maintained the view that there is no such thing as disease which has developed over time as accounting has gone wrong. Accounting problems, according to Ezzamel et al. (1990), lurked within it from the outset and there is unlikely to be any quick and easy remedy.

In understanding the Lost Relevance of MAS, attention also needs to be given to the relationships in which organisations interact with external institutions through their financial accounting and how the behavioural and organisational structures within and without the organisation mould and are shaped by the forms of accountability that financial accounting practices create. If one is judged by the numbers it is almost inevitable that one will manage by the numbers and the technical criticisms of short-term focus should be directed equally, if not more strongly, at financial accounting, given the power it exercises in the USA and the UK through the operation of the capital markets and regulatory institutions. Ezzamel et al. (1990) doubted the efficacy of concentrating on technical improvements to MAS for two major reasons. First, the role of MAS cannot be divorced from the organisational context of the whole system of control. This has led them to explore the different forms of control within which Japan's management practices have been developed and to diagnose the failures which Johnson and Kaplan (1987) attribute to western MAs as rooted in their behavioural rather than their technical limitations. Second, the technical limitations of MAS cannot

be divorced from the relationship between internal measurement of performance and its external measurement through financial accounting. Technical improvements in financial accounting are now likely to be of much greater significance, according to Ezzamel et al. (1990), as they did not see modern MAS as having been perverted from 19th century origins and in need of rehabilitation. Furthermore, accounting's problem is inherently related to its power in performance measurement and in the creation of accountability.

1.4.4 Johnson Relevance Regained

Johnson's (1992) *Relevance Regained* refers to top-down control and bottom-up empowerment through activity-based panaceas. Activity-based is a phrase managers hear almost as frequently, with similar connotations, as the phrase world-class. Organisations with profitability problems should turn their focus to ABC and those with competitive difficulties should attempt ABM. Those activity-based panaceas, along with activity-based information and activity-based thinking, are recommended to any organisation striving to achieve world-class status as a profitable competitor.

There are two paths that led to present-day activity-based pursuits. Both paths come out of the business world, not the academic world, according to Johnson (1992). A few management accountants in the academic world, notably Gordon Shillinglaw at Columbia and George Ataubus at Berkeley, had articulated activity-based concepts by the early 1960s. However, the activity concepts they enunciated seemed not to have influenced other academic thinking until very recently, nor did they appear to have influenced two paths of activity-based development in business. The older path, which is activity cost analysis, began in the early 1960s at General Electric (GE), where finance and control people were seeking better information for managing indirect costs. GE accountants forty years ago may have been the first people to use the term activity to describe work that causes costs. The other path to present-day activity-based cost management, popularly known as ABC, seems to originate independently of GE's activity cost developments. ABC derives from the efforts of several companies and consultants in the 1970s and early 1980s to improve the quality of product cost accounting information. Seen in retrospect, both activity cost analysis and ABC resulted from attempts to improve the usefulness of accounting information for making decisions affecting work-force productivity and product mix. Both paths led managers toward more profitable, or less costly, ways to do business as usual, (Scherkenbach, 1991; Johnson, 1992; Cooper, 1987; Johnson and Kaplan, 1987; Drucker, 1963).

The key conclusions on Johnson and Kaplan's (1987) relevance lost views were based on the fact that management accounting was initially relevant to the needs of business, but after World War II, management accounting practices failed to develop capacity in line with the changing needs of the modern business environments. Johnson's (1992) relevance regained views nevertheless argued that the management of information processing is changed and transformed because of newly developed information technology. It has become feasible to have a single system of information for both management accounting and external reporting through the availability of modern database technology; (Scapens, 1996). As such, organisations are now able to integrate and maintain cost effective information systems – the financial accounting and management accounting. It is therefore evident that the inability of the traditional management accounting to deal with contemporary business challenges has consequently led academics to call for advanced management accounting techniques, as explained below.

1.5 Advanced management techniques

Many experts believe that both financial and non-financial information are necessary to the reporting effort and accomplishment of organisational strategic objectives. In response to chronic fiscal constraints, organisations are considering the use of advanced management tools. Some organisational leaders believe that such tools are helpful in meeting the challenges of increased accountability while others dismiss them as merely another fad.

Some of the advanced management techniques that are used to support organisational strategies include the following: the Balanced Scorecard (BSC), (Kaplan and Norton, 1996); Activity-based Cost Management (ABC/M), (Drury, 2000; Cokins, 1996; Collins, 1999; Blocher et al., 2002); Activity Based Budgeting (ABB), (Horngren et al., 2000); Total Quality Management (TQM), (Roth and Jackson, 1995); Benchmarking, (Simons, 2000; Player, 1998), Process value analysis (PVA) Porter, 1985; Porter, 2004); Target costing, (Blocher, 2002) and Strategic Cost management, (Bromwich, 1990), to name a few. Traditional budgeting and other financial management tools such as line-item budget and financial trend monitoring have not been included in this study.

1.5.1 Balanced Scorecard

BSC is a set of measures that gives top management a fast but comprehensive view of the business. It complements financial measures with operational measures of customer satisfaction. Internal processes and the organisation's learning and growth activities are operational

measurements that are the drivers of future financial performance. The balanced scorecard can help management create a link between long-term strategic objectives and short-term actions.

1.5.2 Activity-based cost management

The focus of this research was on ABC/M because it is an accounting system that provides management with information for decision-making in the process of fulfilling organisational objectives. ABC entails a procedure that measures the cost of objects, such as products and services to satisfy customers. It first assigns costs to the activities performed by the organisation. ABC then assigns activity costs to the products, customers and services that benefit from or create the demand for the activities. ABC/M consists of performing activities more efficiently, eliminating activities that do not add value for customers, improving delivery of products and services and developing better relationships with customer and suppliers. The application of ABC/M enhances customer satisfaction, through the supply of value-for-money products and services, while making fewer demands on organisational resources. ABC/M also entails process reengineering. This is a fundamental rethinking and radical redesign of business processes to achieve dramatic improvement in critical contemporary measures of performance, such as costs, quality, service, reliability, dependability, flexibility, speed and so on. Kaplan and Norton (2004) have classified this as a manifesto for business revolution.

1.5.3 Activity-based budgeting

ABB focuses on the budgeted cost of activities necessary to produce and sell products or services. Adopting an ABB approach to develop the operating budget entails formulating budgets for each activity in its activity management system, while the domain of ABC is the reporting and analysis of past and current costs; a natural extension is to use an activity-based approach as ABB, in particular in the budgeting of future costs.

1.5.4 Total quality management

TQM is a management-led, organisation wide commitment to quality, as defined by both internal and external customers. It requires the development of a clear vision of what the organisation does, what its values and goals are and how it is going to achieve them. TQM focuses on understanding customers and their needs, as well as the needs of employees, while focusing on processes to deliver high product quality, (Roth and Jackson, 1995).

1.5.5 Benchmarking

Benchmarking on the other hand is the process of studying and comparing how other organisations perform similar activities and processes. The other organisations are generally selected because of their excellent performance of the benchmarked process. Management in response to the new global competitive environment is implementing the above innovative techniques. Companies around the world, particularly the banking sector in SA, are under tremendous pressure to control costs and improve service delivery. Some business leaders believe that such tools are helpful in meeting the challenges in increased accountability while others dismiss some of them as irrelevant.

1.5.6 Process value analysis

The process to ferret out improvement opportunity is called process value analysis (PVA). PVA is a dynamic process of examining the business to make it more efficient and effective, (Porter, 1985; Porter, 2004). PVA seeks improvements to meet the needs of the customers with less cost and higher quality. PVA takes a systems approach to a business process. It looks at the conversion of input and how well that output matches customer needs. Conducting a PVA typically breaks down activities into many tasks, which is a much greater level of detail than an ABC system provides.

1.5.7 Target Costing

Target costing is a tool, according to Blocher et al. (1996), arising directly from the intensely competitive markets in many industries. It determines the desired cost for a product on the basis of a given competitive price, so that the product will earn a desired profit. Cost is therefore determined by the price. Blocher et al. (1996) advocated furthermore that strict cost reduction measures or redesign of the product or service must be the driving forces to this tactic in order to achieve the market price and maintain profitability. Target costing forces the organisation to become more competitive, even where small price differences attract customers to shift their attention to lower cost competitors.

1.5.8 Strategic Cost Management

Shank (1989) defined strategic cost management as the process of blending financial analysis in the context of value chain analysis, strategic positioning and cost driver analysis. Shank and Govindarajan (1993), on the other hand, defined strategic cost management as cost analysis in a broader context where the strategic elements become more conscious, explicit and formal. Bromwich (1990) has taken it a step further, with strategic cost management (SCM), arguing that strategic cost information should enable companies to respond to competition and to change in

customer demand, both of which are pressures that originate outside the organisation. SCM is in itself based on two economic perspectives. The first perspective is concerned with a product's characteristics or attributes and the second one deals with competition. SCM is defined as the provision and analysis of cost information on the firm's product markets and competitor's costs and cost structures as well as the monitoring of the enterprise's strategies, and those of its competitors, in these markets over time, (Bromwich, 1990).

Bromwich (1990) argued that cost and management accountants are expected to fill a role within a holistic and broader spectrum that is more than just focussing on the production of monthly statements. The roles are linked to strategic decision-making through efficient costing of these attributes and monitoring their performance over time. This would in turn support cost-effective products and services and reposition the organisation to create a sustainable competitive advantage. The process and job costing are also types of cost analyses that are based on activities. However, traditional costing systems do not relate the costs to the factors that cause the initial expenditure decision to be taken, such as the actual cost drivers. The analysis of cost dynamics other than through the conventional systems of variance analysis would only be achieved through the use of advanced management accounting tools, such as ABC/M.

1.6 Research Purpose

The purpose of this research study was to investigate the contribution made by ABC/M, in support of sustainable competitive advantages through the supply of cost effective availability of products and services, within the banking sector. In particular, the research explored the following business areas:

- ◆ Examination of the bank's strategic change imperatives and focus areas.
- ◆ Exploration of the nature and capabilities of the information systems required for the new strategic change and focus areas.
- ◆ Investigation of the strategic cost management processes.
- ◆ Evaluation of the application of ABC/M as part of the information systems to support the new strategic change and focus areas.

The shortcomings of traditional accounting systems, in terms of validity, accuracy, completeness, consistency, understanding and relevance, increase the need for modern accounting methodologies, like the ABC/M. As such, this research aimed to investigate and determine the manner in which Activity-based cost management (ABC/M) supports managers in the banking

sector in the context of sustaining competitive advantages. So, the research attempted to encourage the adoption of advanced management accounting techniques within the SA banking sector to efficiently and effectively identify and understand activities associated to products that consume costs, through the application of ABC/M, in line with organisational strategies.

1.7 Conclusions

This chapter has highlighted the current problems with the management information systems, particularly with the inability of traditional management accounting on product and service costing, the ability of ABC/M as the advanced management accounting technique to create cost effective products. The purpose of this research was to investigate the application of ABC/M as a technique to support corporate strategy through the supply of cost effective availability of products and services.

Management accounting has supplanted cost management and systematically introduced major dysfunction into the whole management process. The traditional MAS are still focussed on the rational apportionment of overheads on the basis of direct labour even though labour itself has become an insignificant proportion of total product costs. Precious managerial time gets wasted on engineering negligible savings in labour, costs to reduce the burden of apportioned overheads instead of investigating and containing the substantial overhead costs themselves that are incurred by the organisation as a whole. The modern manager, driven by numbers, has effectively become a portfolio investor characterised as (i) driven by the stock market demands for short-term performance, (ii) re-inforced by an executive bonus scheme based on the financial accounting results, (iii) deficient in technical or production experience and finally, (iv) reliant on an obsolete MAS for information about the performance of the business.

Advanced management accounting techniques are generally needed in professional service organisations for two reasons: (i) the increased competition demands improved planning and control and (ii) professional service organisations have grown in size and organisational complexity and now need systems comparable to those used by manufacturers. Management accounting is beginning to reject standard cost systems, traditional variance analysis and the sole use of financial accounting for internal decision-making.

This research study focussed on exploring the bank's strategic change imperatives and focus areas, understanding the nature and capabilities of the information systems required for the new

strategic change and focus areas, analysing the strategic cost management processes and finally utilising the application of ABC/M as part of the information systems to support the new strategic change and focus areas.

1.8 Organisation of the research study

This thesis is structured with nine chapters. Chapter one deals with the general introduction of the thesis, identifies issues with the banking environment, highlights the problems with traditional management accounting, and formulates the purpose of the entire research study. Chapter two emphasises ABC/M, explains its evolution and also deals with differences between ABC and ABM, including the management accounting information systems within the banking environment. Chapter three is concerned with the competitive strategy in its entirety, including its development and implementation processes, the creation of sustainable competitive advantages, dealing also with the needs leading to strategic change. Chapter four focuses on the link between ABC/M and competitive strategy, reviewing the literature with regards to the manner that ABC/M supports competitive strategy. Chapter five deals with the development of the organisational framework developed through the institutional theory. Chapter six deals with the research methodology applicable in the empirical collection of information for this research study. Chapter seven presents the results gathered from the research. Chapter eight presents the discussions and analysis of the empirical results. Chapter nine provides the findings and conclusions of the research.

The next chapter explains in detail what ABC/M is, its criteria, success, failure and ability as part of management accounting information systems to support competitive strategy by creating and sustaining competitive advantages within the banking environment.

CHAPTER TWO

2.0 ACTIVITY BASED COST MANAGEMENT

2.1 Introduction

This chapter deals with the characteristics of ABC, ABC/M and ABM as part of the management accounting and information systems. It stipulates the differences between the three techniques and their application in supporting SCAs for strategic direction. This is then followed by the explanation of what organisational activities are, their nature and cost relationship. It also provides the framework and scope of ABM. It further explains the strategic importance of information management, being the key aspect in providing management with accurate data for proactive decision making. The challenges and limitations with the implementation of ABC/M are also dealt with.

2.2 The Difference between ABC, ABC/M and ABM

In order to attain competitive advantages, accurate and on-time activity information is required to support the organisational strategy. ABM is a pre-requisite to cost visibility and creates a clear understanding of activities and their respective costs, thereby enabling management to make proactive decisions.

ABC and ABM are now the stock-in-trade of lucrative industries. Both techniques represent a major extension of accountability in the modern corporation, as previously defined in accounting terms as fixed overhead. The mechanics depend on treating the staff department as a mass-producer of repeated acts of routine service activities performed for particular cost-objects and usually products, (Cooper and Kaplan, 1992). By treating these activities as performance indicators, payroll budgets can be linked to activity volumes thus creating pressures for the casualisation of staff employment. The activity frame of reference, particularly when linked with value analysis, also encourages the stripping-out of all staff work which cannot be accommodated within its definition of activities, (Cokins, 1996). This threatens a dumping-down of staff departments in which non-routine initiatives aimed at competitive advantage in fields such as human resource management or marketing may be stifled because they cannot be accommodated within the language of accountability imposed by ABM. These arguments are concretised through an examination of the ABM treatment of one of its favoured targets: the purchasing function. The contrast between this and the supply chain management approach, advocated by practitioners and academics who take the function seriously, is a stark illustration of the limitations of ABM as an approach to the management of staff activity.

ABC and ABM were developed as practical tools to solve a problem faced by most organisations today. Traditional cost accounting systems have many failures, especially when used for internal management purposes, as discussed in the previous chapter, (Cokins, 1996; Wilson and Chua, 1993; Argyris and Kaplan, 1994). Two specifically (summarised) important failures are: (i) their inability to report individual product costs with a reasonable level of accuracy and (ii) their inability to provide useful feedback to management for the purpose of operational control.

An organisation is virtually a set of various activities, (Cooper et al., 1992; Blocher et al., 2002; Hammer and Champy, 1993; Bromwich and Bhimani, 1989; Cooper and Kaplan, 1992b; Maberley, 1996); hence, ABC focuses on activities in the costing process. Costs are traced from activities to products, based on the product's demand for these activities during the production process. As the number of activity measures used increases, ABC is better able to capture the underlying economics of the organisation's operation and the reported product costs become more accurate for strategic themes, (Sinkey, 2002; Brickley et al.; 2001; Player, 1998; Kaplan, 1990). ABC theory contends that, because virtually all of an organisation's activities exist to support production and delivery of today's goods and services, they should all be included as product costs. The literature on ABC essentially views it as a product costing system, (Cooper and Kaplan, 1992b) whereas ABM is viewed as a broader management system incorporating activity analysis, analysis of business processes and analysis of value and non-value – added activities.

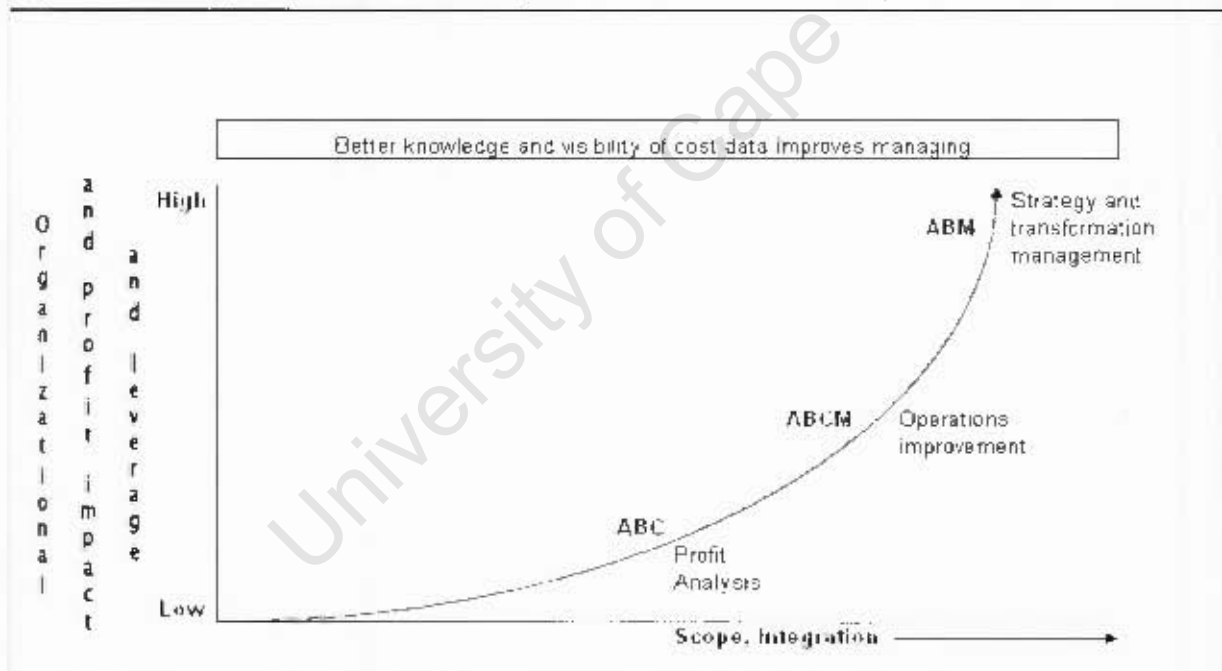
There is a significant confusion about the semantics and acronyms associated with activity-based information for which no standard definitions exist. Figure 2.01, seen below, places three levels of activity-based information on a graph, relating them to organisational impact. ABC can be considered the mathematics used to reassign costs accurately to cost objects, that is, outputs, products, services and customers. ABC/M, on the other hand, uses the ABC cost information to not only rationalise what products and services to sell, but more importantly, to identify opportunities to change the activities and processes to improve productivity, (Cokins, 1996).

ABM integrates ABM and ABC/M with non-cost metrics, such as cycle time, quality, agility, flexibility, dependability, customer service and so on. Hence, ABM goes beyond cost information. The author has restricted the ABC/M's reference to only ABC and ABM, as both ABC/M and ABM overlap. The author has therefore focussed on ABC/M, which is a more popular acronym used with regard to leveraging ABC data. Figure 2.02 below adds and clarifies more definitions for Figure

2.01. ABM allows management to navigate through competitive fads and challenges into the faster currents of high-pay-back performance improvement programs.

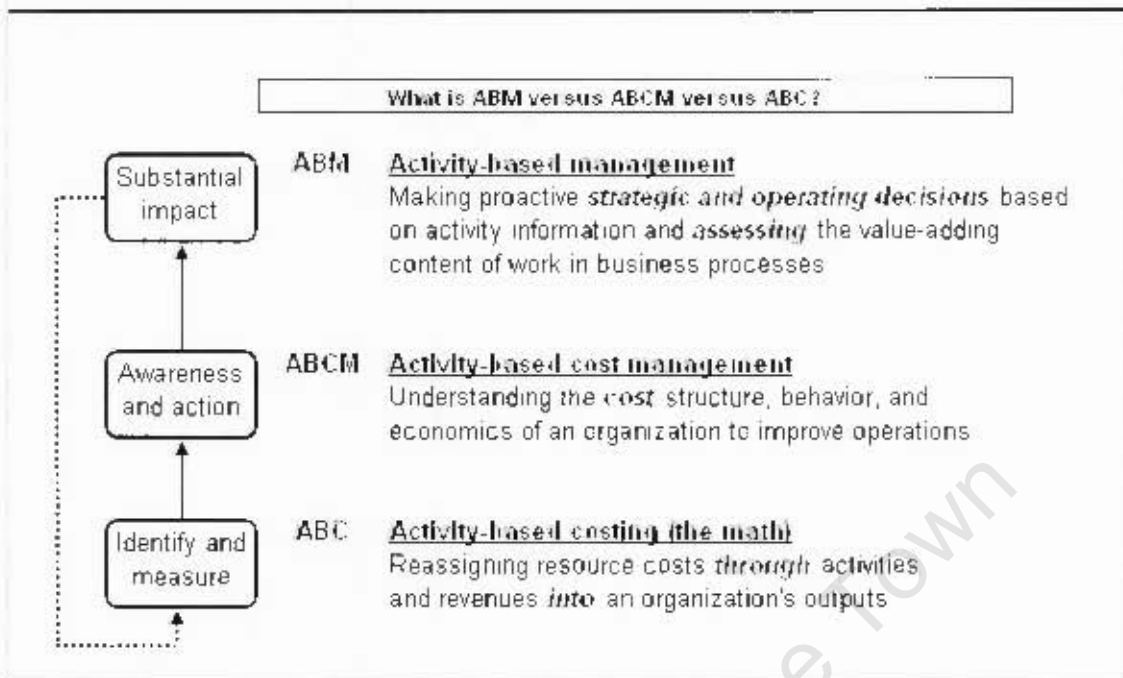
Comments made by Johnson and Kaplan's (1987) *Relevance Lost* and Johnson's (1992) *Relevance Regained* have been seconded by Shank (1994) that traditional accounting is at best useless and at worse dysfunctional and misleading. Shank (1994) further described the Sea Change that will occur in managerial accounting. ABC is part of that sea change. He further indicated that ABC is not a replacement for the traditional general ledger accounting. Rather, it is a translator or overlay, as structured below in Figure 2.03 that lies between the cost accumulators or the expenditure account balances in the general ledger and the end-users who apply cost data in decision making. ABC converts inert cost data into relevant information associated with the business activities so that the end-users can take actions.

Figure 2.01: Activity-Based Information Acronyms



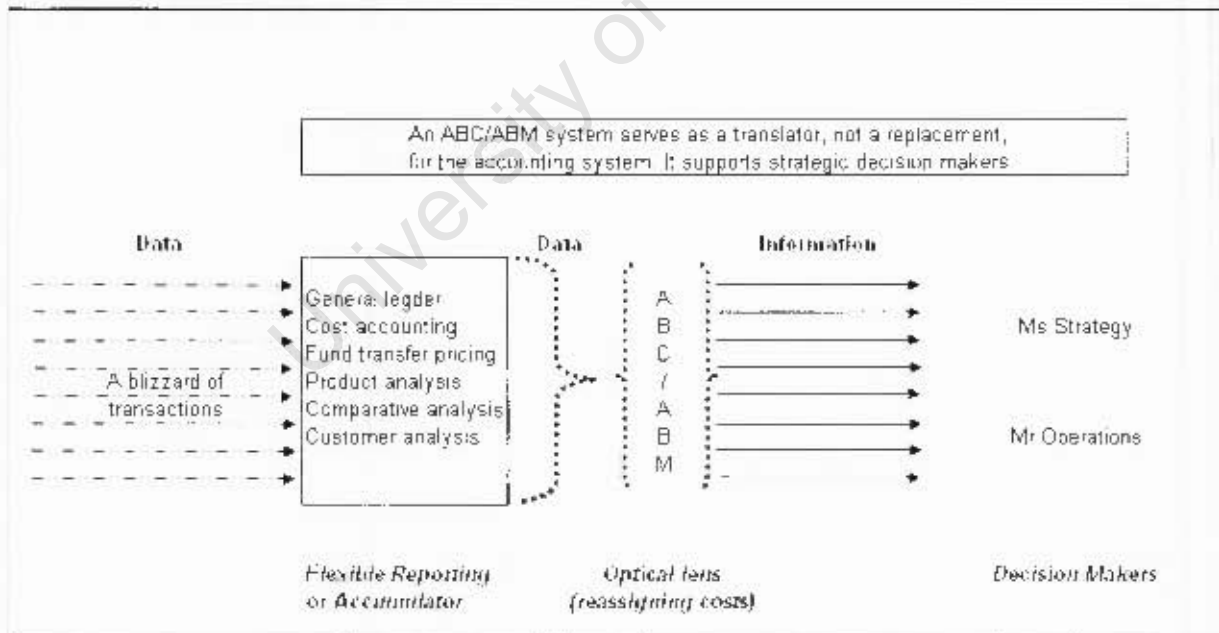
Source: Cokins G. (1996), *Activity Based Cost Management, Making It Work*, McGraw-Hill Companies.

Figure 2.02: ABM versus ABCM versus ABC



Source: Cokins G. (1996). *Activity Based Cost Management, Making It Work*. McGraw-Hill Companies.

Figure 2.03: ABC/ABM Reassigns Costs



Source: Cokins G. (1996). *Activity Based Cost Management, Making It Work*. McGraw-Hill Companies

2.3 Organisational Activities

2.3.1 Background

Activities are generally performed for a purpose, (Frei et al., 1997; Maberley, 1996; Cokins, 1996). They may result in an output. If the output can be assessed in terms of benefit, then a cost/benefit relationship can be derived and used to value the activity. Activities are often undertaken on behalf of another part of the organisation. They may, therefore, confer benefit to one part of the organisation by incurring cost in another part. This creates inter-organisational conflict when attempting to evaluate activities within part of the organisation. ABC can best be applied across the whole company, or at least within a stand-alone entity that is not reliant on service provided by other parts of the organisation, (Adams, 1996; Divanna, 2004; Hunter, 1997). A financial institution can be viewed as a collection of activities that are performed to support the creation and delivery of its products and services. Competitive advantage is gained by performing activities at lower cost than competitors or by providing a differentiated product or service for which a customer is prepared to pay a higher price, according to Babad and Balachandran (1993) and Clarke (1994).

Miller and O'Leary (1987), Maberley (1996), Adams (1996), state that the first phase in any ABC exercise is to review and confirm requirements. This is necessary to ensure that the terms of reference of the project are clearly understood by both the sponsors and the project team. The reporting entities for an ABC system will vary with the use of the system, (Richardson, 1976; Channon, 1986), but will require the agreement on common definitions of products, activities and cost drivers that will be used in the analysis. These very important definitions must be carefully worded and documented so as not to generate confusion and so that the results of the analysis can be readily understood by everyone, (Bhimani and Pigott, 1992). When the principal activities across the organisation have been defined, their performance within each department can then be identified and acknowledged. All activities identified by the department must then be categorised as function or discretionary and sustaining or operational and be capable of linkage to measure cost drivers that may be product or service orientated, (Collins, 1999).

Hicks (1992) states that the first definitions that need to be agreed on, however, are those of the products or services for which Activity-based Costs are required. One unfortunate feature of the financial sector is that, as a service industry, many of the products and services offered are difficult to define. A service may be defined as any activity that one party can offer to another that is essentially intangible and does not result in the ownership of anything. Definitions of products and services will depend on the assistance provided to various types of clients and may depend on the

quality of service provided. The definitions of products and/or services may differ depending on how the information is used. If, for example, the resulting reports are to be used for strategic purposes, the products defined will generally be at a higher level than those defined for product and customer profitability analysis.

For strategic cost management, the products and services are likely to be generic product groups, such as lending, deposit taking, transmission services, trade finance, foreign exchange, corporate finance, life assurance and health, marine and motor insurance, (Sinkey, 2000). They may be differentiated by customer type such as corporate or retail, or by geographic area such as country or region. For product costing and customer profitability, the products and services defined are normally those to which revenue can be attributed or which the customers will identify as being different from each other, (Hundal, 1997; Frei et al., 1997).

According to Innes et al. (1995), for cost reduction and efficiency improvement, products and services are less important. The emphasis of the ABC normally shifts to concentrate on the analysis of activities and opportunities to reduce, eliminate or improve the individual activities performed. Products and services are only necessary as a means of differentiating between similar activities from which disparate benefits are derived. Definitions of products and services are frequently not established unless some form of product costing or profitability analysis has already been performed, (Hussain and Kock, 1994). Each functional area of the organisation is likely to have a different perspective on the issue of product definition. For reporting purposes, it is important to agree on product definitions that can be supported by the tracking of clearly identifiable income and costs, but that also provide adequate sales and marketing information to the end users. Another associated issue is the need to construct a product coding convention that supports the grouping of individual products into product families, such as deposits, investments and advisory services, in order to satisfy product grouping reporting requirements.

2.3.2 Activity and cost control

Costs and activities must be traced back to the point of expenditure rather than the point of consumption, which is usually shown in the financial account. This is because costs can only be managed at the point of initiation and the role of the cost driver is to identify when and why the expenditure takes place. Kaplan and Cooper (1988) have developed this ABC approach, which relates overhead costs to the forces behind them. Too many costing systems make the assumption that expenditure coincides with organisation, but this is not generally true. Costs can only be

controlled by the management responsible for the factors that affect expenditure, which are the cost drivers.

Cokins (1996) indicated that managers need the feedback on both the cost incurred and the underlying factors that caused it. They need to understand the reasons for the existence of the cost. This can only be achieved by measuring and monitoring the factors that drive the cost. For most operating or administrative departments, cost drivers will tend to relate to the volume and variety of products and services offered. Such factors will be readily measured and such information may already be reported regularly. ABC simply relates the expense analysis to the business behaviour that influences the expenditure. For overhead or support functions, cost drivers relevant for factors for cost control will generally relate to the level of service provided and the efficiency and effectiveness of its delivery.

Drucker (1963) commented that the only truly effective way to cut costs is to cut out activities altogether. To try to cut back costs is rarely effective. There is little point in trying to do cheaply what should not be done at all. With these few simple words, Drucker (1963) sums up activity management. Costs are not just incurred, they are caused. ABM controls the occurrence of activities and the efficiency of their operation. Since activities create costs, regulating activities controls the source of costs. When action is taken to reduce the causes of activities that consume the resources, then a lasting reduction in costs takes place.

Many global organisations have sharply cut staff in recent years, yet few have realised the expected cost savings. This is evident through the researches done by a number of commentators, (Drury, 2000; Collins, 1999; Cooper, 1987; Cooper et al., 1992; Brimson, 1991; Kaplan, 1990; Bromwich and Bhimani, 1989; Maberley, 1996; Pattison and Gavan, 1994). In some cases, costs have actually increased. Most organisations have found that with less staff, performance suffers. This is in addition to frequent employee complaints about increased work load and stress. Companies find that while staff is reduced, work remains and employees scramble to maintain throughput, yet throughput suffers. The company can reluctantly let customer service slip or increase production by hiring temporary workers.

Companies are merely eliminating the symptoms of the problems, (Nanni et al., 1992), because by reducing staff, a company is only reducing the resources for performing activities, (Armstrong, 2001). With fewer resources, fewer activities can be performed. Since activities are consumed by products or customers, performing fewer activities means building fewer products or satisfying

fewer customers. Building fewer products or serving fewer customers means that the company generates less revenue. Since management does not understand the relationship between resource consumption, activities and the products or customers triggering them, management leaves fate to decide which products or customers remain unsatisfied. This process places the cart before the horse.

Executives must learn to manage the activities to control costs. Without an understanding of which costs are driven by which activities, or which costs are driven by which customers, only blind luck allows management to cut costs effectively. Costs are cut effectively only if the tasks eliminated are not desired by the customer anyway. Ending such non-value-added activities has no effect on the customers, (Drucker, 1963; Blocher et al., 2002). Therefore, costs are lowered while revenue remains unchanged. What activity management seeks to do is manage costs and customer value at their source, activities. Activity management looks at customer needs and how the company's activities should be configured to fulfil those needs. Activity management focuses on controlling activities.

Optimally, a customer's activities consume the organisation's activities, as the organisation's activities consume employee's activities. Yet every organisation has activities that its customers do not consume and that are not required to do business. These surplus activities are called non-value-added. While the traditional cost-focussed organisation concentrates on efficiency, the activity-focussed organisation concentrates on simplicity – eliminating non-value-added tasks is one of management's prerogatives to seek out and end the activities, as shown in Figure 2.04, see annexure. The more effective the management, the fewer non-value activities the company has.

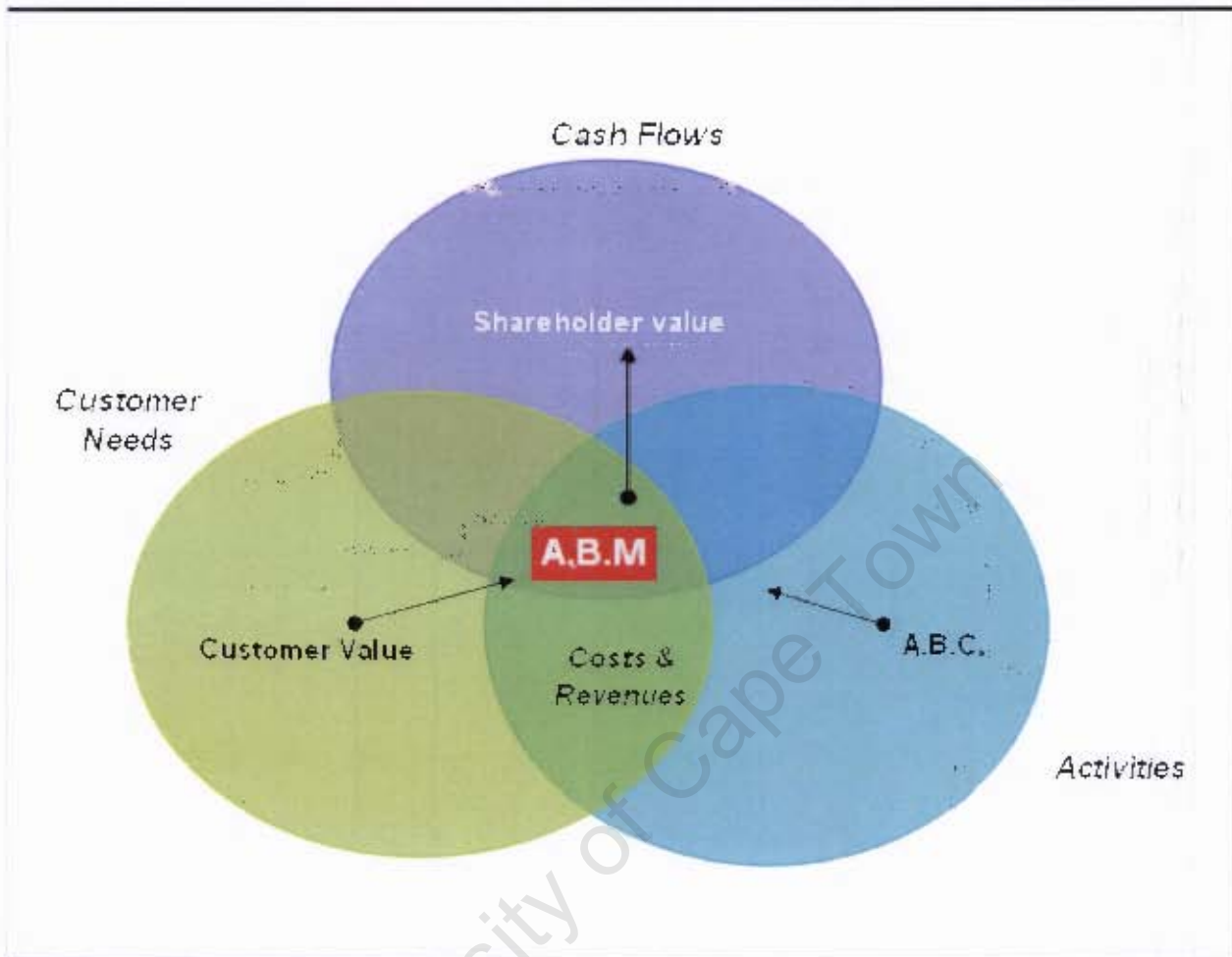
2.4 ABM and value creation

When a high cost activity is identified, the first step is to determine whether the cost is an efficiency or effectiveness problem, or no problem at all. To reduce costs, effectiveness should always be emphasised over efficiency. A job not worth doing is not worth doing well. If an activity does not add value to the customer, there is no value in performing the activity efficiently; the organisation should not perform the job at all, (Cokins, 1996; Kaplan and Norton, 2004; Lynch, 2000; Porter, 1985; Porter, 2004). They should always question why the organisation is performing the activity, i.e. is it necessary? Investigate what is triggering the activity, as show in Figure 2.04 and Figure 2.07 (see annexure). If the activity must be done and has a high cost per activity, they should assess the activity's efficiency.

It is worth determining whether an organisation or customer requirement is causing the activity's frequency. If the high cost activity is triggered by the company itself, a more efficient policy might be in order. If the high frequency of the activity is triggered by the customer, it is important to understand the reasons. In the case of high cost per activity, investigate the process for non-value-added tasks. The best way to do this is to flowchart the process, as mentioned earlier. This should be done by identifying every step in the activity and who is responsible for which task, how long it takes, how the activity is processed and what function each step performs. After flowcharting the process, any critical performance variable should be quantified, such as cycle time or cost per task. Ohmoe (1983) stated that costs are not merely caused by activities required by customers, as shown in Figure 2.04 (see annexure) and Figure 2.07, (see annexure); rather, thorough investigation of the entire value chain is crucial to identify cost reduction opportunities.

ABM provides a holistic and integrated system of management; ABC links resource consumption, that is, for example by linking cost to activities and then to products and services. Customer value, on the other hand, relates revenue to customer needs. By capturing cost and customer need information in terms of activities, executives can incorporate cost and customer value trade-offs in decision making. ABM then uses a single criteria to evaluate all alternative decisions – the highest net present value to its shareholders, (Cokins, 1996; Wilson and Chua, 1993), as described in Figure 2.05, (next page). This single objective function ensures that every decision is in agreement with the company's objective – shareholder's wealth and value creation. Figure 2.08 (see annexure) also provides a summary of the key elements that drive both the customer and shareholder value chain through organisational practices to maximise wealth creation. Therefore, ABM integrates the entire business process and the business process has only one single objective, which is to ensure that the management system incorporates all the company's activities, as well as customer needs.

Figure 2.05: ABM Integrates ABC and Customer Value to maximize Shareholder value



Source: Wilson R.M. and Chua W.F. (1993): *Management accounting: Methods and meanings*. London. Chapman & Hall

2.5 The conversion of ABC to ABM

So long as product costing constituted the whole of the ABC agenda, its ontology relied only on the question of its accuracy. The revelation that all costs were really direct, however, opened up a whole new project of organisational control for the advocates of ABC. If the activities identified in the course of implementing the product costing system were real rather than notional bases of allocation, it became thinkable to control staff departments in terms of these same activities. If, in the production-centred world-view which begat ABC, products consume activities, (Hixon, 1995), it made sense to manage staff departments and perhaps the entire organisation, in terms of these activities. Thus, ABM is the management and control of enterprise performance using activity-based information as the primary means of decision support.

It was on the basis of its realist ontology, therefore, that ABC evolved ABM. In the process, the cost-drivers originally devised as a means of allocating indirect costs were pressed into service as non-financial performance indicators for staff departments, (Aird, 1996; Clarke 1994; Clarke and Bellis-Jones, 1996; Cooper et al., 1992; Hobdy et al., 1994; Lindahl, 1997; Morrow and Hazell, 1992). Although the intellectual and political origins of ABC were very different from those of 'accountable management' in public sector services, (Humphrey et al., 1993), its basic technology of control is a series of non-financial indicators of performance similar in principle to those currently being promoted in the public sector, (Chua and Preston, 1994; Cochrane, 1993; Ezzamel and Willmott, 1993; Gray and Jenkins, 1993). Both developments, moreover, were propelled by a kind of organisational asceticism, pre-occupied with the elimination of activities which failed to add customer value and with minimising the unit costs of those which did.

The difference in the context, however, is important: where the public demand for services such as education and health is highly elastic, that for staff services within a capitalist enterprise is not. Evidence from companies which have installed ABC systems indicates that the enthusiasm of manufacturing managers has much to do with the prospect of reducing the burden of overhead and little to do with enhancing the quality of service, (Pattison and Gavan, 1994). Where the indices of public service performance allow, in principle at least, for expenditures aimed at increasing the quality of output, the superficially similar indices applied to service departments within private companies function more like expenditure caps. This means that ABM is really nothing more than an updated and partially automated form of cost reduction and control.

The potency of ABM in this respect is considerably amplified when it is mated with value analysis, a procedure animated by the belief that it is possible to make some determination of the value added by particular activities, (Adams, 1996). The basis on which this is done is quite obscure and may have much to do with the prejudices of those making the determination. In one of the case studies by Cooper et al. (1992) only two of the seven activities identified in an Accounts Payable section (40% of staff time) were accepted as representing the actual business of processing accounts. The rest, including the 35% of staff time taken up with process management, were not.

In general, ABC produces, as a by-product, a list of staff activities which is handy for the purpose of value analysis. Since 'low value-added' can mean little else but dispensable, it is fairly obvious that it is primarily a means targeting staff reductions. Given this, it is scarcely surprising that 'value-added' tends to become the oval ball in an organisational scrimmage around the theme of

usefulness. In some of the ABC implementations reported by Cooper et al. (1992) attempts to rank activities according to their value added were described as controversial or painful because everyone had a different definition of what is valuable to them. It was considered surprising that the staff managers in one implementation considered only 4% of their own department's activities to be of low value, (Cooper et al., 1992), an outcome which indicated to the implementation team that steps should be taken to ensure that in future value would be judged from the point of view of the corporation as a whole.

The identification of indirect costs with activities in ABC also exposes their potential for variability in ABM. If the consumption of activities varies, either as a result of market fluctuations or as a consequence of purposive changes in procedure or product redesign, so, also, should the cost of performing them, (Morrow and Connolly, 1991). The unit costs of activities, or rather of their surrogate cost-drivers, become, in effect, standard costs which open up the black box of the staff department, just as Scientific Management and standard costing once broke open the black box of craft production, (Braverman, 1974; Miller and O'Leary, 1987). This new regime of accountability exposes the staff department to precisely the same insecurities and pressures for labour intensification as manufacturing, (Hobdy et al., 1994; Pattison and Gavan, 1994). The destruction of the staff department as an employment shelter is not an unintended consequence of ABM: it is precisely the point and there are signs that those on the receiving end are becoming aware of it. Dugdale (1990) has reported that some ABC implementations have only been allowed to proceed on condition that employment would be preserved.

Despite their formal similarities as monitoring systems, there are important differences between the terms on which ABM proposes to open up the labour process as compared with Scientific Management and standard costing. Where Scientific Management involved a concrete simplification and standardisation of production processes, (Clarke and Bellis-Jones, 1996), ABM offers no positive guide to the revision of working practices. Its standard costs are not those of activities which have actually been redesigned in standardised form. Rather, they are the expression of a belief that staff activities already are, or should be, of this form. Despite attempts to represent ABM as an instrument of quality management, (Armitage and Russell, 1993; Letsa and Gadd, 1994; Thomas and Mackey, 1994), the most it can actually achieve is rescaling of existing activities, not a modification of them.

2.6 The Scope of Activity-Based Management

The potential for ABM to influence the performance of staff functions is proportional to the claims made for its scope. In general, it is the more creative, least routine staff activities, those which least fit its framework of accountability, which are under most threat. It is not inevitable, however, that ABM should be viewed as a comprehensive approach. In the related debates on the scope of ABC, there is a considerable body of opinion which accepts that there are activities which cannot and perhaps should not, be traced to particular cost objects.

The program of the comprehensive view of ABC was set out by Kaplan (1987a): The scope of the product cost system is the entire value chain. All of the costs of the organisation are included in product costs. Johnson (1988) argues: In principle, all activities in an organisation supply output to meet customer's demands. This inclusive view of ABC is operationalised in the interrogation procedure recommended by Innes and Mitchell (1990a): When the work-time of all of the staff is fully accounted for, it is reasonably certain that the activity listing is comprehensive. By 1988, however, it was reconsidered, suggesting that the costs of unused capacity should be excluded on the grounds that these are period expenses and that those of research and development should be treated as an investment in the future of the enterprise as a whole, (Kaplan, 1988). Other arguments against the 'inclusive' view are that there are costs which cannot be identified with particular activities, (Staubus, 1990), that it cannot be meaningful to allocate costs down to product level when they are not controllable at that level, (Sephton and Ward, 1990) and that cost behavior will not be correctly modeled by ABC systems when the cost pools include the fixed costs of maintaining a capability, (Noreen, 1991).

In practice, the difference between these positions is not as extreme as the polarisation of their arguments suggests. Those who believe that ABC ought to form a comprehensive system of cost allocation are quite prepared to make arbitrary allocations of costs which prove difficult to trace to particular objects, (Cokins, 1996). In Innes and Mitchell's (1990a) illustration of the allocation of purchasing costs, for example, the costs of supervision are distributed equally to all activities.

For ABC, the issue of scope may be a minor one in any case, since it concerns only that proportion of indirect costs which is difficult to identify with accessible drivers. From the point of view of cost allocation, it makes little difference whether small proportions of indirect cost are allocated through approximate cost drivers, whether they are recognised as period costs and allocated arbitrarily or whether they are not allocated at all. When the cost drivers of ABC are regarded as performance

indicators, as in ABM, the consequences may be more serious. To the extent that particular cost drivers fail to capture the meaning of staff activity, they create pressures to misdirect that activity and the costs of doing so may be out of all proportion to expenditure involved.

In contrast to the debates on the scope of ABC, few, if any, discussions of ABM have confronted the issue of whether or not there are limits to its applicability. On the contrary, the tendency of management consultants has been to talk up its potential as a comprehensive approach to the management of staff functions at all levels. As Evans and Ashworth (1995) argue, ABM is viewed as a way in which an organisation can direct, measure and control its aim for enhanced performance. This is achieved by the creation and use of an activity-based performance measurement framework as the primary means of resource management, continuous improvement and decision-making.

If this means what it says, the implication is that divisional and corporate-level staff functions, as well as the support services at the level of the operating site, are candidates for the ABM treatment. Kaplan and Norton (2004) describe ABM as a strategic initiative that encompasses actions that increase efficiency, lower costs and enhance asset utilisation. ABM strives to either increase capacity or lower spending, so that fewer physical, human and working capital resources are required to generate organisational products and services. It utilises ABC as the basis component of financial management information that assists the operational control of the business by focusing attention on the key cost drivers and the factors that influence the day-to-day dynamics of the cost base.

The operational aspects of ABM link to ongoing and continuous improvements; therefore, ABM enables managers to get highly visible success from a simple ABC system. Opportunities for transformations, reengineering and continuous process improvement get quickly identified and quantified. Hence, the ABC model as a basis for ABM provides the benefits case for launching the initiatives, by revealing how much is spent each period, as one continues to operate inefficiently. The objective of ABM is to determine the importance and costs of activities within the value chain, giving management the opportunity to focus resources strategically to realise maximum value and continuously improve the effectiveness of costs. Chivaka (2003) argues that the ABC has given rise to ABM, which involves making proactive strategic and operating decisions based on activity information and assessing the value-adding content of the work in business processes, in support

of the two primary viewpoints; namely, the cost (what things cost) and the process views (why things costs).

ABM includes ABC. But most importantly it includes activity targets that monitor productivity, efficiency and effectiveness on an ongoing basis, (Driver, 2001). Costs may be monitored and controlled both through the existing budgetary system and through the cost per unit of activity, to focus on efficiency and effectiveness. Productivity may be monitored in volume and quality terms in parallel to cost analysis based on consistent definition of activities, (Blocher et al., 2002). Activity based analysis therefore forms the basis of ABM, as described above.

Cokins (1998) refers to ABC as strategic cost information and ABM as tactical and operational actions planned or taken based on the activity based data. Considering activity based costing management (ABC/M) as the combination of ABC and ABM for organisations that strive to do both, Cokins (1998) suggests, firstly, pursuing strategic cost reporting and analysis using enterprise-wide ABC and then immediately using the result to assess operating efficiency and effectiveness. The next step would then be to start with the same information and findings from the ABC, drilling deeper into more operational cost management issues and applying ABM. The latter, however, requires fundamental disaggregated activity data and will involve reporting on more intermediate outputs of work relative to the initial and higher level of the ABC model. The application of ABM requires asking fundamental questions of the data through fact-finding or root-cause analysis to produce profitable decisions.

Kaplan and Norton (2004) argue that many competitive advantages are gained by performing activities at a lower possible cost than competitors, or by providing a differentiated service or products for which customers are prepared to pay through the value for money belief system. Some companies are now attempting to make their managers accountable for income, costs and profitability. Historically, the level of management information, particularly in the financial sector, has been limited. Traditionally, managers have concentrated on the external information provided to the shareholders and regulators. Internal information has been limited to conventional budgetary control by cost centres with full allocation of overhead costs, while measures of performance have focussed on sales volumes and maintaining costs at budgetary levels.

According to Drucker (1963) and Dunk (1998), managers are now looking for guidance on where to concentrate their limited resources because of the emphasis of being shifted away from volumetric

sales targets towards profit-related goals. This accountability of profitability has resulted in the need to identify controllable costs and the factors that cause costs to be incurred, as well as the need to identify profitable products and customer relationships. Managers should concentrate their attention on the costs drivers that they can manage and start linking the cost and benefit analysis to the value chain. This would therefore enable them to focus on management activities that add value and enhance differentiation on products and services, to ultimately deliver a long-term sustainable competitive advantage. Hoque and James (2000) stated that ABM consists of performing activities more efficiently, eliminating activities that do not add value for customers, improving deliveries of services and developing better relationships with customers and suppliers. The goal of ABM is to satisfy customer needs while making fewer demands on organisational resources.

ABM can be divided into three levels; namely, activity analysis, activity cost analysis and ABC, (Hoque and James, 2000). Activity analysis is the initial level while ABC is the final and most refined one. ABC subsumes activity cost analysis and activity analysis and activity analysis is a prerequisite to performing an activity cost analysis. According to Innes, et al. (2000), activity analysis consists of identifying the activities and procedures carried out to convert materials, labour and other resources into outputs. ABM also assesses the removal, replacement or reduction of activities that do not contribute to value creation. ABM is considered as a multilevel innovation. Innovation is defined as the adoption of an idea or behaviour that is new to the organisation adopting it, (Kaplan and Norton, 2004).

Research done by Armstrong (2003) indicated that ABM can help to reduce a company's overall cost structure by as much as 3%-5%. An enhanced focus on higher margin and growth products and the pursuits of better markets can translate to a 5%-15% increase in revenue. Previous research done on ABC/M revealed that its implementation can help support cost effective product and process improvement, (Shaw and Freeman, 1998) and how it can provide managers with an integrative framework to manage organisational activities. However, this can only be achieved through effective availability, collection and reporting of cost information, which is dependant on the capabilities of information systems as explained below.

2.7 Data Collection Management Systems

The key requirement for all information in ABC, (Cokins, 1996; Maberley, 1996; Hussain and Kock, 1994; Sephton and Ward, 1990; Channon, 1986), is that it must be available at the lowest level at which reporting is to occur. Whether ABC is to be used for strategic cost management, product or

customer cost and profitability analysis or operational cost management, the cost and usage of data must be originally captured or be allocated to the lowest level of analysis required, being the activity, (Armitage and Russell, 1993; Beaujon and Vinod, 1990; Crane and Meyer, 1993).

The primary source of data required for ABC and profitability reporting is likely to include the general ledger system, the cost accounting systems and budgeting and forecasting systems, (Cokins, 1996; Mabblerley, 1996). However, it is unlikely that all the data requirements will be able to be met by these systems. The transaction processing systems, accounting application such as payrolls and fixed assets, customer information files and, to a lesser extent, the administration systems, risk management systems and trading systems may also provide information that relates to more detailed analysis of usage and direct operating income and balances by product and customer.

2.7.1 Information Characteristics

The characteristics of the data that are required within an ABC system do not simply relate to the basic components of cost, income, balance and usage data necessary to calculate the activity-based costs, but will also include the way in which information is summarised and reported, (Soteriou and Senios, 1999; Mabblerley, 1996; Brimson, 1991). These characteristics include the definitions of profitability used (controllable profits, marginal profits, fully absorbed profits), the components of income included, the components of cost and definitions to be used, the comparative data used (historical data, budgets, forecasts, competitors), the definitions of ratios used and the specifications of items included in sub-totals and totals.

As Innes et al. (1992), Mabblerley (1996), Channon (1986), Bollenbacher (1993) and Berger et al. (1993) have all argued that the data must be financial or statistical. Financial data includes both income and expense on interests, premiums, fees and commissions, trading, investments, claims and operating expense and asset and liability balances, as detailed in the previous sections, (Bromwich, 1990). Statistical information may include volume and quantitative data by cost driver, and usage data by product and customer, (Wisniewski, 2002). It may also include staff numbers, occupancy details and other operational statistics to assist in the basic ABC calculation. Whether data is financial or statistical, it may be reported as historical data actual or as projected data. Projected data is sometimes classified as budget, forecasts, and outlook or plan data. Budget data is generally set for a fixed future period of time; forecast or outlook data tends to be dynamic and

may be constantly revised to reflect what has taken place as well as the latest prediction for the future. Plan data in the current year should remain fixed.

2.7.2 Sources of Information

The primary sources of information required for ABC and profitability reporting are the general ledger, cost accounting, budgeting and forecasting and numerous products and special application systems. Many researchers and commentators, (Armitage and Russell, 1993; Beaujon and Vinod, 1990; Bromwich, 1990; Drury, 2000; Hussain and Kock, 1994; Divanna, 2004; Maberley, 1996; Hunter, 1997; McLanghlin et al., 1994; Sephton and Ward, 1990; Sinkey, 2000; Ostivelli and Toscano, 1994; Richardson, 1976; O'Guin, 1990; Miller and O'Leary, 1987; Innes et al., 1992; Hicks, 1992) argued that the application systems may include variable transaction processing, accounting systems and other executive sources of information and the details of these sources are as follows.

2.7.2.1 Financial Accounting

The capturing of income, expense and balances information is the function of all general ledgers. This same information is the primary component of all cost and profitability measurement and reporting, but additional components are necessary to allow the analysis to be performed.

2.7.2.2 Transaction Processing

These systems include deposits, loan, trading, investment management, claim, benefit payment, collection, investment trading and policy management systems as well as numerous external transactions and various internal transactions, (Hunter, 1997; Maberley, 1996); Berger et al., 1993). Financial information generally interfaces from the systems with the general ledger and, when the level of data carried in the general ledger is not sufficient for cost and profitability reporting, transaction processing systems must be accessed. The types of information normally extracted from these systems may include rates, average balances, income, waived and discounted fees and commissions, product volumes and customer activity levels. Some organisations may use work measurement techniques to provide detailed costing, which may then be extended to produce activity-based costs for each product. Revenue data is usually available in most detail from the transaction processing systems; however, this level of detail is generally useless if such revenues cannot be allocated as accurately to the respective centres. Product volumes are not usually included in the financial database unless it also generates sales or productivity data. This information can be collected by using transaction processing systems.

2.7.2.3 Accounting Applications

These systems include the payroll and fixed assets systems, (Divanna, 2004; Maberley, 1996; Hussain and Kock, 1994), accounts payable, accounts receivable and risk management. They represent the initial capture and processing point for various internal transactions not normally related to financial services activity. Financial data generally interfaces from these systems with the general ledger and, when the level of data carried in the general ledger is not sufficient for cost and profitability reporting, accounting application themes must be accessed, (Bollenbacher, 1993). The types of data extracted from these systems may include payroll expenses by responsibility centres, staff numbers and availability, allocation of fixed assets and direct expenditures relating to products and customers.

Berger et al. (1993) mentioned that the core accounting system should include transaction records, which allow income to be captured or analysed by product. Without such a system, the identification of income by product can only be achieved by capturing income from the operational systems and feeding this data into the ABC system. When this cannot be achieved, information can be obtained by means of statistical sampling through statistical techniques. The information produced by these techniques is likely to be concentrated on the major products and services.

2.7.2.4 Management reporting

It is important to ensure that all reporting characteristics have been considered, (Richardson, 1976; Maberley, 1996). These would generally include considering the following: the level of reporting provided, the level of detail used for reporting, the degree to which sustaining costs are allocated to direct activity costs for reporting purposes, the definitions of reporting units used, the users of the reports, the frequency of reporting, the acceptable let time to produce the reports after close of business for data collection, the activity and cost driver definitions, the need for summary reports, any multi-currency reporting requirements, integrity of actual data, the report formats (the maximum number of columns of numerical information shown on a report) and, finally, the reporting media used whether paper, on-line reporting and so on, (Crane and Meyer, 1993; Storbacka, 1994).

The users of ABC information should feel that the integrity of the reports is acceptable and should be able to reconcile the figures to the financial results. The reports may require balancing the need for accurate production with the requirements for timely information early enough after close of business. It may be more preferable to produce less accurate but adequate information in a prompt manner than completely accurate information, but too late to be useful. It is important that the

revenue, costs and balances reported reflect the same level of activity, in terms of the timing of cost and income flows. Income, for instance, may be received on a quarterly or semi-annual basis, while costs are incurred on a regular basis. If data is reported quarterly, any fees or commission charged less frequently should be included as accrued or notional figures in the reports, Berger et al. (1993).

2.7.2.5 Systems Modules

The ABC system should include a number of features, (Drury, 2000; Mabberley, 1996). These features are of two basic categories: cost accounting features relating to the ABC requirements and profitability measurement, and reporting features that add the income, balance and usage information to the activity-based cost analysis. According to Brignall (1997) and Dugdale (1990), while the requirements for a particular organisation would be specific to its own rules, it is possible to consider the basic function modules of cost and profitability reporting systems.

As there is an increasing need for more sophisticated features, (Mabberley, 1996), the possibility that all of the capabilities will be found in a general ledger decreases. The options at point include either developing separate modules to accomplish the special processing for products and customers not possible within the general ledger while continuing to use the general ledger for basic profitability reporting, or developing a separate profitability reporting system that not only performs some of the special processing but is the primary reporting technique or tool relegating the general ledger to the role of one of the principal information sources. The modules - cost accountings, funds transfer pricing systems, products analysis, comparative data systems, customer analysis and flexible reporting systems - required to enhance or amend a general ledger system will increase with the complexity of the required reporting.

2.8 Activity-Based Information

Schematically, an activity-based perspective means that an organisation is viewed as a system consisting of activities. Costs arise owing to activities resource requirements, (Brimson, 1991). Formal definitions of the term activity are rare in the literature, but the notion has been explored and used by several researchers, (Harrington, 1991).

Porter (1985) discusses activities from a strategic point of view, not primarily with cost measurement purposes. He introduces the value chain as a basic tool for a systematic examination of all activities a firm performs. The value chain highlights strategically relevant activities in order to understand the behaviour of costs and to identify sources of competitive advantages. When

defining the value chain, Porter (1985) argues that any firm can be broken down into nine generic categories of activities, divided into primary and support activities. Each generic category of activities can be divided into discrete activities. How each activity is performed and combined with its economics, will determine whether a firm's cost is high or low relative to its competitors. Activities are identified as strategic and determining the value of activities is a process to identify a competitive advantage.

The activity analysis advocated by Porter (2004) is thus a cost analysis in a perspective relative to competitors. Another activity perspective, similar to Porter's (1985), is Harrington's (1991) who discusses activities in the context of performing process analysis for business process improvement, the key activities required to manage and run an organisation. A business process can be partitioned into sub-processes that constitute logically related activities that contribute to the mission of the business process. Performing a process analysis corresponds to identifying what activities are included in a business process.

Harrington (1991) terms the analysis process mapping which means that a cost and time analysis is performed for the included activities. Activities should be expressed so that they are measurable with respect to cycle time and cost. The focus is however the process, not the activities as such. The objective of Harrington's (1991) activity analysis is to improve business processes.

Brimson (1991) defines an activity as a combination of people, technology, raw materials, methods and environment that produces a given product or service. An activity describes the way a firm employs its time and resources to achieve corporate objectives. Activities should be expressed through a verb and a noun: receive orders, inspect material, and handle good and so on. The activity analysis is, according to Brimson (1991), the process of analysing time-use in order to determine activities' cost and performance. This means that the resources' current assignment to activities is determined, i.e. costs are assigned to activities as they actually exist at a point in time – not as they should or could be. Brimson (1991) uses the term activity mainly in connection with activity accounting and cost management. But cost management includes the use of activity information to guide formulation of strategic plans and operational decisions and to identify improvement opportunities, thus making it similar to Harrington's (1991) perspective.

These activity-based approaches differ mainly with respect to the perspectives used and the objectives of the analysis. Where Porter (1985) discusses activities from a strategic perspective and

Harrington (1991) as a tool to streamline business processes, Brimson (1991) is oriented towards costing and cost management purposes and seeks to determine how the organisation works at present, i.e. the current state. Due to these slightly different perspectives and objectives, the way activities are identified and described also differs. A strategic objective of the analysis means that the analysis aims at determining what activities are needed in order to fulfil the firm's objective in the most competitive way. A streamlining and cost management objective corresponds to a more operational perspective; and the analysis focuses on how activities are performed and why they occur and consume resources in the manner they do.

2.8.1 Activity Information

The cost assignment view in Figure 2.06, (see annexure), corresponds to the ABC method for assigning costs to cost objects, whereas the process view is a management perspective where analyses of activities, their cost driver and activity triggers are central, related to the ABM concept approach. The activity perspectives discussed by Porter (1985) and Harrington (1991) fit the process view well. The cost assignment view corresponds to the activity perspective that seeks to determine how the organisation works at present. The two views represent two different approaches to activity analysis that in part demand different types of activity information.

The model outlined in Figure 2.06, forms the basis for describing the most relevant concepts:

- Resources are economic elements that are used in the performance of activities. Resources can either be factors that are consumed by activities during the transformation of input to output (materials, energy, etc.) or factors that perform the activity (personnel, machinery or automated processes).
- Resource drivers are factors that are used for allocating portions of resources to activities. If a direct proportional relationship between a resource and an activity cannot be determined even by means of a defined resource driver, the resource should, as a rule of thumb, be assigned to activities in proportion to the organisational unit's primary factor of production, (Brimson, 1991). For an indirect unit this factor is often time and for a direct unit it is often machine hours.
- Resource cost assignment is the process by which costs are assigned to activities. The costs for the performing resource factors are usually directly traceable, while the costs for the consumed factors are assigned to activities on the basis of resource drivers. Costs of resources can either be treated as costs for resources supplied or as costs for resources used, (Cooper and Kaplan, 1992). In a theoretical sense, an ABC system considers only the

costs for resources used. But when assigning costs for resources to activities, data from existing financial systems is often used, which leads to activity costs that are based on costs for supplied resources, not costs for the actual usage of resources, (Cooper, 1991; Cokins, 1996).

- Activity drivers are factors that are used for assigning the costs of activities to the chosen cost objects.
- Activity cost assignment is a process analogous to the resource cost assignment by which activity costs are assigned to the cost objects. Cost objects can be products, services, customers, suppliers, markets, etc. If the cost object is a product, the costs that are assigned to a cost object may be subdivided into activity costs and costs for other resources; as discussed below, all costs are not possible, or necessary, to express as activity costs. The activity cost was defined earlier as the cost of all resources used and measured as cost per output (of the activity).
- A cost driver is the underlying cause of the cost of an activity, i.e. a determinant factor of the work required for performing an activity. An activity may have several cost drivers associated with it. Cost drivers are, however, very often used as a common term for activity and resource drivers, (Cooper, 1988). Exhibit 2.01, (see annexure), stipulates a number of considerable strategic cost drivers within a financial institution.
- An activity trigger is a signal that initiates an activity, e.g. a customer order or a delivery note.
- Performance measures in the context of activity-based approaches are indicators of the work performed in an activity, i.e. related to the outcome of the activities.

2.8.2 Using Activity Information

The activity information needed for costing purposes thus corresponds to the questions posed by Cokins (1996), Brimson (1991), Harrington (1991) and Cooper (1988): What activities take place in an organisation? What resources do they consume and thereby what are their costs? The cost information provided by activity-based cost calculations on products can form a basis for judgements of profitability on which many critical decisions are based. Such decisions include pricing strategies, product range decisions, whether products or components should be outsourced or manufactured in-house, etc. Preliminary activity-based calculations can be made also for products not yet in production, i.e. form a basis for product design decisions. Cost calculation made for cost objects other than products, such as customers, markets, or investment situations, may likewise improve these decision situations. The benefits of using activity information for costing

purposes are mainly referred to as cost adaptation. Activity-based cost calculations present only an alternative cost configuration on which, in part, decisions of necessary actions can be based. The managerial actions are more or less actions that take into account the new, improved map of the cost landscape. The processes of re-pricing strategies and product range decisions aims at adapting price levels as well as allocating manufacturing effort to the existing cost structure. Cost adaptation thus refers to adaptation to costs, not adaptation of costs.

The activity-based approach to reduce resource consumption helps to detect the redundant resources. By revealing the links between activities and their resource consumption, a clear cost picture emerges which enables insightful choices on where to put focus for improvement efforts, a good starting point for actions in order to change the mix of activities. However, actions taken to reduce activities' resource consumption represent only the first step towards cost reduction. To get rid of costs it is necessary to also manage them out of the firm. This means either to get rid of the free-up resources or to redeploy them for other value activities. In line with Porter's (1985) reasoning, it is useful to try to classify the activities into primary (fundamental activities) and supportive (sustaining activities). This distinction, together with an assessment of interdependencies between activities, facilitates the search for root causes of the activities, i.e. the underlying cause of activities' cost pattern.

From a strategic point of view, activities can be identified as value activities and those necessary to fulfil the firm's objective. Such strategic considerations may lead to organisational changes so that the firm's resources are organised to match the necessary activities. This approach demands an unbiased analysis of activities, not taking present activities and their resource consumption as a starting point. The identification of activity triggers, in the sense of why activities are needed, is important here. Additionally, a waste analysis must be performed for the identified value activities. In an activity perspective, such an analysis must emphasize why the activities occur; that is, focus on the activity triggers. It is necessary to search for the constraints that cause variation in activity volume and lead time, excess resources, activity delays, etc.

In summary, streamlining of processes means elimination of non-value activities, improvement of the performance of value activities, either through focusing of activity cycle time so that fewer resources are consumed, or that the activity results in larger output, or through internal comparisons of activities' resource consumption which enables continuous improvement. This

elimination of non-value added activities generally entails the process of reducing the purpose of individual activities as highlighted in the next section.

2.9 The Reduction of Purpose to Activity

The methods by which the activity outputs of staff services are established may appear, at first sight, to be both reasonable and participative. This usually entails a procedure which begins with an interview with the manager concerned, (Cooper et al., 1992; Innes and Mitchell, 1990a). Multi-disciplinary teams, which include but are not necessarily dominated by management accountants, ask managers to list the activities which they perform for products and processes, to estimate the proportion of staff time and other resources expended on each activity and to agree to a cost-driver which will stand for a unit performance of it. Interviews of this kind are said to be both quick and cheap, taking between thirty minutes and two hours per manager, (Cooper et al., 1992).

In reality, participation on these terms invites staff managers to collude in a very particular view of their own functions. As a method of cost allocation, ABC can only work by reducing the work of staff departments to a set of separable activities – separable because each must have an identifiable cost. When such a view is carried forward into ABM, the staff department is seen as the producer of repeated acts of service, usually for production, each of which gives off a countable signal as, for example, the ordering of material is signified by a form. Such an itemised view of the staff function is virtually guaranteed to miss the point. It completely ignores the question of whether there ought to be some larger purpose behind the activities and whether it might be more appropriate to hold the department accountable in terms of this purpose. As has already been recognised within the literature of ABC, one effect of this substitution of activity for purpose is to encourage gaming behavior or goal-displacement, (Merton, 1940). Enmeshed in performance monitoring systems which prioritise the ratio of activity outputs to cost, managers find ways of doing their bit which have nothing at all to do with either efficiency or effectiveness. Innes and Mitchell (1990a) give the example of splitting purchases into smaller batches so as to increase the number of purchase orders 'produced'.

However reasonable it may appear to the productivist mind-set, not all of staff activity can be reduced to routine services performed for other functions. By threatening to reduce expenditure to levels which can be justified in such terms, ABM threatens to deny space for developmental activities indigenous to the staff department. To cite concrete cases, the concepts of policy and strategy as applied to human resource management and purchasing will, according to their

advocates, create company capabilities, exactly as research and development (RandD) creates the potential for new products, (Saunders, 1997; Tyson, 1985). Kaplan (1988) also exempted RandD expenses from allocation on the grounds that it is an investment in future products, not a cost of present products. The same argument could equally apply to the recruitment and training of effective personnel, or to the development of the supply chain. The problem with ABM is that it is programmed to deny and annihilate anything which is not on its list of routine activities, whether it is of genuine value or not.

The irony is that the diffusion of ABC/ABM appears to be hampered by exactly the mentality which it seeks to operationalise in the form of accounting controls. Line and senior managers tend to regard accounting as a service providing routine (and not very useful) information to other functions, (Lyne and Friedman, 1996). As a consequence, accounting departments were run down during the 1980s, so that a major obstacle to the development of improved costing systems is now the lack of staff time, (Innes et al., 1992). Would there, one wonders, be staff time in an accounting department which was itself subjected to ABM?

Despite its potential for de-manning, ABM's fixation on activities, paradoxically, threatens to fetishise existing routines. Providing staff managers succeed in establishing activities as valid during the interview phase and in shepherding them through the cull of value analysis, these activities, or rather their cost-drivers, are likely to become fossilised within the activity monitoring system, especially when this is written into software. It is all very well for management consultants to argue that ABM should describe, regularly and in detail, what the organisation does, (Evans and Ashworth, 1995), but one of the problems with ABM is that it is expensive in staff time to install, (Innes et al., 1992). By the same token, it will be expensive to update. The consequence may be an ankylosis of the organisation's existing bureaucratic and technical procedures in which the apparent concreteness of 'products consume activities' conceals the fact that they do so as a consequence of managerial decisions, such as the maintenance routines or purchasing procedures. The incorporation of these decisions into a system of activity-based management actively discourages reviewing them. Whilst ABM facilitates the management of activities, in the sense of exerting pressure on the resources devoted to them, it discourages activity management in the sense of searching for better ways of accomplishing their purpose. In any case, such a search would again create costs which would be difficult to justify within the ABM framework.

If the foregoing is true, some show of resistance from staff subjected to the ABM frame of reference would be expected. Reports of the staff view of things, it has to be said, are not a frequent feature of implementation case studies. Many of these lack ethnographic detail and they tend, in any case, to be written up by consultants or an implementation team, chosen for their prior commitment to the ABM project, (Bhimani and Pigott, 1992). Generally the voices of the subjects are suppressed. It is well established, however, that successful implementation of ABC/ABM depends on the prior commitment of senior management, (Shields, 1995), accompanied by a fair amount of pressure. Argyris and Kaplan (1994) categorised this as an intense program of education and training, accompanied by the linkages of bonuses to the new performance measurement system. This expenditure of effort on re-education can only mean that passive resistance on the part of some of those affected is the norm rather than the exception. There are, in addition, some direct reports of failures of enthusiasm. This is variously attributed to the implications for staffing levels, (Pattison and Gavan, 1994), adverse effects on incentive payments or the embarrassment and threat experienced by managers whose products or practices are newly revealed as unprofitable, (Argyris and Kaplan, 1994). Occasionally resistance to ABM is stripped of its rationality altogether and dropped into a conceptual black hole marked resistance to change, (Cooper et al., 1992).

The case study done by Cooper et al. (1992) revealed that in the office environment it is difficult to quantify tasks that are less repetitive and that less data is collected than on the typical shop-floor of a manufacturer. It could be that the main evidence of staff resistance to the conceptual framework imposed upon staff activities is indirect. Cokins (1996); for example, reports the failure of an ABC implementation in a high-technology company, due to a preponderance of costs which could not be traced to products. It needs to be remembered that there is an irreducible social element in the construction of ABM systems and 'could not' in this case is likely to express the outcome of a negotiation between the implementation team and the staff managers concerned.

According to Innes et al. (1992) it is common to find that the initial list of activities obtained from staff managers is too extensive to fit into a feasible system, whilst Pattison and Gavan (1994) report that there have been failures of implementation due to an over-proliferation of activities and cost drivers. Whilst this over-proliferation could be exactly what it appears – variety in repetitive acts of service – it could also be symptomatic of an attempt on the part of staff managers to insist on the organic complexity of their tasks within a frame of reference which maintains that these are made up of discrete acts of service. Where there is resistance of this kind, the typical implementation may involve the negotiation of a compromise around the notion of approximation. To the implementation

team, the final list of activities and their cost drivers is approximate because it is abbreviated. To staff managers it could be approximate in the sense that much of the meaning of their work has escaped the model altogether.

2.10 ABC/M's Implementation challenges

This section highlights the challenges encountered in the implementation of ABC/M and also deals with the factors affecting the extent of adoption of ABC/M as well as its failure and success.

2.10.1 Strategic business unit size

Several studies have supported a link between size and the adoption of modern managerial accounting practices such as ABC/M, (Drury and Tayles, 1994; Moores and Chenhall, 1994; Innes and Mitchell, 1995; Bjornenak, 1997; Langfield-Smith et al., 1998). The arguments for this link include: (i) the demand for activity management information for planning, control and coordination of activities is greater in large organisations, (ii) larger organisations are more able to commit resources to the development and implementation of activity management practices and (iii) the more resources are available to activity management practices, the better those practices are likely to be and the higher their perceived benefits, (Moores and Chenhall, 1994).

Management accounting research done by Innes et al. (2000) revealed significant progress in the successful implementation of ABC/M. The overall empirical evidence indicated that several benefits were derived by using this management technique. Innes et al. (2000) provided evidence in that 80% of the organisations studied successfully applied ABC for product/service pricing purposes, while 90% applied ABC to drive cost reduction purposes. Of the studied organisations, using ABC, 55% used it for budgeting, 51% for customer and profitability analysis, 74% to drive performance measurement and process improvements, 42% for new product development and 52% to drive output decision-making. These successful results were generally possible due to the leadership commitment, the establishment of strategic direction, availability of resources, effective change management capabilities and processes, structured project team and so on.

2.10.2 Decision usefulness of cost information

In factory case studies done by Malmi (1997), there was a significant focus on resistance to a new cost accounting system as a source of ABC failure. The focus was on contextual issues behind the resistance, as it seemed that the explanation for the non-use and abandonment of ABC was to be found neither in the content of the new system, as both the group and unit management

investigated believed in the results obtained, nor in the process of implementation, as the system was designed and built by the local middle-management. Malmi (1997) attempted to illustrate the diverse origins of resistance. The factory management had economic reasons to resist the new system because it did not help them to run the day-to-day operations of the factory and because they were able to derive basically the same information from other sources. Furthermore, the diagnostic control system already in use provided incentives, not for maintaining the new system for the benefit of the group management, but for abandoning it.

Prior literature has suggested two ways in which the decision usefulness of cost information affects the extent of adoption of ABC/M practices. Firstly, SBU with a high potential for cost distortions may adopt ABC/M to a greater extent in order to overcome such distortions, (Krumwiede, 1997). The potential for cost distortions is reflected in the level of product and/or process diversity and the level of overhead cost relative to total cost, (Cooper, 1988; Warwick et al., 1997). SBUs with more diverse products and processes require more overhead cost allocations and are therefore more likely to have distortions in the determination of product costs. Additionally, the impact of cost distortions will be greater in SBUs with a higher proportion of overhead costs. The level of overhead relative to total costs has frequently been cited as the major factor influencing organisations to adopt ABM, (Johnson and Kaplan, 1987; Cooper, 1988; Innes and Mitchell, 1994).

Secondly, SBUs are only expected to adopt ABC/M if it will generate information that will be used in decision-making. Noreen (1991) argues that while SBUs may have the potential for cost distortions, the information provided by the new system must be relevant for decision making. Krumwiede (1998) similarly notes that even if ABC will reduce cost distortions substantially, it probably will not be implemented unless a company can use the better cost in its decision making.

2.10.3 Strategic business unit cultures

Although there are numerous definitions of organisational culture, most have commonality with Gordon and DiTomaso's (1992) pattern of shared and stable beliefs and values that are developed within an SBU over time. While some approaches to SBU culture conceptualise it in aggregate, holistic terms for a particular organisational SBU, (Trompenaar, 1994), most approaches to and research on, SBU culture conceptualise and operationalise it in terms of sub-dimensions, (O'Reilly et al., 1991; Hofstede et al., 1990). These dimensions may subsequently aggregate to form a particular shared pattern for any particular SBU, but not necessarily in the classificatory patterns suggested by Trompenaars (1994). The focus is on identifying factors that may be associated with

adoption of ABC/M practices across the SBUs, adopting the approach of examining specific dimensions of culture for the potential of those dimensions to separately affect the extent of adoption.

The three dimensions that related to the SBU culture are analysed; namely, innovation, outcome orientation and tight versus loose control. The first two are drawn from the O'Reilly et al. (1991) Organisational Culture Profile (OCP) and the third from the Hofstede et al. (1990) practices-based measures of organisational culture. Innovation represents the SBUs receptivity and adaptability to change and its willingness to experiment, O'Reilly et al. (1991). This dimension is likely to be associated with adoption of ABC/M, given that resistance to innovative change represents one of the most profound sources of potential adoption and implementation problems for new management accounting techniques and systems such as ABC, (Parker, 1997). SBUs with more innovative cultures will therefore, be more likely to experiment with new practices, such as ABC/M, than units with less innovative cultures.

It is therefore clear that the second cultural dimension, outcome orientation, refers to the extent to which SBUs emphasize action and results, have high expectations for performance and are competitive, (O'Reilly et al., 1991). SBUs with an outcome orientation culture are likely to be attracted to practices, such as ABC/M, that claim to facilitate improvements in processes and enhance performance and competitiveness. The third dimension, tight or loose control, relates to the emphasis on control of activities and costs. Hofstede (1998) described units that have a tight control culture as being extremely cost conscious. Tight control is also seen as involving extensive and continuous flows of information and an extremely detailed planning, budgeting and reporting system, (Merchant and Van der Stede, 2003). These characteristics suggest that SBUs with tight control cultures are more likely to adopt ABM practices than those with loose control cultures.

In Malmi's (1997) case, for instance, the factory management seemed also to have political concerns. The new system might have changed the way transfer pricing was conducted in the company with new rules, routines and processes, possibly leading to a shift of power from the factory to the buying sub-units. By creating new visibility, the ABC system would also have increased the factory management's accountability, providing group management with new possibilities to exert direct control over the axle factory resources. The dominant culture of the factory studied was argued to be that of the engineers, with accounting playing only a minor role in the unit management. Therefore, the new ABC system was not in consonance with the local

culture. During the implementation phase, routines, firm-level institutions and organisation culture were suggested as worthy of consideration in explaining resistance to ABC and ABC failure.

Malmi (1997) showed that the conception of a single ABC project's success may depend on stakeholders, even without allowing for political sentiments. The group management used ABC successfully for their strategic purpose, whereas the local management was comfortable with the informal estimates and did not regard ABC as valuable for their day-to-day management of the factory. Consequently, for the local management, the ABC system was a failure. The need to appreciate the role of various organisational stakeholders in ABC implementation was further elaborated in explaining the political motives of the axle factory management in resisting the new system.

The new cost accounting system was not regarded as valuable by the unit management because there were competing ways of obtaining the same information; namely, the informal cost estimates. On the other hand, the new ABC system could be seen to complement the existing diagnostic system used to control sub-unit operations. Understanding the incentives which the existing systems create and the threats which the new system poses to the current distribution of power (through, for example, changes in transfer pricing, which is a part of the existing control arrangements) may help to clarify some of the motives for resisting new accounting systems and change.

Markus and Pfeffer (1983) emphasised that the reason for the resistance and abandonment of a new accounting system may lie in its non-consonance with dimensions of organisational power and the organisation paradigm. The evidence from Malmi's (1997) case seems to support their arguments. But, as a number of ABC projects have complemented existing systems, not replaced them, Malmi (1997) contends that a better understanding of resistance to ABC implementation may require specific attention to the consonance of the new system to the existing formal and informal accounting and control systems.

2.11 Criticisms and limitation of ABC

The implementation of advanced management accounting techniques such as ABC does not come without criticisms or shortfalls. Although it is not always obvious from practitioner expositions, the ABC project of opening up staff activity to senior management control depends on a fundamental re-conceptualization of the nature of indirect costs. The original objective was to correct the

distortions of single-based absorption costing, and it was on the promise of a gain in accuracy that ABC gained its initial credibility in managerial practice. The process of indirect costs was somehow perceived to be an illusion, caused by the complexity of the activities which were connected to products and services.

A number of researchers argued that both developments; (i) the initial adoption of ABC and (ii) the possibility of its extension into a means of controlling staff labour, depended on a re-thinking of indirect costs. The context in which this first occurred albeit implicitly; was the consistent claim that ABC is more accurate than absorption costing, (Cooper, 1990b; Roehm *et al.* 1992; Cooper *et al.* 1992; Banker and Johnston, 1993; Babad and Balachandran, 1993; Borjesson, 1994; Datar and Gupta, 1994).

However, the more one reflects upon these claims, the stranger they appear. If the definition of indirect costs is analysed clinically, as those which cannot be traced directly to cost objects, Wilson and Chua (1993) – in what sense can one method of allocation be more accurate than another? If correct costs allocations cannot exist, even in principle, there can be no standard by which accuracy can be judged. Typically, the response of the activity costers is that of busy people who have no time for such conceptual niceties: they produce sample calculations which demonstrate the greater accuracy of ABC simply by showing that single-base absorption costing gives different result, (Malmi, 1997; Innes and Mitchell, 1990a; and Kaplan, 1987a). This simple-minded tactic appears to convince its protagonist points towards a fundamentalist mindset within which the relative merits of ABC and absorption costing are not really a matter for argumentation.

Underlying the controversies over the supposed accuracy of ABC, there are uncertainties about the ontological status of allocated costs which fail to be articulated within the language of cost accounting practice. Malmi (1997) took the ontological starting point of cost accounting to be one in which direct costs are real, in the sense that they are external to cost accounting as a practice. That is, their calculation and their association with particular cost objects do not depend on the particular approach to costing which is adopted. The question then arises of whether or not allocated indirect costs are realistic and accurate.

Based on the definition of indirect costs quoted above, one would contest that their allocations could never be realistic. Due to the fact that they vary according to the allocation base, the resulting

allocated costs are subject to individual judgment constrained by professional convention, which would lead to claims for activity costs of greater or lesser accuracy.

Malmi (1997) indicated that the problem with this position is that ABC claims to be a practical art. Whilst it may be possible to validate cost allocations within a closed universe of accounting convention, this cannot be the case with management decisions based upon them. Considering the statement made by Wilson and Chua (1993); that by definition, indirect costs cannot be traced directly to cost objects which will mean that the resulting full or absorbed cost is inaccurate to an unknown extent; the contradiction lurking within this statement lies in the fact that inaccuracy, even of unknown extent, implies that a true allocation of indirect costs is possible in principle. The same authors' definition of indirect costs, on the other hand, implies that it is not. It follows that the extent of the inaccuracy is unknowable in which case it is not inaccuracy at all, but the recognition that there is a difference between convention and knowledge. Wilson and Chua (1993) were clearly sensitive to this issue, and believed that the real answer is both unknown and unknowable, given the fact that there is no definitive basis for apportioning or absorbing indirect costs; although some bases are better than others, the admission of inaccuracy obscures the practice of cost arbitration.

ABC at least in its core expositions marks a decisive break from its ambiguities. Although the advocates of ABC continue to use the term indirect costs, they seem not to really believe in them. One may argue that they do not always clearly articulate the fact that all costs are, or should be, direct. It may also be debatable that the ABC's best-known slogan: 'Activities cause costs and products consume activities' is nothing more than a working definition of the direct labour costs of production. As such it is at once an assertion of fact and a program of action. If all costs are really direct, the task of relevant cost accounting is to uncover that directness.

Underlying the complexities of empirical situations of the ABC's adoption and implementation, it is believed that there are real relationships to be uncovered between product or process and direct cost. In this regard, ABC proposes to achieve this by identifying the real activities which contribute to the product and by computing the real direct cost of each. The fact that this relationship between product and cost may be complex does not change the fact that it is as a matter of principle calculable. The approximation to accurate costing does not stand for arbitrariness; rather it is a matter of identifying and shortening the list of activities in the interests of computational simplicity and choosing cost drivers, (Malmi, 1997 and Innes and Mitchell, 1990b).

In this manner, indirect costs are re-conceptualised within ABC as the direct costs of real activities. It is this ontological foundation which underpins both the claims of superior accuracy made for ABC and the development of ABM as a means of evaluating and monitoring staff functions. The first question which needs to be asked of the ABC/ABM program is how far it actually succeeds in recasting indirect costs as direct. This is viewed as a question of methodology as well as ontology, which is then addressed in this research.

2.12 Conclusions

The use of ABC/M enables management to distinguish profitable products and customers from non-profitable ones. As such, the management has a tool that helps them to allocate resources to activities that generate profits and, conversely, to make decisions about the unprofitable ones. The management must be aware that ABC/M does not resolve all the problems involved in decision making, because if the management focuses too strictly on ABC/M, it might overlook the fact that other basic analyses are needed. These could range from customer customisation, adaptation and flexibility and enhance economies of scale.

ABC/M is an innovative tool for management to make strategic decisions, formulate plans and maximise efficiencies within the organisation. ABC/M views the business as a set of linked activities that ultimately add value to the customer. It focuses on managing the business on the basis of activities that make up the organisation. The goal of the ABC/M is to enable customer needs to be satisfied while making fewer demands on organisational resources. Besides providing information on what activities are performed, ABM provides information on the cost of activities, the reason for activities and how well they are performed.

ABM provides a holistic and integrated system of management; ABC firstly links resource consumption such as operating cost to the actual activities and secondly to products and services. Customer value, on the other hand, relates revenue to customer needs. By capturing cost and customer need information in the context of activities, executives can incorporate cost and customer value trade-offs in decision making. ABM then uses single criteria to evaluate all alternative decisions – the highest net present value to its shareholders. ABC is the strategic cost information whereas ABM is the tactical and operational actions planned and taken on the basis of activity based data. The view on ABC/M, although it has its own limitations, is the combination of ABC and ABM for organisations that strive to do both strategic cost reporting and analysis using enterprise-wide ABC, is of paramount importance. The latter however requires fundamental

disaggregated activity data and will involve reporting on more intermediate outputs of work relative to the initial and higher level of the ABC model. The application of ABM requires asking fundamental questions of the data through fact-finding or root-cause analysis to produce profitable strategic decision.

The next chapter concentrates on the key elements of both organisational strategy and competitive advantage. It begins with clarity of what strategy is exactly about commencing with various definitions, its development process and its deployment mechanism, including its evaluation. The process of strategic management is also explained in detail in order to create full awareness of its relationship to the organisational strategy, in line with the creation of SCAs and the involvement of strategic change management.

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CHAPTER THREE

3.0 COMPETITIVE STRATEGY

3.1 Introduction

This chapter is concerned with the manner in which organisations formulate their strategies and create Sustainable Competitive Advantages (SCAs). This chapter also deals with the apparent link between competitive strategy and information systems, particularly with reference to management accounting systems, but more specifically with the ABC/M as an advanced management accounting technique.

The fundamental elements of both strategy and competitive advantage are dealt with in this section. It begins with definitions of what strategy is what it needs and then goes into discussions about its development process and its deployment mechanism, including its evaluation. The process of strategic management is also explained in detail in order to create understanding of its relationship to the competitive strategy. The creation of sustainable competitive advantages is also clarified along with the organisational strategic thrusts.

In today's ever changing competitive world, management must recall that regardless of who is involved in formulating the various levels of strategy or how appropriate those strategies are for addressing the market and competitive circumstances faced by the firm, they will not lead to successful outcomes unless they are implemented effectively. Sound implementation requires a clear vision, specific goals and solid support from top management. And the organisation's structure, culture, policies and processes must also be aligned with organisational strategy to enable and encourage employees at all levels to take the actions necessary to make the strategy work.

3.2 Definition of strategy

A competitive strategy is defined as the organisation's basic direction for the future: its purpose, its ambitions, its resources and how it interacts with the world in which it operates, (Burns and Stalker, 1961; Lynch, 2000; Channon, 1986; Aaker, 1998; Atkinson, 1984).

Competitive strategy can be described as an organisation's sense of purpose. Commentators such as Ansoff (1987) and Drucker (1963) clearly refer to this aspect of strategy as mapping out the future directions that need to be adopted against the resources possessed by the organisation.

Purpose alone, however, is not strategy. Plans or actions need to be developed to put the purpose into practice. This sense of purpose and its associated actions can be seen in the following definition of strategy, according to Barwise (1997), Bessanko et al. (1996), who stated that the competitive strategy is the pattern of major objectives, purposes or goals and essential policies or plans for achieving those goals, stated in such way as to define what business the organisation is in or is to be in and the kind of organisation it is or is to be. Strategy can therefore be seen as the linking process between the management of the organisation's internal resources and its external relationships with its customers and suppliers, competitors and the economic and social environment in which it exists.

Although strategy first became a popular business bussword during the 1960s, (Bollenbacher, 1993), it continues to be the subject of widely differing definitions and interpretations. The following definition, however, captures the essence of the term as it is most commonly used: A strategy is a fundamental pattern of present and planned objectives, resource deployments and interaction of an organisation with markets, competitors and other environmental factors, (Ansoft, 1987). As this definition suggests, a good strategy should specify (i) what is to be accomplished, (ii) where on which industries or product-market it will focus and (iii) how – which resources and activities will be allocated to each product market to meet environmental opportunities and threats and to gain a competitive advantage. This involves analysis, planning and decision making on organisational activities in support of strategic management, which is the subject of the next discussions.

3.3 Strategic management

Managing activities internal to the firm are only part of the modern executive's responsibilities, (Simons, 1990; Pearce and Robinson, 2000). The modern executive also must respond to the challenges posed by the firm's immediate and remote external environments. The immediate external environment includes competitors, suppliers, increasing scarcity of resources, government agencies and their ever more numerous regulations and customers whose preferences often shift inexplicably. The remote external environment comprises economic and social conditions, political priorities and technological developments, all of which must be anticipated, monitored, assessed and incorporated into the executive's decision making. However, the executive is often compelled to subordinate the demands of the firm's internal activities and external environment to the multiple and often inconsistent requirements of is stakeholders, (Huber and Power, 1985). To deal effectively with everything that affects the growth and profitability of a firm, executives employ

management processes that they feel will position it optimally in its competitive environment by anticipating their environmental changes and unexpected internal and competitive demands.

Broad scope and large scale management processes became dramatically more sophisticated after World War II, (Penrose, 1995; Porter, 1985). These processes responded to increases in the size and number of competing firms, to the expanded role of governments as a buyer, seller, regulator and competitor in the free enterprise system and to greater business involvement in international trade, (Peter and Waterman, 1982). Perhaps the most significant improvement in management processes came in the 1970s, when long-range planning, new venture management, planning, programming, budgeting and business policy were blended. At the same time, increased emphasis was placed on environmental forecasting and external consideration in formulating and implementing plans. This all encompassing approach is known as strategic management, (Bessanko et al., 1996; Handy, 1999).

3.3.1 Definition of strategic management

Strategic management is defined as the set of decisions and actions that result in the formulation and implementation of plans designed to achieve a company's objectives, (Mintzberg, 1994; Lynch, 2000; Kaplan and Norton, 2004; Goold and Quinn, 1990; Aaker, 1998; Miles and Snow, 1978; Ansoff, 1987; Richardson, 1976; Atrill, 2003; Scherkenbach, 1991). This comprises a number of critical elements; namely, (1) formulating the company's mission, including broad statements about its purpose, philosophy and goals, (2) conducting analysis that reflects the company's internal conditions and capabilities, (3) assessing the company's external environment, including both the competitive and general contextual factors, (4) analysing the company's options by matching its resources with external environment, (5) identifying the most desirable options and evaluating each option in light of the company's mission, (6) selecting a set of long term objectives and grand strategies that will achieve the most desirable options, (7) developing annual objectives and short-term strategies that are compatible with the selected set of long-term objectives and grand strategies, (8) implementing the strategic choices by means of budgeted resource allocations in which the matching of tasks, people, structures, technologies and reward systems is emphasised and (9) evaluating the success of the strategic process as an input for future decision making.

Based on these nine elements and/or tasks, strategic management involves the planning, directing, organising and controlling of an organisation's strategy related decisions and actions. By strategy, managers mean their large scale, future orientated plans for interacting with the competitive

environment to achieve the company's objectives. Hence, a strategy is a company's game plan. Although this plan does not precisely detail all future deployments of people, finances and material, it does however provide a framework for managerial decisions. A strategy reflects an organisation's awareness of how, when and where it should compete, against whom it should compete and for what purposes it should compete.

3.3.2 The strategic management process

Businesses vary in the processes they use to formulate and direct their strategic management activities. Sophisticated planners have developed more detailed processes than less-formal planners of similar size. Small businesses that rely on the strategy formulation skills and limited time of an entrepreneur typically exhibit more basic planning concerns than those of larger firms in their industries, (Mintzberg, 1994; Burns and Stalker, 1961). Understandably, firms with multiple products, markets or technologies tend to use more complex strategic management systems. However, despite differences in detail and the degree of formalisation, the basic components of the models used to analyse strategic management operations are very similar. Because of the similarity among the general models of the strategic management process, it is possible to develop an eclectic model representative of the foremost thought in the strategic management area. This section provides a general overview of the strategic management process.

A process is a flow of information through interrelated stages of analysis towards the achievement of an aim. Hence, the strategic management depicts a process. In the strategic management process, the flow of information involves historical, current and forecast data on the operations and environment of the business. Managers evaluate this data in light of the values and priorities of influential stakeholders that are vitally interested in the actions of the business. The interrelated stages of the process are the components discussed below. The aim of the process is the formulation and implementation of strategies that work, achieving the company's mission and objectives, both short and long-term.

Viewing strategic management as a process has several important implications. First, a change in any component will affect several or all of the other components. Most key themes are reciprocal, suggesting a two-way flow of information. The forces in the external environment, for instance, may influence the nature of a company's mission and the company may in turn affect the external environment and heighten competition in its realm of operation. A second implication of viewing strategic management as a process is that strategy formulation and implementation are sequential.

The process begins with the development or re-evaluation of the organisation mission (statement). Many advocates, (Pearce and Robinson, 2000; Goold and Quinn, 1990; Aaker, 1998; Ansoff, 1987; Scherkenbach, 1991; Bollenbacher, 1993; Burns and Stalker, 1961; Thomson and Strickland, 1993; Lynch, 2000; Ettlie et al., 1984; Gorvindarajan, 1986; Gronroos, 1990; Slocum et al., 1985) suggested that this process is associated, but essentially followed by, the development of the organisation's profile and assessment of the external environment. This development and assessment is then followed by strategic selections of options, definition of long-term objectives, design of grand strategy, definition of short-term objectives, design of operating strategies, institutionalisation of the strategy, review and evaluation. The details of these key themes and constituencies are as follows:

3.3.2.1 Organisation's mission

The mission of an organisation is the unique purpose that sets it apart from other companies of its type and identifies the scope of its operations. It describes the company's product, market and technological areas of emphasis in a way that reflects the value and priorities of the strategic decision makers, Pearce and Robinson (2000). Social responsibility is a critical consideration for an organisation's strategic decision makers since the mission statement must express how the company intends to contribute to the societies that sustain it. An organisation needs to set its social responsibility aspirations, just as it does in other areas of corporate performance.

3.3.2.2 Internal analysis

The organisation analyses the quantity and quality of the company's financial, human and physical resources. It assesses the strengths and weaknesses of the organisation's management and structure, Mintzberg (1994). It also contrasts the company's past success and traditional concerns with its current capabilities in an attempt to identify the future capabilities.

3.3.2.3 External environment

A firm's external environment consists of all the conditions and forces that affect its strategic options and define its competitive situation. The strategic management model shows the external environment as three interactive segments, as remotely, industry and operating environments, (Hage, 1980; McShane and Von Glinow, 2000 and Gorvindarajan, 1986).

3.3.2.4 Strategic analysis and choices

Simultaneous assessment of the external environment and the company profile enables a firm to identify a range of possibly attractive interactive opportunities. These opportunities are possible avenues for investment, according to Pearce and Robinson (2000); however, they must be screened through the criterion of the company mission to generate a set of possible and desired opportunities. This screening process results in the selection of options from which a strategic choice is made. The process is meant to provide the combination of long-term objectives and generic and grand strategies that optimally position the firm in its external environment to achieve the company mission.

Strategic analysis and choice in single or dominant product/service business centres around identifying strategies that are most effective at building sustainable competitive advantages based on key value chain activities and capabilities – core competencies of the organisation. Multi-business organisations find their managers focussed on the question of which combination of businesses maximises shareholder value as the guiding theme during their strategic analysis and choice, Ettlie et al. (1984).

3.3.2.5 Long-term objectives

The results that an organisation seeks over a multiyear period are long-term objectives. Such objectives typically involve the following areas: profitability, return on investment, competitive position, technological leadership, productivity, employee relations, public responsibility and employee development, (Aaker 1998 and Atrill 2003).

Most businesses explicitly adopt one or more generic strategies characterising their competitive orientation in the market place. Low-cost, differentiation or focus strategies define three fundamental options. Enlightened managers seek to create ways their organisations possess both low cost and differentiation competitive advantages as part of their overall generic strategy. They usually combine these capabilities with a comprehensive, general plan of major actions through which their firms intend to achieve their long-term objectives in a dynamic environment. The Grand Strategy terminology indicates how the objectives are to be achieved. Although every grand strategy is in fact a unique package of long-term strategies, the following approaches can be identified: market development, concentration, product development, innovation, concentric integration, vertical integration, joint venture, strategic alliances, consortia, diversification, conglomerate diversification, turnaround, divestiture and liquidation.

3.3.2.6 Action plans and short-term objectives

Action plans translate generic and grand strategies into action by incorporating four elements. First, they identify specific functional tactics and actions to be undertaken in the next week, month, or quarter as part of the business's effort to build competitive advantage. The second element is a clear time frame for competition (Goold and Quinn, 1990 and Ansoff 1987). Third, action plans create accountability by identifying who is responsible for each action in the plan. Fourth, each action in an action plan has one or more specific, immediate objectives that are identified as outcomes that action should generate.

3.3.2.7 Functional tactics

In the general framework created by the business's generic and grand strategies, each business function needs to identify and undertake activities unique to the function that helps build a sustainable competitive advantage (SCA). Managers in each business function develop tactics that delineate the functional activities undertaken in their part of the business and usually include them as a core of their action plan, (Divanna, 2004 and Lynch, 2000). Functional tactics are detailed statements of the means or activities that will be used to achieve short-term objectives and establish SCA.

3.3.2.8 Empowering policies

Speed is critical for success in today's competitive global marketplace. One way to enhance speed and responsiveness is to allow decisions to be made whenever possible at the lowest feasible level in the organisation. Policies are broad precedent-setting decisions that guide and substitute repetitive or time-sensitive managerial decision making. Creating policies that guide and preauthorise the thinking, decisions and actions of operating managers and their subordinates in implementing the business's strategy is essential for establishing and controlling the ongoing operating process of the organisation in a manner consistent with the organisation's strategic objectives, (Scherkenbach 1991 and Bollenbacher 1993). Policies often increase managerial effectiveness by standardising routine decisions and empowering or expanding the discretion of managers and subordinates in implementing business strategies, .

3.3.2.9 Refocusing, restructuring and reengineering organisation

Up to this level, the strategic management process managers have maintained a decidedly market orientated focus as they formulate strategies and begin implementation through action plans and

functional tactics. The process has taken an internal focus, getting the work of the business done efficiently and effectively so as to make the strategy successful. The questions are: how to organise to accomplish the mission, what value systems should be instituted, how should leadership play a significant role, what rewards systems should there be and so on. Downsizing, restructuring and reengineering are terms that reflect the critical stage in strategy implementation wherein managers attempt to recast their organisation, (Pearson and Robinson, 2000; Burns and Stalker, 1961 and Thomson and Strickland, 1993). The organisation's structure, leadership, culture and reward systems may all be changed to ensure cost competitiveness and the quality demanded by the unique requirements of its strategies.

3.3.2.10 Continuous improvement

Strategic control is concerned with tracking a strategy as it is being implemented, directing problems or changes in its underlying premises and making necessary adjustments. In contrast to post-action control, strategic control seeks to guide action on behalf of the generic and grand strategies as they are taking place and when the end results are still far from achievement. The rapid, accelerating change of the global market-place of the past five years or so has made continuous improvement another aspect of strategic control in many organisations. Continuous improvement provides a way for managers to provide a form of strategic control that allows their organisation to respond more proactively and timely to rapid developments in many areas that influence the business's success.

3.4 The Sustainable Competitive Advantage (SCA)

Doyle (2002) and Aarker (1998) defined a SCA as something unique that an organisation does or offers to the target market and which cannot be easily copied by a competitor. An effective SCA will be created when a strategy has at least three characteristics. It should be supported by assets and core competencies, it should be employed in a competitive arena that contains segments that will value the strategy and it should be employed against competitors that cannot easily match or neutralise the SCA, (Doyle, 2002; Lynch, 2000; Pearce and Robinson, 2000). However, Doyle (2002) argues further that SCA should be classified as substantial enough to make a difference, sustainable in the face of environmental changes and competitor actions, as well as translatable when possible, into visible business attributes that will influence customers.

The resource allocation decision determines in which products and markets the business will compete. To win in these areas, (Doyle, 2002; Hunger and Wheelen, 1993; Stacey, 1993) stated

that the firm needs a SCA. This is the capability to make target customers an offer that they perceive as providing superior value to the offers of competitors. The essence of business strategy is winning the choice of customers.

Customers acquire products and services from those competitors that they perceive as offering the best value for money. Perceived value consists of three elements, (Kaplan and Norton, 2004): the benefits offered by the organisation's brand, its prices and the other costs of owning the products or services. A company can gain competitive advantage, therefore, through offering superior benefits, lower prices or a reduced cost of ownership. The product may also command a premium price, (Lawson, 1994; Model, 1996; Lynch, 2000) if it offers superior benefits with other ownership costs that are lower or a least competitive.

Commentators such as Peter and Waterman (1982), Roth and Jackson (1995), Sapp et al. (1990) and Driver (2001) stated that the perceived benefits are a function of the product's performance and design, the quality of the services that augment it, the staff which deliver it and the image of the brand which the organisation succeeds in communicating. The characteristics for the Value Proposition directed to customers and shareholders are shown in Figure 2.08, see annexure. The price is the money that the customer spends to purchase the product or service. The other costs of ownership are those expenses that occur once the product is acquired. These may include installation, insurance, staff training, maintenance, trade-in value and the psychological costs of risking a switch to a new supplier. A competitive advantage is of limited value if it is easily copied; as such, management needs strategies to sustain their advantage by building barriers to entry. Economists describe many types of entry barrier, including high capital requirements, scarce raw materials, scale economies, favourable locations, patents and licenses. But the two most common barriers are the linked advantages of brands and core competencies based on organisational effectiveness.

Managers evaluate and select strategies that they think will make their business successful. Businesses become successful because they possess some advantage relative to their competitors. Doyle (2002) and Lynch (2000) both indicated two prominent sources of competitive advantages that can be found in (i) the business cost structure and (ii) its ability to differentiate the business from competitors. Businesses that create competitive advantages from one of both of these sources usually experience above-average profitability within their industry. Businesses that lack a cost or differentiation advantage usually experience average or below-average profitability.

Organisations that do not have either form of competitive advantage perform the poorest among their peers while businesses that possess both forms of competitive advantage enjoy the highest levels of profitability within their industry, (Scherkenbach, 1991; Drucker, 1963). Managers are advised to evaluate and select strategies that emphasise one type of competitive advantage. Often referred to as generic strategies, organisations are encouraged to become either a differentiation-orientated or low-cost orientated company. In so doing, it would be logical that organisational members would develop a clear understanding of company priorities in order to experience profitability that is superior to competitors without either a differentiation or low-cost orientation.

3.4.1 Developing the sources of SCAs

The process of seeking the advantages that competitors cannot easily copy not only involves the examination of competitors, but also the organisation itself and its resources. It is therefore appropriate to identify some possible sources of advantage as a starting point, (Kaplan and Norton, 2004; Lawson, 1994; Miles and Snow, 1978; Aiken et al., 1980; Model, 1996; Hussain and Kock, 1994; Lynch, 2000; Huber and Power, 1985). The real benefits come from advantages that competitors cannot easily imitate, not those that only give temporary relief from the competitive battle. To be sustainable, competitive advantage needs to be more deeply embedded in the organisations, which are its resources, skills, culture and investment over time, (Peter and Waterman, 1982; Innes et al., 2000; Richardson, 1976). The development of sustainable advantage can take many forms. Such forms may possibly involve seeking something unique and different from the competition and so it follows that there will be a wide range of possibilities, (Johnson, 1988; Roth and Jackson, 1995; Sapp et al., 1990; Driver, 2001; Hofstede, 1998; Scherkenbach, 1991).

These could range from differentiation, lower costs, niche marketing, innovative technology, quality, service, vertical integration, synergism, culture, leadership and style of an organisation and so on. However, Kaplan and Norton (2004), Doyle (2002) and Lynch (2002) have argued that competitive advantage is generally based on the stability and continuity in relationships between different parts of an organisation. They argued that major advantages are not developed over night or by some special acquisition or other miraculous strategy. However, substantial advantages take many years to develop and involve the whole culture and style of an organisation, (Bennis and Nanns, 1985; Morrow and Hazell, 1992; Nanni et al., 1992). To this extent, it may even be misleading to see advantages as being summarised by the short list of items above.

Ultimately, there is no single route to achieving an SCA. The question that arises is therefore whether it is possible to test whether it has been achieved. The three most consistent possible tests that has been suggested by many researchers such as Euske et al. (1998), Heskett et al. (1997), Lynch (2000), Lado and Wilson (1994), Hitt and Brynjolfsson (1996), Thomson and Strickland (1993), Hammer and Champy (1993), Ansoff (1987) and Gronroos (1990) for such advantages are as follow:

- ◆ Sufficiently significant to make a difference. Modest advantages that hold no real benefits to the customer or the organisation are unlikely to be persuasive
- ◆ Sustainable against environmental change and competitor attack. The market as a whole may move forward in terms of technology or tastes. Equally, competitors may be able to copy advantages developed by the organisation. In both cases, these advantages are not sustainable
- ◆ Recognisable and linked to customer benefits.

An advantage needs to be translated from a functional advantage inside the organisation – for example, low costs – into something that the customer will value – for example, low prices. Advantages that cannot be linked in this way may ultimately prove to have no persuasive and competitive edge.

Many commentators and experts suggest various strategic means to create simple competitive advantages which may in turn be transformed into sustainable advantages. These range from (i) Lower-cost, (ii) Differentiation, (iii) Speed, (iv) Focus, (v) Pre-emption and (vi) Synergism strategy. Details containing each competitive strategy are described in the following sections.

3.5 The role of cost leadership strategy

Organisational success built on cost leadership requires the business to be able to provide its product and services at a cost below what its competitors can achieve. And it must be a sustainable cost advantage. Through the skills and resources identified, the organisation must be able to accomplish one or more activities in its value chain activities in a more cost-effective manner than that of its competitors or it must be able to reconfigure its value chain so as to achieve a cost advantage, (Aaker, 1998; Harrington, 1991; Euske et al., 1998; Heskett et al., 1997; Lado and Wilson, 1994).

Strategists examining the organisation's value chain for low cost leadership advantage evaluate the sustainability of those advantages by benchmarking the business against key competitors and by

considering the impact of any cost advantage on the forces of their business's competitive environment. Low-cost activities that are sustainable and that provide one or more of these advantages relative to key industry forces should become the basis for the business's competitive strategy, (Porter, 1985 and 2004). The key forces with respect to driving low cost advantages include the following:

- ◆ Low-cost advantages that reduce the likelihood of pricing pressure from buyers, when key competitors cannot match prices from low-cost leader, customers pressuring the leader risk establishing a price level that drives alternate sources out of business,
- ◆ Truly sustained low-cost advantages may push rivals into other areas, lessening price competition,
- ◆ New entrants competing on price must face an entrenched cost leader without the experience to replicate every cost advantage,
- ◆ Low-cost advantages should lessen the attractiveness of substitute products and services, a serious concern of any business being the threat of a substitute product in which customers can meet their original need, hence, low-cost advantages allow the holder to resist this happening because it allows them to remain competitive even against desirable substitutes and it allows the to lessen concerns about price facing and inferior or lower price substitute product or service
- ◆ Higher margins allow low-cost producers to withstand supplier cost increases and often gain supplier loyalty over time.

However, once managers have identified opportunities to create cost advantage-based strategies, Cooper et al. (1992) and Simons (1990) suggested that they must consider whether key risks inherent in cost leadership are present in a way that may mediate sustained success. The key risks with which they must be concerned are as follow:

- ◆ Many cost saving activities may easily be duplicated,
- ◆ Exclusive cost leadership can become a trap, in a sense a that organisations that emphasize lower price and that can offer it via cost advantages where product differentiation is increasingly not considered must truly be convinced of the sustainability of those advantages, with particular attention to commodity type products, the low-cost leader seeking to sustain a margin superior to lesser rivals may encounter increasing customer pressure for lower process with great damages to both the leader and the lesser competitors,
- ◆ Obsessive cost cutting can shrink other competitive advantages involving key product attributes, as intense cost scrutiny can build margins, but it can reduce opportunities for or investment in innovation of processes and products and such scrutiny can similarly lead to the use of inferior

raw materials, processes, or activities that were previously viewed by customers as a key attribute of the original products,

- ◆ Cost differences often decline over time, as products age competitors learn how to match cost advantages, customers become more knowledgeable, absolute volume may decline, market may become mature; hence, cost advantages that are not sustainable over a period of time are risky.

Scherkenbach (1991), argued that once management has evaluated the cost structure of its value chain, determined activities that provide competitive cost advantages and considered their inherent risks, it would start selecting the business's strategy.

The low-cost leader in an industry has to build and maintains plant, equipment, labour costs and working practices that deliver the lowest costs in the industry, (Richardson, 1976; Johnson, 1988). The essential point is that the firm with the lowest costs has a clear and possible SCA. However, in order to cut costs, a low-cost producer typically sells standard, or no-frills, products and services and places a considerable strategic emphasis on reaping scale or absolute cost advantages from all sources. In practice, low-cost leaders achieve their position by shaving costs off every element of the value chain; the strategy comes from attention to detail. Low cost leaders should be able to sell their products and services in the market place at around the average price of the market. If such products are not perceived as comparable or their performance is not acceptable to customers, a cost leader will be forced to discount prices below competition in order to gain sales.

Compared to the low cost leader, competitors will have higher costs; after successful completion of this strategy option, the costs of the lowest cost organisation will be lower by definition than other competitors, (Aaker, 1998; Harrington, 1991; Euske et al., 1998). This will deliver above average profits to the low cost leader. To follow this strategy option, an organisation will place the emphasis on cost reduction at every point in its processes. It should be noted that cost leadership does not necessarily imply a low price: the company could charge an average price and reinvest the extra profits generated.

Although there is a tendency to think of low cost as a single approach, such as scale economies, low cost labour or production automation, it is important to recognise that there are many methods of obtaining a low cost advantage. The successful low cost organisations are those that can harness multiple approaches, according to Aiken and Hage (1971). Some of these methods include

the supply of no-frills products and services, enhanced product design, low cost of raw materials, low cost of distribution channels, inexpensive labour, government subsidies, and innovative operating processes, reduction of overheads, and scaled economies, (Simons, 2000; Heskett et al., 1997), as well as the application of experience concept.

A successful low cost strategy is usually multifaceted with costs attacked on several fronts and supported by a cost orientated culture. Top management, rewards, systems, structures and culture must all stress cost reduction. There needs to be a single-minded focus comparable to that achieved by the organisations that successfully engage in total quality management, seconded by commitment.

3.6 The role of differentiation strategy

Differentiation occurs when products and services of an organisation meet the needs of some customers in the market place better than others, (Richardson, 1976; Johnson, 1988; Roth and Jackson, 1995; Sapp et al., 1990; Scherkenbach, 1991; Fornel, 1995; George and Jones, 1996; Drucker, 1963). When the organisation is able to differentiate its products and services, it is able to charge a price that is higher than the average price in the market place,

Differentiation is the concept of market segmentation, the identification of specific groups who respond differently from other groups to competitive strategies. Essentially, they will pay more for differentiated products or services that are targeted towards them. Examples of differentiation include better levels of service, more luxurious materials and better performance.

In order to differentiate a product or service, Porter (1985) argued that it is necessary for the organisation to incur extra costs. The differentiated product or service cost will therefore be higher than competitors. The organisation of the differentiated product then derives an advantage from its pricing: with its uniquely differentiated product or service it is able to charge a premium price. Problems associated with this, according to Porter (1985), are the difficulties of estimating whether the extra costs incurred in differentiation can be recovered from the customer and that the successful differentiation may attract competitors to copy the differentiated product and enter the market segment. Hence, there are often costs associated with being first into a market, so there may be additional cost advantages from moving in second, (Kaplan and Norton, 2004). Neither of these problems is insurmountable but they do weaken the attractiveness of this option.

Differentiation requires that the organisation have sustainable advantages that allow it to provide customers with something uniquely valuable to them. A successful differentiation strategy allows the organisation to provide a product and service of perceived higher value to customers at a differentiation cost below the value premium. In other words, customers feel the additional cost to purchase a product or service is well below what the product or service is worth compared to other available alternatives.

Simons (1990 and 2000), Aiken and Hage (1971), Frei et al. (1986 and 1997), Aaker (1998) and Harrington (1991) also argued in one or the other that differentiation usually arises from one or more activities in the value chain that create a unique value important to customers. An organisation can achieve differentiation by performing its existing value activities or reconfiguring them in some unique way. And the sustainability of that differentiation will depend on two constituents, according to Porter (2000): a continuation of its high perceived value to customer and a lack of imitation by competitors. Strategists evaluating business's value chain for differentiation advantages evaluate the sustainability of those advantages by benchmarking their business against key competitors and by considering the impact of any differentiation advantage on the external forces of their organisation's competitive environment. Sustainable activities that provide one or more of the following opportunities relative to key industry forces should become the basis for differentiation aspects of the organisation's competitive strategy: (i) rivalry is reduced when a business successfully differentiates itself from others in the minds of certain customers, so that it does not have to respond competitively to competitors, (ii) customers are less sensitive to prices for effectively differentiated products, (iii) brand loyalty is hard for new entrants to overcome, (iv) imitation may narrow the perceived differentiation, rendering differentiation meaningless and (v) cost difference between low-cost competitors and the differentiated organisation becomes too great for differentiation to hold brand loyalty.

A differentiation strategy is one in which a product or service offering is different from that of one or more competitors in a way that is valued by customers, (Roth and Jackson, 1995; Peter and Waterman, 1982; Scherkenbach, 1991). The value added should affect customer choice and ultimate satisfaction. Most successful strategies that are not based entirely on low cost advantage will be differentiated in some way.

Essentially, a differentiation strategy needs to add value for the customer. A distinction should be made between apparent value and actual value. Too often a point of difference with apparent value

is not valued by customers, (Cooper et al., 1992). The one-stop financial service vision may not be valued by customers, for instance; who want excellence and competence from investment managers and convenience. A key to successful differentiation strategy is to develop the point of differentiation from the customer's perspective rather than from the perspective of the business operation, (Silvestro et al., 1992; Bennis and Nanns, 1985; Morrow and Hazell, 1992; Nanni et al., 1992; Huber and Power, 1985; O'Reily et al., 1991). The point of differentiation affects the customer's experience in the context of products and services, cost reduction, (Sapp et al., 1990; Drucker, 1963), or increased satisfaction which is then translated into perceived value and the customer's perspective on the brand awareness, brand association and loyalty, (Richardson, 1976; Johnson, 1988; Fornel, 1995).

3.7 The role of speed as a competitive strategy

Rapid response to customer requests or market and technological changes has become a major source of competitive advantage for numerous organisations in today's intensely competitive global economy, (Kaplan and Norton, 2004; Mintsberg, 1994). Speed is certainly a form of differentiation, Pearce and Robinson (2000), but it is more than that. Speed involves the availability of a rapid response to a customer by providing current products and services quicker, accelerating new product development or improvement, (Goold and Quinn, 1990), quickly adjusting production processes and making decisions quickly. While low cost and differentiation may provide important competitive advantages, managers in tomorrow's successful organisations will base their strategies on speed-based competitive advantages, (Sinkey, 2002; Tomkins, 1991; Walker et al., 1999; Whittington, 1993; Mintsberg, 1994). Speed is really the driving force that everyone is after. Faster products, faster product cycles to market. Better response time to customers, satisfying customers, getting faster communications, moving with more agility - all these are easier when an organisation is small. And these are all characteristics one needs in a fast-moving global environment

These rapid response capabilities create competitive advantages in several ways. They create a way to lessen rivalry because they offer availability of something that a rival may not have. It can allow the business to charge customers more, engender loyalty or otherwise enhance the organisation's position to its customers. Where imperative customer response is involved, organisations can generate supplier cooperation and concessions since their business ultimately benefits from increased revenue.

However, while the notion of speed-based competitive advantage is exiting, it has risks that must be considered, (Gordon and DiTomaso, 1992; Hammer and Champy, 1993; Kakabadse et al., 2001). First, speeding up activities that have not been conducted in a fashion that prioritises rapid response should only be done after considerable attention to training, reorganisation and reengineering, (Stacey, 1993). Second, stable and mature products or services that have very minimal levels of change may not offer much advantage to the organisation that introduces some forms of rapid response, (Doyle, 2002; Hunger and Wheelen, 1993). Customers in such settings may prefer the slower pace or lower costs currently available or they may have such long time frames in acquiring products and services that speed is not that important to them.

3.8 The role of niche or focus strategy

According to Porter (1985), neither a low cost leadership strategy nor a differentiation strategy is possible for an organisation across the broad range of the market. The expense of achieving low cost leadership, for instance, may require substantial funds which are not available. Equally, the costs of differentiation, while serving the mass market of customers, may be too high: if the differentiation involves quality, it may not be credible to offer high-quality and cheap products or services under the same brand name, so a new brand name has to be developed and supported. For these related reasons, it may be better to adopt a focus, also known as niche strategy, to create SCA.

A number of authors and practitioners, including Lynch (2000), Pearce and Robinson (2000), Mintzberg (1994), Goold and Quinn (1990), Ansoff (1987), Richardson (1976), Scherkenbach (1991), Bollenbacher (1993), Thomson and Strickland (1993), Govindarajan (1986), Gronroos (1990), Hage (1980), Hoque and James (2000), Miles and Snow (1994) have all argued that a focus strategy occurs when the organisation focuses on a specific niche in the market place and develops its competitive advantage by offering products and services especially developed for that niche market. Hence, the focus strategy selects a segment or group of segments in the industry and tailors its strategy to serve them to the exclusion of others. By optimising the organisational strategy for the targets, the focuser seeks to achieve a competitive advantage in its target segments, even though it does not possess a competitive advantage overall. It may undertake this process either by cost leadership or differentiation, that is, in a cost focus approach where the organisation would seek a cost advantage in its target segments only and in a differentiation focus approach where the organisation would seek differentiation in its target segment only. The essence of focus is the exploitation of a narrow target's differences from the balance of the industry. By targeting a small,

specialised group of customers it should be possible to earn higher than average profits, either by charging a premium price for exceptional quality or by a cheap and cheerful low price product or service.

However, there are also some problems, according to Ansoff (1987), Scherkenbach (1991), Bollenbacher (1993), Thomson and Strickland (1993), Richardson (1976), Atrill (2003), Burns and Stalker (1961) and Channon (1986), with the focus strategy. By definition, the niche is small and may have limited long-term growth, cost focus may be difficult if economies of scale are important in the industry and that the niche may be clearly specialist in nature and may disappear over time. Nevertheless, none of these problems is insurmountable, as many small and medium-sized organisations have found that this is the most useful strategic area to explore.

A focus strategy avoids diluting or distracting strategy implementation, provides a way to compete when resources are limited, by-passes assets and competencies of larger competitors, provide positioning strategy and reduces competitive pressures. Focus strategy, whether it involves differentiation, low cost or both, concentrates on one part of the market or product line. Because this strategy avoids strategy dilution or distraction it is therefore more likely to lead to a SCA. When the internal investment, programs and culture have all been directed toward a single end and there is buy-in on the part of everyone in the organisation, the result will be assets, competencies and functional strategies that match the market needs. In most cases, as the product line or market is expanded, compromises would be made in advertising, distribution, operations and so on and the SCA and its associated entry barriers will be diluted.

A focus strategy may also provide a positioning device. The association of a business with a narrow line segment or geographic environment can serve to provide a useful identify. Although a pay-off of a small niche may be less than that of a large growing market, (Hunger and Wheelen, 1993; Stacey, 1993), the competition may also be less intense. The majority-fallacy concept states that appraisals of fast growing segments overlook or minimise the opportunities that many competitors will be attracted to. This explains why growth areas often stimulate destructive overcapacity and why a more modest product-market scope may be a preferable selection.

Lynch (2000) explains that the potential of enhancing an SCA by using a focus strategy should be balanced by the fact that it naturally limits the potential business. As a result, profitable sales may be missed. Hence, the focus organisation will often have to compete with larger organisations that

will enjoy scale economies; it is therefore crucial for the focus to involve a strategy with significant SCAs.

3.9 The role of pre-emptive strategy

A pre-emptive strategic move is an implementation of a strategy new to an organisation area that, because it is first, generates an asset or core competency that competitors are unable to duplicate or counter, (Porter, 2004). A sustainable first-mover advantage can result from technology leadership, pre-emption of assets, customers' switching costs and so on. When one gains access to a set of prime locations in a community, for instance, competitors are inhibited from competing because of the resulting location disadvantage, (Roth and Jackson, 1995). However, the first-mover advantage is not automatic, (Porter, 1985; Beischel, 1990; Atkinson, 1984; Schoemaker, 1993; Sinkey, 2002; Tomkins, 1991; Walker et al., 1999) because it requires active and continuous investment and proactive management,

Pre-emptive moves can create SCAs through the optimisation of supply chain processes, product or service categories, operations systems, customers, product or service distribution and service systems, (Porter, 1985 and 2004). From a supply chain systems' perspective, an organisation can gain access by pre-empting access to the best and cost effective sources of raw materials or operations equipment across the supply networks. If supply chain commitments are made and the organisation does not materialise or other superior supply sources emerge, such a strategy should be reviewed. Product opportunities emerge when the first product introduced in the market enjoys the substantial advantage of occupying a desirable position. This strategy is to create a series of pre-emptive moves to frustrate competitors' attempts to catch up. The industry-standard position needs to be defended, especially in the banking sector. On the other hand, operations systems and processes focus on reducing costs, enhancing efficiencies and quality to create an SCA. A key to success is the commitment to maintain investment and continuous improvement over time, to be a moving target. Another approach, according to Doyle (2002), is to aggressively expand capacity in order to discourage competitors from entering the market.

Customer opportunities can assist in developing customer loyalty by creating switching costs. This can be done in a variety of ways, such as, customers becoming familiar with the first mover's products and services, customers being enticed or required to make a long-term commitment, customers investing by learning to use the first mover's products and services and finally, the organisation gaining specialised knowledge about a customer. Financial retail chains can pre-empt

locations by committing early to an area and selecting prime outlets in order to optimise the deliveries of services and products. The chain will not only have first choice of outlets, but will also discourage competitors by reducing their profit potential in those markets.

When considering a pre-emptive move, there are several threats that must be taken into account, (Ansoff, 1987). Firstly, by definition, a pre-emptive mover involves doing something novel, according to Aaker (1998). Organisations do not succeed by copying and innovating on strategies already in place, (Miles and Snow, 1978). Innovation is required, thus, some mechanism must exist to allow ideas for pre-emptive actions to surface. Secondly, the pre-emptive move often involves the substantial commitment of resources, which implies substantial risk. It is this very commitment that helps make the resulting advantage sustainable, because competitors are reluctant to move against a committed organisation. Profit potential for an entrant is always higher if it is likely that the existing competitors will exist. Thirdly, a successful first mover advantage assumes that a competitor will be inhibited or prevented from duplicating or countering. A competitor's service or product quality prestige brand, for instance, could be cannibalised and weakened if it is introduced as a lower-priced brand as a reaction to a pre-emptive move at the low end of market. Other researchers found to be in agreement to these arguments include other practitioners such as Burns and Stalker (1961), Channon (1986), Thomson and Strickland (1993), Divanna (2004), Lynch (2000), Gronroos (1990), Hage (1980), Miles and Snow (1994), Kabat and Fiedling (1981), Goold and Campbell (1987)

3.10 The role of synergism strategy

Synergy means that the whole is more than the sum of its parts. In this context, it means that two SBUs or two product-market strategies operating together will be superior to the same two SBUs operating independently, (Lynch, 2000; Doyle, 2002; Kaplan and Norton, 1996). In terms of products, positive synergy means that offering a set of products or services will generate a higher return over time than would be possible if each of the products were offered separately. Similarly, in terms of markets, (Kaplan and Norton, 2004), operating a set of markets within a business will be superior to operating them autonomously.

Synergy between SBUs can provide an SAC that is truly sustainable because it is based on the characteristics of a firm that are probably unique. A competitor might have to duplicate the organisation in order to capture the assets or competencies involved. As a result of synergy, the combined SBUs will have one or more of the following: increase customer value and thus increased

sales, lower operating costs and reduced investment. Generally the synergy, according to Kaplan and Norton (2002) and Lynch (2000), will be caused by exploiting some commonality in a number of operations, such as customers and sometimes customer applications, potentially creating a system solution, a sales force or channel of distribution, a brand name and its image, facilities used for operations, staff and operating systems as well as marketing, (Aaker, 1998). Synergy is not difficult to understand conceptually, but can be slippery in practice, in part because it can be difficult to predict whether synergy will virtually emerge. Often two businesses seem related and sizable potential synergy seems to exist but is never realised. Sometimes the perceived synergy is merely a mirage or wishful thinking, perhaps created in the haste to put together a merger.

An organisation's assets or competencies that are capable of being the competitive basis of much of its business is termed a core asset or competencies as mentioned earlier and can be a synergistic advantage. Simons (1990), Huber and Power (1985), Pearce and Robinson (2000), Kaplan and Norton (2004), and Doyle (2002) have all argued on the assumption of a tree metaphor, in which the root system is the core asset or competency, the trunk and major limbs are core products and services, the smaller branches are business units and the leaves and flowers are the end products and services. It is difficult to recognise the strength of a competitor by simply looking at its products and services, (Mintzberg, 1994) and failing to examine the strengths of its roots system. Core competence represents the consolidation of firm-wide technologies and skills into a coherent thrust. A core asset, such as a brand name or operations centre, merits investment and management that span business units.

Capabilities based competition, according to Lynch (2000), suggests that the key building blocks of business strategy are not products or services and market, but rather, business processes. Investment in building and managing a process that outperforms competition can lead to SCA. Strategy development therefore must identify the most important processes within the organisation, specify how they should be measured, identify target performance levels, relate performance to achieving superior customer value and SCA and assign cross-functional teams to implement them. Developing superior capabilities in key processes involves strategic investments in people and infrastructure to gain advantage. As Walker et al. (1999) argue the true process improvement does not occur without control and ownership of the parts of the process. Thus, the virtual corporation, which draws pieces from many sources in response to the organisation task at hand, is not a good model for capabilities-based competition.

In summary, competitive strategy is the framework within which the selection of the nature and direction of the organisation is made. An organisation with a clear strategy, well planned, effectively communicated and carefully implemented, is one in which the opportunities for superior performance are enhanced. However, competitive strategy inevitably involves strategic change to effect active implementation of strategy. Understanding and exploring the impact of change on business processes and employees is of paramount importance. As such, it is important to understand the dynamics of the change process in the context of competitive strategy proposed. This is then discussed in the following section.

3.11 Corporate Change Management

3.11.1 Background

Corporate change involves the movement of an organisation away from its current state and towards a desired future state to increase its effectiveness and adapt to the ever-changing environments. Organisation change is driven by many forces, i.e. competitive, political, economic, social and global. Changes to adapt to these markets forces could entail the application of advanced management accounting techniques (as stated in chapter one) such as ABC/M (which is the subject to the next chapter in the manner in which it supports strategy) and process value analysis (or business process reengineering), including the reconfiguration of the entire value chain.

It must be emphasised that some organisations use two different strategic practices; namely, prescriptive and emergent strategies, as indicated in chapter two. Lynch (2000) defined a prescriptive strategy as a strategy whose objective has been defined in advance and whose main elements have been developed before the strategy commences. The objective may be adjusted if circumstances change significantly. An emergent corporate strategy, on the other hand, is a strategy whose final objective is unclear and whose elements are developed during the course of its life, as the strategy proceeds. Here, the process is of experimentation to find the most productive route forward, (Whittington, 1993; Bennis and Nanns, 1985; Gordon and DiTomaso, 1992)

The second aspect is related to the two change categories, organisational and corporate change. With organisational change, changes can take place continuously within an organisation. The pace of change can be represented by two extremes, Lynch (2000); (i) slow organisational change, where it is introduced gradually and is likely to meet with less employee resistance, progress more smoothly and have a higher commitment from employees; (ii) fast organisational change, which is introduced suddenly as part of strategic initiative and is likely to encounter significant resistance

even if it is handled carefully. Corporate change on the other hand is the pro-active management of change in an organisation to achieve clearly identified strategic objectives. It may be undertaken using either prescriptive or emergent strategic approaches.

Commentators stated that corporate strategy is fundamentally concerned with enhancing organisational profitability. Hammer and Champy (1993), Lynch (2000) and Kakabadse et al. (2001) advocated that there will inevitably be change for management. Corporate change is not just casually drifted into through time but a pro-active search for excellence; hence, it requires innovative ways of working which all employees would be required to adopt. With this in mind, corporate change involves the implementation of new strategies that involve substantial changes beyond the normal routines of the organisation. Furthermore, such activities could involve the induction of new patterns of action, belief systems, cultural transformation and attitude across the business.

As such, corporate change is primarily concerned with people and activities. They undertake their work through formal organisational structures. Whether these structures are formal or informal, they provide a channel of opportunities for senior management to influence strategic change and to be influenced by the comments of those affected by such changes.

3.11.2 Process value analysis

Value-added tasks are those that increase the value of the product from the customer's perspective. Non-value-added tasks are all other tasks, those tasks that are not part of the process of providing a product and meeting customer expectations, (Porter, 1985 and 2004). Some ABC systems identify all costs as their value-added or non-value-added. By highlighting the total cost of non-value-added activities, some people believe companies will be driven to eliminate them. Therefore, many consultants try to separate costs into value added and non-value-added as part of the ABC system. When undertaking the ABC and ABM analysis; the steering committee examines each overhead department's cost with its managers. The committee develops an understanding of what each functional group is doing, what is consuming its resources and how the work flows. Just by going through the ABM analysis, management puts each process step under a microscope. Management questions why it costs value X to perform activity Y.

The process that is goes through to ferret out improvement opportunity is called process value analysis (PVA). PVA is a dynamic process of examining the business to make it more efficient and

effective, (Porter, 2004; Kaplan and Norton, 2004). PVA seeks improvements to meet the needs of the customers with less cost and higher quality. PVA takes a systems approach to a business process. It looks at the conversion of input and how well that output matched customer needs. When conducting a PVA, activities are typically broken down into many tasks, which is a much greater level of detail than an ABC system provides. The PVA has four steps according to Porter (1985 and 2004): (i) Defining existing process, (ii) Determining customer needs, (iii) Designing improvements and (iv) Monitoring results.

3.11.3 Creating cost efficiency through value chain analysis

The relevant level for constructing a value chain is a firm's activities in a particular industry or SBU, (Porter, 1985; Bennis and Nanns, 1985; Miles and Snow, 1978; Aiken et al., 1980). An industry-wide value chain is too broad, because it may obscure important sources of competitive advantage. Though firms in the same industry may have similar chains, the value chains of competitors often differ. Differences among competitor value chains are key sources of competitive advantage, (Power, 1985; Peter and Waterman, 1982; Innes et al., 2000; Richardson, 1976). An organisation's value chain in a sector may vary somewhat for different items in its products and service lines, or different geographic environment or different channels, (Johnson, 1988; Roth and Jackson, 1995; Driver, 2001; Scherkenbach, 1991; Drucker, 1963; Fornel, 1995; Cooper et al., 1992). The value chain for such subsets of an organisation is closely related and can only be understood in the context of the SBUs chains.

In order to diagnose competitive advantage, it is necessary to define an organisation's value chain for competing in a particular sector, (Frei et al., 1997; Porter, 1980; Simons, 1990; Aiken and Hage, 1971; Simons, 2000; Lynch, 2000). Starting with a generic chain, individual value activities are identified in the particular company. Each generic category can be divided into discrete activities. Defining relevant value activities requires that activities with discrete technologies and economics be isolated. Broad functions such as operations, manufacturing or marketing can, for instance, be subdivided into activities. The product flow, order flow or documentation flow can be useful in doing so. Subdividing activities can proceed to the level of increasingly narrow activities that are to some degree discrete. Every machine in a bank, for instance, could be treated as a separate activity. Thus the number of potential activities is often quite large. The appropriate degree of disaggregation depends on the economics of the activities and the purposes for which the value chain is being analysed, (George and Jones, 1996; Silvestro et al., 1992). The basic principle is that activities should be isolated and separated that have different economics, have a high potential

impact of differentiation or represent a significant or growing proportion of costs. In using the value chain, successively finer disaggregations of some activities are made as the analysis exposes differences important to competitive advantage; other activities are combined because they prove to be unimportant to competitive advantage or are governed by similar economics.

3.11.4 Value chain linkages

Due to the fact that value activities are the foundation of competitive advantage, (Porter, 1980 and 1985a), the value chain is not a collection of independent activities, but a system of independent activities, (Aaker, 1998; Harrington, 1991). Value activities are related by linkages within the value chain. Linkages are relationships between the way activity is performed and the cost, (Porter, 1985a; Euske et al., 1998; Hitt and Brynjolfsson, 1996). Competitive advantages frequently derive from linkages among activities just as it does from the individual activities themselves. Linkages can lead to competitive advantage in two ways: optimisation and coordination. Linkages often reflect tradeoffs among activities to achieve the same overall result, (Heskett et al., 1997), Lado and Wilson (1994). A more costly product design for instance, more stringent specifications, or greater in-process inspection may reduce service costs. An organisation must optimise such linkages reflecting its strategy in order to achieve competitive advantage.

Organisational linkages may also need to coordinate activities. On-time product or service delivery, for instance, may require coordination of activities from different departments. Thus, the ability to coordinate linkages effectively often reduces costs and enhances differentiation. Linkages are numerous and some are common to many organisations. The most obvious linkages are those between support activities and primary activities represented by the generic value chain. Hence, organisational linkages among value activities arise from a number of generic causes, (Porter, 2004; Thomson and Strickland, 1993; Hage and Aiken, 1967; Tomkins, 1991; Turney and James, 1990; Walker et al., 1999; Egan, 1995; Ansoft, 1987; Gronroos, 1990). Among these cause include the following: (i) the same function can be performed in different ways, (ii) the cost or performance of direct activities is improved by greater efforts in indirect activities, (iii) activities performed inside an organisation reduce the need to demonstrate or explain services or products in the field and (iv) the quality assurance functions can be performed in different ways.

Identifying linkages is a process of searching for ways in which each value activity affects or is affected by others. Explaining linkages usually requires information or information flow that allows optimisation or coordination to take place. Thus, information systems are often vital to gaining

competitive advantages from linkages, (Porter, 2004). Recent developments in information technology are creating innovative linkages and increasing the ability to achieve competitive advantages. Linkage in itself exists not only within an organisation's value chain, but between the organisation's chain and the value chains of suppliers and channels. These linkages, which are termed vertical linkages, according to Porter (2004), are similar to the linkages within the value chain – the way suppliers or channel activities are performed affects the cost or performance of an organisation's activities and vice versa. Suppliers produce a product or service that an organisation employs in its value chain and suppliers' value chains also influence the organisation at other points of contacts.

Linkages between suppliers' value chains and an organisation's value chain provide opportunities for the firm to enhance its competitive advantage. It is often possible to benefit both the organisation and the suppliers by influencing the configuration of suppliers' value chains to jointly optimise the performance of activities, or by improving coordination between an organisation's and supplier's chains. Supplier linkages mean that the relationship with suppliers is not a zero sum game in which one gains only at the expense of the other, but a relationship which generate win-win results for both entities.

3.11.4.1 Sustaining cost advantages

Porter (1985 and 2004) recognised two major ways that an organisation can sustain a cost advantage; namely (i) Cost drivers control: where an organisation creates and sustains an advantage with respect to the cost drivers of value activities representing a significant proportion of total costs and (ii) Reconfiguring the value chain: where an organisation can adopt a different and more efficient way to design, produce, distribute and market its products and services. The two sources of SCA are not mutually exclusive. Even an organisation with a very different value chain from its competitors will have some common activities and its relative cost position in them can enhance or detract from overall cost position. Successful cost leaders usually derive their cost advantage from multiple sources within the value chain. SCA stems not from one activity, according to Blocher et al. (2002), but from many and reconfiguring the chain frequently plays a role in creating and sustaining cost advantage. Cost leadership requires an examination of every activity in an organisation for opportunities to reduce costs and the consistent pursuit of all of process improvement. More often than not, cost leaders have a culture emanating from senior management that reinforces such behavior. It often includes symbolic practices such as Spartan facilities and limited executive prerequisites.

3.11.4.2 Cost driver control

Ohmae (1983) and Porter (1980) argued that cost reduction may or may not erode differentiation. Porter (1985) advocated the fact that every organisation should aggressively pursue cost reduction in activities that do not influence differentiation. In activities that contribute to differentiation, a conscious choice may still be made to sacrifice all or part of differentiation in favour of improving a relative cost position. Once an organisation has identified its value chain and diagnosed the cost drivers of significant value activities, cost advantage grows out of controlling those better than competitors. An organisation can potentially achieve superior position vis-à-vis the cost drivers on any activity in the value chain; activities that represent a significant proportion of cost offer the greatest potential for improving relative cost positions. However, these cost drivers must be differentiated from those of the ABC technique.

Many researchers have argued on various organisational cost drivers; for example, Yip (1982), Ohmae (1983), Kaplan and Norton (2004), Innes et al. (2000), Porter (2004), Kotler (1980), Peter and Waterman (1982), Lawrence and Jay (1967), Aiken et al. (1980), Bennis and Nanns (1985), Morrow and Hazell (1992), Huber and Power (1985) and Richardson (1976), have all described among others, a number of cost drivers that should be controlled in order to create and sustain a cost advantage. These range from the control of economies of scale, organisational learning, maximisation of capacity utilisation, value chain linkage control, optimisation of interrelationships and integration, on-time decision-making, efficient discretionary policies and control of institutional factors. While the appropriate cost drivers will vary for each activity, some generalisations may be made on how controlling each of these ten cost drivers can lead to cost advantage in an activity.

3.11.4.3 Reconfiguring the value chain

According to Porter (1980, 1985, 1985a and 2004), significant shifts in cost position often result from adopting a value chain that is significantly different from its competitors. Reconfigured value chains are created through number of sources, namely a different operation process, difference in automation, direct sales instead of indirect sales, a new distribution centres, significant differences in forward or backward vertical integration, shifting the location of facilities relative to suppliers and customers, new advertising media and so on.

Reconfiguring the value chain can lead to SCA; (Innes et al., 2000; Porter, 1985; Richardson, 1976; Johnson, 1988; Roth and Jackson, 1995; Driver, 2001; Scherkenbach, 1991), the reconfiguration frequently presents the opportunity to fundamentally restructure an organisation's cost, compared to settling for incremental improvements. The new value chain may prove inherently more efficient than the previous one. Furthermore, the way an alternate value chain can lead to cost advantage is by altering the basis of competition effective to the organisation's strengths. As such, reconfiguring the value chain may change the important cost drivers in a positive way for the organisation. To identify a new value chain, Drucker (1963) and Porter (1980) recommend that an organisation examine everything it does, as well as its competitors' value chains, in search of creative options to do things differently and more cost effectively. It is worth stating that such process results in evaluating the effectiveness and efficiency of the changed value chain; this is discussed in the section below.

3.12 Change evaluation

Prescriptive strategy has taken the approach that a rational and fact-based analysis of the change options will deliver the strategy that is most likely to be successful: logic and evidence are paramount in choosing between the change options. The constituency of corporate change options therefore needs to be evaluated for its contribution to the organisation, (Mintzberg, 1994; Lynch, 2000). To undertake this task, the evaluative process needs to be set against criteria that are relevant to the organisation. Evaluating the strategy for its profitability, for instance, will be important in most commercial organisations, (Kaplan and Norton, 1996); for example, Goold and Quinn (1990), Miles and Snow (1978) and Richardson (1976) stated that evaluating the strategy of a public service organisation might focus rather more on the quality of the service from each of the options.

The first task is to develop a means of assessing the options selected for change; thus, some ground rules must be used to test each of these options and discover which is best at delivering the organisation's purpose. A starting point in developing such evaluation criteria might be recalling that the main purposes of corporate strategy are to add value and develop sustainable competitive advantage for the organisation. The strategic options will probably set out a number of ways in which these might be achieved. But these are two rather general criteria and more specific criteria are needed.

The six main criteria that can be used in evaluating corporate change options according to Lynch (2000) include consistency, suitability, validity, feasibility (culture, skills and resources, management

commitment competitive reaction), business risk (financial risks and impact on operations) and stakeholder attractiveness.

3.13 Conclusions

Competitive strategy is viewed as the framework within which the selection of the nature and direction of the organisation is made and highlights strategic planning and communication processes, along with the implementation framework. It also involves strategic change in order to effect its active implementation. Understanding and exploring the impact of change on business processes and employees and the dynamics of the change process in the context of competitive strategy proposed, is of paramount importance.

In developing a competitive strategy, there is a need to distinguish between process, content and context. Process is the method by which the strategies are derived; content is the strategic decision then made; context is the environment within which the organisation operates and develops its strategies. Strategic management is the set of decisions and actions that result in the formulation and implementation of plans designed to achieve organisational objectives. It involves long-term, future-orientated, complex decision making and requires considerable resources; top management participation is essential.

This chapter has also stressed that the strategic management process centres on the belief that the organisation's mission can be best achieved through a systematic and comprehensive assessment of both its internal capabilities and external environment. Subsequent evaluation of the organisation's opportunities leads, in turn, to the selection of long-term objectives and grand strategies and, ultimately, to annual objectives and operating strategies, which must be implemented, monitored and controlled. Strategies to create SCA may include lower-cost, differentiation, speed, focus, pre-emption and synergism opportunities.

The implementation of corporate strategy involves corporate change. Change, on the other hand, involves the movement of an organisation away from its current state and towards a desired future state to increase its effectiveness and adapt to the ever-changing environments. Organisational changes are generally driven by many competitive, political, economic, social and global forces. Changes to adapt to these markets forces could entail the application of advanced management accounting techniques, which ABC/M is part of, as well as business process reengineering and analysis of value chain.

It is worth indicating at this stage that the literature which has specifically focussed on both the strategy and ABC/M, including the introduction's chapter did not clearly bridge the gaps that would reveal answers in response to the research question stipulated in chapter one; instead, the next chapter, attempted to demonstrate the manner in which ABC/M actually supports competitive strategy and therefore, filling the gaps seen in the first three chapters in the context of "how" ABC/M could indeed support competitive strategies.

This research attempted to establish the manner in which ABC/M is able to support sustainable competitive advantages through cost effective availability of products and services, within the South African Banking Sector. It was argued that attaining a clear understanding of activities, their associated costs and the relevant decisions to be taken, requires the use of advanced management techniques that create activity and cost visibility. In this regard, the objective of the ABC/M was to create an understanding of the behaviour of activity costs within the bank, linking operational and sustaining costs to the value chain in such a way that management could identify their organisational variables or factors that drove expenditure and then manage them accordingly. The next section, chapter four, highlights the link between ABC/M and competitive strategy.

CHAPTER FOUR

4.0 THE LINK BETWEEN ABC/M AND COMPETITIVE STRATEGY

4.1 Introduction

This chapter highlights the attributes from ABC/M that seem to be relevant to competitive strategy. The potential of ABC/M to support competitive strategies is also then explored, highlighting the manner in which ABC/M can be used to support competitive strategies in the context of creating and sustaining competitive advantages.

4.2 Background

Practitioners fail to link ABC/M to organisational issues, despite the great deal of interest demonstrated by academics as well as business environments. Many organisations that had started to implement ABC have decided to stop the implementation process, according to Horngren (1990), Innes and Mitchell (1991), Nanni et al. (1992) and Madison and Power (1993). This is the essence of the ABC paradox: if ABC has demonstrated benefits, why are more firms not actually employing it? About twenty years ago, Kaplan (1986) suggested four explanations for the management accounting lag: (i) the lack of adequate role models, (ii) the prevalence of computer-based accounting systems, (iii) the emphasis on financial accounting and (iv) the fact that top management does not emphasize the improvement of the relevance of their management accounting systems.

ABC/M is also considered as a multiple level of innovation, i.e. the application of ABC/M as an advanced management accounting techniques. As Saltman et al. (1973) put it; innovation is the adoption of an idea or a behaviour that is new to the organisation adopting it. The innovation process is usually described as comprising four distinctive stages, (Hage, 1980): adoption, operation, implementation and routinisation. Adoption is the first stage in the innovation process. During this stage, the need for change is recognised and the organisation makes the decision to adopt or reject the innovation. This stage is characterised by a high level of uncertainty about the innovator's returns. ABC is considered a level of ABC/M. ABC/M is classified into three basic categories, (Gerwin, 1988): Activity analysis (AA), Activity cost analysis (ACA) and ABC. In this case, innovativeness in managerial accounting systems is influenced by the propensity of organisations to innovate to implement advanced management accounting techniques.

ABC/M has significant effects to organisations' strategy for advanced management accounting. Simons (1987, 1988 and 1990) demonstrated that strategic business units (SBUs) follow a prospector strategy. Miles and Snow (1978) adapt their cost management systems to user needs to a greater extent than SBUs with a defender strategy. Organisational strategy encourages or discourages the implementation of innovations. Since the beginning of the 1960s, organisational innovation theories have been developed and tested empirically in many different organisations.

4.3 The diffusion of ABC/M for competitive strategy

ABC/M plays a key role in the diffusion of competitive strategy. The necessity to innovate through ABC/M, as Saltman et al. (1973) stated, is driven by the type of strategy employed by a SBU. Miles and Snow (1978 and 1994) identified four strategic types of organisations according to the rate at which they change their products and markets: prospectors, defenders, analysers and reactors. The fundamental difference among these types is the rate of change in the organisational domain. Prospectors are characterised by their dynamism in seeking market opportunities, their capability to develop and produce new products to meet customers' needs, their investment in large amounts of financial resources related to research and development and their enhancement of team-work. Defenders have a strategy which is the polar opposite from prospectors. Defenders operate within a narrow product-market domain characterised by high production volume and low product diversity. Defenders compete aggressively on price, quality and customer service. They engage in little or no product/market development and stress efficiency of operations. Analysers stand between these two categories, sharing characteristics of both prospectors and defenders. Reactors do not follow a conscious strategy. They are viewed as a dysfunctional organisational type. Miles and Snow (1994) indicated that prospector, defender and analyser strategies, if implemented properly, can lead to effective performance.

The decision to adopt an ABC/M approach relies on the perception that SBUs need to have better information on activities and their related costs and on their impact on product cost and product profitability. Prospectors are organisations that continually experiment with innovation. Prospectors are organisations that face a more unpredictable and uncertain environment than organisations following a defender strategy, (Slocum et al., 1985; Govindarajan, 1986). Prospectors have structures that enable them to facilitate and coordinate numerous and diverse operations. Thus, the adoption of innovation would be easier for prospectors than for defenders. Prospectors' needs for information cover a much broader range than defenders due to their quest for products-market

opportunities. Simons (1987 and 1988) demonstrated that prospectors tend to adapt their cost management systems to user needs to a greater extent than defenders.

4.4 The structure and the diffusion process for ABC/M

Organisational structure influences the capability of an organisation to successfully adopt and implement an innovation, Damanpour (1991 and 1992). Considerable efforts have been directed, in the business literature, at gaining a better understanding of the diffusion process for innovation in organisations during the last thirty years or so. Theories of organisational innovation have emerged on the mechanistic or organic model developed by Burns and Stalker (1961). In this section, the dual-core model and the ambidextrous model are linked to the adoption and implementation process for ABC/M approaches. These two theories rely mainly on distinctions in the nature of the innovation and in the stages of the diffusion process and Damanpour (1991) found support for these models.

4.4.1 The dual-core model

The dual-core model rests on the distinction between administration and technical innovations, (Evan, 1966; Daft, 1978). Accounting innovations are usually classified as administrative innovations, (Dunk, 1989). Evan (1966) argued that administrative innovations tend to lag behind innovations because they are perceived by management as being less closely associated with the profit objectives of manufacturing organisations. According to the dual-core model, mechanic characteristics facilitate the adoption and the implementation of administrative innovation. Technical innovations are easier to adopt and implement in organic organisations. Daft (1978), Kimberly and Evanisko (1981), Damanpour (1987 and 1991) found results that are consistent with this model's propositions.

ABC/M has characteristics of both technical and administrative innovations. AA and ACA are classified as technical innovations because their focus is mainly on processes and activities. AA and ACA have an impact on how products are manufactured and services are rendered. If organisations decide to go beyond the AA and ACA levels and install ABC, then the innovation becomes more administrative than technical. ABC is an administrative innovation because its implementation may lead to new administrative procedures, policies and organisational structures. If AA and ACA are considered as technical innovations and ABC as administrative, the dual-core model suggests that organisations with organic characteristics will more easily adopt AA and ACA while mechanic organisations will decide to pursue ABC.

4.4.2 The ambidextrous model

The ambidextrous model is based on the distinctions between the initiation and implementation stages of innovations, (Duncan, 1976). The initiation stage is quite similar to the adoption stage described earlier. It consists of all the actions leading to the decision to adopt the innovation, such as problem perception, information gathering, attitude formation and evaluation and resource attainment, (Damanpour, 1991).

The implementation stage comprises all activities between the adoption and the routinisation of the innovation, (Rogers, 1983). According to this theory, the initiation of this innovation is easier in organic organisations while implementation is facilitated in mechanistic organisations. Damanpour (1991) showed that the research in this area has not produced findings in the direction of the theory's propositions. However, Smund (1982), in a study of the influence of centralisation and formalisation of the diffusion of modern software practices, found that the propositions of the ambidextrous model were accurate for technical innovations but not for administrative innovations.

AA and ACA are the initiation stages of ABC. Organisations that adopt ABC have to go through these two levels to collect the information necessary for the implementation. Horngren (1990), Nanni et al. (1992), Innes and Mitchell (1991) and Madison and Power (1993) have pointed out that many organisations that adopt ABC terminate the process before the implementation. Organic organisations that adopt ABC may be more tempted to limit the innovation process to the either AA or ACA level, while mechanistic organisations that adopt ABC would prefer to pursue ABC all the way.

4.5 Application of ABC/M for strategy support

This section attempts to demonstrate the manner in which ABC/M can actually support strategic competitive strategies using the organisation theory. It was mentioned earlier that no organisation is able to survive in a competitive and continually changing environment without strategic planning. Hence, to be successful an organisation needs to have and maintain a sustainable competitive advantage over its competitors, which in turn can only be achieved through adequate analysis, planning and control, (Miles and Snow, 1978; Kaplan, 1990; Cooper and Kaplan, 1992b).

Traditional cost accounting systems appear to have little in common with strategic planning. The effects of strategies do not appear to be measured or evaluated and the loop between traditional

cost accounting systems and strategic planning systems appears to be inefficient, as stated by Johnson (1991), Argyris and Kaplan (1994), Kaplan and Norton (2004). Strategists advocate that strategy formulation is supported by the reports on several matters which may require strategic decision making such as on unprofitable products. Strategy implementation, on the other hand, is supported by the measurement and evaluation of critical success factors, (Bromwich and Bhimani, 1989; Johnson, 1991; Blocher et al., 2002; Hicks, 1992; Drury, 2000). Features of ABC/M should therefore be borne in mind with regard to formulating and implementing corporate strategies.

ABC/M can produce both financial and non-financial insights to facilitate and support strategic decision making and execution, while on the other hand indicating problematic areas needing immediate strategic actions. ABC/M disciplines comprise specific attributes that make it extremely suitable for and effective in competitive strategies. Some of these elements and attributes are explained below.

4.5.1 Determination of strategic direction

Availability of reliable information is a fundamental requirement for the competent management of any institution to ensure that strategic decisions are based on hard facts, not only intuition. The true costs and other accurate information provided by the ABC/M system place management in a position to make decisions with confidence and reliably evaluate the effect of strategies. Wealth maximisation is a fundamental objective of any institution for shareholders. According to Lynch (2000), Feinberg (2001) Crane and Meyer (1993), Hobdy et al. (1994), Maberley (1996), Drucker (1963), Dunk (1998) and Driver (2001), among others, institutional value to shareholders can be defined as expected future worth as estimated by those with an equity stake. The management needs to be aware of the impact on this value of each strategic business unit and how this is likely to change over time.

It has been argued that strategic cost management is an activity that is becoming popular in any industry, (Maberley, 1996; Horngren et al., 2000; Pattison and Gavan, 1994; Correia et al., 2000; Burns and Stalker, 1961; Lawson, 1994; Clarke and Bellis-Jones, 1996; Scherkenbach, 1991; Feinberg, 2001). As the recession continues to affect the whole world and the potential mergers and acquisitions among institutions are increasing significantly, the need to focus attention at board level on the vulnerability of the profitability become imperative.

The executive team must understand the dynamics of the strategic cost and institutional income profiles and ensure that the strategic objectives concentrate on improving the shareholder value in both the short and longer term. This can only be achieved by also understanding the factors that affect the profitability of the various aspects of the business and the impact of changes on the market's perception of the value of the institution.

In order to achieve the objectives set by the corporate strategy, institutions need information about the financial consequences of intended actions. Management needs reliable cost information, which serves in many planning and decision support roles. ABC/M can generate this quality information and interrelate superbly with strategic planning to produce products and services of a higher quality cost effectively and achieve the overall customer satisfaction.

4.5.2 Strategic planning

The visibility of cost brought by an ABC system leads management to an advanced understanding of and insight into institutional cost structure, as such cost visibility also highlights where the respective costs lie and what they consist of. ABM can be used in strategic planning to focus attention on those factors that determine the expenditure on the institution's activities, (Channon, 1986; Thomson and Strickland, 1993; Lynch, 2000). It can help assist in the prioritisation of alternative business activities, providing information relating to the cost and benefit to be derived from the particular business, geographic markets, products or customer groups and the potential benefit to be derived from future investment in particular strategic directions.

The main use of ABC/M in strategic planning is in the identification of the flexibility within the cost base. This flexibility relates to the ability to utilise costs already incurred to gain competitive advantage and the knowledge of the incremental expenditure necessary to pursue a change in direction. ABM can also be used in the development of value chain analysis as a means of breaking down the strategically relevant activities in order to understand the behaviour of costs. The value chain considers the cost/price relationship and ways in which value can be added to differentiate the products and services or maximise the price which can be realised. Institutional activities are normally analysed by market, either geographic (country or region) or types of customer and cost drivers relate primarily to volumes of activities, transaction, service quality and technology.

4.5.3 Resource management

ABC provides a comprehensive resource cost measurement by tracing all costs to cost objects, such as products, in order to afford a clear overall picture of the various elements of the institution and the respective total costs. According to Cokins (1996) and Wilson and Chua (1993), ABM can be used to focus attention on those factors that determined the expenditure on key projects or services. It can help in the cost and benefit analysis of individual projects and therefore assist the prioritisation of alternative initiatives, managing resources to maximise the ROI in line with its strategic direction. It identifies the reasons why costs are incurred and relates these to the activities which take place. Therefore, it can be used to determine when costs should be incurred, such as when to diversify and move into new business areas.

4.5.4 Strategic cost drivers

Distinct cost determination in terms of cost drivers as enabled by ABC/M, are most useful in strategic management in order to understand the factors that cause and drive the various institutional costs. The costs associated with the operations such as product development, distribution, risk management, processing, customer service, marketing and sales may relate to any cost driver. As such, ROI to shareholders, according to Drury (2000) is based on the key factors that drive both cost and revenue as a whole. These are generally of four types; namely, (i) competitive position of the institution, (ii) the volume dynamics within the various activities, (iii) the cost and quality balance within the value chain and (iv) the degree to which technology is used to support the effective and efficient operations and to assist in becoming proactively responsive to the changes in the markets.

4.5.5 Market Positioning

The market positioning is a function of the product differentiation, market volatility, economic environment and the internal cost/income or profitability profiles of the various aspects of the business. Hence, effective supplier management can create significant opportunities to competitive re-positioning. According to Horngren et al. (2000), Peter and Waterman (1982), Morrow and Hazell (1992), Roth and Jackson (1995), Sapp et al. (1990) and Driver (2001), market shares are measured and monitored regularly by the financial analysis and hence, the position of the institution in relation to the competition at corporate, business and product level can be easily identified and understood. An institution has at least an implicit strategy relating to both product development and differentiation. It can be market maker (also known as pre-emptor), reactor or conservative. Market makers are normally the first organisations to initiative a particular new product or line of business.

Alternatively, reactors will watch the market makers carefully and decide whether or not to follow with a competitive offering. A conservative institution will instead watch the market makers and reactors carefully but are unlikely to follow until the product or market has reached the maturity stage of its life cycle and all department risks have been eliminated.

Product differentiation, according to Mabberley (1996), may be as simple as repacking or re-pricing existing products, i.e. credit card decision to charge usage. Market volatility will also affect the competitive position in that a dynamic market will be more changeable and the strengths and weaknesses of the institution in the market place will influence its competitive balance. The degree of specialisation within the institution means that its position in the market is governed, to a large extent, by the degree of customer demand for the specialist services provided. Competitive position will be affected by economic conditions to the extent that some organisations may be less influenced by the changes in interest rates, exchange rates, inflation, political factors and other economic effects than others. Also, those organisations that successfully predict and therefore benefit from changes in economic conditions are likely to provide the highest value to their shareholders.

Internal cost/income or Profitability profiles of the various aspects of a business may also indirectly influence the competitive position of the organisation, (Johnson, 1988; Huber and Power, 1985). The severity of the above conditions will have impact on the functionality of institutional cost/income profiles, (O'Reily et al., 1991). The inherent profitability and risk/reward relationship of the various aspects of business should influence the competitive strategy and therefore, its competitive position, (Nanni et al., 1992). It would be an annual strategy aimed at being the market leader in a business in which it was losing over the long-term, but also forming part of an overall corporate plan to purchase into the market, recognising that this involves taking losses in the short term.

4.5.6 Volume dynamics

Accurate product pricing as produced by the ABC/M is very important in strategic decision-making with regard to products and target markets. The insight into costs facilitates the necessary strategies with regard to unprofitable products and services. Strategies can also be implemented to shift resources towards activities that produce significant results, or to outsource products and services that the organisation cannot provide profitably. The volume dynamics within institutional activities must be known and understood by those individual with responsibility for the enhancement of its value to its shareholder. Factors that should be considered vary from the key step costs, to the

impact of space capacity, the impact of change in product mix and the volatility of the underlying cost base, (Lawson, 1994; Clarke and Bellis-Jones, 1996; Scherkenbach, 1991; Collins, 1999; Innes et al., 2000; Mabberley, 1996).

Strategic changes in volumes can have a significant impact on the dynamics of the cost base. The step cost principle assumes that the consequences of increases in volume are known and reflected in strategic decision-making. One of the complications encountered is that incremental costs can be triggered by a range of volume changes and so are rarely linked to a specific factor. Alternatively, where spare capacity exists, costs are incurred and volumes can be increased at little incremental cost. Many institutional costs are fixed in nature and so bear insignificant relationship to business volumes in other sectors, (Goold and Campbell, 1987; Mabberley, 1996). Spare capacity creates an opportunity to provide additional contribution to fixed costs and profitability but this must be managed to ensure that it does not cross the boundary and create instead additional fixed costs when the excess capacity has been utilised.

The product mix may have a significant impact on the value to the shareholders in that the balance of profitability and unprofitable products, which must be maintained to ensure that the competitive position is retained or enhanced, must be monitored carefully to ensure that profitability is maximised within the levels of capacity and cost profiles are attainable within the equity base. Given the emphasis on fixed costs, cost volatility should not be a problem. Unfortunately, although a large proportion of operating and overhead costs may be fixed, for a short-term, for instance, interest and claims-related costs can be very volatile and therefore require techniques such as simulation and duration analysis that can provide detailed evaluation of the risk and volatility profiles of the interest-related costs. But these are usually the domain of the treasury function, which is not within the scope of this thesis.

4.5.7 Cost and quality balance on institutional value chain

The cost and quality balance is important in any institution and the drivers associated with the provision of all components of its services can be considered in six segments of the value chain as explained in the section below. Kaplan and Norton (1996 and 2004) stated the various aspects of delivering quality services. These are as follow: (i) Reliability, or consistency of performance and dependability, (ii) Responsiveness, or the willingness or readiness to provide services, (iii) Competence, or possession of the required skills and knowledge, (iv) Access, or approachability and ease of contact, (v) Courtesy, or politeness, consideration, respect and friendliness, (vi)

Communication, or keeping customers informed and listening to them, (vii) Credibility, or integrity, trustworthiness, believability and honesty, (viii) Security, or freedom from danger, risk and doubt, (ix) Understanding, or knowing the customers and (x) Tangibles, or the physical accessories and evidence of services and products.

Every institution is a collection of activities that are performed to design products/services, market, delivery and support its products and services, (Porter, 1985a and 2004; Lawrence and Jay, 1967; Kotler, 1980; Yip, 1982; Kaplan and Norton, 2004; Morrow and Hazell, 1992). All these activities are represented using a value chain. The value chain and the way it performs individual activities are a reflection of its history, its strategy, its approach to implementing its strategy and the underlying economics of the activities themselves. Mabberley (1996) developed a typical value chain in Figure 4.01 (see annexure), indicating the various constituencies, of which each component is explained in the sub-sections below:

4.5.8 Product development

The incorporation of life-cycle costing into the ABC system ensures that all costs relating to products and services are assigned to the product during its economic life, in order to provide an adequate perspective of the product's profitability and promote better strategic decision making with regards to products and services, (Drury, 2000). Cost and quality factors in product development relate to the balance between innovation, complexity and the need to maintain profitability in the short and long-term. Innovation in new products tends to involve new systems and procedures to enable staffs and customers to understand the product or service and the associated benefits. Alternatively, product tailoring or product differentiation may be achievable quickly and easily in response to competitive action but may be perceived by customers as less innovative. Innovation is expected in some parts of the industry, such as, capital markets, corporate finance and, to a lesser extent, investment management, which are all areas where customers may be attracted by innovative developments within the institution, (Mabberley, 1996).

4.5.9 Processing

The analysis of process, activity and value add through ABC/M systems add a new institutional perspective by providing a clear picture of its processes, activities and linkages and determining whether activities are adding value or not. This places management in a competitive position to streamline and re-engineer its operations. The system also lends itself to value engineering, such as the elimination or downsizing of characteristics that customers are not prepared to pay for.

Practitioners and commentators such as Sephton and Ward (1990), Adams (1996), Hussain and Kock (1994) and O'Guin (1990) acknowledged that the key aspects that affect the cost and revenue flows of transaction processing relate to the need to balance accuracy of processing with the speed and cost of the operations. The strategic objectives should include the factors that drive the operational efficiency of the processing of products and speed needed for different types of customers or levels of services.

The Accuracy of Processing should be an extremely important factor in the management of any institution. Accuracy can continually be improved by means of the introduction of additional checks and controls, but these will affect both the speed of the operation and the costs associated with the processing of transactions, (Mabberley, 1996; Berger et al., 1993; Storbacka, 1994). Technology can be used successfully to improve the efficiency and accuracy of processing but there may be costs connected with the automation of the operations and the training of staff and possibly customers, in new techniques and procedures. Speed of response and speed of processing are separate factors that will both affect the cost and quality of operational processing and may be defined differently for different types of customers and products. Speed of response may involve no more than confirming to the customer that his or her instructions have been received and are understood. As such, the Speed of Processing will include the competition of the operation necessary to ensure that the instruction received can be carried out efficiently.

4.5.10 Distribution

With the low-cost attributes, strategic management is about interpreting customer requirements and fulfilling them profitably. By running an efficient operation and managing cost effectively, products and services can be supplied to customers at the best prices, (Cokins, 1996). Under the ABC/M system costs are reduced by managing the activities that consume resources; hence, activities instead of product costs are managed. Cost reductions can be effected by eliminating non-value-adding activities, inefficient activities and replacing them with more efficient ones. Channon (1986) and Mabberley (1996) indicated that one key factor that could impact institutional cost and revenue is the distribution of the products and services offered. This may be analysed by the types of customer, geographic location or distribution channel. However, these analyses must consider the proximity of the provision of the service, the speed of delivery and the convenience to the customer.

4.5.11 Risk management

ABC/M will also facilitate the indication of areas where risk strategies are needed, with particular focus to areas where performance does not enhance competitiveness through risks and threats created by the operations. Risk management must also form a key component strategic review of cost and revenue, both in terms of quality of the analysis available to enable management to manage all types of risk and information. The strategy of each business activity should include a statement relating to an acceptable level of institutional risk.

4.5.12 Marketing and sales

ABC/M focuses on the customer value chain and identifies elements which are not conducted profitably. Its capacity to calculate market channels, or market segment profitably and customer profitability, facilitates the determination of whether customer requirements are met profitably. If not, this can prompt strategies to re-engineer customer requirements or the way these requirements are met. Customer-tailor made products and transactions, quality of service levels, convenience and proximity, accuracy of processing, to name a few, are integral parts of an institution's customer expectations. All institutions have at least an implicit strategy relating to their response to competitive activity, such as new products or changes in prices or rates.

4.5.13 Customer service

Performance criteria such as customer satisfaction, holistic differentiation, service delivery and after-sales service and best practice analysis can be integrated into the ABC/M system to enhance evaluation and continuously improve all attributes of customer service. Strategies and objectives to ensure prompt and high-quality service in these respects can be exceptionally well controlled by the ABC/M mechanism. There are also factors that affect the level of service provided to customers which must be considered in the cost and quality balance. Some of these factors which have already been elaborated in the previous sections should be related directly to the quality of customer service as a key to maintain and improve the value of an organisation's stock to the shareholders, both in the tangible sense of maximising ROI, as well as the intangible value of quality customer care. Accuracy remains a key factor in customer service for any institution, because it is important that an institution is perceived to take sufficient care in individual accurate processing of customer driven transactions.

The financial benefits from ABC/M can be measured by reduced costs, higher revenue through better resource utilisation and cost avoidance, because the expanded capacity of existing resources

obviates the need for additional investments in capital and people. ABC/M therefore enables management to strategically get highly visible successes from a simple ABC system. Figure 5.01, demonstrates how all the above key deliverables are related and achieved through an integrated model. This model encompasses all strategic thrusts, from lower-costs to differentiation, fast delivery of products and services, niche focus, pre-emption and synergism, in order to create competitive advantages. As mentioned above, ABC/M ensures that all activities performed in these strategic thrusts are value-adding and customer orientations based, Miller (1996) and are consistently performed cost effectively in supporting sustainable competitive advantages. ABC/M systems are regarded as strategy support systems par excellence, Cokins (1996), Berger et al. (1993). Various elements and attributes of ABC/M are extremely well positioned to assist management in the strategic planning processes, including strategy formulation and the achievement of set strategies. The ABC/M system in itself reveals aspects that need to be addressed strategically. There is therefore a dynamic link between ABC/M and strategy.

Executives must align their objectives with human capital requirements, in line with the manner in which strategic change through the introduction of ABC is sustained once implemented, However, it is worth stating that all organisational changes involve people (employees); these must feel that they are part of the change process in order to gain greater commitment. As such, the success of ABC/M's adoption, acceptance and implementation is highly dependent on employees' capabilities, trust, and security for their future; some of the consequences related to functional responsibilities are discussed on the next section.

4.6 The Future of the Staff functions under ABC/M

The destruction of the staff department as a shelter is not incidental to ABC/M: it is the heart of it. In this respect, its promotion by accounting academics and consultants is a prime example of the politics of the capitalist agency relationship, (Cokins, 1996). On this view of the modern corporation, managerial hierarchies consist, not only of a progressive subdivision of tasks and responsibilities, Kaplan and Norton (2004) but also of a chain of agency relationships in which subordinates are necessarily trusted to act in the interests of their superiors (i.e. as their agents). Senior managers, however, have a choice as to who they will trust. From this point of view, ABC/M, in its most ambitious expositions, constitutes a claim that management accountancy can now construct regimes of accountability applicable to all staff functions, (Drury, 2000). In addition to the implications for the future security of staff employment in what even the management consultancy

of the 1980s was willing to accept as a 'stable core' of employment, ABC/M will have consequences for the way in which staff functions are actually performed.

Drury (2000) and Armstrong (2001) argue that regimes of accountability consist of languages which more or less do violence to activities to which they are applied. This is not just a question of the slippage between performance and performance indicator (activity and cost-driver in the case of ABC); rather it is a question of the redefinition of performance itself, as it undergoes translation from the culture of the performer to that of the monitor. Translation is an inherently indeterminate act, (Drury, 2000) and this is exacerbated when it is animated by a hermeneutic of suspicion rather than one of understanding. This, it will be argued, is precisely the spirit in which ABC/M approaches the staff department. Instead of seeking to grasp the larger purpose behind its activities, ABC/M simply assumes that these activities are (and should be) separable repeated acts performed 'for' products or processes. Anything which does not fit into this framework is regarded as a prima-facie candidate for the chop.

Where ABC/M is successfully implemented, this image of the staff function may become a self-fulfilling prophecy in that the department's activities may actually be reduced to routine technical or clerical services, (Johnson and Kaplan, 1987; Kaplan and Norton, 2004). The loss, to the extent that spokespersons for the staff functions are to be believed will be the prospective value added through developments within the staff functions themselves; markets, human resources or, in the case discussed in this paper, the supply chain. The abolition of the staff department as an employment shelter, therefore, may have a downside, quite apart from its human cost. This, being the case for ABC/M, even as a means of boosting profitability, is far from convincing.

4.7 Conclusions

This chapter looked at ABC/M as an accounting innovation. It was made evident that ABC/M can produce both financial and non-financial insights to facilitate and support strategic decision making and execution, while on the other hand, indicating problematic areas needing immediate strategic actions. ABC/M disciplines comprise specific attributes that make it extremely suitable for and effective in competitive strategies. Some of these elements and attributes include the following: availability of reliable information to determine the strategic direction of the organisation, visibility of operating costs to enable effective strategic planning, improved resource cost measurement, identification and determination of strategic cost drivers, business to business value chain understanding to improve supplier management, application accurate pricing with volume dynamics

in products and services, improved balances between costs and quality of products and services in its value chain, understanding of life cycle costing to improve product development, analysis of activities and value added for process improvement, improved and managed activities along the distribution channels, created capacity to identify business risks and develop mitigating strategies, increased focus on the customer value chain to improve sales and revenues and improved information technology to support transformation, proactive decision making, process reengineering and shifted areas of focus through automation, innovation, increased capacity and enhanced integration.

The economical advantages produced by the utilisation of ABC/M can be measured through improved decision-making, improved margins, reduced product prices, reduced costs, higher revenues, improved management processes, customer satisfaction, and better utilisation of resources and so on. As such, there is a dynamic link between ABC/M and competitive strategy because ABC/M in itself reveals the aspects that need to be addressed strategically. The next section, chapter five, deals with the institutional theory; this is then extended to the development of its framework and its application within the organisation.

CHAPTER FIVE

5.0 Institutional Theory

5.1 Introduction

This chapter deals with the development of an institutional theory, with particular emphasis on both the internal and external elements that effect organisational change. It also highlights the manner in which ABC/M can be assessed and analysed to support competitive strategies in the context of creating and sustaining competitive advantages.

The use of Theory Specification Case, (Keating, 1995), was seen as appropriate in that the researcher started by developing an integrated model that had to be evaluated and further specified through the empirical study. As Keating (1995) explains, the purpose of the theory specification or illustrative case is typically to establish a broadly defined theoretical perspective in an operational manner within the field. The literature served the basis for developing this theory and it will be used to assist the researcher in answering the research question. This theoretical framework as shown in Figure 5.01 assumes that ABC/M integrates and aligns the management of all strategic thrusts to support the institutional objectives. However, the model had not been tested in the market to substantiate its relevance, until such time that the empirical studies revealed its practicality and therefore gaining credibility and relevance within the competitive environment.

5.2 Institutional factors

The application of ABC/M is viewed as an enabler to interpret the role of management accounting in organisational change, (Soin et al., 2002). Commentators recommended ABC/M for economic, normative, realist and deterministic reasons in response to institutional change. Hopper and Major (2007) argue that it represents the best value, accurately depicts financial events and aids rational decision making and contracting. The benefits proclaimed from ABC/M include increased cost awareness, improved cost understanding, better tracing of costs to their objects, superior allocation of overheads to cost objects and both financial and non-financial (cost driver rates and cost driver volumes respectively) measures for cost management and operations decisions, (Cooper and Kaplan, 1987; Innes et al., 2000; Innes and Mitchell, 1995).

Institutions have been defined by Burns and Scapens (2000) as the shared taken-for-granted assumptions which identify categories of human actors and their appropriate activities and relationships. Institutionalisation is intended to reflect the processes of habituation of social activity,

where repeated actions in organisational life become routinised and such routinisation provides a relatively stable environment for social actors that simplifies organisational decision making and reduces the overheads incurred when confronting novel but similar activities, (Coad and Cullen, 2006). As such, the institutional theory provides the framework to produce a generic accounting of an unfolding process, in a sense that change is depicted as a consequence of human action which involves cumulative change of habits. The key attributes of institutional theory include changes management, business processes analysis, organisational development analysis, management practices, structures, rules and routines, organisational capabilities, learning and development.

Soin et al (2002) applied the institutional theory in order to create understanding of change, as a process of evaluating the relative roles of other institutionalised practices apart from management accounting and to assess the organisational impact of the new management accounting systems. As such, this theory was seen as a suitable explanatory framework to make sense of the manner in which ABC/M supports competitive strategy. Its attributes provided a general framework for conceptualising institutional change in the sense that produced a useful starting point through which the application of ABC/M to support competitive strategy can be understood.

There are a number of possible approaches that may be used to interpret an ABC/M study on managerial innovation, but recent versions of institutional theory offer an important perspective. (Meyer and Rowan, 1977) emphasised the importance of legitimacy in explaining organisational structures and working practices. The new institutionalism has adopted a more sophisticated view of organisational structures that enable management to analyse the dynamics of organisational processes. Structure is seen as a dualism, according to Giddens (1984), because of the inconsistent outcome of the inter-play between structure and action. Furthermore, whatever the status of ABC/M as an abstract socio-technical system, the organisational outcomes of an implementation process are likely to be uncertain. This uncertainty is even more likely when, as Jones and Dugdale (2002) point out, the ABC/M system is subject to constant revision and reinterpretation as it is embedded, dis-embedded and re-embedded over a number of years in different settings.

5.2.1 Initial conception

The initial conception of a need to change may be either in response to external or internal pressures for change - called reactive change, or through a belief in the need for change to meet future competitive demands – called proactive change. The increased complexity and uncertainty of

international business markets have led some organisations to base change on imitation, rather than on any conception of a need to adopt untried technologies or management techniques, (Bennis and Nanns, 1985; Burns and Scapens, 2000; Clarke and Bellis, 1996).

Leaders of change need to answer questions such as: What is the change supposed to do? What should be different when it is successfully completed? What actions might specifically assist the organisation to get there? Given the fact that change, by definition, involves territory that has not yet experienced; as such, how will management know what works and what does not? Which is the best way to get started? It is therefore imperative for management to understand the perceived driving forces within the institution. Hence, is ABC/M chosen because it is the most efficient technique for meeting organisational needs for better cost information, (Kaplan and Norton, 1998), or is it simply the fashionable innovation promoted by consultants and academics? Is ABC/M viewed as a trigger of organisational change? Does the use of management accounting prohibit provision of accurate information? Are cost centres and budgets established with an unknown notion of linking costs to products and customers?

Other institutional triggers may include government laws and regulations through complex policies, agreements on tariffs and trade, globalisation of markets and the internationalisation of business in order to accommodate new competitive pressures both in the home markets and overseas, complexities with organisational growth and expansion requiring the development of appropriate coordinating mechanisms and fluctuations in business cycles such as changes in the level of economic activity, both within national economies and major trading blocks.

Burns and Scapens (2000) explained four categories of organisational changes ranging from (i) what is being changed or left unchanged, (ii) the pathways and timing of change, (iii) management accounting change as an evolutionary process and (iv) the classification of change. The fundamentals of these change categories are explained in the following sections.

5.2.2 What is being changed or left unchanged

A theory of organisational change should generally comprise a number of characteristics. First, the theory has to indicate what is being changed or left unchanged. Given that institutions can be regarded as imposing form and social coherence upon human activity, through the production and reproduction of settled habits of thought and action, (Burns and Scapens, 2000), institutional theory tends to concentrate on patterns and configurations that persist. As such, it argued that

organisational change must be based on showing changes in routines and reproducing new patterns of behaviours.

Once a need for change has been identified, the complex non-linear and the so called black box process of organisational change begins. This period comprises a number of different tasks, activities and decisions on the general theme or context of change. Activity assessment may then follow, with focus on areas where employees set out to find the best option for achieving the change objectives. With needed change to meet competitive pressures and a fall in profitability, for instance, management has to decide on the type of change managers have to decide to introduce. This may be in human resources, products or services, tasks, technology, management accounting and so on.

The 'what' is being changed – the aspect of business performance or organisational life being adjusted, according to Burns and Scapens (2000), is not an end in itself. Rather, it is largely a means to bring about some new state of the organisation at a later time, a new state that usually cannot be achieved by a different step. These actions should solve problems and be useful in them to provide immediate benefits and results.

5.2.3 The pathways and timing of change

Jones and Dugdale (2002) developed a procedural framework that is based on the assumption that organisations continuously move in and out of many different stages, often concurrently, during the history of one or a number of organisational change initiatives. Since organisations undergoing change comprise a number of states which interlock and overlap, the processes associated with change should be analysed as-they-happen, for individuals and groups both within and outside the organisation.

The introduction of action offers a second desirable characteristic; that the theory can trace both to pathways of change - how has change tracked its way through the organisation - and the timing of change. Burns and Scapens (2000) introduce a distinction between action and institutions by arguing that institutions constrain and shape action synchronically, such as at a specific point in time, while actions produce and reproduce institutions diachronically, i.e. through their cumulative influence over a period of time.

Furthermore, Burns and Scapens (2000) introduced a distinction between the realm of action and the realm of institutions, with organisational rules and routines linking the realms through processes of encoding, enacting and reproducing management accounting change. The first step in applying the theory, as suggested by Burns and Scapens is an analysis of the institutional realm with an identification of the initial set of routines and rules that characterised management control in the organisation. The main actors and their relationship with the wider institutional realm would then be identified, with particular focus on the introduction of advanced management techniques such as ABC/M.

5.2.4 Management accounting change as an evolutionary process

Burns and Scapens (2000) argue that management accounting change may not lead to more efficient practices. Change is path dependent, subject to satisfying criteria and to a mixture of random, systematic and inertial forces. The extent and type of change may be influenced by organisational resistance in the enactment of rules and routines, particularly if they challenge existing meanings and values.

Once the final general timeframe has been determined, following the implementation of change, new organisational arrangements and management accounting systems, or operation of new work practices, begin to emerge. During this period, a number of novel developments or contingencies may comprise the change outcomes. Unanticipated technical or social problems, for instance, may undermine the usefulness of the management accounting system in its replacement of traditional methods. This may cause conflict and confusion among staff and management and threaten the establishment of new working relationships.

The early stages of operating under new systems may be characterised by uncertainty, conflict and misunderstanding among employees, who may variously adapt, modify, reassert or redefine their positions under the new operating procedures and working relationships set up in the implementation of change. This is also the period in which a relatively stable system of management accounting and operations may emerge with new patterns of relationships and new practices. It is during this timeframe, therefore, that the outcomes of change can be examined and contrasted with the operating system prior to change. Although in reality it is often unrealistic to talk of an endpoint of change, it does make sense to talk on the effect of a particular type of change, such the application of ABC/M.

5.2.5 Classification of change

Another desirable characteristic of an organisational theory of change is that it can offer a way of classifying the impact of management accounting innovation on the organisation. Burns and Scapens (1999) proposed three dichotomies to this aspect; namely Formal versus Informal change, that is, conscious design as against tacit change, Revolutionary versus Evolutionary change, or in other words, fundamental disruption as opposed to gradual change and Regressive versus Progressive change, that is, ceremonial as opposed to instrumental change.

According to Burns and Scapens (2000), institutional framework regards management accounting systems as organisational rules and routines and defines institutions as a way of thought or action of some prevalence and performance which is embedded in the habits of a particular group or the customs of people. Burns and Scapens (2000) argue that organisational rules are the formally recognised way in which things should be done, while organisational routines are the way in which things are actually done.

When looking at management accounting, rules may be seen as the formal management accounting systems set out in the organisational manual while routines are the management accounting practices actually in use. Institutional framework recognises the fact that management accounting practices can both shape and be shaped by the institution which governs organisational activities.

There can be a two way relationship between rules and routines; rules may be established and through their implementation, routines will emerge. Routines may emerge under certain circumstances and later be formalised as rules; and these procedures and integral to ABC/M for the support are sustainability of institutional strategic changes.

These three dichotomies of change classification are differentiated in the following way:

- (I) Formal changes occur by conscious design according to Burns and Scapens (1999) and usually through the actions of a powerful individual or group, i.e. the introduction of ABC systems into the organisation. Informal change on the other hand occurs tacitly. According to Burns and Scapens (1999), formal and informal changes are relatively similar to intentional and unintentional changes. Such a distinction focuses on change which follows new rules, being the intentional changes and change which evolves at a tacit, subconscious level, likely to incorporate both types of change.

- (II) Revolutionary changes involve a fundamental disruption, while Evolutionary changes involve incremental change, which is only a minor disruption to existing routines and institutions. When routines are widely accepted in the organisation, they are likely to influence organisational activity and are also likely to be quite resistant to change. A process of such nature in management accounting may be classified as Evolutionary because it changes over a certain period of time and comprises both random elements and inertial forces which provide continuity over specific periods of time.

- (III) With Regressive and progressive changes, Burns and Scapens (1999) talked about ceremonial and instrumental organisational behaviours. They argued that ceremonial organisational behaviour emerges from a value system that discriminates between human beings and preserves existing power structures within the organisation. Instrumental behaviours emerge from a value system that applies best available knowledge and innovation to problems and seeks to enhance relationships. However, Regressive change has been described as reinforcing ceremonial dominance, therefore restricting organisational change. Hence, the Progressive change terminology is basically the displacement of ceremonial behaviour by organisational behaviours.

Sustainable competitive advantages require that organisations continually innovate to create new products, services and processes that are well matched to target market customers' needs and expectations. Product innovation is a prerequisite for participation in some dynamically technological sectors. Information technology is increasingly becoming a vital component for any product development process. Beyond the use of information technology for product and service innovation, institutions can exploit information technology to achieve rapid introduction of new products and services and the development of the existing ones, as well as repositioning themselves in a manner that enhances social integration with the target markets that are served.

5.2.6 Socio-technical systems

Organisational survival today depends on courage and innovation – the courage to challenge prevailing business models, the innovation to invent new services, products and markets. Hence, competitive success in the 21st century will belong to organisations that escape the tyranny of their served market to create new ones, a process that requires sweeping challenges to obsolete

assumptions. Increasingly, business leaders and rank-and-file employees question not whether to change, but how. The challenge is not simply a large scale conceptual and philosophical issue.

Existing innovation system approaches mainly focus on the production side where innovation emerges, (Geels, 2004). To incorporate the user side explicitly in the analysis, the first contribution is to widen the analytic focus. Geels (2004) proposed the socio-technical system (ST-system) which encompasses production, diffusion and use of technology. He defined ST-systems, in a somewhat abstract, functional sense, as the linkages between elements necessary to satisfy society, such as information, operations, distribution and so on. As technology is a crucial element in modern societies to fulfil those functions, it makes sense to distinguish the production, distribution and use of technologies as organisational sub-functions. To fulfil these sub-functions, the necessary elements can be characterised as resources. Hence, ST-systems consist of artefacts, knowledge, capital, labour, cultural meanings and so on. ST-systems do not function autonomously, but are the outcome of the activities of human actors. Human actors are embedded in social groups, which share certain characteristics such as responsibilities, accountabilities, norms, perceptions and so on.

Scott (1995) advocates the coordination of organisational activities through the institutional rules; namely, regulative, normative and cognitive rule, semi-coherently linked together to enhance efficiencies. These three levels introduced above can be used to understand system innovation. As long as ST-systems are stable and aligned, (Geels, 2004), radical innovations have few chances and remain stuck in particular niches. If tensions and mismatches occur, however, in the activities of social groups and in ST-regimes, this creates a window of opportunity for break-through of radical innovation.

In the case of technology, a number of strategic objectives have been identified that influence management's decision to embark on a program of change. These may include markets objectives, operating cost objectives, product/service quality and operating control objectives. A change in technology may offer several possibilities for increasing the organisation's ability to adapt to changing market conditions. Alternatively, a new management technique may enable a more effective use of existing resources and increased operating efficiency while reducing overall operating costs, thereby improving the organisation's business market position. Such an objective is achievable in cases where modern or advanced management techniques are introduced for the

purpose of providing rapid access to accurate, up-to-date information on the disposition of material resources.

Apart from improving the organisation's market position and reducing operating costs through the more efficient use of resources, savings could also be made by reducing the total number of jobs required, (Geels, 2004). Alternatively, the introduction of new technology could be used to eliminate management's dependence on in-house labour by transferring from employment to an outsourcing basis. This framework also mirrors the work of Soin et al. (2002) who characterised organisational transition as a movement from a present state of organisation to some future state.

5.3 The limitations of institutional theory

The institutional theory highlighted by Burns and Scapens (2000) and Soin et al. (2002) is to a large extent a well developed and established framework. However, it has been criticised by other commentators in that it had little focus on a number of key imperatives. Recent developments and criticisms in institutional theory made by Hopper and Major (2007) focussed on proposing the application of a theoretical triangulation, with specific emphasis to theoretical reconciliation and cross-fertilisation in response to the limitation of mono-theoretical explanations. The theoretical triangulation focussed on three elements: (i) Economic approaches and the public interest, (ii) Dialectics and intra-organisational dynamics and (iii) Actor network theory stipulating the change process when implementing advanced management techniques such as ABC/M. The institutional theory applied in this research study did not elaborate the strategies applicable to dialectics and intra-organisational dynamics, (Hopper and Major, 2007). Dialectics analysis associated with labour process theory revealed how struggles, autonomy, self-identity and inter-professional rivalry affected accounting practices and differences in institutionalisation. Hopper and Major (2007) noted a central paradox in new institutional sociology; if organisational actors' actions, intentions and rationality are conditioned by institutions, it would be difficult to change institutions that form part of their mindsets. So, they use dialectical analysis to reformulate institutional change theory. They further advocated that social expectations, often with a long history continually reproduced in social interaction, produce widely held beliefs and perceptions about institutions.

Continuous recursive relations across and within levels can produce mutually incompatible arrangements or contradictions leading to conflict, (Hopper and Major, 2007). As such, it was recognised that contradictions do not automatically stimulate institutional change because actors would mobilise others only after praxis and they then act strategically. Therefore, dialectics analysis

provides a deeper, dynamic analysis of institutionalisation that resolves the new institutional sociology paradox of embedded organisation. The institutional contradictions that precipitate collective action, according to Hopper and Major (2007), ranged from the legitimacy that undermines functional efficiency, to adaptation that undermines the adaptive, intra-organisational conformity that creates inter-institutional incompatibilities, to the isomorphism that conflicts with divergent interest. Hopper and Major's (2007) theoretical triangulation model stipulated that the Actor network theory reinforced the need for new institutional sociology to pay attention to organisational practices rather than rationalities, especially with ABC/M's status as a boundary object. The establishment of ABC/M as a tangible, working management accounting technology with explicit characteristics requires translation, mediation and enactment, which can produce multiple and sometimes unstable versions of ABC/M in action. So, extensive intermediaries for establishing broad accounting knowledge and practices becomes of paramount importance.

Coad and Cullen (2006), on the other hand, did not criticise the institutional theory. They rather explained the institutional theory model from evolutionary economics perspective which includes four inter-related elements; namely, institutionalisation itself, trust, capabilities and learning and change. They nevertheless recognised their selection of these four concepts as parsimonious in that they believed that it captured the main elements of evolutionary theory and furthermore, the concepts themselves are overlapping and interrelated, leading them to suggest no clear boundaries between them. They specifically highlighted the importance of trust based on experience and repeated interaction, i.e. that a partner will not behave in an opportunistic manner. As such, high levels of trust are expected in inter-organisational relations to reduce expenses of governance such as cost control, increase relationship investments in specific assets and increase the scope of inter-organisational activities along with the performance of the third parties. Generally, trust allows transaction that would ordinarily require hierarchical arrangements to be completed by a network of partner organisations, (Coad and Cullen, 2006). This leads to competitive advantages of market transactions, such efficiency incentives, knowledge sharing and reduced need for contractual controls.

Capabilities refer to the capacity of knowledge based humans to leverage services from resources to perform economic activities; hence the application of resources rather than their mere possession, (Coad and Cullen, 2006). These core competencies (also termed as resource-based theories or capabilities) assume that organisations comprise bundles of resources that may be heterogeneously distributed and that resource differences between organisations may persist over

time. Based on these assumptions, Coad and Cullen (2006) argued that when organisations possess resources that are valuable, rare, inimitable and non-substitutable, they can achieve sustainable competitive advantage through strategies that are not easily imitated by competitors. The fourth element of learning and change represented a powerful critique against certain aspects of the neo-classical economic theory of organisations. Coad and Cullen interpreted this theory in the context that it included no notion of an internal process of development in organisations, leading to cumulative movements in any one direction and consequently regarded growth as simply a matter of adjusting to the equilibrium size of an organisation. They argued that if services are produced endogenously through various intra-organisational learning processes involving increased knowledge of resources, new combinations of resources are possible. As such, organisational development is depicted as an evolutionary and cumulative process of learning about organisational resources, in which increased knowledge creates opportunities for further growth, (Coad and Cullen, 2006).

However, the empirical evidence is collected through the application of Burns and Scapens' (2000) institutional theory regardless of the criticisms made by Hopper and Major (2007). This is because Burns and Scapens' (2000) model adequately provided a general analytical and evaluation framework to investigate institutional change and most of their contributions/arguments - what is being changed/left unchanged, the pathways and timing of such change, management accounting being evolutionary, change classification along with the associated technological innovation - would inevitably lead to the achievement of the same results and points made by Hopper and Major (2007) on the theoretical triangulation - involving economics issues, dialectics and intra-institutional dynamics and the actor network theory - which refers to change processes.

In summary, the proposed improvements Hopper and Major (2007) need to be applied within the banking sector to be sufficient, whereas Coad and Cullen (2006) suggestions appears to be of no difference from those in theoretical framework that was used, also given the fact that they recognised that these interrelated and overlapping variables were of no difference to the well established/developed institutional theory. Burns and Scapens' (2000) framework highlighted the key focus areas for analysis, in the context of investigating the nature of organisational working structures, processes and practices as well as action plans and also generate the causes motivating organisational change such as the adoption of advanced management accounting techniques. The contributions made by the framework are also extended to the possibility of exploring and analysing the exact areas being changed along with new organisational rules and

routines, as well as what was left unchanged. The definition of change categories whether formal or informal, progressive or regressive, revolutionary or evolutionary, or a combination of a number of these categories, also form part of their framework. This institutional framework also enables the examination on the manner in which strategic change is sustained once implemented, more specifically in the context of its life-cycle from implementation to its maturity.

5.4 Conclusions

This chapter dealt with the institutional change dichotomies with various classifications, ranging from formal to informal changes, to revolutionary and evolutionary changes and regressive and progressive changes and the manner in which institutional rules and routines emerge, along with their associated implementation processes. The developed framework for institutional theory demonstrates the manner in which ABC/M can be used to create sustainable competitive advantages and support corporate strategy.

Overall, ABC/M develops various elements and attributes to assist management in the strategic planning processes, including strategy formulation and the achievement of desired set strategies. As such, the previous studies on the development of theoretical frameworks have their limitations; these have also been recognised and addressed in this chapter.

The next section, chapter six, deals with the strategy used in the collection of data/information in this empirical research, in line with the research question on how ABC/M as an advanced management accounting technique can actually support competitive strategy.

Figure 5.01: ABC/M's Theoretical Framework to Support Sustainable Competitive Advantages



Source. Framework developed by the author during the literature review (Domingo TM, UCT PhD; 2007). Each element and theme was extracted from various sources and integrated into the framework, (Lynch, 2000; Cokins, 1996; Pearce and Robinson, 2000; Kaplan and Norton, 1996 and 2004).

CHAPTER SIX

6.0 RESEARCH METHODOLOGY

6.1 Introduction

This chapter deals with the method that was employed for the empirical study to collect and analyse the information in order to address the research question. Researching sociological science assumes considering the ontology, epistemology and correct methodology to be used in the collection of information.

In order to have greater insight into the nature of reality, it was essential that the relationship between the researcher and the subject under investigation be integrated, in that the researcher needed to establish an adequate association with the research site through interaction with the key players, observation of the systems being used and involvement with the business society that formed part of the study. A case study methodology was used in order to create an in-depth understanding of how ABC/M can support sustainable competitive advantages, through the provision of cost-effective availability of products and services in the banking sector.

6.2 Type of case Study

Due to the fact that the institutional theory used in the previous chapter is a well developed and established theory, (Burns and Scapens, 2000), an explanatory case study methodology was seen as more appropriate in this research, (Yin, 2003; Martin and Kevin, 1999). The purpose of this research study was to investigate the contribution made by ABC/M, in support of competitive strategies within the banking sector. In particular, the research was intended to examine the strategic change imperatives and focus areas, explore the nature and capabilities of the information systems required for the new strategic change and focus areas, review the strategic cost management processes and investigate the application of ABC/M as part of the information systems to support the new strategic change and focus areas.

6.2.1 Case study definition

Yin (2003 and 1994) defined a case study as an empirical enquiry that investigates a contemporary phenomenon within its real-life context, when the boundaries between phenomenon and context are not clearly evident and in which multiple sources of evidence are used. Furthermore, Boris et al. (2005) defines case study as the development of detailed,

intensive knowledge about an individual case, or a small number of related cases. This strategy was of particular interest to gain a rich understanding of the context of research and the processes being enacted in the bank. Yin (1994) argued that case study is a very worthwhile way of exploring existing theory and practices. He further stated that this methodology was widely used and is very effective in management research. Yin (2003) argues that a case study enquiry copes with the technical distinctive situation in which there will be many more variables of interest than data points. This as a result then relies on multiple sources of evidence, with data needing to converge in a triangulating fashion. Jankowicz (1995) also advocates that case study methodology is suitable for explanatory, descriptive and exploratory researches.

6.2.2 Suitability

A single-case study method was used in this research because of the need to generate in-depth insights that would allow the testing of the institutional theory in order to confirm or challenge its usefulness as an explanatory framework that sheds light on the application of ABC/M. Also, the application of ABC/M in the SA banking sector represents an extreme or unique case, (Yin, 2003), when compared to other sectors, due to the high level of fees/prices charged on products and services. This facilitated an in-depth understanding of the strategic change imperatives of the organisation with particular emphasis on the strategic focus areas in an attempt to create sustainable competitive advantages through the supply of cost effective products and services. The single-case study approach also created a better understanding of the nature of management information systems and processes required to support the strategic thrusts. The use of a single-case study was also seen as the effective research method because of the complexities interfaced with the practicality of real-life issues, (Yin, 1994), associated to strategic cost management, along with the role of cost and management accounting.

As such, the application of case studies explains and describes the presumed casual links in real-life interventions that are too complex for the survey or experimental research methods, (Yin, 2003); this explanation would link program implementation. Also, the application of case studies can illustrate certain topics within an evaluation, again in a prescriptive mode. Yin (2003) further indicated that this method can be used to explore those situations in which the above intervention being evaluated does not have a clear, single set of outcomes.

Jankowicz (1995) believes that the case study approach has a considerable ability to generate answers to the question “Why?” as well as the “What?” and “How?” questions, although “What?”

and “How?” questions tend to be more the concern of the survey method. Due to the fact that the data collection techniques included interviews, observation and documentary analysis, this research method was a dynamic strategy of exploring existing theories within the bank and therefore challenging these theories while providing a source of new hypotheses.

6.3 The research setting

The site selected for this case study research was dependent more on the research question stated in Chapter 1 than on resource limitation and statistical sampling, (Eisenhardt, 1989). The consistent factors that influenced the research site focussed on the success of ABC/M implementation in settings where ABC/M information is likely to differ from the traditional cost information, where the organisational implication of changing cost systems is non-trivial and where ABC/M information is likely to be used to support competitive strategy, (Eisenhardt, 1989; Anderson, 1995).

The main focus of this research is within the banking environment to understand the use of ABC/M in supporting sustainable competitive advantages through the supply of cost-effective availability of financially related products and services in the SA sector. The SA banking sector has experienced extreme competitive pressures in the last couple of years. Mergers and acquisitions between local and international banking giants were some of the strategic options followed by some institutions, followed by significant changes from customer expectations in terms of value proposition, supplemented by the economic regulations, including the level of innovations and technology.

This sector was understood as a viable research site mainly due to the following reasons:

- (a) The growth in consumer demands on banking products and services such as telephonic and internet banking, smart, debit and credit cards and international transactions have empowered customers to select flexible service and innovative service providers, consequently increasing the level of competition.
- (b) A number of SA banks have experienced significant criticisms from their customers, due to unmet expectations on value-for-money in particular.

- (c) Government policy on consumer protection has questioned the integrity of bank charges, thereby intervening on the visibility between the costs associated with banking transaction and the income that banks receive from customers.
- (d) Innovation in the SA banking sector has become the catalyst behind the evolving financial services industry and the restructuring of financial markets.

The above problems have significantly transformed the nature of the SA banking environment. If customers want to open a checking account, for instance, they can go to the local commercial institute, savings and loan, mutual savings corporation, credit union or even a retailer. They can go to a brokerage house, or deal with a discount broker. They could also acquire bill payment services from financial software companies. Consumers can also maintain checking accounts in virtually any money market mutual fund or even a virtual bank, that is, a bank that only exists on the internet. If they want a credit card, they can get one from many depository institutions, gas companies, departmental stores and many national finance companies. These companies are now able to provide co-sponsored cards. Customers simply have more choices now than ever before when purchasing financial products and services.

It must also be pointed out that SA customers are consistently acquiring products and services from those institutions that they perceive as offering the best value for money. Perceived value consists of the perceived benefits offered by the institution's brand, its prices and the other costs of owning the products or services. Hence, consumers are continuously seeking superior benefits, lower prices or total costs of ownership.

It would appear furthermore that there is little visibility between the costs associated with a transaction and the income banks receive from customers. More information is required from banks to show the link between their own costs and what they charge customers. The main concerns arising from the inquiry relate to bank costs/charges and access to the payment system. It is not transparent how the banks arrive at the costs that they charge customers. The fees charged by SA banks are considered among the world's highest and stand in the way of more consumers entering the formal banking systems. Although the bank charges are currently a popular target by the SA government, watchdogs and consumers the world over, bankers counter that few consumers do much to manage them or to seek cost-effective alternatives. It is furthermore perceived that the SA banks may be colluding in setting the pricing of what was

designed to be a standardised and easy-to-understand product. Though the banks agreed on a standard interchange fee between themselves for handling payment transactions, the different pricing charged to customers raised significant concerns about anti-competitive practices.

Inevitably high innovation in today's emerging financial markets must be able to improve the competitive position, by the creation of sustainable competitive advantage through cost effective availability of products and services. It represents the systematic process of change in instruments, institutions and operating policies that determine the structure of the financial system. Innovations take the form of new securities and financial markets, new products and services, new organisational forms and new delivery systems. The recent trends incorporate technological advances with the development of cash management accounts, including the use of automatic teller machines, development of smart cards, debit cards, home banking via computer and internet, shared national and international electronic funds transfer systems and so on.

This research was done in a specific SA based organisation, but due to confidentiality, the identity of the organisation has not been revealed. The bank selected for this study is one of the four largest financial institutions within the Southern African region and has its head office in Johannesburg, with large operational business units in most major cities in SA, as well as other neighbouring states, for its local and global banking.

This bank provides a wide range of financially related products and services to three market segments. The three segments it focuses on servicing include retail banking, corporate and investment banking within the Southern African region. The bank is required to understand the ways in which ABM could support its strategy. It therefore needed to develop efficient and effective product activity information based on ABM technique. It further wished to establish accurate product costs information that would enable it to identify those products and services that appeared to be profitable and should therefore be accentuated and those that were unprofitable. Considering the SA competitive market, the bank also intended to differentiate its products and services that should be provided, but which contributed to the profitability of the bank, from those that did not make any significant contribution and that could also be curtailed.

Based on the existing situation, the approach that the author pursued in this case study was interviewing key management users and identifying their information requirements, taking into

account the best market practice and experience. Its activities were related to some or all of the following products and services: Private banking, Card services, Retail Banking, Corporate Banking, Corporate Finance, Payment Transmission, Correspondent Banking, Deposit Taking, Trade Finance, Life Insurance, Property Finance, Accident Insurance, Lending, Insurance, Investment Management, Development Capital, Foreign Exchange, Capital Markets, Treasury Management, Asset Management, Security trading, Stock-broking, Registrar Services and E-Banking to all business clusters or segments.

6.4 Data collection

Eisenhardt (1989) advises approaching data collection with a well defined research focus, using the extant literature to identify potential important variables, but not to specify the associated relationships among these variables. Anderson (1995) followed this advice by reviewing the literature on the implementation of information technology, changes within cost management systems and the ABC/M implementation experiences in order to identify variables that are likely to influence the ABC/M implementation success.

Also, the process of data collection responded to Eisenhardt (1989) who pointed out that the overlapping of data collection with data analysis not only gave the researcher a head start in analysis, but more importantly allowed the researcher to take advantage of flexible data collection. Additional adjustments were made to data collection instruments such as the addition of questions to an interview protocol or questionnaire, which allowed the researcher to probe emergent themes or to take opportunities which were presented in a given situation.

In line with the above discussed variables, it must be stressed that a stratified sampling was used in this research due to the dynamics of the organisation being investigated. Martin and Kevin (1999) define stratification as a modification of sampling in which one divides the population into two or more relevant and significant strata based on one or a number of attributes. The organisation was therefore stratified according to the management team, by different departments such as strategic planning, information systems, strategic cost management and the application of ABC/M at operational levels. The sampling frame was divided into a number of subsets. Hence, dividing the management into a set of relevant strata meant that the sample was more likely to be representative and ensured that each stratum was represented proportionally within the sample.

Only **three** divisions were selected for analysis. This is due to the fact that ABC/M is an operationally focussed management technique; as such, the only operational and customer facing division was the retail banking; the other two divisions included the group strategic costing that looks at the end-to-end cost accounting and corporate strategy. No analysis was done with the investment banking or the corporate banking division due to the irrelevance of ABC/M's application in these clusters. One way of reducing sampling error and increasing precision without increasing sample size was by employing prior information about characteristics of the management team. Also, due to the fact that the researcher wanted to focus more on an in-depth analysis, it was not necessary to analyse many settings. The respondents included in the sampling were from each cluster or segment that was selected. Representatives from each strata included Finance Managers, Cost and Management Accountants, Business Analysts, System Engineers, Operations Managers and Branch Managers. The justification for selected respondents was based on the need to focus on both the system users and the developers for the ABC/M model. As such, retail banking as the operationally oriented business unit was perceived as more appropriate to conduct this study along with its counter parts – corporate strategy and the group strategic costing which are the business sustaining units. These sections also presented opportunities to align the results to the institutional theory that was dealt with in the literature.

6.4.1 Interviews

The main data collection method employed was the application of detailed interviews. According to Saunders *et al.* (2000) and Yin (2003), interviews may be highly formalised and structured, using standardised questions for each respondent. One typology that was commonly used was related to the level of formality and structure.

Interviews were carried out through standardised semi-structured and unstructured interviews, which created opportunities to obtain the information. With semi-structured interviews, a list of themes and questions was used generated from the literature, although these varied from interview to interview due to different structural levels. This meant that the interviewer was able to omit some questions in a particular interview, given the specific structural context, which was encountered in relation to the bank's strategy. It must pointed that this did not affect the reliability of data collected because the researcher maintained a qualitative analytical approach on each respondent to ensure data integrity, as stated in the qualitative analytical protocol section. Unstructured interviews were generally informal. The interviewer used these to explore

in-depth areas of interest. Respondents were given the opportunity to talk freely about events, previous experience, behaviours and beliefs in relation to the strategic issues around ABM.

Interviews were not the only source for collecting information for evidence; the researcher also gathered data by looking at documentations, computer systems, costing reports, architectural designs, spreadsheets, graphs, strategies and management reports. Unlike interviews carried out with respondents to the survey, these case study interviews were often unstructured and even took the form of informal discussions with key informants. Informant discussions and open-ended interviews were a crucial part of this case study. The key respondents provided valuable insights through other sources of evidence, such as relevant documents including process maps, architectural business models and existing internal reports. Interviews were scheduled with people who possessed relevant information on the case issues and followed a particular structure in order to collect information.

6.4.2 Interview guide

Martin and Kevin (1999) and Boris et al. (2005) stated that qualitative research interview is not based on a formal schedule of questions to be asked word-for-word in a set orders, it uses an interview guide instead. This research used this methodology by listing topics based on the literature review which the interviewer attempted to cover in the course of the interview. Suggested probes and follow up questions were further used to receive satisfactory responses and elicit greater details from the participants.

The interview questions were all generated from the literature. As such, a high level of flexibility was necessary, so the development of this interview guide did not end at the start of the first interview. The interviews consisted on adding probe questions and, in some cases, an entire topic which had not originally been included, but emerged spontaneously. Questions which were incomprehensible to respondents or consistently failed to elicit relevant responses to the research questions were dropped or reformulated.

The questions included in the interview guide focussed on examining the strategic change imperatives of the bank, the nature of management information systems required to support the strategic intents, the role of strategic cost and management accounting and the application of ABC/M as part of the management information system to support the corporate strategies. Hence, the guide included more information-seeking questions, as indicated above, followed up

with probes to explore the respondents' views and experiences in more depth. Some questions were designed to assist participants to focus on concrete examples, rather than abstract generalities, which in principle is an important factor in this qualitative research.

6.5 Information Access Strategies

A request to undertake this research required the interviewer to seek access to a range of participants within the Bank. The interviewer acknowledged the potential difficulties of attaining confidential information using these potentially intrusive methods of collecting data. In this case, the interviewer approached the Bank and negotiated access at each level. The lack of status within the Bank, however, made gaining physical access a major issue to be overcome and remained a constant concern in negotiating continued and cognitive access. In this role, the interviewer needed to remain sensitive to the issue of goodwill, fostering it at each level and maintaining a high level of integrity. These were the key issues faced by the interviewer during this research studies.

However, there were concerns about the amount of time and resources that were involved in the request for access. The request for access was accepted because the amount of time and resources required were kept to a minimum; as a result, an average 1½ hours interview was negotiated with each respondent. However, while the achievement of access was realised where the demands were kept to a minimum, there was still a need to maintain honesty. The second area of concern was related to sensitivity about the topic. The Bank did not wish to present itself in a bad light in this highly competitive environment. This being the case, the interviewer was required to highlight a positive approach to the study by emphasising that the research would be designed to identify individual and organisational learning in relation to the ABC/M. The other area of concern was related to the confidentiality of the data that was provided and the anonymity of the individual participants. To overcome this concern, the interviewer provided clear assurance about these aspects.

6.6 Data analysis

The data analysis methods used in this research were in line with Eisenhardt's (1989) recommended techniques. The first method of analysis involved rewriting the interview transcripts to create a chronological account of ABC/M implementation. These were superimposed on one another and overlapping descriptions were compared to identify common

and unique conceptions of events. Archival records (such as finances, product costing and pricing) were used to corroborate event chronology and to provide a sanitised perspective of critical issues and their resolution during the ABC/M implementation process, Eisenhardt (1989). The second method of data analysis required dissecting and reorganising the original transcripts around major factors suspected to influence ABC/M implementation. The last method involved the examination process of whether ABC/M implementation was well described by the institution to create sustainable competitive advantages in support of competitive strategy.

Analysing the information also entailed the process of (i) Within-case analysis, as highlighted by Eisenhardt (1989), and was extended to (ii) Cross-case analysis in order to identify cross-case patterns. This involved the selection of categories or dimensions that identified within-group similarities coupled with inter-group differences. Follow up interviews were also conducted to fully understand conflicting views.

The main segments of analysis for this research included the customer facing SBU retail banking, which is the operations division, as well as the support division, which is the end-to-end costing and the corporate strategy division. Each SBU formed the unit of case analysis. The key areas of analysis in this study included examination of the bank's strategic change imperatives and focus areas, exploration of the nature and capabilities of the information systems required for the new strategic change and focus areas, investigation of the strategic cost management processes and evaluation of the application of ABC/M as part of the information systems to support the new strategic change and focus areas to deliver cost effective availability of products and services in the banking sector.

The documents that were analysed formed a rich source of evidence. These documents had a number of forms including information technology and systems, architectural design of costing models, inspection of real-life costing of products and services in computers, internal memorandums, financial reports, strategic processes, flow charts and so on. These were very useful in preparing the outline of data analysis and identifying issues relevant to ABC/M. Getting hold of documents for this case study required a systematic search approach and the researcher used interviews to locate them and asked for permission to access them. The obtained results were examined to achieve a significant parallel to the literature of this research.

6.7 Qualitative Analytical protocol

A qualitative analytical approach was applied to analyse and interpret the information in this research because of the need to conduct in-depth conversational interviews, and because of the contextualisation of the process used in the implementation of ABC/M. Lillis (1999) advocated that the analysis of any qualitative data involves the procedure of summarisation or reduction and the classification and interpretation of data or information.

The systematic approach suggested by Lillis (1999) was therefore applied in order to reduce the level of uncertainty and hence increase the level of trust in the research results. The information collected during the interviews was recorded, coded and aligned to the themes that were under investigation in an attempt to understand the manner in which the ABC/M is able to deliver cost effective availability of products and services in support of corporate strategies in the bank. The coding of information leveraged and enhanced the promotion of completeness of the data while leaving out the information that could have been deemed to be unrelated to the nature of the investigation. As such, the researcher was enabled to look for supportive arguments and evidence to minimise the level of bias, resulting in an audit trail enabling the reader to track and trace the source of the conclusions. Once the data was classified, sections of the transcript were selected in order to identify the patterns among these constructs. Having interviewed the respondents and recorded the transcripts, the data was sent back to each respondent to confirm the level of accuracy of the transcripts and also to get the authorisation for analysis and commentaries. From this, information was derived to conclude whether ABC/M can indeed sustain competitive advantages through cost effective availability of products and services within the SA banking sector.

The results and analyses of each segment are presented in a manner that reflects the respective areas in response to the research question. That is, it covers processes and statuses of the bank's strategic change imperatives, strategic focus areas, nature and capabilities of the information systems required for the new strategic intents, strategic cost management and the application of ABC/M as part of the information systems to support the new strategic focus areas.

The number of respondents interviewed and their positions, with names of the strategic business units, are given in Exhibit 6.01, shown in the next page. The duration of interviews with each respondent in these sections was for about 1½ hours. These interviews were based on the

interview guide (see database in the annexure) to serve as the reference for research questions. In addition to the notes that were taken manually, all interviews were tape recorded.

Exhibit 6.01: List of Respondents

Bank's Division	Respondent Position	Number of respondents	Period in Position
Group Strategy	Executive: Group Strategic Planning	01	07 Years
Group Strategy	Internal Strategy Consultant	01	05 Years
Group Strategic Costing	Executive: End-to-End Costing	01	10 Years
Group Strategic Costing	Management Accountant	01	06 Years
Group Strategic Costing	Cost Analyst	02	09 Years
Retail Banking	Regional Sales and Service Coach	03	18 Years
Retail Banking	Executive: Operations	01	05 Years
Retail Banking	Branch Managers	02	08 Years
Total		12	

The business units investigated in this case study (group corporate strategy, group strategic costing and retail banking) have a very strong working relationship. The first two are business sustaining entities and the latter is more customer-facing and operationally focussed. In order to simplify the accessibility and referencing, the database for all transcripts has been attached in the appendix A, B and C. References to the details obtained from each respondent are described and coded in the following manner:

- ◆ The Group Strategy Division = STRAT
 - A^(STRAT1) refers to respondent 1 in Appendix A. ^(STRAT2) refers to respondent 2. ^(STRAT1-1) refers to respondent 1 on question 1. ^(STRAT2-1) refers to correspondent 2 on question 1.
- ◆ The Group Strategic Costing Division = GSC
 - B^(GSC1) refers to respondent 1 in Appendix B. ^(GSC2) refers to respondent 2. ^(GSC1-1) refers to respondent 1 on question 1. ^(GSC2-1) refers to correspondent 2 on question 1.
- ◆ The Retail Banking Division = RETAB
 - C^(RETAB1) refers to respondent 1 in Appendix C. ^(RETAB2) refers to respondent 2. ^(RETAB1-1) refers to respondent 1 on question 1. ^(RETAB1-2) refers to correspondent 2 on question 1.

Yin (2003) indicated that the lack of formal database for most case efforts is a major shortcoming for case study research. This has therefore been rectified in this case study through the development of the raw data that led to the study's conclusions in a formal and presentable database that also provides recourse, as recommended by Yin (2003), and increases markedly the reliability of the entire case study. This database is also subject to separate, secondary analysis, independent of the report from this investigation.

6.8 Potential bias with qualitative analytical protocol

It was acknowledged that the qualitative analytical protocol did not eliminate all potential bias due to the manner in which the researcher decided to interpret the information from the interview transcripts. One of the means to control bias and to produce reliable data for analysis was to create full records of the interview with the use of tape recorders. This method was adopted from a number of researchers and commentators, such as Chivaka (2003), Boris et al. (2005), Jankowicz (1995), Martin and Kevin (1999), Yin (2003) and Eisenhardt (1989).

Some of the advantages of tape recording interviews included allowing the interviewer to concentrate on questioning and listening, formulate questions at interviews to be accurately recorded for use in later interviews where appropriate, re-listen to the interview, provide accurate and unbiased record, allow use of direct quotes and provide permanent record for others to use and so on. However, the author consistently requested permission to tape record, explaining adequate and appropriate reasons for such recording initiatives. This method also enhanced the control of bias and the creation of reliable data for analysis.

Furthermore, the applied level of consistency and validated coding and interpretation of the transcripts data enhanced the reliability of the research results using the qualitative analytical protocol. As such, the coding was performed consistently throughout the three divisions that were investigated.

6.9 Validity

6.9.1 Internal validity

This study was intended to investigate the extent that the application of ABC/M can support corporate strategies through the supply of cost effective availability of products and services within the SA banking sector. The relevant need of ensuring internal validity during the investigation and the application of qualitative protocol to evaluate the research results is of utmost importance.

Yin (1994) and Saunders et al. (2000) advocated that an exploratory research study allows an in-depth understanding of observations and a greater level of involvement with the organisation under investigation. This has to a large extent enhanced the reliability of information supplied in this research and has enabled the researcher to provide empirical evidence to support the conclusions. Furthermore, the development of the raw data that led to the study's conclusions in a formal and presentable database that provides recourse was applied in this case study, Yin (2003), and hence increased the reliability significantly.

Also, the lack of standardisation in the manner that interviews were conducted created a high level of reliability issues related to response bias. In relation to these interviews, reliability was concerned with whether alternative interviews would reveal similar information. The main reason for the potential superiority of this qualitative approach for obtaining information was the flexible and responsive interaction that became possible between interviewer and respondents, which allowed significant meanings to be probed, topics to be covered from a variety of angles and questions made clear to respondents. Under the circumstances where respondents chose not to freely reveal and discuss the aspects of the exploratory topics, probing questions were helpful.

6.9.2 External validity

The extent to which the research design was structured does not cater for generalisation, because the application of the findings and results to other organisations is highly questionable. This was of a particular worry because the study was based on one specific organisation and this organisation was markedly different from its competitors. Because this research was based on qualitative analysis and semi-structured, unstructured and in-depth interviews were used, it was not possible to make generalisations about the entire industry, due to the specific focus of a particular organisation and unrepresentative numbers of cases from its external environment. The search was therefore to produce a theory which is generalisable within the internal administration of the organisation under investigation. The task was simply to attempt to explain what was going on in the organisation to establish the extent that ABC/M could support strategy in creating sustainable competitive advantages through the supply of cost-effective availability of products and services.

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CHAPTER SEVEN

7.0 CASE STUDY RESULTS

7.1 Introduction

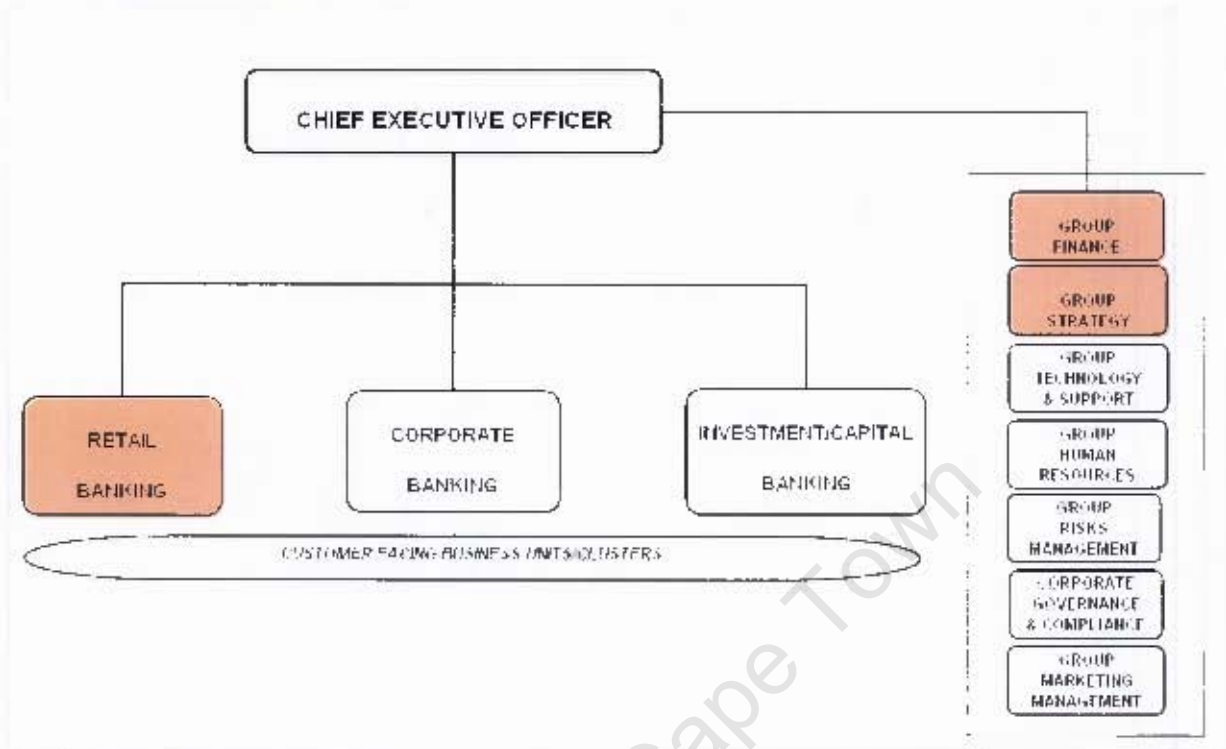
This chapter presents the results of the empirical case study in an attempt to understand the manner in which Activity Based Cost management (ABC/M) can support competitive strategy through the supply of cost effective availability of products and services within the South African banking environment.

This study focussed on the application of ABC/M in the bank and attempted to answer the following research question: *“How can Activity-Based Cost Management support Sustainable Competitive Advantages, through Cost-effective availability of Products and Services within the SA Banking Sector?”* Understanding the behaviour of all activity costs within the bank, linking operational and sustaining costs to the value chain in such a way that management can identify the factors that drive expenditure, managing these key factors effectively and ultimately controlling the costs plays a strategic important role in the current competitively environment. The purpose of this research study was therefore to investigate and analyse the contribution made by ABC/M in supporting the low cost strategic initiatives in the banking sector, through its products and services.

The bank is one of the four largest financial institutions in Southern Africa; in particular, it is the third largest financial institution in the region with SAR thirty billions turnovers and has its headquarters in Johannesburg, SA. The organisation's general strategic thrusts include the delivery of a world-class service level, enhanced customer centricity, enhanced innovation, improved profitability, increased market share, optimised risks and capital, full spectrum banking solutions for all, expanded distribution networks, accelerated expansion into Africa and continuous development of information technology infrastructure, application and systems.

The presentation of results in this case study is divided in **three segments**, or SBUs, within the bank selected for the study. The key relevant strategic business units or clusters that were studied are highlighted as seen in the organisational chart, Figure 7.02 (shown in the next page) and include the (i) Group Corporate Strategy, (ii) Group Strategic Costing and (iii) Retail Banking, all expressed as STRAT, GSC and RETAB respectively. The results are presented in their respective sequence.

Figure 7.02: Institutional Chart



Source: This chart was identified and modified by the author during the analysis of the organisation that was investigated, (Domingo TM, UCT – PhD; 2007).

7.2 Presentation of results

Section I – STRAT

(I) Organisational strategy prior to changes

Mergers and Acquisitions

STRAT's old strategy was focussed on ensuring organisational growth and development through mergers with and acquisitions of emerging financial institutions within SA as well as driving the disposal of non-core businesses. Its strategic thrusts also included the consolidation and re-organisation of non profitable strategic business units. The bank experienced continuous mergers and acquisitions during the last decade, which to a certain extent forced it to be interlocked in change in all its divisions.

Limited customer segments

The bank previously focussed on the high level niche markets, but has recently decided to be a bank for all – serving the entire market. It has adopted different strategic approaches and has even gone beyond the whole transformation process of being a bank for all South Africans. This is not just driven by the financial services charter, nor just to comply with the regulations but rather to be a South African bank. This has enabled it to expand from the high and private banking through to the un-banked market. When it launched its “Mzanzi” account, for instance, it was the last in terms of implementation, because it was still an unknown market.

(II) The conception of organisational change needs

This section highlights the key motivating factors that precipitated the need to change. Strategic change emerged because of the need to redirect and align the bank with the market expectations and to meet the intensified competitive demands. The increased complexity and uncertainty of the target markets have led the bank to base change on innovation, more specifically in the context of adopting untried technologies and management techniques.

Internal and external factors

The need to change was also motivated by both external and internal pressures in order to meet future competitive challenges. The ambition to become a highly rated and respected SA bank increased the sense of urgency for repositioning of the bank to a level where it would be able to serve clients well. It also intended breaking down organisational hierarchies, to give all people in the organisation the same type of opportunities. The theme of “a great place to bank” mainly refers to how it would become the best in the market through what it chooses to do. It is generally difficult to differentiate in financial services, but innovative banking is at the heart of change.

Strategic change in management accounting was also prompted by the fact that strategic cost management is a function that has become popular within the bank. The economic recession continued to affect the whole SA region, increasing the potential mergers and acquisitions among banks (both local and international). As a result the need to focus attention at board level on the vulnerability of the profitability has become imperative. Change was also effected by increased competition, governmental regulators and the global economic pressures. In particular, vigorous competition made the achievement of profit targets more difficult and forced the institution to be more cost and customer conscious. Government pressure on consumer

protection also increased cost consciousness when it made the inquiry into product fees/prices, after it emerged that banks generated several billions of Rand as pure profit. The inquiry has led to a formal investigation into how banks arrived at the fees they charge customers and whether they are hindering competition

Distribution and customer service

Product and service distribution appears to be difficult to differentiate and the bank is perceived to be far behind its competitors. It does not have a broad network around Southern African, as opposed to its largest competitor that has branches throughout the region. The bank also does not find it profitable to extend its networks in one of the areas where its largest competitor already has high market share, particularly in the rural areas. However, it believes that the area which it can build on and compete in is customer service, because it is generally viewed as an issue for many financial institutions. Even though most banks can improve on customer service, no one owns it, so there are always examples of poor services within the banking sector. Customer service is not just about going into a branch of a bank; it is about understanding the clients, understanding the client's needs, understanding the client's needs better than the competitors and doing all this with the lowest error rate. In business banking, the bank has a high market share in wine and diamond industries because it employs people who are experts in those business target markets. It knows when a wine farmer needs an overdraft; it knows the industrial cycles so they are good at servicing those clients. The manner in which it takes this advantage and broadens it to all other sectors remains a challenge.

Uncompetitive product pricing

Uncompetitive pricing of products and services was perceived as problematic by customers due to high product fees. Many calls to innovative banking have been made by experts in areas such as trust. The bank receives people deposits, lends out money and hence needs to be highly involved in the communities and environment in which it provides such services.

(III) The formulation of the new strategic approach

This section contains the discussions on the formulation of the desired strategic response to the organisational challenges, along with the characteristics of the new competitive strategy.

Strategic thrusts

The bank's competitive strategy needed to be designed in the context of being a full spectrum financial institution by providing a comprehensive range of related banking services and products to its clients, with an aggressive focus on the basics of banking to meet the financial services expectations of its clients, while also delivering products and services to its international banking clients, including those corporate clients that are involved in multinational businesses. All strategic business units are integrated into STRAT1 framework. This strategy caters for the entire organisation and includes business sustaining functional divisions, such as the GSC, risks, HR and technology. STRAT ensured that the organisational strategy was designed, developed and implemented throughout the bank to maintain its market position. RETAB wanted to focus on rendering full retail banking and wealth management services to the target markets. Its main areas of operation include personal loans, banking cards, home loans, various product solutions, international banking operations, bank-assurance and wealth distribution.

With changes to competitive strategy, the guidance from external management consultants was sought to develop a strategic plan to effect the repositioning of the organisation. Some of the key focus areas included the optimisation of the business mix by growing its retail banking division and improving its client and product mix, driving growth in transactional banking, building a high performance team through governance structures, instituting a client-driven business framework. This was done by creating customer-focussed capabilities and simplifying business processes that deliver speed to market. As such, the high level strategic thrusts that would deliver the organisational strategy include the alignment to a customer driven framework and acquisition and retention of customers with transactional banking emphasis.

Strategic focus areas

The bank's key strategic focus areas included the following: optimising the business mix by growing its retail banking and improving its client and product mix, moving beyond transformation as a business imperative while demonstrating the bank's commitment to South Africa and driving growth in transactional banking. Others included building a high performance team through governance structures with clear accountabilities, instituting a client-driven business framework by creating customer-focussed capabilities and simplifying business processes that deliver speed to market. The high level strategic thrusts that would deliver the organisational strategy include the alignment to a customer driven framework, acquisition and

retention of customers with transactional banking emphasis and creation of intellectual capacity through high performance management and brand transformation. At group level, STRAT became focussed on the key drivers that would enable the bank to be a great place to work and bank. This was supplemented by various aspirations such as being the global benchmark in risk management and community involvement, with a return to its shareholders of not less than 20%.

Strategy workshops

The corporate competitive strategy was formulated at three levels; namely RETAB, corporate and business banking. However, ABC was perceived as less relevant at this level as opposed to the tactical strategies at operational levels. For example, in RETAB, the bank has cards and home loans; at a group level they are responsible for the business direction and what would be the key drivers in both the micro and macro environments. Various strategy sessions and workshops were held in order to develop a common objective that would drive the bank into profit sustainability. The macro environment was seen as conducive for good growth and hence a more profitable business with better returns in retail. The business was dependent on the number of clients it had, but the investment banking was more dependent on the type of skills the organisation had, due to the magnitude of business deals.

Strategic reviews

Quarterly reviews of strategy performance created possibilities for ensuring effective strategy execution. The strategic position of the bank was developed in such a way that STRAT created a picture of where it planned to be and each year the bank assesses progress made towards that destination. There was a risk that management would be pricing its products and services and lead the organisation into loss. As such, STRAT later realised that the 20% market share was not attainable within a year. This correlated with transactional banking in terms of how it could get more transactional accounts into its system.

Use of mobile stations (branch)

STRAT embarked on different initiatives such as opening up branches in a box, a mobile container that is placed in a previously underdeveloped environment where they can service those clients. As client base grows it would create capacity for a formal infrastructure. This has forced STRAT1 to be more creative and has made improvements on customer acquisition. This was supplemented with the integration of some of its subsidiary companies which have now

enabled it to create one brand. The bank assumed that it could be a revolutionary product leader but this was highly influenced by the market forces.

(IV) Change management processes

This section highlights the processes of change management that entailed the implementation of the new organisational strategy. The achievement of the STRAT growth plan needed to be aligned to the organisation's vision. The vision formed the basis of the entire organisation, from chief executive officer to teller level. It was consistent and basically looked the same throughout the organisation. A teller needed to know, for instance, the manner in which she/he conducts him/herself, how the job related to cost reduction and how individual performance would assist in the achievement of the bank's growth. This is furthermore extended to a perspective of how individual performance drove transactional banking growth throughout the organisation, (see A^{STRAT2-37, item i}). The high level of employee participation facilitated individual employees feeling that they could take ownership of the competitive strategy change program as it evolved and this reduced the level of stress among staff members during the change phase.

Due to the fact that strategic change was driven by the ever changing markets with intensified competitions and regulations, the change with competitive strategy resulted in an interaction of different kinds of relationships, rules and routines, structures and people. Clear understanding of the details of the strategy among stakeholders, including employees' participation, was apparent before embarking on its implementation. The decision on its implementation was done through different approaches, both bottom-up and top-down as combined roll-out methods for the entire organisation, which were agreed on during the strategy formulation process and communicated to the business.

Senior management then agreed on time lines with a specific starting and finishing framework; these times were conveyed with a sense of urgency to maintain motivation. A detailed roll-out plan was developed and included both the timelines and the strategy agreed upon with all key stakeholders responsible for their respective divisions. The team included in the definition, formulation, design, dissemination and delivery of tasks and responsibilities was of common views and sponsored by top management. The strategy project team then set the goals and milestones and monitored progress in order to keep the project on schedule and within budget. Potential risks or problems were flagged as early as possible with prepared contingency plans

available. They also established the ground rules for the project team with particular emphasis on information sharing, decision making and reporting during the change phase.

(V) The need for relevant management information

The need to have relevant information for the new competitive strategy which the traditional information system was unable to provide is discussed here. The traditional costing systems assigned operations costs to products and services based on volumes produced. The predetermined rates of operating costs continued to increase significantly when compared with its competitors. Furthermore, the operations progressively became driven by highly obsolete technologies and leaders raised concerns that products and services were consistently over costed. This created a position where the organisation became unable to compete against other institutions that offered lower prices on similar or same products and services. The inability to compete in such an environment created continuous decline of its profitability. Other key drivers highlighting the irrelevance of the previous management systems are as follows.

Cost distortion

The level of cost distortions, along with more diverse products, services and processes within the bank, required more overhead expenses being allocated in the determination of final product costs. The impact of cost distortions was greater within the bank and at a higher proportion, with the overhead costs. The level of overhead relative to total costs was frequently cited as the major factor influencing the bank to implement the ABC/M. The implementation of ABC/M was due to the need to generate information that was to be useful in decision-making. Also, the competition authorities were concerned that the bank was colluding with competitors in the setting of prices for products and services. These prices were not designed in a standardised fashion and were therefore not easy-to-understand by the consumers, as anticipated in the institutional theory.

Pricing processes

One of the competitive disadvantages was that the bank lost clients because it traditionally priced the products and services incorrectly. The bank had a model which classified client risk class; some clients were high risk and needed to be priced accordingly. For their good clients, the bank would charge prime or less a percentage point. This pricing process was not efficient throughout the bank.

Strategic cost management needed advanced costing solutions and hence the emergence of ABC/M, to improve the accuracy of product costing. This emphasis was also extended to performance reporting using multiple cost drivers allowing for more accurate budget calculations and, thus, for a more meaningful comparison of actual and budget costs. This emphasis also influenced performance and, as a result, management would seek a broader approach focussing on customer's total perceived quality against operating costs.

The bank implemented a completely new organisational architecture, concentrated on financial planning modelling and architecture, by redesigning the whole bank's infrastructure. The challenge was, however, in the automation of its process, in order to get quicker turnaround results. Some or all these new business reengineering processes were integral into the ABC/M, (see A^{STRAT1-20}, item 1). The advanced program (ABC) anticipated substantial value-add to the bank's decision making processes, particularly on the costing side. It was a project with an expected roll-out life cycle of three years and required an investment of about SAR200 million. Such investment was also driven by the fact that the bank was previously known under various strategic subsidiaries for the group, which are now all integrated into one brand. As such, the application of the proposed socio-technical system created the capacity required to achieve speed-to-market with the introduction of new products and services, as well as the development of the existing ones.

Systems capacity utilisation

The change in information technology has delivered possibilities for increasing the bank's ability to adapt to its ever changing market conditions. This could also optimise effective utilisation of its current capacity, in a context that improves operational deficiencies and reduces operating costs. From an operational perspective the old management information technology did not add significant value to tactical strategies, such as hedging. Some of the biggest issues that the bank experienced in the last couple of years included the fact that it did not hedge in interest rates, and it did not hedge against foreign exchange, which meant that with the country's currency strengthening, the bank experienced huge losses. Other consequential damages included the fact that bank allocated funds off shore instead of leaving them in the country and when the SA currency (Rand) later strengthened, the value of money held offshore (overseas) dropped consequently. The bank had to write off millions of Rand. Risk exposure, operations, international trends and other transactions were not tracked and traced due to the inability of the traditional system.

Innovative management systems

The creation of an innovative management information system capability was on top of STRAT's agenda. The entire innovation process was integral to the cost associated to different projects and was also linked to improving management information systems. The selection of ABC/M as a management accounting technique was based on diverse criteria, some of which were driven to improve cost performance. The key factors that drive the costs associated with the use of technology were generally at a strategic level. Investment in technology resulted in material impact on the overall cost structure of the bank. The strategic cost drivers associated with technology were perceived in the context of suitability with the level of automation, the degree of innovation, the optimisation of capacity utilisation and the level of integration across the entire bank.

Validity of information technology

The traditional technology was progressively becoming obsolete, which is similar to most banks countrywide that still utilise banking accounting systems implemented twenty to thirty years ago. The technology around the cell-phone banking systems, for example, is basically new. The balance between the old systems appeared to be disrupting clients, so it was not simply the fact of just replacing them with new systems. The bank and its competitors worldwide continued to struggle with the number of systems in the market. The corporate banking division, for instance, has highly innovative systems that are different and are customised to current account systems, cash processing, and property loans and so on. The new system (ABC) that was built is flexible with a platform that will reduce the level of complexity in transactional processing.

Both STRAT and GSC believed that it did not need to completely modify the different components of the core traditional system; a change of the platform itself was best to optimise transactional banking, with the ABC system. Changing interest rates in the old system, for instance, the bank generally went through different system codes and in some cases found that the system was not flexible. Going into different codes, assuming eight becomes nine, the bank would need to find all the places where the codes would be located within the old system. Information from such systems needed to filter through to other systems (including the ABC/M). The bank found that there was a significant amount of re-engineering that was normally required in order for change to take place. This as a result also contributed to the amount of operating activities – cost drivers that were required to perform accurate costing and develop product

pricing to support the strategy. So system flexibility was of strategic importance, in order to provide accurate cost information and conduct appropriate calculations on client pricing and profitability, (see A^{STRAT1-20, item iii}).

Customer account information

The bank had in the corporate space made good progress with what it called strategic account planning which looked at clients, what are the clients' needs, who within the bank has had contacts with the clients – this was one of the simplified processes to minimise costs on customer acquisition and retention. The creation of a single view on clients was another approach that STRAT undertook in its efforts to minimise operating costs, (see A^{STRAT2-24, item i}). There were many instances of branch staff opening new accounts for clients without verifying whether the client already had a profile. The bank would find that a client had five different records or accounts. The manner in which the bank attempted to resolve this was by creating a system link where all products and services were linked to that system with a purpose of reducing processing costs. Customer profiles could range from the old systems, home loan, current account, card system and so on. There was a need to get these systems to talk to each other. Another contributing factor to process cost was that a client may have changed physical or postal addresses over time; this added to the complexity of resource consumption which in turn became a cost driver.

The bank had other challenges caused by the integrations, mergers and acquisitions with all its multiple companies (its subsidiaries). Deficiencies within the old management information mechanisms included the fact that it had relatively good analytical ability, but could not consolidate as much data for analysis as they would need. It was stressed that a large portion of data was irrelevant information in the markets.

Decision support systems

Strategic information management is about interpreting customer information and requirements and then managing them profitably. So, by running an efficient operation and managing cost effectively, products and services could be supplied to customers at the best prices. The bank needed to equip itself to make decisions on cost reduction by managing the activities that consumed resources, so that activities instead of product costs are managed. This was analysed by the type of customer, geographic location and distribution channel. The analysis took into consideration the proximity of the provision of the service, the speed of delivery and

the convenience to the customer. The bank conducted market share analysis each month, looking at client statistics and cross sale statistics, to understand how many products and services it has per client and to identify the new and lost accounts. It furthermore ensured clear understanding on the primary client status, the number of accounts held and the respective profitability per client.

Cost accountability

Both STRAT and RETAB needed to drive transactional banking, so that divisional heads and managers would take full ownership and accountability to tighten cost measures. One of the reasons include the fact that analysis showed that in order to cross sales; the best way to do that had to have client's transactions on the database.

(VI) The adoption and implementation of ABC/M into the bank

The suggestion to seek better and innovative costing techniques, such as the implementation of the ABC/M, emerged from the chief financial officer, whereas the change of competitive strategy was driven by the chief executive officer. It was believed that by creating the capacity for accurate costing, with the availability of cost visibility as enabled through the application of ABC, the bank would be able to improve its profitability, provide cost effective products and services to its clients, engage in financial intermediation and manage risks more effectively, in order to sustain competitive advantages.

Decreased profitability

Due to continuous profit decrease compounded by an ever growing competition, it was necessary for a decision to be made with a sense of urgency on how to improve costing techniques. In response to these challenges, the chief financial officer decided to investigate other possibilities of improving costing processes. This resulted in the creation of the executive committee to seek alternative solutions to reduce the level of cost distortions that the traditional costing systems delivered, which led to the formation of a project

The project team identified two prerequisites of ABC/M becoming a corporate strategy: firstly they had to demonstrate that ABC/M was applicable to a variety of processes within the bank and secondly they needed to align ABC/M to competitive strategies for improved performance and show that ABC/M would improve decision making processes. Due to the recognition of

problems with the old cost accounting practices, they were able to influence senior management to consider ABC/M as part of its corporate policies.

Cost transparency

The lack of visibility of the costs associated with transactional activities, including the income that it receives from customers, has motivated the requirement of clarity on the information which would show the link between its operating costs and what its customer charges, and hence the emergence of a new strategy. STRAT approaches RETAB's strategy in a context of what the bank would like to do, because the card division, for example, appeared to be highly attractive. The objective was to have a single view of the client and operating costs, (see A^{STRAT1-36, item i}). The structured monolines - a bulk revenue centre where all incomes, as depicted in Exhibit 7.03, (see annexure) are initially kept and then allocated to their specific departments or revenue centres, have card people and home loans but the broader strategic view was to assess clients holistically, with an assumption that clients have financial services, not just cards. A card may just be a product to satisfy a particular need; the bundling of products would become more important, by creating a card with vehicle finance for example, and establishing a holistic view on a client rather than on a product. So when they look at a card, integrating it to the retail banking and assessing how these things fit together creates a good proposition for different segments in the retail market. With this, the focus would shift to a broader portfolio management.

Cost accounting

Cost centres for strategic cost management include the products and services from generic product groups that were operationally performed at branch level, such as lending, deposit taking, transmission services, trade finance, foreign exchange, corporate finance, life assurance and health, marine and motor insurance. They may be differentiated by customer type such as corporate or retail, or by geographic area such as country or region. For product cost accounting and customer profitability, the products and services defined are normally those to which revenue generated from the various business areas, as seen in Exhibit 7.03, can be attributed or which the customers will identify as being different from each other. However, in response to the question of optimising profits in the context of different channels, such as with mobile banking, the bank needed to fully understand what it costs to do a transaction via a branch versus those done through cell phone banking. The transactions done via the latter method might cost less than the total cost of the other because a branch has tellers, people, systems

which would be much cheaper than transacting via cell-phone. As such, ABC/M was viewed as an effective technique for a product cost accounting framework when developing new products and improving existing product lines. It was also perceived as a powerful model in achieving competitive advantages and in providing operational excellence and discretionary product development data. The approach further provided a more factual basis for decisions involving strategic changes of the service and product option offered by the bank.

STRAT could only understand profitability if there was a clear understanding of the associated operating costs. The management accounting role was to ensure that STRAT had a much better view of the profitability of its products, (see A^{STRAT2-21, item i}), so that it could make effective strategic decisions on products and services that were not profitable and therefore not worthwhile to sell to the end customers. There might have been some products and services which the bank may have wanted to sell and which were not as profitable as the current accounts, for instance, (as shown in the annexed Exhibit 7.03), but there would be a different purpose, because it would want long term relationships with the clients. The effect of operating under this new system was, however, characterised by a number of challenges due to uncertainties and misunderstanding among accountants and financial executives because of the fact that they needed to realign themselves appropriately with the new roles and accountabilities that were redefined in accordance with the new operating system with ABC's implementation.

Process reengineering

To address the challenges of what drove the RETAB process efficiency, the bank looked at the characteristics of reengineered processes and enhanced performance. The bank has better process performance when one person or a small group of people is dedicated to managing across all of the processes touched by the consumer. The bank had a person with some kind of industrial engineering function that spans the traditional business unit boundaries to create a process focus. Smaller branches are more likely to have this person since their operations are typically not as sprawling either geographically or in terms of span of control as the larger geographic regions. In larger regions, there is typically no such person, which explains some of the lower process performance.

Business risks

The optimisation of operations risk and capital in the bank was structured around market experience which was a new way of allocating capital in business. One of the greatest focus

areas was the process of risk identification, due to the nature of implications of highly priced products such as credits. STRAT believed that failure to rectify the process of business risk may have led to potential loss of customers. As a result the bank had established certain targets around its capital, because it had to rely on a certain amount of capital against funds which it loaned to its clients. About two years ago the bank lacked sufficient capital, and as a consequence had to make provisions on business areas that were not profitable. Now it is in a position to either invest these funds to growth opportunities or pay the funds back to shareholders through dividends. These targets are to a certain degree also aligned to the principles of ABC for risk management and product costing accuracy, (see A^{STRAT2-37, item ii}).

Accurate reporting

There was a need to understand the cost behind the processes and transactions, (see A^{STRAT1-27, item i}), including its revenues and how all transactions fit together; this is where ABC came into action. Exhibit 7.03 (see annexure) summarises the sources of revenues or income for this organisation. It is very important for the bank to lower its prices and understand the cost structures. The bank's reported cost structure is perceived as a component of high strategic importance. In order to optimise product mix, it needed to focus on selling the right products and services to the right markets. The question however was to determine whether it had to continue supplying products and services that were not highly profitable or only attempt to sell products that were profitable, such as home loans for instance.

(VII) ABC/M's attributes that support competitive strategy

This section deals with the specific areas of ABC/M and explains the manner in which ABC/M was able to make a difference in support of the new competitive strategy. Essentially, ABC/M has become useful for management to find hidden costs and profits, as well as hidden losses in its relationships with customers. Other attributes that support its competitive strategy are discussed below.

Improve product pricing decision-making

The process of establishing the right product pricing received tremendous consideration from senior management, (see A^{STRAT2-36, item ii}). STRAT basically started off with target setting, projections that by a certain period it needed to deliver 20% ROE – as a commitment to the market. The process included reengineering management processes to reduce impairments and emphasised the fact that costs needed to be as effectively contained as possible, with an

objective of understanding pricing efficiencies. This resulted in a significant price reduction of up to 15%, (see A^{STRAT1-36, item iii}). The strategy around improving and growing the bank's income focussed on the various market share components, margin components, annuity streams and so on. Its key strategic drivers included financial banking as an important aspect and optimising the recovery of its market share. In order to achieve all this, it had to use a logical framework, with an understanding that changes in the introduction of ABC would comprise a number of inter-organisational processes in association with both its internal and external environments.

The process that enables STRAT to be proactive at making strategic pricing decisions for its products and services is viewed through the cannibalisation of its own processes and enhancing organisational transformation, (see A^{STRAT1-24, item i}). Being fundamentally a client focussed organisation, STRAT ensured that this process of cannibalisation, along with organisational transformation, became part of its strategy. Customer centricity needed to be based on various factors; for example, all statistics on various management levels, financial services charters looking at equity, measures on senior management, middle management, lower management, the manner in which it recruits its employees into the organisation and the way in which it uses the available skills to optimise costs became driven by enhancing customer satisfaction. This required the introduction of action plans to support and trace both the processes and the timing of change of management accounting, as outlined by the institutional theory.

Strategic planning and value chain

The manner in which ABC/M assisted STRAT in strategic planning was primarily with the identification of the level of flexibility within the cost base. This flexibility related to the ability to utilise accurate costs already incurred in order to create sustainable competitive advantage and highlight the incremental expenditure necessary to pursue certain changes. ABC/M is also used in the development of value chain analysis and assists STRAT in breaking down the strategically relevant functions in order to understand the behaviour of costs.

Product profitability

Use of ABC/M assists senior management to leverage costs and channel product profitability information through the application of ABC, integrating ABC/M with performance management, hence creating cost visibility on business processes to support operations improvement, with an overall view of strategy support. The bank has also made significant modifications to its product mix to ensure that both profitable and unprofitable products are visible and maintained within the

product portfolio to deliver a competitive position that is enhanced and carefully monitored to ensure that profitability is maximised within the levels of capacity and that cost profiles are attainable within the equity base. Given the emphasis on fixed costs in the bank's environment, cost volatility appears to be a significant problem. Although a large proportion of operating and overhead costs are fixed, for a short-term for instance, interest and claims-related costs are generally volatile. As such, the ABC solution has led the management to apply different tactical strategies to understand product costs better. In corporate banking it might be more about risking capital while RETAB is more about market share growth and transactional banking, but in a support service like HR, the focus would be more on building intellectual capacity (given the understanding of costs), relationships and culture.

Cost visibility

There was a significant demand for accurate, reliable, readily available and transparent cost information. The bank has various products and services along with their cost drivers as shown in Exhibit 7.04 (shown in the next page), an extract on Exhibit 7.01 (see annexure), which require absolute visibility and attempts to understand the costs from an ABC perspective. Other operating cost may include cost of funding; if the bank loans money to a customer it would need to fund it through different channels, with different interest rates, wholesale funding and so on. International statistics indicate that there are more customers borrowing from the bank than actual depositors; this is described as more outbound funds than inbound funds. The manner in which the bank actually sets prices for this is another challenge that requires accurate cost information and visibility, given a customer's risk profile as well as the bank's funding structure, because where it receives the funds dictates how much the bank charges the clients. As such, cost visibility enables STRAT to understand what makes up the cost. On a high level, this is the costing of funding as opposed to the actual activity performed. Thus executives now have full visibility and understanding of the dynamics of the strategic cost and income profiles within the bank in order to ensure that the strategic objectives concentrate on improving the shareholder value in both the short and longer term. This is only achieved by understanding the factors that negatively affected the profitability of the various aspects of the bank.

Exhibit 7.04: List of activities and cost drivers

BUSINESS ACTIVITIES	RELATED COST DRIVERS
Documentary services dept Payment of collections Accept draft in respect of documents presented Payment of documents presented under LC	# of inbound collections paid # of draft accepted # of payments made
Foreign exchange dept Travellers' cheque purchased Mail transfer set up spot deal	# of cheques purchased # of mail transfer made # of spot foreign exchange deals
Payment services dept Effect payment by bankers' payment/cheque Effect payment by EFT Issue of draft	# of payments by bankers' payment/cheque # of EFT payments made # of drafts issued
Loan service dept Open account Fixed rate mortgage Close account	# of loan accounts opened Level of detail required # of loan accounts closed
Branches custodian services Issue of special corporate cheque books Lodgement of safe custody items Rental - per month	# of special corporate cheque books issued # of items lodged # of items held
Counter services Issue of personal cheque books Issue of cheque cards ATMs Currency/cheque pay in - commercial	# of personal cheque books issued # of cards issued # of transactions made # of transactions made
Management Strategic planning Marketing Product development Organizations and Methods	Level of detail required Level of marketing activities Frequency of new product development # of branches
Human capital Recruitment Training Employee relations	# of applications/recruitments # of staff # of staff
Finance Account payable Bank reconciliations Consolidation Tax management Cash management	# of invoice paid # of payments made/received # of units to consolidate Complexity of the tax environment # of banking relationship maintained
Information technology (IT) Contingency planning Capacity planning Computer operations Network support	Level of detail required # of hardware platforms # of transactions Size and complexity of the network

Source: Maberley J (1996); *The Price Waterhouse Guide to Activity-based Costing for financial institutions*. Irwin professional publishing – Modified.

Cost determination

The group technology support services are used by RETAB, corporate banking offices and private banking; as such, the determination of costs associated to operations such as product development, distribution, risk management, processing, customer service, marketing and sales are related to any cost driver as established through ABC.

...The accuracy of cost information would eventually lead to consumer products and services being priced correctly and hence resulting in improved customer satisfaction and retention thereof...A^(STRAT1-40, item ii)

Hence, cost determination in the context of cost drivers has been most useful in strategic management and enabled greater understanding of the factors that cause and drive the various costs of the bank's operations, i.e. ATM's, card services, treasury, insurance and private banking, including transactional banking.

Scaled economies

The use of ABC has provided other benefits with regards to costs associated to communications, i.e. the cost of transacting a phone call, telecommunications cost, branch cost, staff cost, product development cost, electronic and so on, (see A^{STRAT2-37, item i}). To create economies of scale, STRAT entered into strategic alliances with SA insurance coverage firms, decided to use its group bargaining power to renegotiate a contract with a telecommunication company and found that great cost reductions were generated due to the volumes. Hence, to reduce costs, the bank was making its processes more efficient; communication costs were made visible resulting in a renegotiation of terms and conditions. In terms of employees cost, the bank does employ as many people as one would expect, but it prefers to automate its systems, so instead of handling client enquiries about specific bank balances, ATM or internet, clients can literally do that themselves. This is integral to the search for ways of improving the costs of a transaction or product. Also, by understanding cost correctly, STRAT embarked on an initiative of outsourcing strategy and managed to source contracts to do all card processing for one of the major international financial institutions; this as a result became successful in that by interfacing with clients (external) from the acquired institution along with its own (internal) client base. The strategic intention was to attract and acquire additional (bulk) international clients and provide them with the local benefits with connections to its local current infrastructure.

Decision-making processes

In strategic decision making, STRAT uses two schools of thought. The first is the porter approach which recommends looking at the entire industry, looking at suppliers in a context of competitive analysis, aligned to the organisational sense of purpose. Criticism against this school of thought is that the management is so preoccupied about what competitors are doing that it may always be chasing its tail. The second approach is what STRAT calls 'creating ones own future'. In an attempt to utilise both methods, particularly in the context of what the future would look like in ten years time, assessing the macro economics, moving away from west to east, it becomes challenging to determine what are the choices that can be adopted to make and sustain the survival of the organisation operating in that environment. On the other hand, demographics and mind sets change continually, so instead of looking at competitors, the organisation should rather be looking at the future and how it will get there successfully. The bank does not generally know what competitors are going to do but it is in a position to know roughly what the future is going to look like. Hence, a combination of both elements becomes integral to the assessment of consistent historical reviews of strategies, costs, operations, customer acquisition and management processes through ABC/M's capacity.

....The end result in mind is really to have customers being serviced efficiently and effectively. As such, improvements in operations would lead to minimised wastes and reduced operating costs...A^{STRAT1-40, item i}

STRAT has embarked on hedging techniques; with the current MIS, it understands the business risks better, what could happen in the future, and is able to determine what would be the likelihood of interest rates going up or down. It now has a much closer alignment to the market both locally and internationally. There are a number of ways in which changes made to the management information's old systems assist in the formulation of the group's strategy. The bank has operational processes where on a monthly basis it tracks and traces variances through ABC. It receives information from the traditional MIS within the business, i.e. external MIS such as market share data, and investigates how it could perform well against competitors. It also uses a concept called 'DuPont' where it takes its net interest income over its average interest earning assets, or the ratios; it tracks and traces that every month against its budget and against its creditors. Also, the introduction of a new management information technology has to a certain extent eliminated its dependence on in-house labour.

(VIII) Conclusions

The key observations in this SBU (STRAT) include the fact that ABC/M was adopted due to decreased profitability. The lack of cost transparency, inefficient cost accounting, requirements for continuous process reengineering, accurate reporting increased the level of business risks; this motivated the implementation of an innovated management accounting systems. The key attributes that support competitive strategies include the following: improved product pricing, decision-making, strategic planning and value chain, product profitability, cost visibility, cost determination, scaled economies and improved decision-making processes.

Section II – GSC

(I) Organisational strategy prior to changes

Volume based costing and cross subsidisation of products and services

The old strategy was focussed on delivering cost and financial accounting with volume based costing through the utilisation of the traditional management accounting systems. This volume based costing consequently led to the cross subsidisation of products and services. The second key aspect of its old strategy was driven by ensuring cost effective management reporting and leading the advisory role within the accounting framework.

(II) The conception of organisational change needs

The key motivating factors that precipitated the need to change from the old traditional management accounting systems to advanced management accounting techniques are highlighted in this section. The initial conception involved a broad search for solutions, through the formulation of a project committee that had an objective of conducting a feasibility study of ABC/M. The main incentives for implementing ABC/M were to increase product cost accuracy, improve cost visibility, reduce cross subsidisation and optimise product mix in order to improve cost performance and operational improvement, which would result in enhanced customer satisfaction and organisational profitability.

Cost visibility

Cost reporting and end-to-end visibility are the most important key strategic intents of GSC. The framework applied for variance analysis on cost targets has added substantial benefits to the organisation in terms of accurate data, cost visibility and transparency. The fundamental reason

for change leading to these benefits was due to internal costs and management accounting pressures. The application of ABC/M was a more reactive approach in response to internal pressures to improve costing accuracy as well as enabling better visibility for the bank operating costs. The ABC/M system was chosen because it was perceived as the most efficient technique for meeting the bank's needs for better cost information. ABC/M was viewed as a broader management system incorporating activity analysis, analysis of business process and analysis of customer value and non-value added activities. The use of traditional management accounting was and is currently still limited in providing accurate information, especially where cost centres and budgets were established with an unclear notion of linking operating costs to products and customers.

Cost allocation

The bank recorded larger amount of costs that were not allocated, particularly in the previous years; the bank sat with a significant amount unallocated to their respective divisions. The creation of a sustainable infrastructure within the cost accounting discipline resulting in the development and implementation of advanced management accounting strategies. ABC/M appeared to be the most efficient tool to respond to this challenge. The bank did look at advanced management accounting holistically previously due to its maturity level and given the numerous restructures the organisation has been through. Now that the bank has set its final structures, it can start getting innovative from a cost accounting perspective. Also, employees were only focussed on their jobs and did not have time to look at techniques such ABC/M, (see B^{GSC1-8, item i}). Another contributing factor was that the bank also lacked an end-to-end view of the value chain. The moment this started appearing management would be able to put those diagnostics into practice.

The fundamental reasons for the above costs being unallocated or incorrectly allocated were due to the lack of cost visibility, inaccurate costing methodologies and poor management information systems, among other reasons. GSC had to find innovative means and ways of creating the capacity that would enable the group as a whole to have clear accountability, in support of RETAB and STRAT. This strategy would ensure that executives in the organisation become clear on their cost performance and hence prepare them to understand effective costs management in their operations, (see B^{GSC1-18, item i}); there were expectations that application of ABC could only deliver better and proactive decision making. Other motives included the fact of being in possession of detailed understanding for each cost element and allocated to individual

department level, (see B^{GSC1-17, item i}), GSC was made accountable to take full ownership of ABC and to provide such accurate and responsive cost accounting answers to the rest of the bank on various issues, such as reasons for cost movements. As part of its strategic thrusts, GSC developed a mechanism whereby all financial executives would be able to query any allocated costs.

Product pricing

The pricing of products and services, along with its competitive positioning, was one of the greatest issues. These prices were not designed in a standardised fashion and were therefore not easy-to-understand by the consumers. One of the biggest challenges of the GSC division was the cross subsidisation of products and services. But if it had a very clear understanding of what the services and products cost, it would have been easier to price them correctly.

...We have the obligation to support competitive advantages to the bank through the supply of accurate cost data and cost visibility and transparency to measure our product and channel profitability...B^{GSC2-11, item i}

Route Cause Analysis

The bank needed to analyse the costs for the department called charge backs, which generated the need for route cause analysis to track and trace cost progress. What was found in the past with the previous CFO was that previously they interrogated management accountants on why cheque processing costs would be up in a particular month, by 5% for example. Such an approach did not generate any value because making an incorrect payment would affect inbound costs. GSC then developed statistical control charts; their main function was to establish upper and lower limits, which may also be called targets. As long as the process cost is within these limits it is acceptable. However five days of consecutive reports of costs going up tell the department that even though they may not have gone out of the limit yet, it is a signal for the department to look at that process because something may be going wrong with the cost allocation.

(III) The formulation of the new strategic approach

This section discusses the formulation process used to develop the desired strategic response to the organisational challenges, along with the characteristics of the new competitive strategy.

The project team was charged with assessing the feasibility of ABC/M as a corporate strategy. GSC's mandate was to investigate, design, develop, implement and maintain the ABC/M system. This entailed reporting on cost related products and services, activity related costs, delivering cost information for transfer pricing, variance analysis with available route cause analysis, profitability reports on channels, products and services, setting up the recovery rate for the entire organisation, playing an advisory role and providing on-going support.

Accurate product costing and reporting

The key fundamental objective of the GSC was to ensure cost accuracy and absolute visibility across the entire bank, (see B^{GSC1-11, item i}). ABC generates a number of competitive advantages. When the management ran costing as a single division, for instance, it was very advanced in the context that if it went into any competitive discussion, it always had more information than its competitors. To date, the bank has a much better understanding of the business and its cost structures. Although there is still a significant amount of work to be done, this understanding will allow the bank to move quickly and achieve whatever it does in the long term. In challenging client profitability and costing analysis, for instance, the bank does the quotes in cash, pulls in all the cash slips, buckets them and then decides what to isolate or exclude; thus if they added another customer the cost component would actually never change. As such, it indirectly gave the bank a 'good understanding about fixed and variable costs'.

...Internal stakeholders could not understand the fact that we sat with significant amounts of costs that were not allocated because these costs which were being unallocated were due to the lack of cost visibility. We also had great inaccuracies within our costing methodologies and poor management information systems...B^{GSC2-8, items i and ii}

Strategic alignment

In building the strategic objectives, GSC had refined the framework by ensuring that its key strategic focus areas were aligned with RETAB, such as on-time and accurate reporting. To ensure delivery against these objectives, the three main business clusters had developed detailed three-year plans that ensured the achievement of the targets. These targets formed the basis of all performance agreements, from those of the Chief Executive and his leadership team to those of all employees in GSC. The bank is known for its Mzansi account (an account type designed to cater for the lowest market), among others. The bank is also known to be one of the two most expensive banks in the market for service/product fees/prices, (see B^{GSC2-12, items i and ii}). In an attempt to improve the market perception on fees/prices, it has developed this Mzansi account which is cost effective and is the cheapest product available to transact via

financial institutions today. Understanding how costs get lumped together for different products or services results in tangible benefits which will resolve the product pricing dilemma.

(IV) Change management processes

This section highlights the GSC's processes of change management that enable the implementation of the new management accounting information systems strategy. Such change entailed producing prompt cost reporting, accurate cost data, accurate cost allocation and cost visibility. This resulted in an interaction of new information technology, processes, relationships, rules and routines.

The team included in the definition, formulation, design, dissemination and delivery of tasks and responsibilities within GSC were of common views and sponsored by top management. The project team then set the goals and milestones and monitored progress in order to keep the project on schedule and on budget. Potential risks or problems were flagged as early as possible with prepared contingency plans available. They also established the ground rules for the project team with particular emphasis to information sharing, decision making and reporting during the change phase.

The agreed implementation strategy provided the details of the ABC/M project with clear guidance before embarking on its implementation. The implementation was done in bottom-up framework in line with the senior management and executives who used the ABC information for strategic purposes, but without active participation of the operations team on the ground. GSC established its own time lines and implementation plan with specific starting and finishing timeframes. A detailed roll-out plan was then developed with the timelines that were conveyed with a sense of urgency and maintained higher motivation with the senior executives, including the CFO's and CEO.

Due to the low level of employee participation, the entire change process became stressful because it was initially seen as being imposed onto the end users. Operations management and employees did not take ownership of the change program, hence resulting in discouraging staff participation and ownership of the innovation being implemented. Different views and reactions from the cost and management accountants that were already customised with the traditional accounting systems created internal conflict, but consistent integration and engagement facilitated greater collaboration.

(V) The need for relevant management information

The need to have relevant information for the new competitive strategy which the traditional information system was unable to provide is discussed here.

Costing inability

There were huge limitations of traditional costing systems, as part of the strategic cost management within the bank in the use of volume based costing for its products and services. Such methods produced inaccurate service and product costs, especially when a large amount of overhead costs was not volume-based and when the bank had produced a diverse mix of products and services with different volumes, sizes, categories and complexities. This disabled the bank to ensure cost-effective-allocation of products and services in support of the past strategy to create sustainable competitive advantage. Products and services that differ in volumes, sizes, categories and complexities consumed support resources in significantly different amounts. Due to increased consumer expectations, product diversity increased; the quantities of resources required for handling transactional banking and support activities increased accordingly and resulted in incremental increase in the distortion of reported products costs and allocation from traditional cost system.

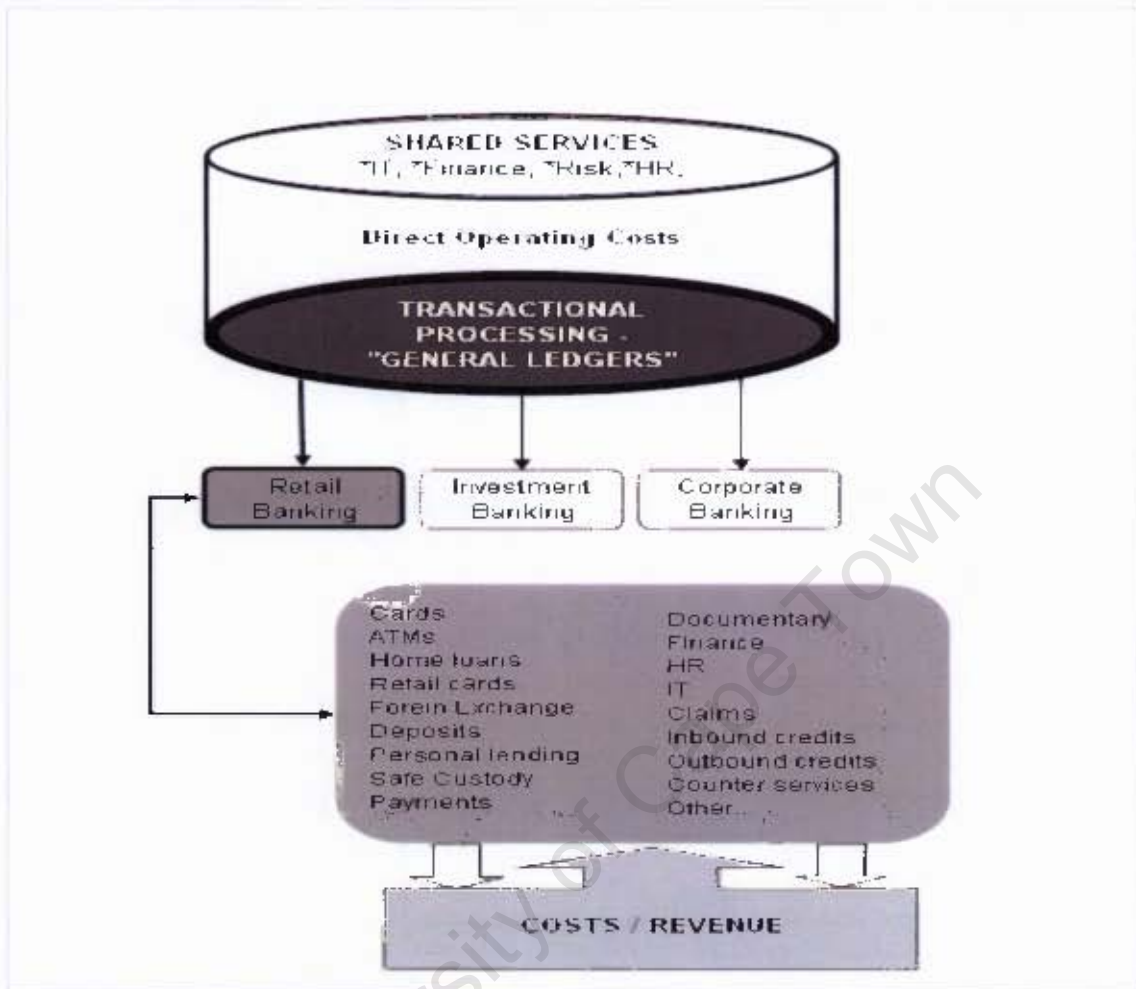
Their traditionally driven strategic costing systems generally measure the resources consumed in proportion to the number of individual products and services produced, hence, producing poor costing information. As such, its resources, i.e. electronic banking and payment, product handling costs for activities and transactional banking, were unrelated to the physical volume of units produced. The expenses were typically allocated to products using volume based measures, such as direct labour hours, direct materials costs, direct labour costs, machine hours and units produced within a specific period. The product costs generated by such allocation were distorted because products did not consume most support resources in proportion to their production volumes. Such costing methodology did not reflect how specific activities caused variations in major cost categories. It would appear that cost of products and services typically have been monitored under three components, i.e. transactional banking, direct labour and overheads.

Cost segmentation

The motivation behind the selection of the ABC/M as the new management accounting information system was driven by many internal key factors such as cost segmentation and improved cost information to build capacity to take the business to a different level.

In this new system, as shown in Figure 7.01, shown in the next page, the segmented product reports are mainly produced at high level but there is adequate capacity for route cause analysis to be followed should there be a need for further details at activity level, (see B^{GSC2-10, item i}), as may be required by either one of the operating divisions. What is innovative about the way this new system was developed is that any discrepancies or cost misappropriation can be flagged. If three activities in HR, for instance, relate to finance, GSC can put together a finance tick to it. Although the different strategic business units operated independently, each department could put a tick next to its activities on the schedule of all activities, irrespective of whether it is HR, management, finance and so on; and this allows departments to create a report by means of these attributes which covers all segments.

Figure 7.01: Source of ABC/M Information



Source: This figure was identified and modified by the author during the analysis of the organisation that was investigated, (Domingo TM, UCT – PhD; 2007).

Systems capacity and flexibility

The need to have a flexible technology capable of delivering new products efficiently became a key cost driver. The bank had made significant modifications to its ABC information technology. So the emerging improvement of profitability was due to up-to-date cost allocation systems coupled with improved product pricing. This has led the bank to gear itself to meeting the needs and expectations of the current and future customers. All its systems needed to be innovative to ensure that the bank improves its market share, by distinctive supply of cost effective availability of products and services. Capital markets, merchant banking and corporate finance operations needed to continually be innovative in creating products that meet customer needs, or even exceed customer expectations. This required the bank to be more innovative on products and

services to be reflected with the flexibility of the underlying technology to facilitate banking transactions. The extent to which the delivery of products and services were automated, and how well old systems had to deliver the products and services demanded by the customers, created a significant impact on the cost base. The need to replace old systems, on the other hand, which were built on old technologies, using obsolete designs and delivering services that were no longer required, had a material impact on short-term profitability and delivered unreliable cost information.

The ABC/M as its current MIS project is based on a single version of the software that was purchased with multiple stand-alone licences. The pro of this system is that each business unit can basically do what they want. The con is that it is not standard across the organisation and hence there are no standard rules. As part of GSC's ABC project, they implemented up-to-date software that allowed the bank to set rules at a particular time. The source of information may be seen in the architectural framework established in Figure 7.01. This was the biggest achievement for GSC because they would have a view of understanding how much HR costs across the bank. In the past a particular department did not understand the costs modules; it could not receive an answer from the system from the finance department on time and it took about eight weeks to get an answer on a particular cost enquiry. But with the new ABC systems, it takes about one hour to receive a reliable answer from the system.

(VI) The adoption and implementation of ABC/M into the bank

This section deals with the manner that ABC/M was brought into the organisation and its implementation processes. It also highlights the challenges, tensions and influences of internal politics employed by the key players in the implementation process.

Considering the issues and challenges mentioned in the previous sections, the chief financial officer decided to adopt the ABC/M system as its management accounting technique to improve cost visibility, accuracy, pricing and product profitability, as well as reposition the organisation in the competitive arena. It was believed that the application of ABC/M would provide accurate cost information for decision making, irrespective of the volume of products and services produced in a period.

ABC project launch

GSC launched an official ABC/M project within the group and has the accountability of financial process architecture which reviews the financial systems, including the product profitability pricing. The coordination of the ABC implementation to ensure that there is process compliance was managed by GSC and ensured that it took full ownership. It has project managers, but the owner of the project is the group head for end-to-end-costing. The group head along with the ABC team are accountable for the project deliverables and success and report to the CFO monthly; the group head also has to report to the CEO regularly. The composition of the project was structured in such a way that every CFO of a division is represented on that project. This initiative has not been delegated to the middle or lower management level due to its strategic importance and the fact that it needed people committed to it. It is the bank's view that if one needs a project of such a nature to be delivered it should not be delegated to a level such as a general manager.

The group head for general costing was then appointed to facilitate the implementation of ABC/M. This appointment was made on the basis that the group head possessed great understanding of costing, systems and the business processes of the institution. The development of a list of core activities was viewed as the point of departure, but recommendations were made that ABC/M should be a stand alone management accounting system.

The intellectual property was developed within the division and management executives worked together to get a common understanding of what was required and what to look for in the new world of management accounting to stack up the model immediately. The bank used external consultants for the software development and implementation, but with the internally technical deliverables, GSC believed in owning the intellectual capital; the Information Technology and Systems becomes an ongoing operational process once implemented.

The project team was given a four month training course in the UK by the external consulting company that was developing the technology used for the ABC/M. The integration with external consultants was only applicable on the development and maintenance of information technology. The definition of activities, cost centres and operating costs was done internally because they believed consultants did not have insight on internal challenges and that they were not in touch with the real issues at hand within the organisation. Consultants developed

the computer software package, but the implementation was handled internally by the project team, led by the ABC group head.

Translated unit cost

ABC is not a replacement for the traditional management (general ledger orientated) accounting system indicated in Figure 7.01. Rather, it is a translator that lies between the bank's expenditure account balances in the general ledger and the end-users who apply cost data in decision making. ABC converts inert cost data into relevant information so that the end-users can take actions. The way in which costing is being applied in the bank is in twofold, with the use of two different management accounting systems: the traditional management accounting systems and the parallel use of ABC/M systems. This clarified exactly what was changed and what was left unchanged. The reality is that the traditional management accounting systems were left unchanged due to significant resistance from the stakeholders; instead a new management accounting system was introduced – the emergence of ABC/M into the bank.

Cost reduction

One of GSC's mandates was to promote drive cost reduction throughout the bank, by ensuring clear visibility of these costs, (see B^{GSC1-29, item i}). The bank has various products and services that were volume related, which GSC had to set prices for, and the rule was that whatever volumes any division produced, charges were allocated accordingly. But twice a year GSC reviewed which division/department was charging and allocating cost to another and identified which one had made a profit, (see B^{GSC1-35, item i}).

Process and activity costs

In order to reduce impairments and emphasise cost efficiencies, there are similarities in the manner that ABC/M is applied against process reengineering by the operations management. The bank systems and processes needed to provide opportunities for transformation and reengineering. As such, continuous improvement processes were proactively identified and quantified. The question around accuracy was dependant on the level at which they were reporting. If a department was in RETAB, for example, reporting to Card only and upon investigation it found that it was reporting to the head of RETAB, the system may not show all the activities performed on the Card (which would entail over fifty activities), as seen in Exhibit 7.01 and Exhibit 7.02 (see annexure). From an operation perspective, when costs have been allocated to any department, the route course analysis must be available to trace all the various

activities, processes and inputs costs into that. An added advantage of this new management information technology is that it has also eliminated the bank's dependence on in-house labour, as anticipated by the institutional theory, in the transition from its previous to the current and future position.

GSC believed it had developed a system (ABC) which certainly suited the need on the transfer-pricing side within the bank, among others; it also believed that getting the bank's product profitability correct would definitely produce a much more enhanced cost visibility. GSC's possible danger, similar to any system being implemented, is that the system may have too much information which could become a threat to a certain extent. GSC experienced that the first time it implemented ABC; they went into too low a level of details and could not manage that much information. As such, the application of the proposed technical system encompassed the operating costs, visibility, accurate reporting and cost transparency in such a way that the use of new information technology required extra capacity to deliver cost effective reporting.

Management accounting rules and routines

The overall rule was that for a service provider there cannot be any profit making internally, even if a particular division/dept sets a volume rate at ten, for instance, and doubles the volume, because six months later GSC would be forced to adjust that rate. So the service providers cannot make a profit. This has created huge credibility for the internal service recipient as the customer facing division/dept, since their worst case scenario in their budget is to make internal costs incurred and allocated through arbitration. GSC's role is to ensure that not one individual SBU on the service side makes profit. These changes in cost management created organisational dissatisfaction, through the application of stricter rules and routines to be enacted in line with the enhancement of the management accounting roles. GSC focussed on the elements and configurations that were aligned to the strategy the new accounting changes were based on.

The measure of the bank was based on produced costing data, among others. A customer facing SBU such as RETAB for instance, after receiving the charge, needs to understand the cost constituents, (see B^{GSC2-16, item i}). They could actively be trying to drive down the cost that they are receiving for the operations. Management would sit every month and go through the accounts and indicate favourable costing (costs below targets) and interrogate why other costs would be up (costs beyond targets). GSC had to redefine the process around internal charges;

it established two simple rules: if a department is going to allocate costs to another division, cluster or department (internal consumer/debtor), for instance, these costs are allocated to the clusters because there is no value in doing those activities. The rules are that (1) if the (internal) debtor agrees with the cost allocating department for a specific amount, it would be acceptable but on a set target that has been agreed upon. But (2) if the (internal) service provider (cost allocating department) spends more than the target amount without the approval of the debtor, it can only bill the amount that was set and agreed upon (the budgeted amount). Where the (internal) creditor is under the target, it may only charge accordingly. This enables the (internal) debtor to always increase opportunities but it forces the (internal) consumer of service not to go over because the over expenditures would have to be explained to the CEO and CFO on such losses.

The bank is perceived as the leading institution in the management accounting innovation, specifically with the introduction of ABC/M. In the past, the process of ABC implementation, particularly in its back office operation processing, had detailed ABC in place and was strictly utilised and run. Then the business was measured each year - the unit costs, how many cheques were processed, how many payments were made - and then there was measurement of a unit cost, how much of that cost was fixed and so on. The bank had made good progress but then mergers and acquisitions became consistent and management lost focus and discouraged continued efforts. Post the merger, there was other restructuring and under these circumstances the ABC became insignificant.

Given the fact that after mergers and acquisitions the bank stabilised and keeping in mind that ABC was done with a single position through its back operating office unit, the bank had RETAB as the customer facing SBU and had a number of shared services. But in those shared services was a division called technology and operations for all its back office operations. It also had IT integrated into ABC; it used this platform as an underlying feed to its transfer pricing which allowed the bank then to establish product prices. The bank then decided after the merger not to run a strongly decentralised market, but rather a much stronger centralised market so RETAB (the customer facing unit) was broken up and portions of the operations were put into central finance. It then moved ABC into group central (corporate) finance from individual business units. Its first assumptions were that it could implement ABC/M and product profitability from the centre of corporate finance which is a much stronger position to implement new cost accounting

techniques. It did not work well and was not effective because there was not any cross functional framework in conducting business from central finance.

The bank needed cost and accounting services from the central finance but did not believe that it could deliver successfully. So all divisions generally used their own cost data for their pricing but it was always in the back of their minds that it was not correct. Then GSC re-structured itself in line with business units that were customer facing, i.e. shared services, HR, finance, executive, risk and so on and moved operations into their respective business units (RETAB, corporate and investment banking). This had helped significantly in that it became important for everyone to do ABC, because they all then needed to understand the organisational value chain better, along with the technology, risk and costs which were becoming visible. This resulted in GSC recommending a move from a strongly centralised corporate finance model to a decentralised end-to-end model under the GSC division to enhance focus on ABC in all the divisions.

The problem that the bank always faced was that it had very clear cut offs and broken links at a point where there was no transparency and understanding of operating costs from RETAB to the central depository environment. So GSC developed an enterprise approach with ABC for all business areas. It then sourced another software company that would provide the bank with a new version of the software that allowed the bank to pass cost from one business model to another, which then took care of a lot of issues associated to the costing of shared services, as well as the cost centres where operating costs ended up.

Customised costing models

The bank has a bottom up management approach. Behind RETAB, there is card, home loans, branches, their own projects and so on. They have built a costing model for each of these; they receive all cost charges because they have their own direct costs. They then receive what is termed inward transfer pricing which splits back into IT, HR and Finance. They also have their own overheads and that equals a total cost. With card, for example, they can drop down into different levels, i.e. acquiring card, and behind that there is issuing card, replacing card and charge back. There is therefore an enormous amount of detail. What GSC tried to do based on the fact that it has all these costing processes, was to consolidate all data into a standard view that says the bank offers a product called a current account, to get a much more refined

product, which matches to revenue and costs so that it can get a much more refined product profitability.

Once this view is created correctly it can then enhance its capacity for further details. Understanding the size and complexity of the bank - its current cost base is about SAR15 billion - it is moving billions a month and hence would need detail at the right level. They have product reports which come from corporate, capital, RETAB and the shared services unit and behind all of these business units is the source of the associated costs, for every single unit, product and service. Assuming anyone does something incorrectly, the account goes through the card and one would be able to identify it because in RETAB, one may have card, home loans and what contribution each of these have made to that product. GSC has all the underlining costing models and is largely in progress and is 95% complete and the remaining 5% is due to the lack of additional operating statistics.

Interdepartmental billing

GSC has a mandate to make sure that anyone who is structured under the card, as a department for instance, can understand exactly who is billing him/her and GSC makes sure that this pool equals the general ledger each month. It has not allowed people to cost modular and due to the newly developed software, one would have to recreate individual models to arrive at the same answer but with standard rules. Because as indicated in A^{STRAT1-40, item ii}, *the accuracy of cost information would eventually lead to consumer products and services being priced correctly; and hence resulting in improved customer satisfaction and retention thereof.* If one looks at the schedule with different models, there is the Group Technology Support Services (GTSS) which is the IT shop. They have different models running within themselves. Then there is HR, finance, a project, risk, marketing so all of these were built modular. So the system has individuals in there that built these like a general ledger system on a different piece of software and it is all done modular. GSC used all of this input for the current and previous years pricing information, consolidating all their costs into a single view. The responsibility is owned by GSC to collate and make sure its clusters get costed, allocated and passed on correctly.

Internal service agreements

Internal service level agreements with the current information technology have different models; for example, different models such as HR, finance and marketing would all do work for each other (internally) but also for the customer facing units (RETAB). So if costing and profitability

were necessary all the cost needed to end up in RETAB, corporate or capital/investment because these are the divisions facing the customer; even through operations are mainly with RETAB. The answer in all of these models at the back should be nil. If it was for absorption, for all those models as in the ABC case, some activities would have to stay behind; some of these activities are business sustaining, so a lot of activities could not be passed on. If these were truly inefficiencies then they would be left behind.

The objective was to make sure that all these costs ended up in the business unit inside the customer facing clusters. A typical example with the central finance business model, in that a general ledger could have a view of R100m a month, for instance, which should indicate a business view, or an activities view of a R100m, hence portraying a services or transfer pricing services view, that being R100m. So financing might end up selling seven services to every division in the bank. In order to calculate the cost by service, they needed to have a separate model built for each and every environment based on the ABC principle as best possible. This was to facilitate the understanding of the pricing of products and services that were sold to everyone else internally. Each and every business unit was analysed in the same way and that was agreed to by the businesses, signed off and all these services were agreed to by everyone who buys services internally.

Implementation timelines

The implementation of ABC took about five years because of its magnitude. But the delays were due to internal resistance, supplemented by mergers and acquisitions, which consequently led to always costing in new format. Since the business has stabilised, GSC has formally implemented this costing model within twelve intensive months and is now busy consolidating all the modules, which should be complete within the next additional twelve months.

It was necessary to set a clear direction from the inception of ABC/M. The management had then agreed that the new ABC structure under the leadership of GSC was to develop and implement the costing rules and the architecture. This team was mandated to make sure that the entire bank billed and allocated costs in a specified framework as set by the ABC body, across the group. The result is that the bank has gone from the failed traditional model of costing at divisional finance, which did not work, to one team that guides everyone in the organisation with a single ABC model. It is worth pointing out that the implementation of ABC/M as a strategic focus area brought negative relationships. The early stages of operating under

new ABC/M systems were characterised by a number of different uncertainties, resulting in conflict and misunderstanding among the operations leadership team, who had to have various adaptation, modifications and refinements in operating mechanisms under the new operating procedures and working relationships set in the implementation process. Consequently, the new approach that was characterised with new rules and a new architecture was confronted by significant uncertainties, supplemented with internal conflicts between cost accountants and initially undermined the new working relationships which required intervention from senior management.

The introduction of ABC/M has generally focussed on the architectural model and design that would supply reliable product costs. There was insufficient attention being given to organisational behaviours. The organisational behaviours were manifested in the context of suspicion, fear and led to resistance, particularly with central finance group because financial and cost accountants that were driven by the traditional management accounting systems were very worried about the new system and as a consequence they initially viewed the ABC/M as a replacement of their systems.

(VII) ABC/M's attributes that support competitive strategy

This section deals with the specific areas of ABC/M and explains the manner in which ABC/M was able to make a difference in support of the new competitive strategy.

Improved cost allocation

The implementation of ABC has proven to be more effective than anticipated, (see B^{GSC1-37, item I and ii}). Analysis of the bank's past financial performance for the last year's segmental results, the shared services, revealed that the bank had an after tax value of ZAR740 millions that was not allocated. The fundamental reasons for this amount not being allocated were the lack of cost visibility, inaccurate costing methodologies and poor management information systems, to name a few. But with the current segmental results, the bank performed extremely well. The unallocated costs were reduced from ZAR740 millions to ZAR32 millions, resulting in 95% improved accuracy on costs allocated to their respective departments, as enabled by the ABC's capacity to create cost visibility. Although this is not a cost reduction, it reflects the costs that the bank understands better which are now allocated correctly and sit in the correct business units. Nobody in the entire organisation can say that there is no understanding of any cost allocated to any division/dept, (see B^{GSC2-27, item i}). This is the greatest achievement in the management

accounting processes, through the application of ABC that supports the group strategy and enhances better and proactive decision making.

Availability of reliable information

The ABC/M model absolutely does support the competitive strategy, (see B^{GSC1-39, item i}). Considering the fact that GSC is providing the right information to the SBUs, the strategy does not depend on the strategy itself. Rather ABC helps leaders decide on the best strategy to develop and implement, based on ABC's ability and capacity to supply accurate costing. Previously, a lot of the questions posed by the customer facing clusters were about cost. They could not control costs in the service areas, which resulted in some of the tactical thrusts that changed the group strategy; a lot of those cost buckets were moved into the customer facing areas to make sure that they owned the costs. The need for reliable information is also driven by the fact that when the CEO presents the bank's segmented divisions which includes RETAB, all the costing must be clearly accurate, mapped and allocated into the right place or business units across the group.

Competitive product pricing

Competitiveness in product pricing was perceived as problematic by customers due to high products fees (also called products and services prices). The application of ABC/M has delivered costing accuracy along with cost visibility; the processes of strategic decision making with regards to products pricing has improved with an approximate 15% in price reduction of products and services, but the target markets profitability continues to be challenged.

Reliability of data

Strategic change in management accounting was motivated by the fact that the bank required prompt availability of reliable information to ensure that strategic decisions are based on hard facts. The true costs and other accurate information provided by the ABC/M system repositioned the management to make decisions with greater confidence and evaluate the effect of strategies proactively. In order to achieve the objectives set by the STRAT, the bank needed information about the financial consequences of any intended actions. Management needed reliable cost information, which served and continued to serve in many strategic planning and decision support mechanisms. ABC/M has both quantitative and qualitative information that supports strategic planning to produce products and services of a higher quality in a cost-effective manner and improve on customer satisfaction.

Accurate cost visibility

The manner in which the ABC worked in the bank is interpreted in a context of a component of supporting the group strategy, (see B^{GSC1-36, item i}) through the delivery and accurate visibility of costs that are associated to operations and transactional banking. With the RETAB, for instance, the first requirement is to become profitable as a cluster. The first step for that is to have all cost centres in different environments. Once this is established they can assess the differentiated cost data and investigate whether these are actually structured in the correct environment. It is of paramount importance as in the case of RETAB for instance; that there is income, direct and indirect expenses and profitability which must be RETAB driven. They then drop that same view down (card or home loans for instance) and if the strategic plan is to drive transactional banking they would then drill this further back to cost transparency.

Understanding of cost structures

The visibility of operating costs that is brought by an ABC system has led management to an advanced level of understanding with greater insight into the bank's cost structures. As such, cost visibility also highlighted where the respective costs existed and what the constituencies of such expenditure are. The use of ABC/M became crucial in strategic planning because it needed to focus its attention on those factors that determine the expenditure on the bank's activities. It assists management to prioritise alternative business activities by providing information relating to the cost and benefit between RETAB, corporate and investment banking in accordance with geographic markets, products or customer groups and the potential benefit derived from future investment in particular strategic directions. In the circumstances when understanding the transaction is needed, it is vital that the components driving such transactional businesses are identified and understood.

The main driving force for the improved allocation of costs is extreme detailed understanding behind costs. If a division/dept does not understand it, GSC, who owns ABC, will be able to come back with an answer as to why the cost has moved in any direction. GSC now has a system in place whereby the CFO of all the customer facing units can query everything which automatically gets into a cost pool; they control it and they get feedback. The reason why GSC is successful is due to higher transparency. The CFO can also now make decisions in a proactive fashion because costs information is speedily and accurately made available,

empowering the CFO to take a proactive decision making role. So there is no cost that remains outstanding from the allocation pool.

Accurate reporting of activity costs

GSC ensures absolute accuracy on reported transactions and performances each month. Management has a greater transparency and is able to identify any department that is billing and the department that is receiving a charge – understanding the actual and the budget. If anyone does not understand why a particular cost centre would be under or over budget, GSC can zoom-in on its services and provide detailed activities as well as their costs.

...If the group executives don't have a full understanding of their cost structures, their decisions may not be properly aligned to the direction of the bank as planned...B^{GSC2-39, item i}

Activity analysis

The bank has the ability to analyse its activities and to identify the reasons why costs were incurred and can now relate these to the activities which take place and the respective division through the application of ABC/M. But this is not entirely applicable for resource management; it is not used to determine when costs should be incurred, such as being able to determine when to diversify and move into new business area.

...Opportunities for efficiencies and effectiveness will become imminent and realign the strategic thrusts to the expectations of the markets...B^{GSC2-39, item iii}

The bank has never had this possibility that enables absolute cost clarity. One of its competitors has implemented a similar system but they only run the costs once a year. GSC runs the activity costing and analysis every month and that places the bank in a much more up to date position. The calculation is now based on a unit rate to an approximate level of 95% accuracy, with progression on maximum cost accuracy as the system matures.

Systems integration

The adoption of ABC/M information technique has resulted in significant error-free cost allocation and efficient processing, and has reduced the need for re-entering data when transferring information between different systems. The presence of this integration created a strategic advantage in the context that the bank would have a coherent system strategy that does not change too frequently, ensuring that any developments could be integrated into the existing system.

Cross functional services

Previously people in the support area did not fully understand what they were selling to the rest of the bank. Now they have a detailed list of ten to fifteen cross functional products and services and are part of one of the support areas. The cash, procurement and handling services are all part of the shared services area but there are four or six specific services that are cash related that they sell towards the rest of the bank. GSC then started to distinguish modular services. So if someone in the capital or corporate is buying cash, they are buying services; they are buying corporate cash; they are buying a high level individual cash; they buy cash via ATM; it is easier for them to do accurate product/service pricing calculations. ABC also enables the bank to understand which specific products are profitable within the current business structure, which are not and which products and services it can restructure.

Cost distinction

It is the management's view that because they can now distinguish, quantify and understand cost better, they are also able to quantify and apportion them in the accurate cost centres and control them better. What the bank attempted to do prior to ABC was to structure all the financial departments across the three business units in such a way that a particular divisional finance department, for instance, had to report in a different way; the management built costing model and then tried to allocate product costing for all of the business units. But accounts never balanced and the consequence was that it ended up with over recoveries of billions, due to inadequate processes to distinguish expenditures. The traditional costing strategy was developed in a fragmented manner. So the fundamental understanding and distinction of the associated cost and value of products and services became a requirement of the bank as consumer demands increased the bank's expenditures and in certain areas did not correspond to increased revenues.

Product life-cycle costing

The incorporation of life-cycle costing into the bank's ABC system ensured that all costs relating to products and services are allocated to the product during its economic life, in order to provide an adequate perspective of its profitability and promote better decision making with regards to products and services. Cost and quality factors in product development were driven and influenced by innovation, complexity and the need to maintain profitability. Product tailoring and product differentiation, on the other hand, are achieved in line with competitive strategies.

Progressive change

The implementation of ABC is viewed as a hugely progressive change, largely because there is significant transparency. All divisional heads understand the strengths of ABC's results and so do their executives. Where it has picked up kickback and resistance, which is part of the process, is with divisions where some had built their own data/costing models and by GSC implementing the ABC, they felt threatened; some of the accountants initially resisted complying to the new accounting processes. This was a problem that required senior executives' intervention. Learning the cost of each activity or process as facilitated by the ABC/M systems did not however assist operations employees to manage attention or enable them to articulate priorities for attacking the most inefficient and least value-adding processes. The cost allocation is not according to customer segmentation; the different divisions conduct their customer segmentation but not related to cost. From GSC perspective, the project is in its first phase or implementation to get product channelled and costed correctly; once this has been achieved, it can then be visible to the customer facing segment, particularly with the operations team.

(VIII) Conclusions

The key observations in this SBU (GSC) included the fact that ABC/M was adopted due to the facts that the bank experienced incorrect unit costing and the intentions to achieve cost reduction, understand process and activity costs through a customised costing model, had incorrect interdepartmental billing mechanisms and inadequate internal service agreements. The key attributes that support competitive strategy include improved cost allocation, availability of reliable information, achievement of competitive product pricing, reliability of data, accurate cost visibility, understanding of cost structures, accurate reporting of activity costs, activity analysis, systems integration, enhanced cross functional services, cost distinction and visibility product life-cycle costing.

Section III – RETAB

(I) Organisational strategy prior to changes

The previous strategy pursued by RETAB emphasized growth through corporate customers and high class individuals. Its strategic thrusts were also focussed on expanding and developing the international target markets. RETAB went through significant financial difficulties for three consecutive years. RETAB has a similar opinion to GSC that the bank as a whole has struggled in the last number of years, with mergers and acquisitions.

Drive increased volume

About 80% of RETAB's cost was fixed on branch structure, rental, etc. They have a number of staff in each branch including tellers. They could not keep on cutting costs; instead, they had to increase the volume. They use the performance measurement systems, namely the ladder system, which is structured in such a way that 50% is based on the volume produced and 50% is based on how much more the branch or individual can do or at what level could branches possibly perform further.

RETAB is an operationally focussed strategic business unit of the bank and is the largest employer within the group. It comprises full banking services, wealth management services in the operations of private and corporate banking, business banking and property finance, African business development and the specialist businesses of transactional banking and shared services. RETAB employs about 15000 staff members and is operating at statistical efficiency of about 75%, has approximately 500 branches and 1500 automated Teller machines (ATMs), has an average return on equity of about 23% and has a customer base of 3.6 million.

(II) The conception of organisational change needs

This section highlights the key motivating factors that precipitated the need to change.

Vigorous competition

Increased competition forced managers to become more conscious on the need to use accounting information in planning and control. This demands competent costing systems to produce accurate and reliable cost data; hence the emergence of ABC/M. The emergence of intensive and new competitors into the market from the UK prompted significant change. The organisation started operating in a highly competitive environment. Managers understood that they needed to reduce costs and prices on products and services and deliver the highest quality on customer service. Customers now have more flexibility than before to acquire and maintain financially orientated product or service accounts in virtually any money market such as credit cards, loans or mutual savings from many organisations including post offices, retailers, insurance companies, airlines and many national finance companies.

Some of the issues included product innovation and deregulation, securitisation, globalisation and high technological advances. The ABC/M project was a response to extensive change in

the business environment that created a new crisis, precipitated by increased competition and disruption of traditional relationships between the operating costs for the customer facing cluster and volume caused by new capital intensive technological capacity.

Service fees and product prices

The bank's fees were perceived as controversial based on the costs that were charged to consumers (pricing for this financial institution is also termed as fees). The market however was very competitive and all players in the industry faced increasing pressure on fees and margins. As such, significant resources were required to ensure the business was prepared for the competition as well as the new regulatory credit bill. RETAB needed to ensure that it had competitive sets of products or services that were appropriately priced for risk, volume and clients' individual profiles.

Loss of customers

RETAB attracted over 650000 new customers, but lost approximately 340000 customers. This is a significant improvement over the performance over the last three years. The target markets of the bank range from entry-level transactional banking to the high-income segment. The cluster also services merchants and large corporations in card acquiring services. Its product portfolio includes transactional accounts, home loans, asset-based finance, card (both card issuing and merchant acquiring), personal loans, bank-assurance, investments and specialised banking products.

Development of trust

There was a strong belief in gaining consumer 'trust', (see C^{RETAB1-6, item i}). Although there are many risks associated to customers and their currency transactions, risk is inevitably part of its core business. Trust is the reason why consumers, corporations and governments place their salaries, reserves, home loans, investments, among others, through a bank, because of trust in those people at the bank. Customers do not buy products or services from the bank; they buy a person when they go into the bank and hence they buy trust. It was the bank's core responsibility to ensure that risks were managed effectively.

(III) The formulation of the new strategic approach

This section deals with the discussions on the formulation of the desired strategic response to the organisational challenges, along with the characteristics of the new competitive strategy. RETAB's strategic response to its challenges involved consolidation, re-alignment of corporate objectives and diversification of products offered, as it attempted to develop into a broader market.

Strategic thrusts

The three years growth strategy agreed on between STRAT and RETAB focussed on the initiatives that retain clients, increase cross-sell ratios and acquire new accounts, coupled with a clearer value proposition, based on competitive products and prices, world-class and best-of-industry service and a stronger brand, (see C^{RETAB 1-11, item i}). It planned to become more accessible to all citizens and become a proudly SA institution. To achieve this, the shared services needed to provide better support services with human resources, finance, product and client analysis, credit and risk analysis, and optimise process compliance while driving the delivery of its strategy. It was focussed on the aspirations and values that would make it the most highly respected bank in the region.

The main focus of the regional managers was on operations and cost management of their business unit within the operations budget framework set by the executives. Predefined strategy within business units or branches, with specific focus on strategic cost management, was driven by geographic regions (the branch network). RETAB had twenty geographic regions in SA. Every region ran its individual branch the way that was suitable to the market that it served, the way they would think appropriate for the target markets.

There were however obvious similarities when all regional managers met once a month at the headquarters, to network with other executives and the head of RETAB. Discussions could range from cash management, operating costs, risks and people to other emerging issues that branch managers dealt with regularly. These were all the same things that branch managers deal with at they own discretion at branch level, but just on a much higher level. If there were innovative ideas or processes to be rolled out as a standard framework for the country, these would be agreed on in this forum.

Strategy workshops

The development of RETAB's strategy was done in conjunction with STRAT, (see C^{RETAB1-7, items i and iii}) and C^{RETAB2-7, item i}). This strategy was formulated in such a way that included all strategic thrusts. Both STRAT and RETAB conducted various workshops country wide, to formulate the bank's new set of values, its vision and aspirations, (see C^{RETAB2-7, item i and iii}). Employees from various management levels across the country were involved in these workshops; then STRAT consolidated all data and market information that was collected from the various business units country-wide, structured a single view of the organisation's strategy and agreed on which key performance areas it should focus on.

Product mix

RETAB's strategic intent was to serve the financial needs of individuals and small businesses; this was delivered by providing various products and services such as credit, lending, savings, investments, insurance, transactional banking and so on. RETAB was organised around key product monolines (Monolines refer to a bulk revenue centre where all incomes are initially kept and then allocated to their specific department or revenue centres) such as with card, home loans, personal loans, bank-assurance and wealth, asset-based finance and transactional banking. This product mix enables setting clear accountabilities and controls. The main client segments, operations channels, joint ventures and related support areas fall within RETAB. There were significant complexities with the bank's growth and expansion plans requiring the development of appropriate coordinating mechanisms for the implementation of the ABC/M system; this was influenced by the fluctuations in business cycles related to changes in the level of economic activity, both within national economies and major trading blocks of the entire bank.

Pricing reviews

The bank's product pricing is determined by the monoline. With the current account, for instance, it is a transactional account of a monoline. There is a pricing committee that reviews and determines what the rates would be on current accounts for services, overdrafts, interest rates and so on. Those things happen at a group level. The regional management has no influence other than execution and providing feedback on the actual market developments and customer reactions. Considering the fact that RETAB is basically a cost centre, the primary focus is around how operating costs are controlled. This is the only way it ensures that costs are as low as possible without compromising the service levels it delivers because of cost constraint.

Scaled economies

There was a high preference in ensuring that the locations of processing centres were addressed in a context that creates economies of scale, by concentrating or grouping processing operations in regional or centralised cores. Physical documents, such as cheques, debit and credit cards, vouchers, shipping documents and contracts were transported to the centres for processing. The high cost of distribution and the time factor associated with their logistics were assessed against the strategic framework. Speed of delivery appeared to be an issue in the bank's service chains, i.e. the speed with which documents became available to customers was of paramount importance, especially with operational activities. Proximity to the customer was less important in corporate or investment banking, because it handled most of its financial business by using telephones, internet, e-mail, fax, telex and so on. Only when the original document is required or when an account officer visits a customer would physical location become important. Proximity and convenience of retail outlets are extremely important to retail customers, both because of the need to obtain cash from branches at the bank or automatic teller machine (ATM) and the need to obtain application forms or signatures for a certain transaction. Convenience of opening hours was also a consideration.

Shareholder and customer confidence

The bank planned for a ROE of about 20% within the next two years, whereas competitors are running at rates 35 to 40% for their retail divisions. Two years ago RETAB generated a ROE of approximately 6%. Synergy was generally manifested where regional divisions work with business banking to find innovative solutions to get the best value for its clients, who would then enhance the level of confidence with its customer and shareholders.

(IV) Change management processes

This section highlights the processes of change management that entailed the implementation of the new organisational strategy. Change on the RETAB was primarily driven by ensuring that it drove volumes, delivered world class service levels and expanded distribution of products and services through customer-centricity which was integral to the new competitive strategy.

Employees' participation was only application of the development and implementation of the new competitive strategy led by STRAT; this level of participation facilitated individual employees to feel that they could take ownership of the change program. There was little involvement on the ABC/M strategy, because GSC took full ownership of this management accounting strategy which was done at the strategic level.

The details of the entire competitive strategy and its implementation processes were clearly communicated by STRAT to RETAB through numerous workshops of different levels before embarking on its roll-out. This included the key deliverables with specific starting and finishing timeframe. RETAB's role in defining, formulating, designing and distributing the established deliverables was therefore agreed to be aligned with other business units. The entire competitive strategy was sponsored by top management and, due to the intensified competition, it became necessary that they were conveyed with a sense of urgency. Also, potential risks were flagged with prepared contingency plans.

(V) The need for relevant management information

The need to have relevant information for the new competitive strategy which the traditional information system was unable to provide is discussed here.

Operations cost reporting

There was a need for more emphasis on the application and use of information technology that would successfully improve the efficiency and accuracy of transactional processing and reporting but there were costs connected with the automation of the operations and the training of staff, and possibly customers, in new techniques and procedures. ABC was viewed as a technique to improve processes, eliminate duplication of clients' accounts, improve data integrity and update the clients' databases.

Cost control

Cost control and management was viewed as an extremely important strategic component by both the executives and operations managers because it became impossible for regional managers to be completely aware of everything that goes through on a general ledger for their branches. There were at least twenty general ledgers per branch that needed to be monitored. Another motivating factor was to drive accountabilities at branch managers' level from a

strategic cost management perspective and manage branch costs in a controllable approach. As such, it was extremely important that at ground level clear cost understanding was made available for all transactions, hence becoming more proactive to improve cost performance, (see C^{RETAB1-27, item i}). RETAB needed to place significant focus on its cost centres. Every region was categorised as a cost centre. All branches in a particular province would fall under a single cost centre.

...We focus a lot on operations costs at branch level, in increasing efficiencies on asset utilisation, risks associated to non compliance of processes and costs thereof...C^{RETAB1-28, item i}

Cost budgeting

The budget of the cost centres was determined by the headquarters finance department and this was done through forecasting methodologies but with no inputs from the branch operations or regional business units. The regional divisions were, however, allowed to attempt adjusting the allocated budget, although with credible justification; for example, budget for property rental without considering that a new branch would be opened in that same region which would then automatically increase the property rental cost.

Customer value proposition

RETAB needed to have a better understanding of what its customer base was, but the unanswered question remained about the manner in which it sold the customer value proposition or the value for money concept to the end consumers, bearing in mind the inability of the traditional management accounting systems and processes. The analysis of process, i.e. the activity and value analysis through ABC/M systems, was viewed as a new perspective of the bank at management's disposal to create a clear picture of the bank's innovated processes, activities and linkages and determine whether activities were adding value to the consumer or not.

Key volume indicators

The information to support performance measurement was driven by volumes. RETAB was heavily based on sales volume, because it considered itself as a volume business; hence it was not measured on profitability, but rather on pure volume. It has what it calls key volume indicators. So, they campaigned to drive volume. To avoid bankers selling purely for selling sake, they get measured on a ladder, (see C^{RETAB2-20, item ii, iii}). That ladder is spread into four segments and/or pillars. The first segment is the bank's assets and generally includes home

loans, student loans and personal loans. The liabilities, which are the investment side of the business, are the second segment. The third one is transactional banking, such as credit cards and internet profiles and the fourth one is bank assurance which is the combination of various services like financial and economic leads to the bank's financial planners.

Client management systems

Financial planners and bankers were measured on a specific information system called "Client Management Systems (CMS)", (see C^{RETAB2-20, item iv}). This system weighted and balanced all the sales done. The bank measured these sales to structured targets of 40% relating to assets, 40% on transactional businesses, 10% on liability and 10% on assurance in order to ensure that bankers sell a suite of products. This forced them to have a conversation with a client and not to be selective on what to sell and what not. The CMS framework was used on both the national and international markets to measure sales. They were able to go into the information system and draw any report. This was also used for performance management and cost centres were driven by volume; because if volume did not increase, cost consequentially escalated.

RETAB has various products and services. Some of these are also indicated in the Exhibit 7.01. These are all on CMS and are structured in a context of purely sales orientation. The actual volumes get recorded on CMS. The ladders system was also integrated into the CMS framework. There was also a micro-marketing-platform on CMS. This mechanism assumed that if a new branch was opened, the branch manager may go into this system to search for information on how to drive sales. He or she may need to do some marketing to develop the market awareness of the bank and the CMS framework would provide the necessary details on what the next step would be, particularly the key performance forces that drive sales.

Resource utilisation

The other method applicable to the provision of cost information and management entailed "Resource capacity management (RCM)", (see C^{RETAB1-21, item i}). It was a tool that RETAB used to see how productive its branches were. This consisted of CMS, the sales figures which were loaded onto CMS plus the teller statistics that it received from other systems and collated all of that into one system to provide details of whether a particular branch or resource was productive or not. Some branches would have twenty five staff members but operate at 40% productivity, which indicated that they did not need so many employees. This then drove the manager to reduce the number of employees from that branch and perhaps place them in a

branch which would be performing at a rate of 120% productivity and the client service suffering due the lack of enough employees. Due to the fact that this system was of an international standard, it was often considered as the external benchmarking approach. Added to this are the reviews on market awareness focussed on what or which new products and services competitors were introducing into the market and how RETAB would respond to them.

Market needs analysis

The bank's product design and pricing systems were not determined by the regional operations management. It was a top down approach based on the market needs. There was a certain product suite which the operating divisions sell to the clients. This was the same with competitors; branch managers did not have inputs on which products to sell or at what price or cost. For instance, the bank has what it calls bankers; it has bankers' cells (which are the internal consultants who deal with sales based on the structure set). These banker cells sell products and services that are needed to give the correct advice to management. Banker cells were given all the details; they would then conduct a formal market needs analysis to make sure they don't sell products and services that were not needed by consumers. There was generally a vast product range but RETAB found that most of the time 99% of its products and services would meet a client's needs. The reality however was that these products must be based on what the need's analysis stipulates. That was what drives the way it sold its products and services to the end consumers.

(VI) The adoption and implementation of ABC/M into the bank

The manner that the implementation of ABC/M was brought into the bank was in a centralised fashion, owned by GSC which took full ownership of the initiative. It was adopted with a high level of concern because the ABC/M was not being communicated throughout the organisation. RETAB was not aware whether ABC/M was considered as a corporate strategy, or purely for the operations management. This created uncertainty, anxiety and tensions among the staff members, particularly with the accountants that were operating from the branches. Influence of internal politics employed by the project team and their support from senior management played a significant role in ensuring efficient implementation.

RETAB's involvement was purely at strategic level and on a reporting scale. The lower management level (i.e. branches, operations managers, process analysts) have little understanding of the ABC/M framework. GSC took complete control of the entire development

process, trial and implementation. RETAB had little participation and contribution to its implementation, because it was managed in a centralised fashion within GSC division. Although the system is built with a bottom up approach and was done by business units, there was less interaction and understanding at the bottom level of the organisation, as opposed to the top strategic management level.

Cost and revenue allocation

The role of the cost and management accountant at RETAB was perceived as reactive. This was partially due to the inability of traditional management accounting processes. Other contributing factors to this performance level included the fact that the finance department within the operating environments focussed on management reporting, solely by producing monthly reports on expenditures and income for the branches. Reactive cost management accounting was partially caused by the fact that both sales volumes and cost budgets were set by the headquarters executives with insufficient inputs from the operational divisions. In an attempt to be proactive, the division needed to take a different approach to put all income/revenue, as depicted in Exhibit 7.03 (see annexure), into the monolines. For instance, with home loans, the income on interest rates goes directly into this monoline which is the retail bank's home loans department. It is no longer part of branch network as it previously was. The branch network became pure cost centre. It was not an income generating unit but a cost centre because all the income would go through the monolines directly. RETAB also began to set a monthly budget of a particular amount to run its costs, with different general ledgers for all branches.

Operations efficiencies

The ABC/M system enabled value engineering, such as the need for elimination or downsizing of characteristics that customers were not prepared to pay for. The bank's application of ABC/M was also apparent in the way the key factors that affected the cost and revenue flows of transaction processing related to the need to balance accuracy of processing with the speed and cost of the operations. The strategic objectives of the bank included the factors that drive the operational efficiency in the processing of products and the speed needed for different types of customers or levels of services.

RETAB was heavily focussed on the management of its operations. It thus made little contribution to the management accounting systems of the bank (ABC model) as a whole. As such, as long as it could receive its management reports produced by the central finance team,

there was relative acceptance of the traditional management accounting systems. It is however acknowledged that this was a reactive approach of not integrating with the finance and management accounting department in identifying areas of improvement through the costs that were made visible by ABC. As long as the finance department generates the necessary general ledgers, the focus was maintained on those deliverables that are measurable.

...Our view is that ABC would be able to deliver the shortcomings that our existing systems are delivering. These could include adequate visibility and transparency of costs at functional and activity level, as well as the accurate allocation of these costs. This hopefully resulting in better planning of our operations...C^{RETAB1-24, item ii}

Process reengineering

RETAB attempted to manage a consistent level of service without active involvement on ABC/M through reengineering management processes. The process of opening a checking account, for instance, was done in a context of process thinking. Although the bank had a technically standard process available, it had an above-average number of on-line steps in its processes. So by inspection of its processes, it was discovered that a consistent level of technology was used throughout each process. RETAB was also cognisant of how much of the customer's time is required in a particular process. In opening a checking account, the bank could complete several steps after the customer had left, as they did not require the customer's involvement nor did they add value to the customer. As such, processes that did not provide benefit to the customer needed to be handled without the presence of the customer. The only argument against this type of process design was the potential benefit to the customer staying in the branch as long as possible in order to sell the customer additional products.

(VII) ABC/M's attributes that support competitive strategy

This section deals with the specific areas of ABC/M and explains the manner in which ABC/M was able to make a difference in support of the new competitive strategy.

Cost visibility and clarity

RETAB is a customer facing cluster. It was therefore crucial that it had clear, visible and full understanding of its operating costs. As such, the information produced for product costing becomes of utmost importance. At the strategic level, ABC/M plays a significant role within RETAB, in that it attempts to drive cost direction and performance through correct allocation, (see C^{RETAB1-41, item i}). There is now a level of acceptable transparency in that all costs have the

respective details for investigation purposes. If the CFO or senior executive has a particular enquiry, there are possibilities to track operations costs to the cost centres of consumption.

...We also would have the possibilities to track and trace cost down to the associated centres of consumption; and such transparency of details available when requested from GSC division. The turnaround time must also very short for them to respond with adequate explanation...C^{RETAB1-37, item ii}

Product pricing

The end result of this model is to lead to an outcome of customers purchasing products and services that are priced correctly. RETAB has recorded improved pricing of up to 15% and has as a consequence also become aware of some unprofitable products and services. Due to the nature of competition it is surrounded with, the maximisation of wealth for its shareholders, along with customer satisfaction, have become integral to the entire pricing strategy. The implementation of this model appears to be perceived as formal and progressive and it is purely because management now has cost transparency, both with its internal and its external customer segments.

....We would then have the respective costs associated to each activity, according to their respective branches, operating regions or business units.... We (the executives) would then use this information in our product reviews meetings to understand areas of opportunities i.e. product pricing, process optimisation, activity analysis; and so on, in order to improve on customer services, product and channel profitability...C^{RETAB1-41, item iii and iv}

Availability of reliable information

Management required absolute understanding of its costs structures in order to set a clear direction. As such, the decision making on product and channel profitability, as well as customer satisfaction, is highly reliant on its strategic plans which to a large extent are subsequently dependant on the availability of reliable information.

...So the level of accuracy with the costing of our products and services along with the visibility of our operating costs as well as the prompt availability of this information enable the management to be better prepared in our strategic planning processes so that we can take full account of all key success factors for management decisions; which would eventually lead the entire bank into product and channel profitability...C^{RETAB1-39, item ii}

The ABC model has however not yet provided the expected benefits to the operational teams at the ground/branch level in terms of revealing how much is spent on each activity, on a comparable basis, while continuing to operate inefficiently. The degree to which technology is used to support an effective and efficient operation of the bank and the extent to which

technological solutions assist the bank to respond to changes in the market place have nevertheless had a significantly positive effect on the value placed on the company by the shareholders.

Interdepartmental debiting and crediting

The only department that can debit or credit against another is the central finance division through the traditional accounting method at headquarters. GSC then correctly reallocates the costs according to ABC/M's principles. Cost lines such as travel claims, telephone and similar types of expenditures within the branch control are managed at branch level to control costs and they can also debit and credit other accounts, i.e. retention accounts. One of the reasons why it is important for the branch managers to verify their general ledgers is that people are not always aware of which costs are allocated to the branch account. When a manager has not checked the general ledger, he/she would not be aware of the allocated costs. Incorrect allocations by finance at headquarters occurred consistently over the past years; this incorrectly escalates the cost of a particular business unit. This was the tactical area where ABC would improve cost allocation.

...These financial reports assist us to reduce costs, avoid irrelevant operating costs and enable us to ensure that costs are the correct cost centres... C^{RETAB2-27, item 1}

Resource operating costs

The ABC/M model is not applied to focus attention on those factors that determined the expenditure on key resources and projects. It is therefore unable to assist management in the cost and benefit analysis of individual projects and thus does not assist the prioritisation of alternative initiatives, with a view of managing the resources that would maximise the ROI in line with the strategic direction of the bank. Even though the ABC/M provides the ability for a comprehensive resource cost measurement by tracing all costs to their products and services in order to afford a clear overall picture of the various elements of the bank and its respective total costs, the benefits of this system in measuring resource cost remains unknown.

Supply chain

There are also major limitations in the application of ABC/M in its supply chains and the management processes of suppliers (which to a large extent are integrated to its value chain). The lack of focus on costing the suppliers' value chains through ABC systems could not assist the management to identify suppliers that added irrelevant costs to products and services. Also,

the use of ABC has not been extended to the distribution networks' value chain analysis and hence could not assist management to identify cost reduction opportunities which could lead to increased profitability.

Integrated risk and customer value chain

There are a number of gaps between the bank's application of ABC/M and its risk identification process. The application of ABC is not optimised to facilitate the indication of areas where risk strategies are needed; this is generally with reference to areas where performance did not improve competitiveness in line with operations. Furthermore, there are other limitations in its application of ABC/M with specific focus to the customer value chain. This has resulted in the bank's calculation of product and channel profitability, along with customer profitability, proving relatively difficult to determine whether customer requirements were not met satisfactorily and profitably. So, performance criteria such as customer satisfaction, holistic differentiation, service delivery and after-sales service and best practice analysis are not integrated into its ABC/M system to enhance continuous improvements.

(VIII) Conclusions

The key observation in this SBU (RETAB) included the fact that ABC/M was adopted due to cost and revenue allocations, operations efficiencies and needs for process reengineering. Highlights as attributes that support competitive strategy included cost visibility and clarity, improved product pricing, availability of reliable information and credibility with interdepartmental debiting and crediting.

CHAPTER EIGHT

8.0 CASE ANALYSIS

8.1 Introduction

This chapter presents the analysis of the case study and deals with the discussions of the manner in which the institutional theory proved useful in explaining and contextualising the application of ABC/M for supporting competitive strategy within the banking system. The analysis follows the approach propounded by Eisenhardt (1989) which involves Within-case studies and Cross-case studies, as discussed below.

8.2 Within-case analysis

8.2.1 The use of ABC/M in supporting strategic thrusts of the SBUs

Section I - STRAT

The new strategies adopted by STRAT, as the business cluster accountable for developing and implementing corporate strategies for the whole group were focussed on driving the organisation in a low cost direction (Low cost strategy) and simultaneously pre-empting different market segments and offering new products and services to the markets (Pre-emption strategy). These new strategies were formulated, consolidated and implemented in all other strategic business units within the bank.

From a cost management perspective, the executives needed better cost information to support strategic planning and also to understand areas of opportunity, such as outsourcing some of the non-core functional activities. The product development division wanted improved cost information to assess which products to develop and which to refine. The pricing committee, on the other hand, needed better cost information for pricing. Extensive competition and the incremental level of cost distortions (as shown in Exhibit 8.01, page 195) through the traditional costing systems contributed largely to decreased profitability, resulting in the emergence of a search for alternative solutions. Senior management, through the chief financial officer, required improved, better and innovative costing techniques which led to the implementation of the ABC/M as the candidate to improve profitability and provide cost effective products and services to consumers. The invisible link between the actual operating expenditures and product/service prices/fees influenced the executive committee to consider ABC/M as a corporate strategy due to its competencies in developing effective decision-making capabilities and its application to various functional dimensions and strategic thrusts.

STRAT's process for developing its competitive strategy was not based on setting a completely new strategic direction. It was a series of strategic changes that were designed, planned, coordinated and executed by business units to produce a fundamental shift in the business, resulting in a transformation. It redesigned the strategy development processes in a context that would reduce costs, creating innovative technology-enabled businesses, becoming a customer-centric bank, establishing a rapid deployment of capacity, developing an extended enterprise and recreating its business model. ABC/M established an environment that enabled strategic initiatives to be coordinated by its respective business units to meet expectations of shareholders, customers and employees.

ABC/M also supported the development of new and existing products and services. The requirement to have full clarity on transactional costs in line with the optimisation of product mix was driven by selling the right products and services to the right markets. This also highlighted the dilemma of whether or not to continue supplying products and services that were not highly profitable or otherwise. As such, STRAT could only understand profitability where there was a clear visibility of the associated operating expenditure, by products and departments.

The role of institutional theory as an explanatory framework was seen in the context of highlighting the key attributes that supported the competitive strategy, including the fact that the use of ABC/M resulted in a greater understanding of the business operating costs and leading to a significant reduction of prices/fees of between 10% and 15%, followed by the improvements in decision-making and strategic planning processes, the analysis of its own value chain leading to process optimisation, improvements with the level of product profitability through the apparent cost visibility, as well as the ability to determine accurate products and process costs.

Section II - GSC

The chief financial officer decided to implement the ABC/M system because of its credibility in providing accurate cost information for decision making - irrespective of the volume of products and services produced - accurate cost visibility and product profitability. This level of accuracy also improved product pricing which in turn repositioned the bank within the competitive arena. This saw the launch of an ABC official project to take full accountability of financial processes and architecture as well as product and customer profitability. The level of competency and leadership skills seen in the group head of GSC formed the basis for his appointment to lead the

team. ABC as a standalone system was followed by the development of a list of core activities. The initial strategy with ABC/M was to optimise the costing processes in order to improve transfer pricing and then enhance cost visibility and transparency to achieve product profitability.

The change to the ABC/M system was dependent and subject to satisfying criteria and to a mixture of random, systematic and internal forces. The extent of change was significantly influenced by organisational resistance in the roll-out of new costing rules and routines. The early stages of operating under new ABC/M systems were characterised by uncertainties, resulting in conflict and misunderstanding among other accountants, who had initially thought that ABC was a replacement of the old systems; they now had to cope with various adjustments, adoptions, modifications and refined operating mechanisms and rules under the new operating model and working relationships. The culture of the bank in the context of willingness to experiment with new cost accounting methods challenged the roll-out of a new system. The application of two different management accounting systems (traditional costing and ABC systems) reduced the level of anxiety within management. The availability of route course analysis to trace all activities and process costs supported the mandate of promoting reduced operating cost throughout the bank.

It is important to stress that the visibility of cost brought by an ABC system has led senior management to a greater understanding and insight of the bank's cost structure, cost visibility and also highlighted where the respective costs existed and what the expenditure constituencies were thereof, (see Exhibit 8.01). The use of ABC/M became crucial in strategic planning because of the needed focus of attention on factors that determined the expenditure on its activities. It also assisted management to prioritise alternative business initiatives, by providing information relating to the cost and benefit of product and services.

ABC/M was implemented with the assistance of external consultants. However, inputs from consultants were only required in the development of the information technology. The group head of general (end-to-end) costing established a centralised project team to oversee the implementation of ABC/M. The centralisation of this project within GSC ensured that there was consistency in processes and enabled a better coordination of the implementation process. The project team worked together with the SBUs dealing with operations, corporate strategy division, group information technology and central finance. The team then carried out a number of visits to its subsidiary companies and branches to define the activities, resources, cost centres and

cost drivers, establish the overall cost structures in order to understand the key elements that constitute operating cost on products and services supplied to its customers and then establish the accurate cost on delivering a particular activity. One of the reasons behind the successful implementation of ABC/M was the fact that the correct people were appointed and took full accountability throughout the entire project.

With bases for the provision of inter-organisational services, it became crucial for management to be able to identify each department that was charging/billing the internal service receiver so that GSC could consolidate the costs of their respective cost centres to align with the general monthly ledger. As such, the objective was to ensure that all expenditures were allocated to the correct SBU of the customer facing clusters and that the pricing of internal services that were sold to each SBU was understood by both the creditor and debtor. The adoption of ABC/M was generally built on the architectural model and systems design to supply reliable product costs; the increased level of accuracy of cost information led to appropriate pricing of consumer products and services. The bank was therefore transformed from a failed traditional product costing model to a single costing model of ABC where customers are better serviced and satisfied, resulting in customer retention.

The use of institutional theory in GSC facilitated the understanding of the ABC/M's key attributes that supported the competitive strategy; such as, the availability of reliable cost information, created capacity to allocate cost accurately, achievements in competitive product pricing of products and services, enhanced cost awareness through the accurate cost visibility which equipped senior management with the understanding of distinguished cost structures, higher accuracy of management reporting, operational improvements through the analysis of the activities and cross functional services and a clear understanding of the costs associated with products through their life-cycles.

Section III - RETAB

Strategic change with advanced management accounting technique was prompted by the fact that innovation had become popular within the bank. Management's view was that as the economic recession continued to affect the whole of SA and, increasingly, the potential for mergers and acquisitions among banks, competition became stronger and therefore, the need to focus attention at board level on the vulnerability of the profitability became imperative. Executives needed to understand the dynamics of strategic cost and income profiles of the bank

in order to ensure that the strategic objectives concentrated on improving the shareholder value in both the short and longer term. This was only achieved by understanding the factors that had negative effects on profitability and the impact of changes on the market.

RETAB's strategic objectives were to drive operational efficiency in the processing of products, enhance speed in service delivery, increase volumes and use process value analysis and business process reengineering in order to manage operations in an effective manner. There was however a low level of contribution to the roll-out of the new system. The lack of active involvement was partially due to the fact the internal communication processes for ABC/M were managed poorly, resulting in tensions within management.

The reactive management style of accountants in product costing and allocation was generally based on the inability of traditional management accounting capabilities. ABC/M is applied indirectly by the operations management when they are conducting process reengineering to reduce impairments with emphasis on process efficiencies. The bank systems and processes needed to provide opportunities for reengineering and continuous improvement opportunities were proactively identified and quantified. However, learning the cost of each activity/process, at strategic level as facilitated by the ABC/M, did not have direct influence on staff in order to assist them in setting priorities for attacking the most inefficient and least value-adding processes.

Essentially, senior management was aware of the various levels of operational costs through ABC's capability in accurate costing of products and services, but did not make such costs visible to the operations units (teams). They rather encouraged the adoption of business process reengineering (process value analysis) to improve operational efficiencies which should be manifested and translated into reduced costs per units.

The explanatory theoretical framework was useful in RETAB by facilitating the identification and evaluation of the primary key characteristics of ABC/M that supported its competitive strategy. These included the availability and visibility of better, accurate and reliable cost information that assisted senior management to influence and drive operations optimisation through process value analysis, as well as the improvements in the process used in the pricing of products and services.

8.2.2 Conclusion

STRAT appeared to have used the ABC/M information in response to a consistent decrease in profit, lack of cost transparency, inadequate processes, business risks and inaccurate management reporting; the highlights for its strategy support were the fact that it achieved improved product pricing, became better equipped in its strategic planning and analysis of the value chain, improved product profitability based on cost transparency and accurately determined and imminent opportunities in the economies of scale. GSC, on the other hand, was driven to implement ABC/M due to incorrect product costing and thus intended to reduce operating costs, improve processes along with activity costs, rectify the process of interdepartmental billing and streamline internal service level agreements processes. The ABC/M appears to have supported the competitive strategy by being able to allocate cost in their correct cost centres, assuring that there was reliable information available for decision making, and participated in providing accurate costs to be used for product pricing.

Ensuring that it had accurate costs allowed visibility to increase cost consciousness and improved understanding of the business cost structures, enabling activity analysis and systems integration, as well as eliminating cost distortion, while at the same time ensuring that senior management understood the cost associated to products throughout their life-cycle. Whereas RETAB's focus was on the allocation of its operating costs and revenues based on produced volume; key contributors in supporting its strategy included the increased accuracy in product pricing leading to consumers benefiting in reduced products prices/fees, made possible through the well understood and reliable costs data.

8.3 Cross-case analysis

8.3.1 Emerging trends from the three SBUs

A closer analysis of the way in which ABC/M was being applied within the bank revealed a significant improvement of up to 95% accuracy in cost allocation due to the fact that the bank now has greater visibility of its operating costs and has cost transparency that enables accurate cost allocation to the respective cost centres. The understanding of operating costs and values of products and services became a requirement for the bank, as consumer demands increased the bank's expenditures and in certain areas did not correspond to increased revenues. The management view is that because they can now quantify and understand cost better, they are also able to quantify and apportion them in the accurate cost centres and control them better through the application of ABC/M. It is also important to stress that the visibility of operating

costs, the accurate and reliable determination of products/services costs brought by ABC/M, led to a significant price reduction of up 15%.

However, although there was generally a high level of credibility on the key attributes produced by ABC/M, the research findings seem to be inconsistent across the business units studied in their expectations from ABC/M. The availability of accurate cost information to be used in strategic planning and decision making (such as in product development and pricing strategies) was more important for STRAT, whereas RETAB concentrated on producing more volume of products and services on cost budgets set by headquarters and expanding the distribution networks of products and services through customer centricity, while GSC concentrated on producing on-time costing reports, accurate cost data, accurate cost allocation and cost visibility, regardless of the operations improvements opportunities. The three areas of similarities include the drive to improve product profitability, channel profitability and ensuring sustainability.

Burns and Scapens' (2000) helped the researcher to explain these differences through the use of the institutional theory, which provided a general framework that facilitated the examination and analysis of STRAT, GSC and RETAB, before and after change implementation. The theoretical framework demonstrated how the addition of an advanced management accounting technique such as ABC/M significantly altered the understanding of the organisation's phenomena by reorganising its strategy and transforming its business environment. Their theoretical model highlighted the key analytical areas as strategic change imperatives for each SBU, their strategic intents, focus areas and motivating factors, both internal and external drivers that precipitated the need for strategic change in an attempt to support competitive strategy by creating sustainable competitive advantages through the supply of cost effective availability of products and services.

It is worth stressing through the evident empirical findings that the implementation of ABC/M as part of the bank's advanced management accounting technique was implemented successfully. Research revealed a combination of contributing factors and challenges to this effect. Some of these included the facts that the institution studied is operating in an ever growing competitive environment and had a consumer reputation of offering highly priced (uncompetitive) products and services. This customer experience of highly priced products, including the extensive competition, developed a sense of urgency with senior management for reviewing its cost

structures, which then motivated the need for improved product pricing through the application of innovative costing and management accounting techniques such as ABC/M. This institution is also one of the largest financial organisations in the region, so the size of the organisation played a significant role in gaining senior management commitment (executive committee) to allocate sufficient resources to this initiative as a formalised project; this as a result facilitated greater collaboration throughout the business in the development and roll-out process. Also, the bank's size contributed to the demand for accurate information associated with activities, which are taken into consideration in strategic planning and control of these activities.

However, this success was never made possible without its own implementation challenges. There was some resistance from the cost and management accountants within central finance. Accountants were primarily resistant to the new costing model because of their assumptions that ABC/M was intended to replace the existing costing systems; the assurance that ABC/M was not to replace the existing systems, but was to complement them, reduced the level of resistance and enabled greater collaboration. However, although most cost and management accountants acknowledged the level of cost distortions, specially on diversified products and services, they had little confidence that the information generated by ABC/M (along with its new institutional rules, routines, processes, technology and relationships) would add any value in decision-making (i.e. with product pricing committees). This as a result led the project team to primarily focus on ensuring that cost visibility and accurate reporting were made available at the strategic level (including the CFO and CEO) where corporate and tactical decisions are made; hence the lack of aggressive involvement at the operational levels, leading to slow operations improvements on a different scale.

The implementation of this type of change required a significant consideration of cultural behaviour, politics and the technical challenges. It must however be stressed that one of the greatest reasons behind the successful implementation of ABC/M was that the correct people were appointed to run the project taking full accountability throughout the entire process and ensuring that centralisation of ABC/M's implementation was consistent throughout the roll-out phase.

In summary, the ABC/M successes in this study are twofold. It is worth stressing that the ABC/M project team used a bottom-up approach and was decentralised with an extensive integration with the operations (customer facing) business unit, which in turn was transparent in seeking

innovative ways to improve operations. As such, there was a paradox/inconsistency between the senior (strategic) management and the traditional cost and management accountants (within central finance). Senior management successfully used the information supplied by the ABC/M system for strategic objectives because of the immense benefits that the system delivered to support its strategies, whereas the customer facing (operations) management continued to use the traditional cost information. This does not mean that ABC/M at operational level (customer facing unit) was a failure. The ABC/M project team used a bottom-up approach but because of internal politics, cultural shifts and power struggles within central finance (traditional accountants), there was a minimal participation at the lower operating management level. The research found that part of the implementation process included the training and development of key stakeholders on the ground which would then facilitate the roll-out process throughout the bank and optimise operational improvement.

Exhibit 8.01, shown in the next page, provides the summary of the institutional management dimensions and various functional practices and approaches taken to achieve cost effective availability of products and services in an attempt to create sustainable competitive advantages, through the adoption and used of ABC/M.

8.3.2 Conclusion

The key highlights with the cross-case analysis include the fact that cultural shift and internal policies played a significant role in the implementation process. By the operating costs becoming transparent and leading to accurate allocation, as indicated in the management reports, senior management was empowered to make informed decisions in strategic planning.

There was a consistency in the context of benefits that emerged from the application of ABC/M from each SBU. The commonly seen benefits throughout the three SBUs included the visibility of operating costs, clarity and understanding of costs, availability and reliability of cost information, the increased confidence in decision-making, reduced product pricing/fees and improved cost allocation in accordance to each SBU, cost centre and/or department, hence creating competitive advantages. The apparent inconsistency on expectations from all SBUs can be interpreted in that each SBU has different key accountabilities, but are generally driven by a common objective to improve both the product and channel profitability.

Exhibit 8.01: Institutional Management Dimensions and Functional Practices

Institutional Change Dimensions	STRAT - Functional Practices	GSC - Functional Practices	RETAB - Functional Practices
Organizational strategy prior to changes	Mergers & Acquisitions Limited customer segments	Volume based product costing Cross subsidisation	Drive increased volume
The conception of organizational change need	Internal & external factors Distribution and customer service Uncompetitive product pricing	Cost visibility Cost allocation Product pricing Route Cause Analysis	Vigorous competition Service fees and product prices Loss of customers Development of trust
The formulation of the new strategic approach	Strategic thrusts Strategic focus areas Strategy workshops Strategic reviews Use of mobile studios (branch)	Accurate product costing and reporting Strategic alignment	Strategic thrusts Strategy workshops Product mix Pricing reviews Scaled economies Shareholder & customer confidence
The need for relevant management information	Cost distortion Pricing processes Systems capacity utilization Innovative management systems Validity of information technology Customer account information Decision support systems Cost accountability	Crediting inability Cost segmentation Systems capacity and flexibility	Operations cost reporting Cost control Cost budgeting Customer value proposition Key volume indicators Client management systems Resource utilization Market needs analysis
The adoption and implementation of ABC/M into the bank	Decreased profitability Cost transparency Cost accounting Process reengineering Business risks Accurate reporting	Translated unit cost Cost reduction Process and activity costs Management accounting rules & routines Customised costing models Interdepartmental billing Internal service agreements Implementation timelines	Cost & revenue allocation Operations efficiencies Process reengineering
ABC/M's attributes that support competitive strategy and business areas where it had made a difference	Improve product pricing decision-making Strategic planning & value chain Product profitability Cost visibility Cost determination Scaled economies Decision-making processes	Improved cost allocation Availability of reliable information Competitive product pricing Reliability of data Accurate cost visibility Understanding of cost structures Accurate reporting of activity costs Activity analysis Systems integration Cross functional services Cost distortion Product life-cycle costing Progressive cost management	Cost visibility & clarity Product pricing Availability of reliable information Interdepartmental debbing & crediting

Source: These dimensions were identified and consolidated by the author during the analysis of results (Domingo TM, UCT PhD; 2007).

8.4 The Application and Utility of the Institutional Theory

This section articulates the usefulness of the institutional theory that was used in this research as an explanatory framework. This section also deals with the manner in which ABC/M and organisational change created new rules and routines as well as the role played by senior management during the implementation process.

The theoretical specification, along with the integrated framework that was developed in the literature, confirmed its output as a testable proposition and demonstrated the key attributes of ABC/M that support competitive strategy. However, the empirical study highlighted the fact that the relationship between the variables illustrated in the theory needed to be re-conceptualised and refined because of the dynamic nature of the operating (competitive) environment and the relative influence of the bank's strategy. As such, the researcher followed Keating's (1995) suggestion in attempting to refine and operationalise the theory. The theory was therefore taken into the field to assess whether it captured the heterogeneity and complexity of the phenomenon it purported to explain, subjecting the theory to rigorous testing.

The utility of institutional theory was to a large extent viewed as the bridge that connected the literature and the empirical research. This was interpreted in two folds: the institutional theory as an explanatory framework explained the manner in which ABC/M could be adopted, implemented and applied within the bank. On the other hand, the institutional theory predicted the core benefits of ABC/M, which have been proven by the empirical results as presented in the case analysis.

The institutional theory facilitated the understanding of ABC's possible failure because employees frequently resisted initiating the change implied by the project team; as such, it was clear that success with ABC primarily depended on effectively dealing with the attributes related to behavioural and organisational variables. These variables included individual characteristics driven by their disposition towards change, roles, involvement, understanding and job security; as well as the centralisation/decentralisation of decision-making, the nature of internal communication; and the complexities associated faced by the end users in the context of trialling the new costing methodology and information system.

Considering the fact that institutional change inevitably involves new ways of working (rules/routines/processes), the theory enabled the researcher to identify different levels of

anxieties, frustrations and uncertainties that became imminent due to the introduction of ABC/M, as well as the disturbed relationship between various levels of management. However, the project team and external consultants had a powerful and coherent presence towards colleagues, influencing them on the fact that ABC information was important to the success of their business units as well as themselves. Due to the fact that the ABC sponsor was a member of top management; the implementation strategy used was focused on getting authoritative managers (both accountants and non-accountants) to demonstrate commitment and compliance to ABC's rules and routines in their communication with other employees and in their decision-making.

Furthermore, senior management understood the competitive challenges. In this regard, their support provided the political assistance that was needed to push aside some of the managers that created coalitions to resist the innovation. The institutional framework provided a lense to observe the manner in which the executives, whom the resisting managers reported to, were made accountable and assigned to take the role of executing the tasks of implementing ABC and at the same time influencing the lower managers to change their attitudes. This approach, as result provided the basis for non accountants, among others, to accept, understand and start using the ABC information. As such, absolute clarity of the objective of ABC/M among staff members and operations executives (who were suppose to be the end users) was necessary in order to ensure that the ABC information was produced efficiently and used effectively.

The theory helped in revealing the fact that the commitment to drive change emerged from the authority and responsibility held by senior management. As such, the desire for organisational development was directly aligned to the intrinsic value that these executives placed on reducing product costs, among others, leading to improved prices of products and services, regaining the competitive position, and hence transforming ABC into an organisational policy.

Using the theory, it became evident that the first indication of corporate acceptance of ABC became imminent as soon as there was visibility on the amount of costs that were previously un-allocated due to the inability of its traditional systems, which was then allocated accurately to their correct cost centres. This was well received because it provided the first tangible evidence and benefits, and hence the intent to embrace change, comply and use the newly structured rules and routines. Thus, the institutional framework provided the microscope to see these benefits; namely, the ability to determine products and service costs, cost visibility,

improvements in products pricing of up to 15%, accuracy in cost allocation and reporting thereof (i.e. the organisation had ZAR740 millions unallocated due to the inability of its traditional management accounting systems in the previous financial year, but was significantly reduced to ZAR32 millions through the application of ABC), the availability of cost structures leading to activity analysis and business process reengineering, as well as the use of reliable cost data for decision making. The need to make these benefits visible throughout the bank was then acknowledged, along with the standardised rules and routines in the cost and management accounting arena. This therefore meant that the creation of corporate routinisation was a significant strategy that the adoption and acceptance of ABC relied on.

Management accounting information systems are generally seen as innovations that incorporate sociological routines, rules, regulations, behaviours, norms and values that provoke different responses, ranging from resistance to institutionalisation. This was manifested through actions driven by ethical and emotive criteria linked to social consensus. Therefore, the theory helped the researcher to conclude that an evolutionary perspective was necessary for the institution's strategic intent to adopt innovative management accounting techniques such as ABC/M. Furthermore, the theory led the researcher to confirm that senior leadership/management did to a large extent matter in the adoption, acceptance and a successful implementation of such accounting techniques.

The use of institutional theory allowed the interpretation of the role of management accounting in the change process of the bank investigated. The framework enabled the visibility of the strength and assertiveness of senior management in adopting ABC/M to support decision-making. It also helped to see the hector requirement of more accurate cost information, as well as highlighting the dynamics of the used top-down approach in the implementation process of ABC/M to support its strategies. The theoretical framework demonstrated its potential to unmask and unravel the issues that were associated to conflicts, self-interests and politics within the bank, particularly with its managers; and then, enabled the researcher to discover the problems caused by actors and group dynamics, more specifically, in the context of other managers attempting to discredit the project manager, whom the CEO appointed to drive the initiative.

In order to promote organisational integration and learning, the theory facilitated the identification of the link between the use of power by senior management and the appropriation of enforcing its value systems to enhance their relationships with other executives and

managers in order to inevitably influence change. Due to the fact that the key attribute of institutional ownership is the authority to run the organisation and maintain consistent revenues generated by it, the institutional theory confirmed the fact that senior executives of the bank are the leaders that determine its working rules. The theory therefore helped to see the use of authority in that, in addition to maintaining order and resolving conflict, the sovereign power was also used on working rules in order to enforce collaboration in the production and exchange of new business processes and to resolve the problems created by the pursuit of self-interest.

The theoretical framework also helped interpret the missed opportunities by the bank in creating economies of scale from learning-by-doing; these new routines and rules would inevitably encapsulate internal skills and optimise organisational capability. It was also seen that these routines may not only have been specific to the job at hand, but instead, also developing integrated knowledge, speeding decision-making, improve coordination and more specifically, leading to dynamic cost improvements.

Finally, the theory created a framework to explore the conceptualisation of change within the organisation that was investigated. As Burns and Scapens (2000) pointed out, their framework provided a useful point of departure for the analysis of this case/organisation in investigating the management practices and functional dimensions. As such, change was depicted as a consequence of the behaviours of employees that were involved in the change processes. The framework also highlighted the importance of considering the challenges associated with organisational politics and power struggles in influencing decision making to drive institutional changes.

8.5 General Discussion

The following sections give a consolidated overview of the adoption and implementation of ABC/M in supporting competitive strategies by discussing the following: (i) strategic change management and (ii) strategic cost management.

8.5.1 Strategic Change Management

- ◆ There is evidence to suggest that the application of ABC/M to change needs was a more reactive approach in response to internal pressures to improve costing accuracy as well as enabling better visibility for the bank costing. This study also revealed that the ABC/M system was chosen because it was perceived to be the most efficient technique in meeting

the bank's needs for better cost information. ABC/M was viewed as a broader management system incorporating activity analysis, analysis of business process and analysis of value and non-value added activities.

- ◆ It was also evident, however, that traditional management accounting was and is currently still used to accumulate costs up to general ledger, beyond which ABC/M converts the information to a more reliable format. Thus it was confirmed during the field study that ABC is not a replacement for the traditional general ledger accounting. Rather, it is an overlay that lies between the cost expenditure account balances in the general ledger and the end-users who apply cost data in decision making. ABC converts inert cost data into relevant information so that the end-users can take actions. As such, a closer analysis of the way in which ABC/M is being applied in the bank reveals the use of two different management accounting systems; that is, the traditional management accounting systems and the parallel use of the ABC system. In practice, the traditional management accounting systems were left unchanged; instead an additional dimension to the management accounting system in the form of ABC/M was introduced into the bank. Given that the bank was regarded as imposing some form of social coherence on its operations, through the reproduction of settled habits (the use of traditional management accounting systems), the adoption and implementation of ABC/M required the intervention of senior management in influencing the desired behavioural change. Such change configurations among senior management emerged due to a better understanding of products and process costs, which in turn resulted in the introduction and routinisation of new behaviours.
- ◆ This study reported that the bank had a high level of cost distortions and produced diverse products and services which in turn required more overhead cost allocations in the determination of product costs. Also, the impact of cost distortions was greater within the bank, in particular with the overhead costs. The level of overhead relative to total costs was frequently seen as the major factor influencing the bank to implement the ABC/M. As such, this research found that expectations of more accurate cost information by top executives provided the impetus for the implementation of ABC/M in order to support corporate strategy.
- ◆ It must be noted that the bank is a service driven institution, unlike a manufacturing company or retailers, and does not supply tangible products to customers; it provides

intangible products and services to the general public and business while acting as a means of public trust. The bank is therefore not merely a business; it is the establishment and maintenance of a relationship, which facilitates interactions between members of society and the international business entities governed by rules and routines. As such, the level of the new information technology is credited with the results of revolutionising banking. The innovative information technology in the management accounting arena has been applied to facilitate cost accounting, automate labour intensive processes, accelerate the speed of account processing and transactions and attract and retain customers through price reduction, while augmenting profit margins.

- ◆ This case study confirms that the analysis of information and processes through ABC/M systems placed a new perspective of the bank at management's disposal, by providing a clear picture of the bank's processes, activities, linkages and evaluation of whether activities are adding value or not. This potentially places management in a competitive position to streamline and re-engineer its operations. The system also lends itself to value engineering, such as the downsizing of characteristics that customers are not prepared to pay for; for example, the telephonic processing of personal loans as opposed to customers physically going into the bank for such processes. The application of ABC/M is also apparent from the way that the key factors that affect the cost and revenue relate to the need to balance accuracy of processing with the speed and cost of the operations.
- ◆ It was also discovered that key factors that drive the costs associated to the use of technology were generally at a strategic level. Investment in technology resulted in material impact on the overall cost structure of the bank; for example, transmission services, trade finance, foreign exchange, corporate finance and lending. The strategic cost drivers associated with technology were perceived in the context of suitability with the level of automation, the degree of innovation, the optimisation of capacity utilisation and the level of integration across the entire bank.
- ◆ The study also found that the bank has made significant modifications to its information technology. All its systems needed to be innovative to ensure that the bank improved its market share, by a distinctive supply of cost effective availability of products and services. Capital markets, merchant banking and corporate finance operations had to continually be innovative in creating products that meet customer needs, or even exceed customer

expectations. This required the bank to produce more innovative products and services with flexibility through the underlying information technology; for example, the introduction of Mzansi account for different target markets. The need to have technology capable of delivering new products efficiently became a key cost driver. The need to integrate the ABC system with the old systems which were built on old technologies with obsolete designs resulting in service failures (unreliable cost information) had a material impact on short-term systems integration. There is therefore evidence to suggest that the emerging improvement of profitability was due to up-to-date and accurate cost allocation systems, resulting in significant improvements in product pricing.

- ◆ The research also found that the integration of the ABC/M system to a large extent resulted in significantly error-free cost allocation and efficient processing within the bank, hence reducing the need for re-entering data when transferring information between different systems.

8.5.2 Strategic Cost Management

- ◆ This research provided evidence of the cross-subsidisation of costs among different products and services that was obtained using the traditional cost allocation methods. Before the application of ABC/M, it was often difficult to analyse how the operations and production of one product or service affected the costs of other products and services. ABC/M provided cost visibility which revealed significant cross-subsidisation which was taking place by default; for example, the traditional use of volume based cost allocation before ABC/M's implementation. As such, management was able to focus on costs management via streamlining processes that produced products that were being subsidised.
- ◆ The research also showed, however, that products that were shown under ABC/M to be unprofitable, were not necessarily removed from the bank's portfolio. This was for strategic reasons, i.e. to ensure that the bank provided a basket of products to meet customer requirements.
- ◆ The research also found that it is important to constantly focus on customers' total perceived value proposition. The general perception is not to focus too strictly on ABC/M, because it might overlook the fact that other basic analyses such as customer adaptation, flexibility and economies of scope are needed. If the management forgets to focus on customers and

adapt the products and services to their needs, the customers would ultimately be unsatisfied and turn to competitors.

- ◆ It was discovered during the field study that cost management was implemented in a top-down approach in that branch managers focused their attention on attaining budget targets without an understanding of activity costs. This is explained by the main approach taken at headquarters level which involved resolving transfer-pricing issues at strategic level.
- ◆ There is empirical evidence to indicate that ABC/M supports the bank's decision-making framework on economic analysis when developing new products or improving existing product lines. The approach further provided a more factual basis for decisions involving strategic changes of the service and product option offered by the bank. As such, strategic cost management realised the need for advanced costing solutions; hence the emergence of ABC/M. As a result the accuracy of product costing received new emphasis. This emphasis is also extended to performance reporting using multiple cost drivers allowing for more accurate budget calculations and, therefore, a more meaningful comparison of actual and budget costs. ABC/M generally became useful for management to find hidden costs and profits, as well as hidden losses in relationships with customers, products and services.
- ◆ The empirical results also found that there were major limitations of traditional costing systems of the bank through the application of volume based costing for its products and services. Such method produced inaccurate service and product costs, especially when a large amount of overhead costs was not volume-based and when the bank has produced a diverse mix of products and services with different volumes, sizes, categories and complexities. This did not support effective cost allocation of products and services in the past strategy. Products and services that differ in volumes, sizes, categories and complexity consume support resources in significantly different amounts. Due to increased consumer expectations and product diversity increases, the quantities of resources required for handling transactional banking and support activities rose accordingly, and hence resulted in incremental increase in the distortion of reported product costs and their allocation thereof through the traditional cost system. Accompanying the revolution taking place within the bank, the research result revealed that the bank's resources, such as electronic banking and payment system, along with product handling costs for activities and transactional banking, are unrelated to the physical volume of units produced. The expenses were typically

allocated to products using volume based measures, such as direct labour hours, direct materials costs, direct labour costs, machine hours and units produced within a specific period. The product costs generated by such allocation are distorted because products do not consume support resources in proportion to their production volumes. Such costing methodology did not reflect how specific activities caused variations in major cost categories.

- ◆ This case study has also discovered that the overall application of ABC/M to the bank's strategic planning was mainly with the identification of the flexibility within the cost base, more specifically in the context of cost visibility. This flexibility related to the ability to utilise costs already incurred to gain insight and assess the manner that the bank can create sustainable competitive advantage and the knowledge of the incremental expenditure necessary to pursue a change in a certain direction.
- ◆ This field work submits to the fact that accuracy in product pricing is still challenging but consumer perception on product fees/prices has improved significantly with tangible consumer benefits of up to 15% in price reduction. As such, this field work has demonstrated that distinct cost determination in terms of cost drivers, supported by ABC/M, is useful in strategic management in the context of understanding the factors that cause and drive the various cost elements of the bank, such as card services and transactional banking. The group technology support services, for instance, used by RETAB branch operations to determine the costs associated with the operations related to product development, distribution, processing, customer service, marketing and sales may relate to any cost driver.
- ◆ Results from the changes in product development revealed that the incorporation of life-cycle costing into the ABC system ensured that all costs relating to products and services are assigned to the product during its economic life, in order to provide an adequate perspective of the product's profitability and promote better decision making with regards to products and services. Cost and quality factors in product development relate to the balance between innovation, complexity and the need to maintain profitability in the short and long-term. Innovation in new products tends to involve new systems and procedures to enable staffs and customers to understand the product or service and the associated benefits.

Product tailoring, modification and product differentiation, on the other hand, is achieved in response to competitive strategies.

The diagram with ABC/M's characteristics as shown in Figure 8.01, as shown in page 207, gives a summary of the major insights discussed thus far. The empirical evidence indicates that some of the functional practices confirm the assumptions made within the theoretical framework (see Figure 5.01) developed in chapter 5. As such, this framework reveals in practice the manner that ABC/M is applied within the bank that was investigated and the attributes that support its competitive strategy as well as the business areas where ABC/M makes a significant contribution.

8.6 Some observations

A closer analysis of the way in which ABC/M is being applied in the bank reveals that it is not largely used to focus attention on those factors that determined the expenditure on key resources and projects. As such, although the ABC/M provides the ability for a comprehensive resource cost measurement by tracing all costs to cost objects, this case study confirms that the bank does not utilise this system to measure the resource costs. It is not used to determine when costs should be incurred on initiatives, such as when to diversify and move into new products or business area.

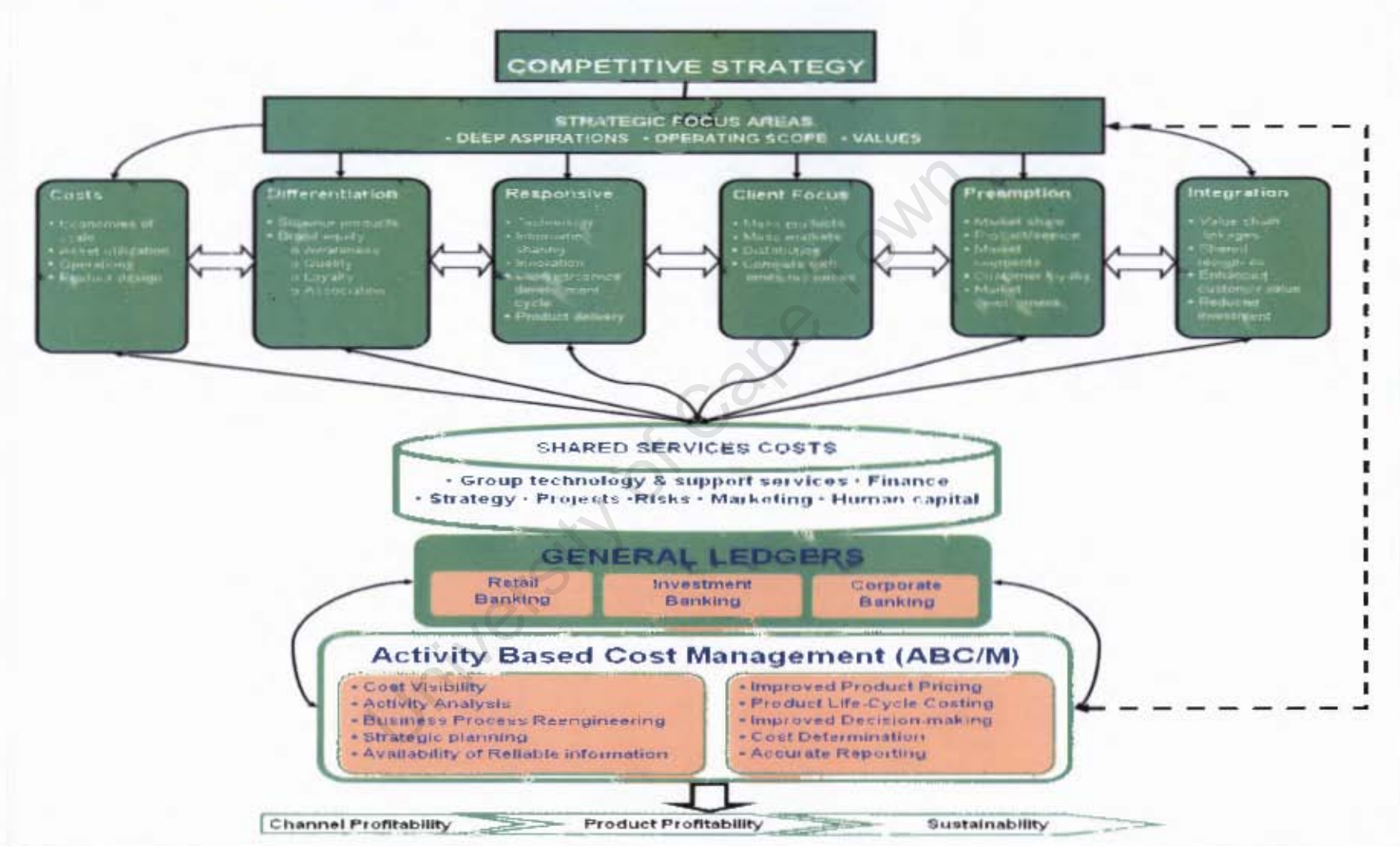
This field study has reported significant gaps between the application of ABC/M and the risk identification process. There is evidence to suggest that the use of ABC was not extended to facilitating the indication of areas where operational risk strategies were needed within the bank; this is generally with reference to areas where performance did not enable competitiveness due to associated risks. This also includes the fact that the benefits of ABC/M appear not to have extended to the processes related to suppliers' value chain management.

The limited application of ABC/M with specific focus on the customer value chain became clear during the course of study. This has resulted in the bank's failure in the calculation of product and channel and customer profitability, since it was relatively difficult to determine whether customer requirements were met profitably. It can therefore be concluded that performance criteria such as customer satisfaction, holistic differentiation, service delivery and after-sales service and best practice analysis are not integrated into the ABC/M system to improve

customer service levels. This empirical study has provided evidence to indicate other advanced management techniques that are being applied along with ABC/M. These include the application of statistical control charts, key volume indicators, client management systems, resource capacity management and the balanced score card.

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Figure 8.01: ABC/M's Application to support competitive strategy in the banking sector



Source: Framework developed by the author during the analysis of the case results of the organisation investigated (Domingo TM, UCT PhD: 2007). Each element and theme was confirmed against the framework developed in the literature review for strategy support.

8.7 Conclusion

It is evident to conclude that strategic change in management accounting was motivated by the fact that the bank required the availability of reliable information to ensure that strategic decisions were based on concrete and dependable facts. The true costs and other accurate information provided by the ABC/M system supports management in a manner that they are able to make decisions with confidence and evaluate the effect of strategies proactively. In order to achieve the objectives set by the organisation, management needed reliable cost information that is useful in strategic planning and decision support mechanisms. ABC/M has created both quantitative and qualitative information to support strategic planning and produce products and services of a higher quality in a cost-effective manner.

The institutional theory facilitated a detailed investigation and exploration into the nature of the information system required in the strategic focus areas. This then led the researcher to gain deeper understanding of the reasons that motivated the need to have a more relevant management information and technology that would support its new competitive strategy.

The framework also led the evaluation of process used in the primary introduction and adoption of the ABC/M technique into the bank. More specifically it clarified the manner in which ABC/M was brought into the organisation, highlighting the challenges, tensions and influence of internal politics employed by the key players in the implementation process. It also highlighted the application of ABC/M as part of the information systems used to support the strategic intents.

The theory was also useful in that it demonstrated the key elements generated by the ABC/M that support competitive strategy and create sustainable competitive advantages. Given the information from the empirical study (ABC/M to support competitive strategy within the SA banking sector), it is worth stating that the criticisms made by Hopper and Major (2007) appear to be epistemological and that the proposed improvements (which are assumed to inevitably be the end results of the theory used) must be tested within the studied environment in order to be sufficient.

CHAPTER NINE

9.0 FINDINGS AND CONCLUSIONS

9.1 Introduction

This chapter provides the research findings and conclusions drawn from the study. The chapter begins by recalling the problem statement and the purpose of the research, and then moves on to highlight the methodology used to collect the empirical evidence in response to the research question. The major insights of the research are then presented, followed by conclusions.

9.2 Problem statement

This research aimed at investigating the manner in which ABC/M supports competitive strategy. It was argued that attaining a clear understanding of activities and their costs and the relevant decisions to be taken, requires the use of tools that create activity and cost visibility. As such, the research investigated the application of ABC/M in achieving cost-effective products and services in the context of a sustainable competitive advantage. More specifically, this research addresses the following question: ***How can Activity-Based-Cost-Management (ABC/M) support a sustainable competitive advantage through cost-effective-availability of products and services, within the South African (SA) Banking Sector?***

This investigation was pertinent in the banking sector in SA due to the current extreme competition and it concentrated on the analysis of activities and costs by means of direct activity based cost management. The objective of the ABC/M was, therefore, to understand the behaviour of activity costs within the bank, linking operational and sustaining costs to the value chain in such a way that management can identify the factors that drive expenditure and therefore manage them in an effective manner that delivers cost effective availability of products and services. The main areas of investigation included the following:

- ◆ Examining the bank's strategic change imperatives and focus areas.
- ◆ Exploring the nature and capabilities of the information systems required for the new strategic change and focus areas.
- ◆ Investigating the strategic cost management processes.
- ◆ Evaluating the application of ABC/M as part of the information systems to support the new strategic change and focus areas that would be able to deliver cost effective availability of products and services in the banking sector.

The employment of a case study method was used to collect data on the organisational determinants and business strategies of a sample of three SBUs of one specific SA financial institution. The application of interviews enabled the collection of information and data analysis included the procedure for a systematic qualitative analytical protocol on the approaches used in ABC/M that the organisation had adopted and implemented to support its competitive strategy. The theoretical framework developed in the organisational/institutional theory (literature) was also used as a platform to compare the empirical results against the advocated theory, in the application of ABC/M to support the competitive strategy.

9.3 Research Findings

- ◆ The empirical results confirmed that ABC/M has the core characteristics that support competitive strategy by supplying more accurate information that is used to support the design, adoption and provision of cost-effective products and services, resulting in the creation and sustainability of competitive advantages.
- ◆ The empirical results demonstrated that ABC/M information supports business strategy in areas such as; (i) cost visibility, (ii) activity analysis, (iv) business process reengineering, (v) availability of accurate and reliable cost information, (vi) improved and reduced prices on products and services, (vii) reliable management reporting for proactive decision-making, (viii) understanding of life-cycle costing of products and service, (ix) product profitability and cost determination capability which then enhanced the management's capability in strategic planning resulting in proactive decision. The main findings as summarised in the integrated framework presented in chapter 8, ABC/M supports competitive advantages through the supply and delivery of cost effective availability of products and services within the bank.
- ◆ The application of ABC/M to support competitive strategy was implemented in a centralised fashion and in a stand-alone format from the traditional accounting systems. The group strategic costing division took full ownership from development to implementation. However, the ABC/M was not linked to suppliers' value chain, product quality improvement, performance management, supply chain, risks management or customer profitability.
- ◆ The use of institutional and/or organisational theory facilitated the interpretation the role of ABC/M in supporting the bank's strategic change management, by highlighting the broader institutional dimensions that formed part of the cumulative institutional context. When the

bank was faced with a strategic change imperative resulting in a severe cost and management accounting crisis, its first inclination was to rely on scientific management technologies that were inherently focussed on operations and accurate cost visibility in their approach. This necessitated the introduction of more sophisticated management accounting techniques in the form of ABC/M. As such, the use of ABC provided the capacity to get an accurate picture of the costs caused by different products and services, which in turn extended management's capability to make informed decisions. The overhead expenses constituted a substantial amount of the bank's total costs and it was essential to align them to the activities causing these costs. Using ABC/M, the bank was able to distinguish between profitable products, services and customers from the unprofitable ones. As such, the results of this study confirmed that the application of ABC/M has the core characteristics that can support corporate strategies through the supply of cost effective products and services within the banking sector.

- ◆ The empirical results have also indicated that most key attributes of ABC/M described in the literature, inclusive of those in the management framework, are capable of creating and sustaining competitive advantages and supporting competitive strategies through the supply of cost effective availability of products and services.
- ◆ However, the empirical evidence discovered critical areas that were not anticipated by either the theoretical framework developed or the literature. These included performance measurement systems such as the ladder model, resource capacity management, client management services, banker-cells processes and statistical process control management techniques. The study also revealed that the manner in which ABC/M was applied by the bank had not produced all the expected benefits required to support the bank's strategy in its entire capacity in order to deliver cost effective products and services. This situation is explained by the manner in which ABC/M is being rolled-out within the bank. As seen in the previous chapter, the institutional theory provides useful insights as to how ABC/M was adopted and implemented in the bank.

9.4 The link to the research question

ABC/M has the potential that supports business strategies through the supply of accurate and reliable cost information. Its capability to support competitive strategy through the supply of cost effective availability of products and services must be viewed in the context of influencing decision-making and strategic planning. As such, its ability to capture accurate costs and customer needs information in terms of activities must be seen in the manner that senior management can incorporate such costs information and customer value trade-offs in evaluating alternative decisions that would create sustainable competitive advantages.

9.5 Contribution of the Research

The greatest contributions made by this research have emerged from the empirical results. The case study research on the application of ABC/M was carried out by investigating the business units involved in the development and implementation of this cost management technique (that is the process owner), as well as the end users of ABC/M, which are both the operations team (retail banking unit) and the business unit involved in establishing the direction (strategy unit) of the institution in its entirety. This study enriches the literature on the successful implementation of ABC/M, which has had limited application in the South African financial sector and has elevated the diffusion process for innovative management accounting in association with the development and implementation of competitive strategies, with the tendency to consistent innovation within the management accounting environment.

This research has also made a contribution in the context of highlighting ABC/M's core characteristics that have the potential to improve the accuracy of costs allocated to the correct cost centres and/or departments by up to 95% and reengineering the strategic pricing processes resulting in a 15% reduction on prices/fees for products and services.

Another contribution is that ABC/M can be applied in institutions driven by "Techno-Ambidextrous Systems", as opposed to the arguments made by Damanpour (1991; 1992). Organisations using mechanical characteristics to facilitate the adoption and implementation of administrative and technical innovations (Dual-core framework) mainly focus on either activity analysis, process analysis or activity cost analysis. On the other hand, institutions with an organic model have a broader view of ABC/M, they start from recognizing the problems, to generating the concept, gathering information, assessing changes of attitudes, evaluating forces of resistance, securing and attaining sufficient resources and commitment to implement ABC/M

(Ambidextrous model). As such, an institution that has Techno-Ambidextrous Systems – driven by both the mechanical and organic characteristics irrespectively - can successfully introduce, adopt, implement, and benefit from ABC/M.

Given the active involvement of senior management, the research has made a contribution in that management accounting changes may not only be evolutionary, but they can also be a revolutionary process through the adoption of ABC/M. Despite the level of uncertainty, internal conflicts and anxiety that such change may cause due to unanticipated technical and sociological problems, ABC/M has the core characteristics capable of influencing leadership to take drastic measures on different business strategies. Another contribution made by this research is that using the top-down management approach, ABC/M can still support operations and process improvements despite the fact that its information is only provided at strategic level.

Few empirical studies have been done in the SA banking environment. More specifically, very few investigations have been carried to determine the extent that ABC/M is being used within the SA financial institutions. As such, the research makes a contribution to the management accounting literature through the application of qualitative investigative methods in order to study the manner in which ABC/M is applied. The research has helped gain greater insights on ABC/M's attributes that enable creation of sustainable competitive advantages in supporting competitive strategies in this sector. Therefore, this research forms the base for future investigations in the SA banking environment.

The contributions made by the institutional theory were seen in the context of providing an explanatory framework that was useful in investigating, evaluating and gaining greater insights into the formulation of the desired strategic response to the organisational challenges and the new strategic focus areas for competitive strategy, which involved organisational change. As such, the processes used in the change management for the adoption and implementation of the new management accounting innovation to support the organisational strategy were then identified and understood.

Furthermore, the use of the theoretical framework contributed by facilitating a better understanding on the level of volatility within the SA banking sector. Extending the usefulness of the organisational theory, senior management specifically took a strong stand with a top-down approach due to such volatility. As such, the framework enabled the visibility on the strength

and assertiveness of leadership in adopting and implementing ABC/M to support decision-making. The theory also helped the researcher to see the hector requirement of more accurate cost information, as well as the highlighting the dynamics of the used top-down approach during the roll-out process of ABC/M to support its business strategies.

Some of the organisational factors which drove the introduction of for strategy support included the search for innovative solutions to respond to consistent decrease of profitability, intensive competition in product pricing, product costs distortion supplemented by the lack of cost transparency, inadequate business processes in cost and management reporting, incorrect interdepartmental cost allocation, and the inability of its traditional management accounting systems to produce reliable and accurate cost information that could be useful in corporate decision-making.

However, it is worth stating that the results of this study have a number of implications for both practice and theory development. First, the research demonstrates the usefulness of ABC/M in supporting better product/service decisions. This finding supports prior research that has demonstrated the superiority of ABC/M over traditional accounting systems. Second, it also shows that the usefulness of ABC/M can be recognised in organisations in the developed countries as well as emerging and developing economies. Third, the research identifies the importance of diverse exogenous and endogenous factors that impact on the manner in which ABC/M can be adopted and applied in the organisations. This finding is significant in that it contributes to better implementation of ABC/M systems in organisations, and thus potentially reduce the failure rate, especially given the wide-spread failure of such systems in most organisations globally. Finally, it also contributes to the calls for management accounting systems to be examined in their organisational and institutional contexts.

9.6 Research conclusions and limitations

The main conclusions and research limitations drawn from this field study are as follow:

- ◆ The empirical evidence shows that ABC/M influences the development and implementation of business strategies, in that the type of strategic response to product pricing, for example, has to a large extent become dependant on the cost information supplied by ABC/M. As such, the empirical results presented here confirm and support the predictions made in the literature that the adoption and implementation of ABC/M supported the business strategy through a number of variables.

- ◆ The operational aspects of ABC/M link to ongoing and continuous improvements, which have staff compliment implications. This was illustrated by some of the divisional, corporate-level and support services staff at the operating level becoming redundant through process improvements, which result in fewer people being required for certain functions. Kaplan and Norton (2004) describe ABC/M as a strategic initiative that encompasses actions that increase efficiency, lower costs and enhance asset utilisation. ABM strives to either increase capacity or lower spending, so that fewer physical, human and working capital resources are required to generate organisational products and services. It utilises ABC as the basis component of financial management information that assists the operational control of the business by focusing attention on the key cost drivers and the factors that influence the day-to-day dynamics of the cost base.
- ◆ The emerging benefits of ABC/M that were investigated in this research should only be viewed in the context of the three SBUs or divisions studied within a specific financial institution. As such, the results should not necessarily be generalised for other institutions. Thus the empirical evidence is only the outcome of a study carried out in one bank to determine the way ABC/M could support its competitive strategies.
- ◆ Given the fact that this was the first time that this research was done in SA, and the desire to form an in-depth understanding of the subject matter, it was necessary to limit the scope of the study. As such, even though the above limitation is noted, it does not limit the usefulness of the study.

It is important to note that the findings from this field study are to be interpreted with caution because it was limited to a specific industry. Furthermore, it was restricted to one individual South African Bank. As such, generalising the results and analysis reported must be done carefully.

9.7 Suggested areas for further research

- ◆ The case study done by Hopper and Major (2007) prompted the need for further empirical enquiries to deepen the understanding of the use of the theoretical triangulation framework, but more specifically with the application of ABC/M within the banking sector.

- ◆ The results of this case study were generated from one financial institution only and could therefore not be compared to any other bank with specific reference to the application of ABC/M in support of organisational strategy. More case studies need to be done within the SA banks in order to investigate the manner in which this management accounting technique can assist management in decision.

- ◆ Using the institutional theory, more case studies need to be carried out to investigate the high level of resistance to change from traditional management accounting processes to innovated management accounting techniques such as ABC/M. Resistance aspects and behaviours generally emerge from operational personnel, professionals and executives that are generally from a non-accounting background, particularly within the banking sector.

- ◆ More case studies should also be done to understand the effect of cultural influences on resistance to the adoption and implementation of innovative management accounting techniques such as ABC/M in the banking sector.

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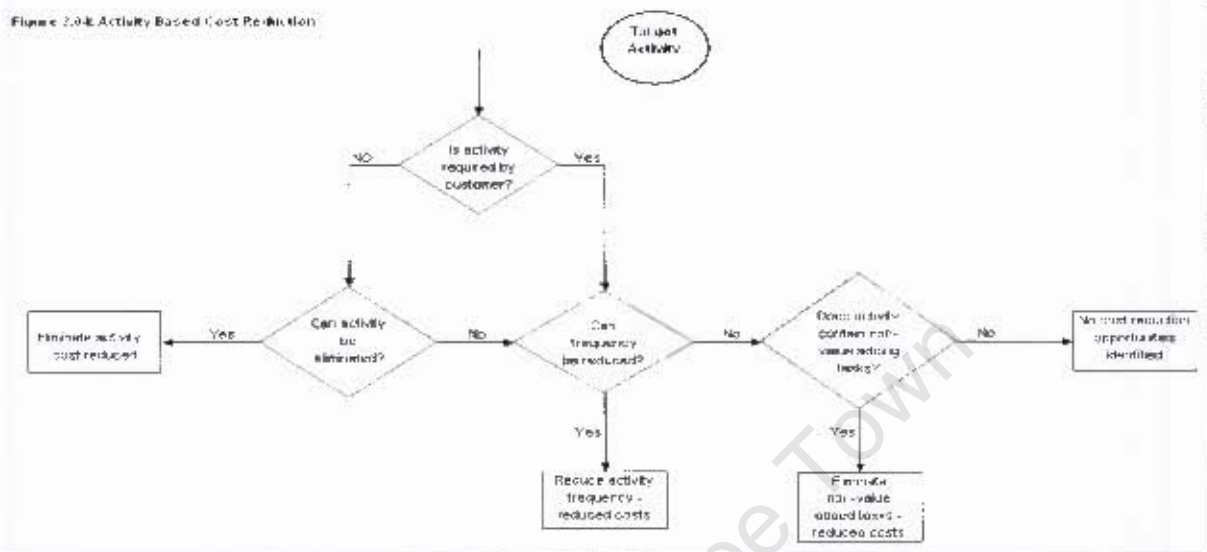
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ANNEXURES

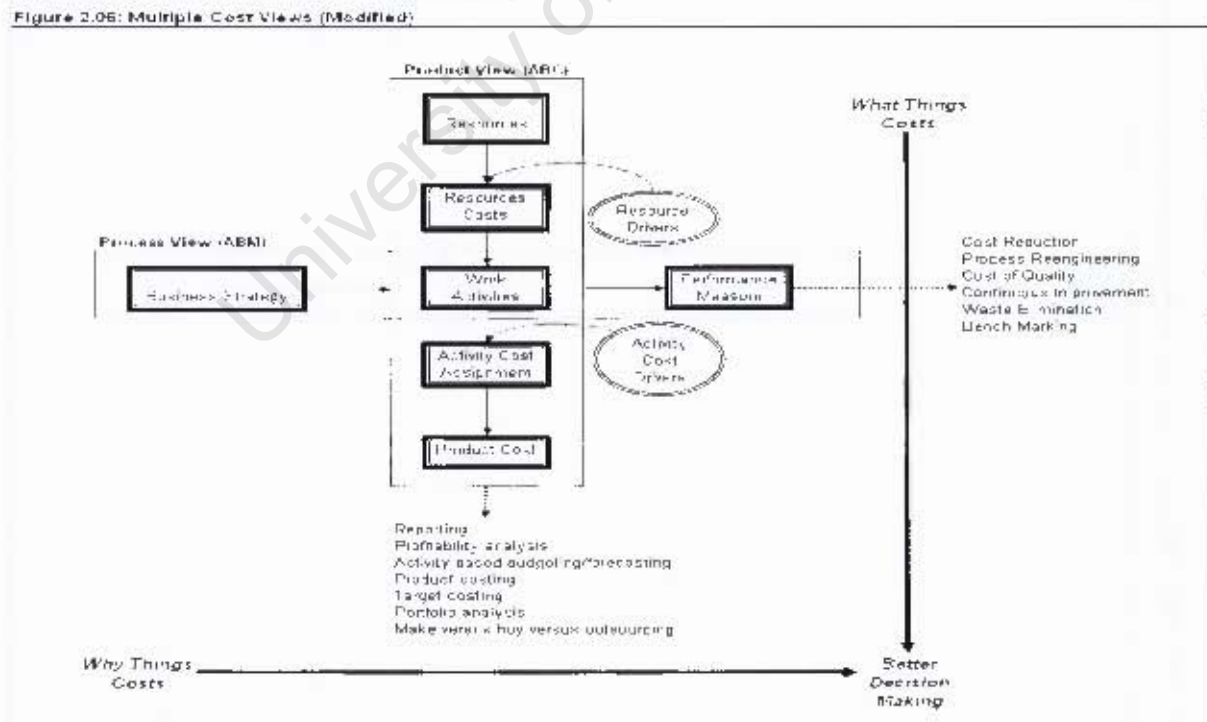
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Figure 2.04: Activity Based Cost reduction



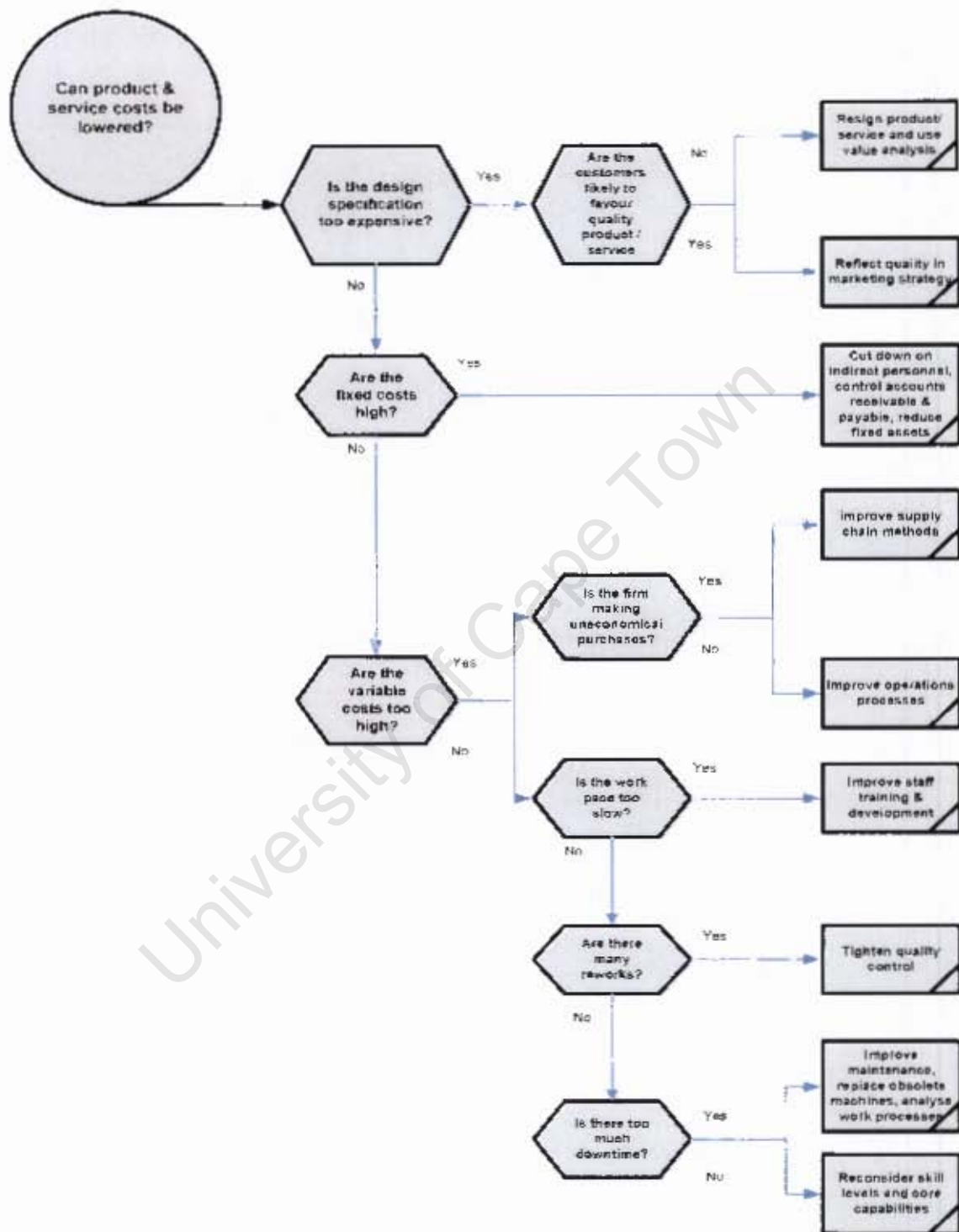
Source: Woolworths Pty Ltd supply chain processes (TM Domingo – Head of General Merchandise supply chain)

Figure 2.06: Multiple cost views (Modified)



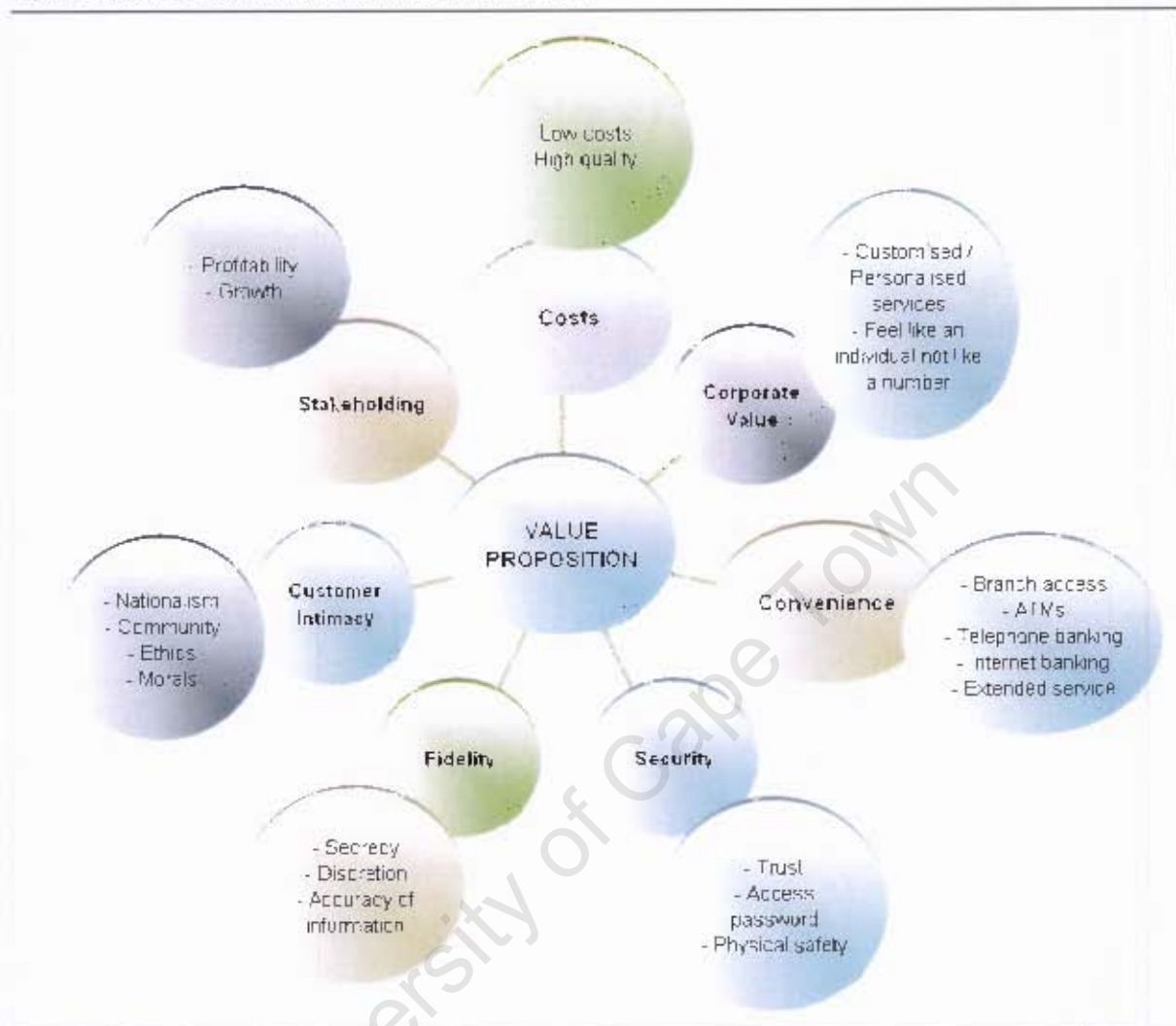
Source: Cokins G. (1996). Activity Based Cost Management. Making It Work, McGraw-Hill Companies.

Figure 2.07: Cost reduction strategic options



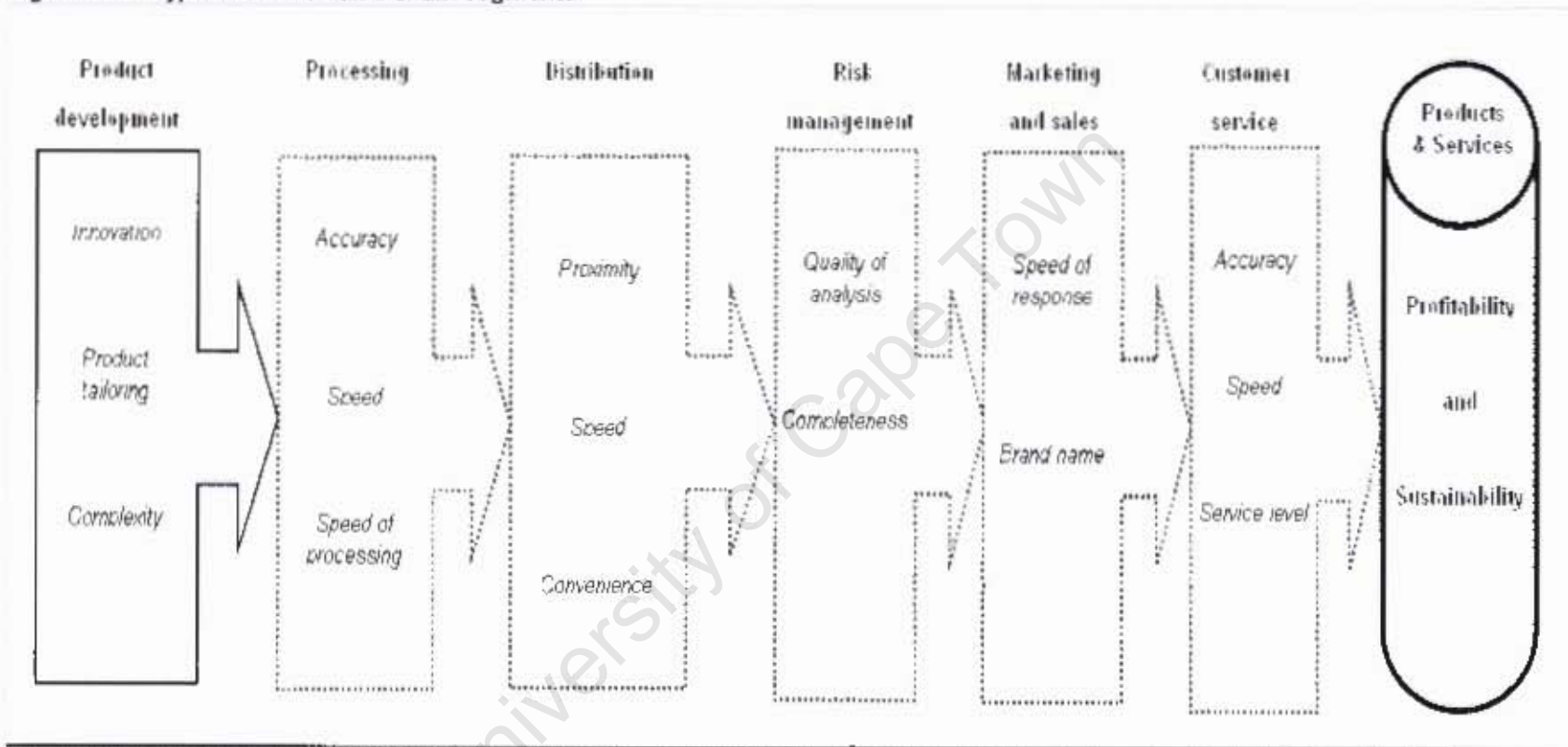
Source: Ormer (1983), *The Mind of the Strategist* Pan, London: McGraw-Hill

Figure 2.08: CUSTOMER AND SHAREHOLDER VALUE PROPOSITION



Source: Wilson R.M. and Chua W.F. (1993): *Management accounting: Methods and meanings*. London: Chapman & Hall – Modified.

Figure 4.01: Typical bank's value chain segments



Source: Maberley J. (1996) *The Price Waterhouse Guide to Activity-based Costing for financial institutions*, Irwin professional publishing. Modified.

LIST OF EXHIBITS

Exhibit 2.01: Strategic cost drivers

SERVICES	PRODUCT DEVELOPMENT	PROCESSING SPEED	DISTRIBUTION	RISK MANAGEMENT	CUSTOMER SERVICE	MARKETING & SALES
Branch banking						
ATM's						
Card services						
Insurance						
Leasing						
Treasury						
Capita markets						
Corporate banking						
Correspondent banking						
International banking						
Developing countries						
Corporate finance						
Venture capita						
Private banking						
Investment management						
Global custody						
Offshore trust						
Banking operations						
Information technology						
Executive						
Finance						
Personne						
Premises						
Regions management						
Country management						

Source: Maberley J. (1996): *The Price Waterhouse Guide to Activity-based Costing for financial institutions*, Irwin professional publishing – Modified.

Exhibit 7.01: List of activities and cost drivers

BUSINESS ACTIVITIES	RELATED COST DRIVERS
Documentary services dept Documentary collections Payment of collections Discount of bills Rand advance against bills/cheques purchased Rand advance repaid Negotiations of exchange Negotiation repayments Currency loan against bill Outbound documentary/clean collection Collection proceeds paid away Confirmation of L/C Advising L/C without confirmation Amendment to inbound L/C Paycheck documentation presented under L/C Payment of bills at maturity drawn on opening bank Credit bills negotiated (advances under acceptances) Clean reimbursements Opening/issuing of L/C Amendment to outbound L/C Check documentary presented under L/C Dispatch documentation presented under L/C Accept draft in respect of documents presented Payment of documents presented under L/C	# of inbound collections # of inbound collections paid # of bills discounted # of advances made # of advances repaid # of negotiations # of negotiations repaid # of currency loans made # of outbound collections # of outbound collections paid # of L/C confirmed # of L/C advised # of inbound L/C amended # of L/C paid # of bills paid # of bills negotiated # of clean reimbursements # of L/C opened/issued # of outbound L/C amended Volume of documents checked Volume of documents dispatched # of draft accepted # of payments made
Foreign exchange dept Travellers' cheque purchased Travellers' cheque sold Telegraphic transfer Inbound remittance Mail transfer Intercurrency account transfer Single currency account transfer Issue of Rand/Dollar bankers' payments/cheque Set up forward deal Set up spot deal	# of cheques purchased # of cheques sold # of telegraphic transfers made # of remittance received # of mail transfer made # of intercurrency accounts transfers made # of single currency account transfers made # of bankers' payments/cheques issued # of forward foreign exchange deals # of spot foreign exchange deals
Payment services dept Effect payment by bankers' payment/cheque Effect payment by EFT Receive payment by EFT In-house funds transfer Receipt of payment over R5000 Effect cover payment Telegraphic transfer Mail transfer Issue of draft	# of payments by bankers' payment/cheque # of EFT payments made # of EFT payment received # of single currency account transfer made # of R5000+ payments received # of cover payments made by banker # of telegraphic transfers made # of mail transfers made # of drafts issued
Loan service dept Open account Fixed rate mortgage Floating rate mortgage Secured personal loan Unsecured personal loan Authorise overdraft Unauthorise overdraft Fixed rate currency commercial loan Floating rate currency commercial loan Set up direct debit Input loan application Obtain credit approval Obtain/verify security Review facility Monitor repayment Debit account for loan fees Close account	# of loan accounts opened Level of detail required Level of detail required # of loan accounts opened # of loan accounts rejected # of loan authorised transactions # of unauthorised transactions Level of detail required Level of detail required # of direct debits initiated # of application made # of application made # of security requested # of loan accounts held # of loan accounts held # of application accepted # of loan accounts closed

Source: Maberley J. (1996): *The Price Waterhouse Guide to Activity-based Costing for financial institutions*, Irwin professional publishing - Modified.

Exhibit 7.01: List of activities and cost drivers, cont...

BUSINESS ACTIVITIES	RELATED COST DRIVERS
Branches custodian services Issue of special corporate cheque books Lodgement of safe custody items Withdrawals of safe custody items Temporary withdrawal of safe custody items Provision of lists of securities held Provision of valuations of holdings Registration of death/probates Auditors certificates Rental - per month	# of special corporate cheque books issued # of items lodged # of items withdrawn # of temporary withdrawals # of lists requested # of valuations requested # of registrations made # of certificates issued # of items held
Computer services Issue of personal cheque books Issue of cheque cards ATMs Currency/cheque pay in - personal Cash withdrawal - personal Rand pay in - commercial Cash withdrawal - commercial Currency/cheque pay in - commercial	# of personal cheque books issued # of cards issued # of transactions made # of transactions made # of transactions made # of transactions made # of transactions made # of transactions made
Management General management External memberships Strategic planning Contingency planning Marketing PR Product development CRM Legal Security Organizations and Methods	Quality of management # of committees attended Level of detail required Level of detail required Level of marketing activities Level of PR activity Frequency of new product development # of key customer accounts Complexity of the legal environment # of branches # of branches
Human capital Recruitment Training Industrial relations Appraisal/consulting Payrolls Pensions management Employee relations	# of applications/recruitments # of staff # of staff # of staff # of staff # of staff # of staff
Finance Account payable Bank reconciliations Financial accounting Statutory and regulatory reporting Consolidation Tax management Property management Management reporting Budgeting & forecasting Capital appraisals Internal auditing Credit management Cash management	# of invoice paid # of payments made/received # of accounts payable/cost centres Regulatory requirements # of units to consolidate Complexity of the tax environment # of properties occupied Level of detail required Level of detail required # of projects appraised Level of control necessary # of loan accounts/applications # of banking relationship maintained
Information technology (IT) Systems planning General management Contingency planning Capacity planning Computer operations Systems maintenance Systems development Communications management Storage management PC support Network support	Level of detail required Quality of management Level of detail required # of hardware platforms # of transactions # of systems applications maintained Volume of development # of communication channels Amount of storage required # of PCs supported/Leased Size and complexity of the network

Source: Mabberley J. (1996): *The Price Waterhouse Guide to Activity-based Costing for financial institutions*, Irwin professional publishing – Modified.

Exhibit 7.02: Non-activity and their cost drivers

NON-ACTIVITY COSTS	RELATED COST DRIVERS
Marketing expenditure	# of campaigns/brands
Premises costs - maintenance	# or age of offices and branches
Premises costs - depreciation	Value of premises owned
Premises costs - rental/outsourcing	Costs of leased premises occupied
Information technology costs - maintenance	# or age or complexity of systems
Information technology costs - depreciation	Value of equipment purchased
Information technology costs - rental/outsourcing	Cost of leased equipment

Source: Maberley J. (1996): The Price Waterhouse Guide to Activity-based Costing for financial institutions, Irwin professional publishing – Modified.

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Exhibit 7.03: Account revenue definitions

BUSINESS AREAS	INTEREST INCOME	FOREIGN EXCHANGE	FEES and COMMISSIONS	OTHER INCOME
Branch Networks	Interest income and interest expense relating to retail customer loans and deposits, including current accounts	Foreign exchange income relating to exchange of currency and purchase/sale of travellers' cheques in the branch	Fees and commissions received for services offered through branches and other retail account related transactions	Sundry other income received through others branches
Card Services		Foreign exchange income relating to currency use of credit and debit cards	Fees and commission payable by merchants and card holders for use of credit and debit cards Premiums paid in relation to insurance policies sold through branches brokers and other agents	
Insurance services	Interest income received on the insurance reserves			
Leasing				Income received on leases to customers
Treasury	Interest income received through management of assets, liabilities and cash on behalf of a bank	Foreign exchange income received through currency management of the balance sheet	Fees and commissions paid and payable in relation to management of the balance sheet	Any other income received in relation to management of the balance sheet
Capital markets	Interest margins received as a result of capital markets activity	Foreign exchange income received as a result of capital markets activity	Fees and commissions received as a result of capital markets activity	
Corporate banking	Interest income and interest expense relating to corporate and commercial customer loans and deposits, including current accounts	Foreign exchange income relating to exchange of currency in corporate banking centres and on behalf of corporate account holders	Fees and commissions received for services offered through corporate banking centres and other commercial account-related transactions including trade finance	Sundry other income received through corporate banking centres
Correspondent banking	Interest income and interest expense relating to balances held on behalf of correspondent banks	Foreign exchange income relating to exchange transaction performed on behalf of bank's correspondent	Fees and commissions received for services performed on behalf of correspondent banks	Sundry other income received from correspondent banks
International banking	Interest income and interest expense relating to international customer loans and deposits	Foreign exchange income relating to exchange of currency on behalf of international account holders	Fees and commissions received for services offered to international customers, including trade finance	Sundry other income received from international customers

Corporate finance			Fees and commissions received in relation to corporate finance and merchant banking advisory services	
Developing countries	Interest income and interest expense relating to transactions undertaken with/in developing countries	Foreign exchange income relating to exchange of currency on behalf of developing countries	Fees and commissions received for services offered to developing countries, including trade finance	Sundry other income received from developing countries
Venture capital	Net interest income associated with long-term debentures issued to venture capitalists		Fees and commissions received relating to venture capital transactions	Dividends and profits on sales relating to investments in ventures
Private banking	Interest income and interest expense relating to corporate and commercial customer loans and deposits, including current accounts	Foreign exchange income relating to exchange of currency in corporate banking centres and on behalf of corporate account holders	Fees and commissions received for services offered through corporate banking centres and other commercial account-related transactions	Sundry other income received through corporate banking centres
Investment management		Foreign exchange income relating to conversion of investment balances between currencies	Fees and commissions received for investment management and related advisory services	
Global custody			Fees and commissions received for custodian services	
Offshore trust			Fees and commissions received in relation to offshore trust management	

Exhibit 7.03: Account revenue definitions, cont....

Source: Maberley J. (1996): The Price Waterhouse Guide to Activity-based Costing for financial institutions, Irwin professional publishing – Modified.

LIST OF APPENDIXES

APPENDIX A

**DATABASE FOR GROUP STRATEGY (STRAT)
ORGANISATIONAL STRATEGY INTERVIEW RESULTS**

Strategy Division	Strategic Planning	Strategy/Business Analysis
Job Title	Executive	Consultants
Department Name	STRAT 1	STRAT 2
Period in service	07 Years	05 Years
Organisation's Background		
01. What is the management philosophy? (Probe: Towards customer needs - shareholder value)	<p style="text-align: center;">STRAT 1-1</p> <p>(i) We provide a comprehensive range and related banking services and products to our clients</p> <p>(ii) Our strategic drive is that we want to be a great place to bank for all.</p>	<p style="text-align: center;">STRAT 2-1</p> <p>(i) We have an aggressive focus on the basics of banking to meet the financial services expectations of our clients.</p> <p>(ii) We also place significant focus on the SA markets and have the obligation to deliver products and services that are competitive.</p>
Strategic Change Imperatives		
02. What was your previous strategy before the change, its successes and failures?	<p style="text-align: center;">STRAT 1-2</p> <p>(i) Our previous strategy was very much focussed on the corporate and investment banking. We never viewed retail banking in the way we look at it currently.</p> <p>(ii) It was a single view and we consequently did not benefit from the other markets. That is why we had to go through several mergers and acquisitions to extend our capacity.</p>	<p style="text-align: center;">STRAT 2-2</p> <p>(i) Our primary direction was more in line with the corporate world.</p> <p>(ii) The old strategy did not enable us to satisfy the needs of the markets as expected from our consumers.</p>
03. What is the importance of strategic change in your view?	<p style="text-align: center;">STRAT 1-3</p> <p>(i) In order for us to cope with competition, we run different initiatives, i.e. opening up branches in a box, a container that is placed in a previously disadvantaged environment where we can service those clients.</p> <p>(ii) Our client needs change consistently along with the operating environment. As such, as our client base grows we must strategically create capacity that responds to these changes, for a formal infrastructure.</p>	<p style="text-align: center;">STRAT 2-3</p> <p>(i) We need to rethink our way of business life. Competition is getting stronger every day, customers want new products and services, they want convenience - our responsibility is to ensure that we find the best possible way to satisfy these demands.</p> <p>(ii) It is very important to focus on strategic change in order to turn the bank around, create and sustain a competitive advantage</p>
04. Who were the main champions and sponsors of the past as well as the new strategy?	<p style="text-align: center;">STRAT 1-4</p> <p>(i) We handle the entire strategy of the business in its entirety. We have the correct structure (at group level) that is accountable for the development and implementation for the strategy across the bank.</p> <p>(ii) I am personally accountable for certain</p>	<p style="text-align: center;">STRAT 2-4</p> <p>(i) This is an area that we have become well positioned and have developed the right capacity to develop and implement the strategy.</p> <p>(ii) We have a group head - chief strategy where the ultimate accountability lie, reporting to the CEO</p>

	key strategy deliverables (both the past and our present strategy)	
05. How would you classify the impact with this strategic change? <i>(Probe: formal vs informal - revolutionary vs evolutionary - progressive vs regressive)</i>	<p>STRAT 1-5</p> <p>(i) We think these changes are progressive with a revolutionary leadership; even though some of our competitors can influence to change that.</p>	<p>STRAT 2-5</p> <p>(i) Although the distribution of our products and services is a great challenge to differentiate, we believe that the area in which we can really compete on is in our customer service.</p> <p>(ii) Our strategic change is by large more of a revolutionary status.</p>
Strategic Intent/New Strategic Focus Areas		
06. What were some of the re-organisation or restructuring issues associated with the changes needed as part of the new strategy?	<p>STRAT 1-6</p> <p>(i) There were a number of internal issues with relations to our new direction. These are basically related to the fact we had to align ourselves with a customer driven framework, acquisition and retention of customer with transactional banking emphasis, by creating intellectual capacity through high performance management and brand transformation.</p> <p>(ii) With our under privileged communities for example, we spent a large amounts of money in this area. Non-profitable organisations such as World Wide Funds and Nelson Mandela Funds are well positioned to leverage our initiatives. We don't merely donate funds but in fact get involved in the community, making a difference.</p> <p>(iii) We also ensured that we offer a great place to invest in. The overall view is that we have realised that given where we have come from, we have gone back to basics and serve our target market more competitively.</p> <p>(iv) We now want to be a full spectrum bank, in all spheres and focus on Southern Africa, with a calculated approach for development into emerging markets where some of our clients are expanding into.</p>	<p>STRAT 2-6</p> <p>(i) Internal structures and perceptions for the new direction differed occasionally. Areas of issues raised from improving on understanding our client, their needs, making sure that error rate is low – to understanding our customers' needs better than any competitor. In business banking for example, we have a high market share in wine as well as in the diamond industry because we had to employ people who are experts in those business target markets.</p> <p>(ii) We also don't just believe in making money, we now believe in giving back to the community while uplifting the SA community at the same time.</p> <p>(iii) We have also taken a holistic approach in developing markets that were previously overlooked and embracing diversity, making things happen with an aggressive capitalist mindset. Our design to deliver the market development required various sessions and strategic discussions to agree on a common ground.</p>
07. How was the new strategy formulated?	<p>STRAT 1-7</p> <p>(i) Our strategy is formulated at three levels: retail, corporate, business banking; but the ABC model is less relevant at this level. It took us about four intensive months to assess the market, our competitors and our internal core capabilities in order to recommend the direction we had to take.</p> <p>(ii) We conducted various workshops throughout SA and our neighbouring countries so that our decision would be based on solid ground of where the market would be moving towards. In retail banking for example we have card, home loans, at a group level we are responsible for where the groups is going and what are the key drivers.</p>	<p>STRAT 2-7</p> <p>(i) We engaged with external consultants to assist us with the whole process.</p> <p>(ii) When we look at card, we had a view of integrating it to the retail banking and assessing how these things would fit together in order to create a good proposition for the different segments that we serve in the retail market. With this, our focus would shift to a broader portfolio management.</p> <p>(iii) The same process was applied with card division for instance. We wanted to have a common understanding of the client. Our existing monolines have card people and home loans but the broader strategic view is to assess clients' history, so that our clients have a full line of financial services, but not just cards.</p>

	(iii) Our card division is very attractive. We wanted to have a single view of the client. Our existing monolines have card people and homes loans but the broader strategic view is to assess clients' history; with an assumption that our clients have financial services, not just cards.	(iv) We then consolidated all data and market information that was collected from the various sessions, structured a single view of the organisation's strategy and agreed on what which key areas to focus on.
08. What were some of the internal challenges from an organisation perspective? <i>(Probe: People views - Their capacity to understand the new strategic thrust - Organisation politics/resistance)</i>	STRAT 1-8 (i) Internal politics played a huge constraint i.e. in building high performance team with clear accountabilities while implementing a client-driven business framework so that we would be able to create the required customer-focussed capabilities with simplified business processes that deliver speed to market.	STRAT 2-8 (i) Insufficient intellectual capital with our employees along with an enormous resistance to change for the new direction was a great challenge.
09. How was this strategy implemented? <i>(Probe: As a pilot project first and then rolled out to the rest of the company? - What exactly was the roll-out process?)</i>	STRAT 1-9 (i) We had a massive roll-out throughout the country; not in a pilot project manner. Group executives took full accountability of ensuring that every individual understood the strategy and the effect it had to the end consumers (ii) The implementation of our strategy is highly based on the agreed key deliverables as outlined in the strategic plan. This action plan stipulates what need to be done, how it needs to be done, including the key accountable executives with time lines.	STRAT 2-9 (i) Top executives and senior management ensure that every one complies with the framework set in the action plan. (ii) We have an obligation of ensuring that the strategy matches the needs of the markets we serve; with specific emphasis on building our core retail operation. We also have to keep our people empowered and motivated.
10. What were the information needs of the new strategic focus? <i>(Probe: Did you have that information?)</i>	STRAT 1-10 (i) Market share, costing information for products and services, consumer segments, pricing framework, competitive moves and so on	STRAT 2-10 (i) Market share, costing information for products and services, consumer segments, pricing framework, foreign exchange protocols, and competitors and so on.
11. What are the core areas of your strategy and how do they link together?	STRAT 1-11 (i) Our key strategic focus areas include the following: optimisation of the business mix by growing the retail banking and improving our client and product mix - moving beyond transformation as a business imperative - demonstrating our commitment to South Africa - drive growth in transactional banking - building high performance team with clear accountabilities – implement a client-driven business framework – create customer-focussed capabilities – simplify business processes that deliver speed to market.	STRAT 2-11 (i) Our strategy is focussed on optimising the business mix, growing the retail banking, improving our client and product mix, moving beyond transformation as a business imperative - demonstrating our commitment to South Africa. (ii) We also drive growth in transactional banking - building high performance team with clear accountabilities – implement a client-driven business framework – create customer-focussed capabilities – simplify business processes that deliver speed to market.
12. What are the key competitive challenges facing your organisation? <i>(Probe: How do these challenges influence your strategic thrusts?)</i>	STRAT 1-12 (i) Our key competitive challenge within the retail banking business is based on rendering full and cost effective retail banking and wealth management services to the target markets. Our main areas of operations include personal loans, banking cards, home loans, various products solutions, international banking operations, bank-assurance and wealth distribution and so on. (ii) Our corporate banking business unit renders full services to corporations and businesses as well as the commercial banking and industrial property market and has over the last two years extended its operation to other African markets. Its specific focus includes property, Africa,	STRAT 2-12 (i) Cost visibility and accuracy is a competitive challenge. Our group strategic costing division is accountable for developing the costing architectures, reliable MIS and enhances the end-to-end cost visibility in support of the group strategy as a whole. (ii) Some of our aspirations include global benchmarking in risk management, community involvement, transformational leadership, with a return to its shareholders of not less than 20%. These are areas that the competition is striving to excel at.

	businesses and corporations. The investment or capital banking renders comprehensive banking services to the investment sector. This business unit mainly caters for treasury, debt capital markets, securities, investments, equity capital markets and the global markets.	
13. How is competitive advantage defined in your organisation? (Probe: How do innovation and technology contribute to competitive advantage? - How does management accounting contribute to competitive advantage? - What role does senior management play in sustaining competitive advantages?)	<p>STRAT 1-13</p> <p>(i) We want competitive advantage to be aligned to the supply of cost effective availability of products and services.</p> <p>(ii) The areas we intend improving on include understanding our client, their needs, making sure that error rate is low. We have to understand our customers' needs better than any competitor. In business banking for example, we have a high market share in wine as well as in the diamond industry because we employ people who are experts in those business target markets.</p>	<p>STRAT 2-13</p> <p>(i) The manner in which we do something better than our competitors i.e. in areas of customer service in an attempt to broaden it throughout the bank remains one of the biggest challenges</p> <p>(ii) Our shift towards social responsibility and social consciousness is another key area that we think have made inroads. We are still at the infancy stage but we plan to increase the level of involvement in our environmental issues.</p>
14. Do you evaluate the constituency of your strategic thrusts for their contribution to the organisation? (Probe: If yes, please describe the evaluation criteria - If no: why not?)	<p>STRAT 1-14</p> <p>(i) Yes - we focus on its alignment to the vision and mission statement of the bank, the level of consistency, buy-in from the employees and shareholders, determine the level of suitability in the market we serve, as well as the risks associated to it</p>	<p>STRAT 2-14</p> <p>(i) Yes - our main focus in evaluating our strategy is based on consistency, buy-in from the employees and shareholders, determine the level of suitability in the market we serve, as well as the risks associated to it.</p>
15. Have you reengineered your dept's function in the last two years? (Probe: If yes. How? - If not: Why not?)	<p>STRAT 1-15</p> <p>(i) Yes - we are more and more adapting international standards for strategy development and implementation processes.</p>	<p>STRAT 2-15</p> <p>(i) Yes - our processes for strategy development and implementation are benchmarked internationally.</p>
16. How is the performance of your function evaluated?	<p>STRAT 1-16</p> <p>(i) Our corporate strategy division ensures that the organisational strategy is designed, developed and implemented throughout the bank.</p>	<p>STRAT 2-16</p> <p>(i) The evaluation of our function based on the alignment of the developed strategy to our mission statement, its consistency, buy-in from the employees and shareholders and its suitability.</p>
17. What are the key elements of your strategic decision? (Probe: Process to deliver strategy - Sustainable competitive advantage? - Exploit linkages and synergies? - Vision/ability to move the firm forward)	<p>STRAT 1-17</p> <p>(i) Channel profitability, transactional processing, wholesale, product profitability, integration, competitive advantages and synergies</p>	<p>STRAT 2-17</p> <p>(i) Channel profitability, product profitability, integration, competitive advantages, wholesale and transactional processing.</p>
18. Please describe exactly which aspects of strategic thrusts that have changed from the previous strategy and which ones that haven't changed?	<p>STRAT 1-18</p> <p>(i) The ambition to become the SA's highly rated and respected bank is integral to the current repositioning of the bank to a level where it is able to serve clients better than before.</p> <p>(ii) We are not really well positioned in the retail segment as we would like. We used to be a very niche bank, focussed on high end market, but have recently decided to be a bank for all</p>	<p>STRAT 2-18</p> <p>(i) We have made huge stride in terms of breaking down organisational hierarchies and we can now say that we have a better alignment.</p> <p>(ii) Our product pricing remains a challenge. But from a customer service perspective, we are also still perceived of being the best in terms in Southern African market.</p>
Nature of Information System required in the new Strategic Focus		
19. What are the pro and cons of your management information systems?	<p>STRAT 1-19</p> <p>(i) We had to write off millions, because we previously operated with (an almost) obsolete system which was largely traditionally orientated. The development and installation of innovative management</p>	<p>STRAT 2-19</p> <p>(i) Our operations division realised that the traditional information technology did not add immense value to our tactical strategies i.e. strategic hedging. We found ourselves in a position where we could hedge in interest</p>

	<p>information system capacity is currently on top of our agenda.</p> <p>(ii) Risk exposure, operations, international trends and other transactions were not tracked and traced due to the inability of the traditional system. But now we are able to hedge due to the current MIS and we understand the business risks.</p> <p>(iii) Some of the pros are related to the fact that we had some real good human capital and are on the drive to roll-out world class systems. We also have made huge progress and have a process called strategic account planning which looks at clients, their needs, the person with whom within the bank has had contacts with the clients. As such, we are able to suggest that we have begun to have a mind set shift for people to use MIS in creative ways.</p>	<p>rates and we also did not have the capacity to hedge on foreign exchange. This meant that with the country's currency strengthening caused huge losses.</p> <p>(ii) One of our failures was when we used to run as far as the book for big retailers within the region and generated about R500k. At that stage the guys used MIS incorrectly. They assumed that about 800 thousand customers were unprofitable or a portion of them. They assumed on variable costs and revenue, making a lost. The management made various recommendations on closing client accounts, offering these clients to competitors, among others incorrect decisions. What they did not realise was that all those customers contributed to the fixed costs as well. It is of the bank's view that any cost has two components, fixed costs and variable costs. One can assume how inefficient and unproductive that strategic decision making processed were with the old MIS.</p> <p>(iii) The cons for our management information system may be related to challenges caused by all the integrations and mergers between all our multiple companies in a way that we have arrived at a stage where we have a group view. Another cons is with the management information mechanisms that includes the fact that it has good analytical ability and can consolidate as much data analysis as one may need, from which a large portion of data is irrelevant information in today's markets.</p>
<p>20. What contribution do management information systems make in activity analysis?</p>	<p style="text-align: center;">STRAT 1-20</p> <p>(i) We are implementing a completely new architecture, concentrated to financial planning architecture, by redesigning the whole bank's infrastructure. Our challenge is on the automation of this process, in order to get quicker turnaround results. Our plan is to integrate most of these new business reengineering processes into the ABC framework.</p> <p>(ii) Information from such systems needed to filter through to others and we found that there was a significant amount of re-engineering that was required in order for it to take place. This as a result also contributed to the amount of operating activities – cost drivers that are required to perform accurate costing and develop product pricing in support of the strategy.</p> <p>(iii) So system flexibility is of strategic importance and should enable easy access to do accurate cost information in order for us to conduct appropriate calculations on client pricing and profitability.</p>	<p style="text-align: center;">STRAT 2-20</p> <p>(i) Our innovative technology on the cell-phone banking systems for example is basically new and is about six months old. The legacy system that is currently being built is a flexible platform that will reduce the level of complexity in transactional processing.</p> <p>(ii) Our existing MIS is being replaced by an advanced program and should enhance substantial value to our decision making processes, particularly on the costing side. Our expected life roll duration is three years and we have planned an investment of about SAR200 million.</p> <p>(iii) We believe that it was not necessary to completely change the different component of our core system; rather than changing the platform itself as best as possible to optimise transactional banking.</p>
<p>21. What are/is the source(s) of information? (Probe: How is this information collected?)</p>	<p style="text-align: center;">STRAT 1-21</p> <p>(i) We draw our information from our financial accounting system. This system provides us with general ledgers accounting data for our revenue, expenditures and balances.</p>	<p style="text-align: center;">STRAT 2-21</p> <p>(i) We receive general ledgers. The obtained data is generally in the form of sales reports, cost reports, financial accounting reports and we are able to generate them as and when required - weekly, monthly, half yearly and</p>

	(ii) The obtained data is generally in the form of sales reports, cost reports, financial accounting reports and we are able to generate them as and when required - weekly, monthly, half yearly and yearly.	yearly.
22. What types of reports do these management information systems produce?	STRAT 1-22 (i) Channel profitability, Financial accounting, customers profitability, product profitability, cost allocation and customer segmentation	STRAT 2-22 (i) Financial, customers profitability, product profitability, cost allocation, customer segmentation and channel profitability
23. Based on the specific nature of the information required by the new strategic thrust, were the previous information systems adequate? (Probe: If yes: how did they support the previous strategic thrusts? - If no: what did you do to address those inadequacies?)	STRAT 1-23 (i) Partially. We have a number of ways in which management information systems assist us in the formulation of our strategies. We have an operational processes where on a monthly basis we tracks and traces variances. We receive information from different MIS within the business, external MIS such as market share data and investigate how we could perform well against our competitors. We also use a concept called 'DuPont' where we takes our net interest income over our average interest earning assets, or the ratios; we then track and trace that every month against our budget and against our creditors. (ii) We also saw a competitive disadvantage when we lost some clients because we priced products and services incorrectly. We had a model which classifies client risk class: some clients are high risk and need to price them correctly. Other clients would be good clients and we needed to charge prime or less a percentage point. This pricing process was not optimal throughout the bank. Other circumstances could be associated to a particular branch for instance where a client would fill out an application form and leaves out a little block; so what would happen was that it would go to the back office, the operations employees would process and then the application would be left out and then sent back to the internal originator. The application would consequentially go back to the branch, would be returned back after that particular block is completed; the same example could happen over a number of occasions. The result is and the process would take too long and hence slowing the decision making process.	STRAT 2-23 (i) No, not really adequate. We have as a result embarked on the creation of a single view on clients because we had to minimise operating costs. We have many occasions where a client would come into the branch and instead of the branch staff looking whether the client already has got a profile they just open up a new account. One would find that a client now has five different records or accounts. The manner in which we attempted to resolve this was by creating a system link, hence, all products and services to be linked to that system with a purpose of reducing processing costs. (ii) We also found increased processing costs in areas whether some customers may change physical or postal addresses over time. This added to the complexity of resource consumption which in turn becomes a cost driver. (iii) We knew with home loans for example that we were losing market share in home loans and the graph would indicate that home loans were 70% of profit. We would therefore need to reposition the mortgages in order to right. We have many incorrect processes leading to inefficient turnaround time. This resulted in the lack of speed with decision making.
24. Why did the organisation consider ABC/M more appropriate to its information needs in the context of the new strategic focus?	STRAT 1-24 (i) We needed a better, effective, efficient and fast decision support system. (ii) The only system that had the characteristics we sought was the capacity available with the ABC.	STRAT 2-24 (i) To reduce or perhaps eliminate the gaps related to the visibility and transparency of costs, accurate allocation of operational costs and assist the management in strategic planning and pricing strategy.
Strategic Cost Management		
25. How important is cost management within your function?	STRAT 1-25 (i) We drive transactional banking as one of the key cost areas. All the heads of our	STRAT 2-25 (i) This is one of the utmost import key focus areas to ensure that the customer

<p><i>(Probe: Why?)</i></p>	<p>division and managers must take full ownership and accountability to ensure effective cost measures. (ii) Shareholders want return on equity, return on their investments and long term profitability.</p>	<p>receives the best possible products at the price that is competitive. (ii) The more profit we make, the more jobs we can supply and the shareholders and investors can sustain confidence in us.</p>
<p>26. Given the nature of information systems required on the new strategic focus: what contribution does it make towards cost management?</p>	<p>STRAT 1-26 (i) The challenge is around optimising profits in the context of different channels such as the cell phone banking where we would generally need to have a full understanding of what it costs us to do a transaction via a branch versus those done via a cell-phone. STRAT 1-27 (i) We have a fundamental requirement to understand the cost behind all our transactions including our revenues and how all of that fit together. This is basically where the ABC comes into effective action.</p>	<p>STRAT 2-26 (i) By ensuring that we have accurate costing, it empowers the strategic team to focus on the correct direction. (ii) So efficient cost information empowers the leadership team to become proactive in managing them efficiently. STRAT 2-27 (i) It assists us to drive to lower our operating costs as competitive as possible.</p>
<p>27. How do the reports produced by the management information systems assist management accounting for decision-making?</p>	<p>STRAT 1-28 (i) Our cost areas are more related to research and development, external consultation and benchmarking.</p>	<p>STRAT 2-28 (i) Strategically, our cost centres are RandD, external consulting.</p>
<p>28. Where do you focus your cost management efforts within your department?</p>	<p>STRAT 1-29 (i) None – we don't really get involved in the operations that cause costs. STRAT 1-30 (i) Our cost structures are perceived as a component of high strategic importance. In order to optimise product mix, we would focus on selling the right products and services and explaining this to the right markets, within the right cost parameters. STRAT 1-31 (i) Not sure which one. We have had a couple.</p>	<p>STRAT 2-29 (i) Not applicable. STRAT 2-30 (i) We need to understand the cost structures. This is strictly monitored by the respective executives</p>
<p>29. What is the responsibility of your function for cost of products produced?</p>	<p>STRAT 1-32 (i) The role of our management accountants is to ensure that we have a much better view of the profitability of our products: so that we can make effective strategic decisions on products and services that are not profitable and therefore not worthwhile to sell to the end customers. STRAT 1-33 (i) We focus on market research, analysis, strategy development, roll-out plans and implementation. STRAT 1-34 (i) No – this is determined by the tactical and operational executives and managers STRAT 1-35 (i) We don't have this accountability</p>	<p>STRAT 2-31 (i) Not sure. Our management accountants take care of this. STRAT 2-32 (i) Yes – this is based on specific enquiries that we make to the GSC for clarity as and when required. (ii) They make sure that we have absolute transparency on what goes on at operational levels.</p>
<p>30. Please describe your organisation's overall approach to product costing. 31. Which management accounting system does your organisation use? (Probe: How long has it been implemented? - What are the benefits derived from this accounting system?)</p>	<p>STRAT 1-32 (i) The role of our management accountants is to ensure that we have a much better view of the profitability of our products: so that we can make effective strategic decisions on products and services that are not profitable and therefore not worthwhile to sell to the end customers. STRAT 1-33 (i) We focus on market research, analysis, strategy development, roll-out plans and implementation. STRAT 1-34 (i) No – this is determined by the tactical and operational executives and managers STRAT 1-35 (i) We don't have this accountability</p>	<p>STRAT 2-31 (i) Not sure. Our management accountants take care of this. STRAT 2-32 (i) Yes – this is based on specific enquiries that we make to the GSC for clarity as and when required. (ii) They make sure that we have absolute transparency on what goes on at operational levels.</p>
<p>32. Do you know the costs for specific activities carried out in your SBU? (Probe: if yes: How do you keep track? - if not: What are the bottlenecks?)</p>	<p>STRAT 1-32 (i) The role of our management accountants is to ensure that we have a much better view of the profitability of our products: so that we can make effective strategic decisions on products and services that are not profitable and therefore not worthwhile to sell to the end customers. STRAT 1-33 (i) We focus on market research, analysis, strategy development, roll-out plans and implementation. STRAT 1-34 (i) No – this is determined by the tactical and operational executives and managers STRAT 1-35 (i) We don't have this accountability</p>	<p>STRAT 2-31 (i) Not sure. Our management accountants take care of this. STRAT 2-32 (i) Yes – this is based on specific enquiries that we make to the GSC for clarity as and when required. (ii) They make sure that we have absolute transparency on what goes on at operational levels.</p>
<p>33. What are the main functions of your department? (Probe: How do they support the business strategy?)</p>	<p>STRAT 1-32 (i) The role of our management accountants is to ensure that we have a much better view of the profitability of our products: so that we can make effective strategic decisions on products and services that are not profitable and therefore not worthwhile to sell to the end customers. STRAT 1-33 (i) We focus on market research, analysis, strategy development, roll-out plans and implementation. STRAT 1-34 (i) No – this is determined by the tactical and operational executives and managers STRAT 1-35 (i) We don't have this accountability</p>	<p>STRAT 2-31 (i) Not sure. Our management accountants take care of this. STRAT 2-32 (i) Yes – this is based on specific enquiries that we make to the GSC for clarity as and when required. (ii) They make sure that we have absolute transparency on what goes on at operational levels.</p>
<p>34. Do you determine the cost drivers? (Probe: if yes: how?)</p>	<p>STRAT 1-32 (i) The role of our management accountants is to ensure that we have a much better view of the profitability of our products: so that we can make effective strategic decisions on products and services that are not profitable and therefore not worthwhile to sell to the end customers. STRAT 1-33 (i) We focus on market research, analysis, strategy development, roll-out plans and implementation. STRAT 1-34 (i) No – this is determined by the tactical and operational executives and managers STRAT 1-35 (i) We don't have this accountability</p>	<p>STRAT 2-31 (i) Not sure. Our management accountants take care of this. STRAT 2-32 (i) Yes – this is based on specific enquiries that we make to the GSC for clarity as and when required. (ii) They make sure that we have absolute transparency on what goes on at operational levels.</p>
<p>35. How is your department held accountable for cost management?</p>	<p>STRAT 1-32 (i) The role of our management accountants is to ensure that we have a much better view of the profitability of our products: so that we can make effective strategic decisions on products and services that are not profitable and therefore not worthwhile to sell to the end customers. STRAT 1-33 (i) We focus on market research, analysis, strategy development, roll-out plans and implementation. STRAT 1-34 (i) No – this is determined by the tactical and operational executives and managers STRAT 1-35 (i) We don't have this accountability</p>	<p>STRAT 2-31 (i) Not sure. Our management accountants take care of this. STRAT 2-32 (i) Yes – this is based on specific enquiries that we make to the GSC for clarity as and when required. (ii) They make sure that we have absolute transparency on what goes on at operational levels.</p>
<p>Application of ABC/M as part of the Information Systems, to support the new Strategic change and Focus Areas.</p>		
<p>36. In the context of the new strategic</p>	<p>STRAT 1-36 (i) There is a significant drive to attempt</p>	<p>STRAT 2-36 (i) We have become proactive at making</p>

<p>thrust, what are the attributes of ABC/M that were seen as suitable in supporting your strategy?</p>	<p>understanding the operating costs from an ABC model perspective. Our strategic plans are heavily dependant on the cost associated to operations management, assets, business processes, people, to name a few.</p> <p>(ii) We have various cost drivers. They generally range from funds transferred costing, infrastructural costing, telephone cost and do so on, so clear and accurate costing is key to our business.</p> <p>(iii) As a result, we have improved our prices significantly in the last six months or so and have even scrapped fees on certain services. Price reduction of between 10% and up to 15% was achieved due to the understanding of our processes and costs.</p>	<p>strategic decision and this is viewed through the cannibalisation of our own processes and in enhancing the bank transformation. Because we are now a client focussed bank, the needs of our clients are at the heart of us all.</p> <p>(ii) The process of establishing the right product pricing received tremendous management attention. This process entailed reengineering processes to reduce impairments and emphasised that costs needed to be kept as effectively contained as possible.</p>
<p>37. What is ABC/M specifically supposed to do?</p>	<p>STRAT 1-37</p> <p>(i) The manner in which we price our products and services continues to be a challenge that requires accurate cost information.</p> <p>(ii) We view the ABC model as a tool that enable us to attempt to understand what makes up the cost of our transactions at strategic business unit level, at product level and at activity level.</p>	<p>STRAT 2-37</p> <p>(i) The ABC is supposed to provide us with clarity on what we do, how we do it and at what cost structures.</p> <p>(ii) Our targets are to a large degree aligned to the principles of ABC model for accuracy costing in order to enhance customer satisfaction and customer retention thereof.</p>
<p>38. Please describe the process in which the ABC/M was implemented (Probe: What was the roll-out process? - Who were the main champions of its roll-out?)</p>	<p>STRAT 1-38</p> <p>(i) With our confirmed organisation design (structure). It is owned by Group Strategic Costing division.</p> <p>(ii) So we had no contribution for the development and implementation of the ABC/M model.</p>	<p>STRAT 2-38</p> <p>(i) It is the GSC sole accountability. But I am sure they are making good progress in the roll-out process, but I am unable to comment on how it is done.</p> <p>(ii) We hear positive comments from the CFO and finance executive.</p>
<p>39. Please describe exactly how is ABC/M applied in supporting the new strategic thrust?</p>	<p>STRAT 1-39</p> <p>(i) We needed to align the achievement of our growth plan to our vision. We believe that our vision must form the basis of the whole bank, from our CEO to the teller. So ABC/M provides reliable data and cost measurements which is the answer to correct product pricing, customer service, process optimisation, profitability and sustainability.</p> <p>(ii) The ABC/M model delivers the cost accounting details required in our RandD, analysis for strategic solutions, strategic planning and mgt recommendations.</p>	<p>STRAT 2-39</p> <p>(i) We consistently make sure that a teller needs to understand the impact of the manner in which she/he conducts him/herself, how the job relates to decreasing the operating costs and how individual performance assists in the achievement of our growth – as the key driver of our strategy.</p>
<p>40. Given the nature of ABC/M's support to strategic thrusts; what should be different when it is successfully operational?</p>	<p>STRAT 1-40</p> <p>(i) The end-in mind results in reality is to have customers being service efficiently and effectively. As such, improvements in operations would lead to the minimised wastes and reduced operating costs.</p> <p>(ii) The accuracy of cost information would eventually lead to consumer products and services being priced correctly; and hence resulting in improved customer satisfaction and retention thereof.</p> <p>(iii) We have an aggressive view in ensuring that our operating costs are as</p>	<p>STRAT 2-40</p> <p>(i) We should see operational improvements for our customer facing group i.e. retail banking. Our application of ABC has proven other benefits based on cost associated to communications; i.e. the cost of transacting a phone call, branch cost, staff costs, product development costs, electronic and so on. As such, cost visibility becomes the answer.</p> <p>(ii) The other example is to reduce operating costs by reviewing our internal processes and making business processes more efficient with cost being made visible through ABC.</p>

	low as possible. We extend this perspective on how individual performance drives transactional banking development, how we can optimise it, throughout the bank.	
41. Please describe the kind of ABC information is needed and collected from the new management systems? <i>(Probe: How is such information communicated to the operating business units? - How is such information used by the operating business units to address the problems and improve management processes?)</i>	<p style="text-align: center;">STRAT 1-41</p> <p>(i) Pure operating cost per activity performed.</p> <p>(ii) Our strategy for improving and growing our income is focussed on many market share components, margin component and annuity streams.</p> <p>(iii) Our strategic key drivers included financial banking as an important aspect and optimising the recovery of our market share.</p> <p>(iv) The type of information needed from our ABC IT system ranged from product and channel profitability, operational process costing, architectural models, that would influence to improve our operations.</p>	<p style="text-align: center;">STRAT 2-41</p> <p>(i) It entails the costs related to each task or activities of operational functions. We had problem with some of our SBUs that did not serve the local clients, so we neglected the service of our own retail bank. Because we were centrally focussed, we did not have proper disciplines implemented and where we made mistakes we went into other business areas.</p> <p>(ii) Strategies were not based on accurate costs information, target markets and competitors' information like we have today through the ABC IT model.</p>
42. Which other advanced management technique(s) if any, do you consider as superior tool(s) in supporting sustainable competitive advantage(s); and why?	<p style="text-align: center;">STRAT 1-42</p> <p>(i) We generally measure our culture, as part of our balanced scorecard.</p> <p>(ii) We also measure the level of our employee satisfaction.</p>	<p style="text-align: center;">STRAT 2-42</p> <p>(i) We measure our rate of transformation</p> <p>(ii) Other management techniques we have especially for our growth and development is mergers and acquisitions</p>

APPENDIX B

**DATABASE FOR GROUP STRATEGIC COSTING (GSC)
GROUP STRATEGIC COSTING INTERVIEW RESULTS**

Product Costing Division	End-to-End Business Costing	Costing Systems
Job Title	Executive Management Accountant	Business Analysts (2 Respondents)
Department Name	GSC 1	GSC 2
Period in service	10 Years	15 Years
Organisation's Background		
01. What is the management philosophy? (Probe: Towards customer needs - shareholder value)	<p style="text-align: center;">GSC 1-1</p> <p>(i) We have a well defined and common vision, across the group. This is based on our values and strategic framework that guides us collectively.</p> <p>(ii) We deliver support services to the three main business clusters and have set targets which form part of our internal service level agreement.</p>	<p style="text-align: center;">GSC 2-1</p> <p>(i) We have continued to align ourselves against the 3 years strategic plans. This strategic framework clearly stipulates our main strategic objectives</p> <p>(ii) Our objective is to support the retail banking, corporate and investment banking, as well as other services.</p>
Strategic Change Imperatives		
02. What was your previous strategy before the change, its successes and failures?	<p style="text-align: center;">GSC 1-2</p> <p>(i) Our previous strategy looked at decentralising the cost accounting function across all clusters/divisions and to optimise the cost accounting function.</p> <p>(ii) This created several systems and support failures and consistently delivered unreliable cost information.</p>	<p style="text-align: center;">GSC 2-2</p> <p>(i) We created a costing function in each cluster (retail, investment and corporate banking). This structure failed hopelessly because it supplied accounting information that (in my personal opinion) contributed to the negative group results in the past years.</p>
03. What is the importance of strategic change in your view?	<p style="text-align: center;">GSC 1-3</p> <p>(i) We want to make sure that our financial targets and objectives are met. We have a commitment to deliver a ROE to our ordinary shareholders of about 30% and an efficiency ratio of 65%.</p> <p>(ii) Supplement to this is the fact that we have an obligation to support the bank to close the gap on our competitors.</p>	<p style="text-align: center;">GSC 2-3</p> <p>(i) In order to provide the necessary support to the group head and our strategy division, it is important that supply reliable information for decision making</p> <p>(ii) We were previously unable to supply this information. So strategic change is a key to the growth of our business.</p>
04. Who were the main champions and sponsors of the past as well as the new strategy?	<p style="text-align: center;">GSC 1-4</p> <p>(i) I was personally both responsible and accountable of the previous and current strategy, together with our CFO and CEO.</p>	<p style="text-align: center;">GSC 2-4</p> <p>(i) It was basically the cost accounting executive, his leadership team, the financial director and CFO.</p>
05. How would you classify the impact with this strategic change? (Probe: formal vs informal - revolutionary vs evolutionary - progressive vs regressive)	<p style="text-align: center;">GSC 1-5</p> <p>(i) The implementation of ABC is viewed as a hugely progressive change and it is because there is transparency</p> <p>(ii) With people that generally moved from one division to another, we have given the bank a lot more weighting because this is not an imposed process that we are doing. We provide the details.</p>	<p style="text-align: center;">GSC 2-5</p> <p>(i) I think this is viewed as an informal process and progressive because stakeholders see what they never saw before.</p>

Strategic Intentions/New Strategic Focus Areas

<p>06. What were some of the re-organisation or restructuring issues associated with the changes needed as part of the new strategy?</p>	<p style="text-align: center;">GSC 1-6</p> <p>(i) Organisational design. This was due to the number of changes we have gone through in the bank. It is only now that we have set the correct structures.</p> <p>(ii) When we started restructuring, employees were terribly focussed on their jobs as their primary focus and we did not have time to look at techniques such as ABC/M.</p>	<p style="text-align: center;">GSC 2-8</p> <p>(i) Due to restructuring, it is only now that we are able to start getting smarter and innovative with our cost accounting mgt..</p> <p>(ii) This as a consequence is also an area that has created opportunities for our competitors against us to be more proactive in implementing better cost processes</p>
<p>07. How was the new strategy formulated?</p>	<p style="text-align: center;">GSC 1-7</p> <p>(i) Our key fundamental focus was to ensure that the bank is managed with information based cost accuracy and the absolute visibility of these costs across all entire group.</p> <p>(ii) We found the ABC/M to be the most efficient tool to respond to this challenge in our cost and management accounting arena. This required interaction with internal stakeholders i.e. CFO, CEO, finance and operations executives and external consultants.</p>	<p style="text-align: center;">GSC 2-7</p> <p>(i) The implementation of this advanced management accounting strategy emerged with the development of a sustainable infrastructure within our cost accounting discipline.</p> <p>(ii) We spent about 12 months assessing the best possible way to provide better transparency of our operating costs for both customer facing and support services, and we then developed a plan of sourcing an IT solution and agreed key deliverables for the development.</p>
<p>08. What were some of the internal challenges from an organisation perspective? (Probe: People views - Their capacity to understand the new strategic thrust - Organisation politics/resistance)</p>	<p style="text-align: center;">GSC 1-8</p> <p>(i) Resistance to accept the new costing solution from the accountants that were focussed on the traditional accounting systems was significant.</p> <p>(ii) We had to convince the team that the ABC model had created a number of competitive advantages. When the management ran costing as a single division for instance it was so far advanced that when we went into any discussion with our competitors, we had so much more information.</p> <p>(iii) We are now able to have a much better understanding of the business, including its cost structures</p>	<p style="text-align: center;">GSC 2-8</p> <p>(i) Internal stakeholders could not understand the fact that we sat with significant amounts of costs that were not allocated because these costs which were being unallocated were due to the lack of cost visibility.</p> <p>(ii) We also had great inaccuracies within our costing methodologies and poor management information systems.</p>
<p>09. How was this strategy implemented? (Probe: As a pilot project first and then rolled out to the rest of the company? - What exactly was the roll-out process?)</p>	<p style="text-align: center;">GSC 1-9</p> <p>(i) We selected a number of departments for trial and then we progressively extended the trial to the remaining.</p> <p>(ii) We had developed and implemented a mechanism whereby all CFO's of the customer facing business units (i.e. retail banking) were able to query any costs allocated into their cost centres.</p>	<p style="text-align: center;">GSC 2-9</p> <p>(i) The implementation was done in a trial format. Piloted the model with a particular department, such the card division within retail banking and then saw the benefits which in turn motivated further extension to other departments.</p>
<p>10. What were the information needs of the new strategic focus? (Probe: Did you have that information?)</p>	<p style="text-align: center;">GSC 1-10</p> <p>(i) The required data was relatively available and consolidated in a single view. List of all activities by department, cost centres, Market share, previous costing information for products and services, consumer segments and pricing frameworks were all made available.</p>	<p style="text-align: center;">GSC 2-10</p> <p>(i) We needed to have a list of all activities by department, cost centres, Market share, previous costing information for products and services, consumer segments, pricing frameworks</p>
<p>11. What are the core areas of your strategy and how do they link together?</p>	<p style="text-align: center;">GSC 1-11</p> <p>(i) Our primary focus areas entail delivering on-time, reliable and accurate cost reporting and ensure cost movement control.</p>	<p style="text-align: center;">GSC 2-11</p> <p>(i) We have the obligation to support competitive advantages to the bank through the supply of accurate cost data and cost visibility and transparency to measure our product and channel profitability.</p>

	(ii) We then use this framework to apply analysis of variances from the group's cost targets.	
12. What are the key competitive challenges facing your organisation? <i>(Probe: How do these challenges influence your strategic thrusts?)</i>	GSC 1-12 (i) One of the competitive challenges is the fact that the market perceives us as the most expensive bank in the market by means of service fees. (ii) Although we have developed this "Mzanzi" account for which we are well known for as the account types designed for the lower markets; it is a cost effective and the cheapest product available to transact via our bank today, but we're not the cheapest within our industry.	GSC 2-12 (i) High fees on our products and services continue to be challenging. (ii) This is supplemented to the growth limitation of the target market segment we used to serve. (iii) Other challenges are more on the financial reporting which we are now working with the implementation of ABC model.
13. How is competitive advantage defined in your organisation? <i>(Probe: How do innovation and technology contribute to competitive advantage? - How does management accounting contribute to competitive advantage? - What role does senior management play in sustaining competitive advantages?)</i>	GSC 1-13 (i) Competitive advantage for us is giving consumers value for money. Customers want to pay less and gain more. (ii) We were proactive to anticipate an ambition that the application of ABC would create a sustainable competitive advantage and improve better and proactive decision making	GSC 2-13 (i) Delivering superior value to our consumers more than our competitors. (ii) This will enable us to retain our customers and acquire additional customers. (iii) From costing perspective, it is about delivering reliable and dependant cost information for effective decision making.
14. Do you evaluate the constituency of your strategic thrusts for their contribution to the organisation? <i>(Probe: If yes; please describe the evaluation criteria - If no; why not?)</i>	GSC 1-14 (i) Not necessarily. This is highly dependant on the level of accuracy of our information.	GSC 2-14 (i) No
15. Have you reengineered your dept's function in the last two years? <i>(Probe: If yes: How? - If not: Why not?)</i>	GSC 1-15 (i) Yes – the introduction of ABC is evident enough for our reengineering.	GSC 2-15 (i) Yes – we have acquired a new information technology designed to support the ABC requirements
16. How is the performance of your function evaluated?	GSC 1-16 (i) Our evaluation is aligned to the accuracy, reliability, speed of processing, visibility and transparency of activity cost information.	GSC 2-16 (i) We are measured on costing accuracy, reliability, speed of processing, visibility and transparency of activity costing.
17. What are the key elements of your strategic decision? <i>(Probe: Process to deliver strategy - Sustainable competitive advantage? - Exploit linkages and synergies? - Visionability to move the firm forward)</i>	GSC 1-17 (i) The key drivers for this ambition included the view of being in possession of extreme detailed understanding for single digits, to support product and channel profitability. (ii) We are pleased that we are able to provide accurate, quickly and resilient cost accounting answers to the rest of the bank on various issues that are related to any for cost transactions.	GSC 2-17 (i) Our decision is to support the business ambition on channel profitability, product profitability, integration, competitive advantages. (ii) We have taken full ownership of the ABC process and will be running with it for the forthcoming years.
18. Please describe exactly which aspects of strategic thrusts that have changed from the previous strategy and which ones that haven't changed?	GSC 1-18 (i) We now have greater accuracy, reliability, speed of processing, visibility and transparency of activity costs. (ii) We have developed a method that we call statistical control charts and its main function is to control the movement of funds. We can literally set an upper limit and a lower limit which may also be called as targets for specific transactions. We have found this to be an effective instrument and really useful to apply in controlling costs progress within the bank as a whole.	GSC 2-18 (i) Strategic thrusts that have changed include the fact that we have achieved our anticipation on the level accuracy, reliability, speed of processing, visibility and transparency of activity cost information. (ii) Our biggest problem at the moment is the cross subsidisation of products and services. It would have been simple to cost a product or service if we had clear understanding of what the services and products costs were prior to any subsidisation.

	(iii) Costing on cross subsidised products and services is still a challenge that we are analysing to find the best costing.	
Nature of Information System required in the new Strategic Focus		
19. What are the pro and cons of your management information systems?	<p>GSC 1-19</p> <p>(i) The pros of our existing MIS are based on the fact that we only have a single version of the software which was purchased with multiple stand alone licenses. Other pros include the fact that each business unit can basically do what they want.</p> <p>(ii) However, one of the cons is that it is not standard across the organisation and hence, there are no standard rules.</p>	<p>GSC 2-19</p> <p>(i) With the assistance of the current MIS, we have developed effective information processes suitable to the need of the transfer pricing, and when we get product profitability correct we would definitely produce a much more enhanced cost visibility.</p> <p>(ii) Our possible danger similar to any system being implemented is that the system may have too much information which could become a threat.</p>
20. What contribution do management information systems make in activity analysis?	<p>GSC 1-20</p> <p>(i) At this stage we continue to refine the system because we believe that if we design this system correctly, it will take about one hour to get an answer from the system.</p> <p>(ii) However, activities analysis can be done at the lowest possible level of the operation.</p>	<p>GSC 2-20</p> <p>(i) Our product reports are generally produced at high level but there is adequate capacity for a route cause analysis to be followed if there are further details required by the customer facing business units; that straight to the activities being performed.</p>
21. What are/is the source(s) of information? (Probe: How is this information collected?)	<p>GSC 1-21</p> <p>(i) We draw our information from a set of two different systems. One is the standard financial accounting system. This system provides us with general ledgers accounting data for our revenue, expenditures and balances. The obtained data is generally in the form of sales reports, cost reports, financial accounting reports and we are able to generate them as and when required - weekly, monthly, half yearly and yearly.</p> <p>(ii) The 2nd source is our current ABC Transactional Processing Information systems. This database provides us with detailed products information i.e. card transactions, deposits made, withdrawals, loans, foreign exchange, claims, trades made, volumes, commissions and so on. The data sourced from this system is also interfaced and aligned with the data generated by the general ledgers through the financial accounting platform.</p>	<p>GSC 2-21</p> <p>(i) From a cost accounting perspective we use 2 different sources of information. That is normal financial accounting systems and the ABC system. Other systems generally include refer to the customer base and market analysis.</p>
22. What types of reports do these management information systems produce?	<p>GSC 1-22</p> <p>(i) ABC allocations, customer profitability, product profitability, general ledgers and so on.</p>	<p>GSC 2-22</p> <p>(i) ABC allocation, customer profitability, product profitability, customer segmentation, channel profitability, general ledgers.</p>
23. Based on the specific nature of the information required by the new strategic thrust, were the previous information systems adequate? (Probe: If yes: how did they support the previous strategic thrusts? - If no: what did you do to address those inadequacies?)	<p>GSC 1-23</p> <p>(i) Certainly not. The first time we implemented the ABC system, we found that we went into too lower level of details and we could not manage with too much information. We have tried to source various auditors to assess the system and our costing processes, but unfortunately no one was able to make superior recommendations or indicate a better way of doing this in the same industry.</p>	<p>GSC 2-23</p> <p>(i) No, the previous data was inadequate for proper direction.</p> <p>(ii) Our information processes enables us to further measure the performance of the business through the market share indicator. But this is just a component, if the card section is looking at the number of cards balances for instance, cost, bad debts, number of point of sale devices, turn over for device, we are able to track them.</p>

		(iii) We are furthermore able to even trace home loans turn around time per application submitted by client. We therefore have the visibility of value.
24. Why did the organisation consider ABC/IM more appropriate to its information needs in the context of the new strategic focus?	<p>GSC 1-24</p> <p>(i) It is all about providing data for proactive decision making. The ABC framework provides cost accuracy, reliability, speed of processing, visibility and transparency of all activity cost information. What is innovative about the way the system was developed lately is that we can flag any discrepancies or cost miss-appropriation</p> <p>(ii) The ABC project is at its first phase in order to at least get product channelled and costed correctly. Once we have achieved this we would do the customer segment. Due to the fact investment and corporate banking are by nature segmented anyway, the only segment we intend to investigate further is the retail banking due to its demands of operations and the level of customer facing.</p>	<p>GSC 2-24</p> <p>(i) The provision of ABC enables the management to identify areas of opportunity and process improvements; and capture the bank economic base for growth and development.</p> <p>(ii) There sometimes challenges with the level of accuracy, because it is heavily dependant on the level we would be reporting at. When a department in retail banking is reporting to Card only and if we then roll it up and find that is reporting to the head of retail banking, the system may not show all the associated activities because one would have over 1000 activities. The system has all the activities but it is irrelevant to show the CEO all the activities, because there is nothing he can do about it. But from an operations perspective, when costs have moved and the answer is different, we need to have the route course analysis available to trace all the various inputs into that – as low as possible</p>
Strategic Cost Management		
25. How important is cost management within your function? (Probe: Why?)	<p>GSC 1-25</p> <p>(i) This is one of the highest important areas in cost and mgt accounting of the bank, to sustain profitability.</p>	<p>GSC 2-25</p> <p>(i) Cost control along with its mgt thereof is very important, in order to support profit trends.</p>
26. Given the nature of information systems required on the new strategic focus; what contribution does it make towards cost management?	<p>GSC 1-26</p> <p>(i) The contribution made by the information system range from reduction in errors, to improved speed of processing, elimination of duplication, prompt cost analysis, reliability of data, to the security of information.</p>	<p>GSC 2-26</p> <p>(i) There are various benefits and contributions derived from the information system. These could be the reduction in errors, improved speed of processing, elimination of duplication, prompt cost analysis, reliability of data, security of information.</p>
27. How do the reports produced by the management information systems assist management accounting for decision-making?	<p>GSC 1-27</p> <p>(i) Our role is to promote drive the costs down throughout the bank, by ensuring clear visibility of these numbers.</p> <p>(ii) Our reporting also enables the management to identify areas of opportunity, operations and process improvements; as well as to capture the bank economic base for growth and development.</p>	<p>GSC 2-27</p> <p>(i) Our reporting enables the management to identify areas of opportunity, operations and process improvements; and capture the bank economic base for growth and development.</p>
28. Where do you focus your cost management efforts within your department?	<p>GSC 1-28</p> <p>(i) Our greatest effort on cost control for our department is with RandD and the sustainability of our systems and information technology.</p> <p>(ii) We have various services that are volume related, which we (the group strategic costing) have to set prices for. We have also set some business principles that whatever volumes any division may produce, charges may be allocated accordingly. We review these charges twice per year in order to identify</p>	<p>GSC 2-28</p> <p>(i) Our main cost focus is on systems maintenance and upgrades, research and development, training and development and systems benchmarking</p>

	dept that may charging and allocating costs to another and to also identify dept that would have made profit. Due to the fact that we are all service providers, no one should make profit internally.	
29. What is the responsibility of your function for cost of products produced?	GSC 1-29 (i) We are accountable for ensuring that there is accessibility, accuracy, reliability, availability and the visibility of costs.	GSC 2-29 (i) We must make sure that the information is made available with the highest speed and that it is accurate and accessibility by the stakeholder.
30. Please describe your organisation's overall approach to product costing	GSC 1-30 (i) Due to customer satisfaction and retention, product costing is a serious business.	GSC 2-30 (i) We are perceived as the most expensive bank; so product costing is very important.
31. Which management accounting system does your organisation use? (Probe: How long has it been implemented? - What are the benefits derived from this accounting system?)	GSC 1-31 (i) We have sap as the bank's management accounting system. In addition to this we also have ABC as a cost accounting system which took about two years to implement. (ii) We had realised that our traditional costing strategy was developed in a fragmented fashion, but this was partly due to the many changes we went through. Cost management was previously interpreted in a context of one dictating to someone what the costs or numbers should be; and this approach failed hopelessly.	GSC 2-31 (i) We have ABC that appears to be operating independently from our traditional standard accounting system. The retail banking is made of customer facing and support services. This range form risk, finance, HR, IT and so on; so who ever was doing financial reporting had to have an understanding of all of such processes, resulting in failure. (ii) The management built costing model and tried to allocate product costing for all business units. Accounts never balanced and the consequence is that we ended up with over recoveries of billions. (iii) The implementation of ABC took about four to five years because of its magnitude and frequent changes. Post changes, it has taken us about twelve month to intensively implement the ABC model.
32. Do you know the costs for specific activities carried out in your SBU? (Probe: If yes. How do you keep track? - If not: What are the bottlenecks?)	GSC 1-32 (i) No before the ABC implementation; but now we have a view of what they are. (ii) We are a support group, so there are insignificant bottlenecks.	GSC 2-32 (i) No before the ABC implementation; but now I assume that we would have a view of what our activity costs would be.
33. What are the main functions of your department? (Probe: How do they support the business strategy?)	GSC 1-33 (i) We are accountable for ensuring that there is accessibility, accuracy, reliability, availability and the visibility of costs.	GSC 2-33 (i) We must make sure that the information is made available with the highest speed and that it is accurate and accessibility by the stakeholder.
34. Do you determine the cost drivers? (Probe: If yes: how?)	GSC 1-34 (i) Not within our capacity. We make recommendations but this is an operations responsibility which I am sure they perform	GSC 2-34 (i) No, it is not focus area.
35. How is your department held accountable for cost management?	GSC 1-35 (i) We ensure that our costs are within budget. Justification is required if we go beyond budget.	GSC 2-35 (i) We have to justify our performance against budgeted amounts
Application of ABC/M, as part of the Information Systems, to support the new Strategic change and Focus Areas.		
36. In the context of the new strategic thrust, what are the attributes of ABC/M that were seen as suitable in supporting your strategy?	GSC 1-36 (i) The ABC/M is a component of supporting the strategy. This has to do with accuracy and visibility of costs associated to transactional banking because with the retail banking division for instance first thing that we emphasise on is to become profitable as a cluster.	GSC 2-36 (i) When we find that the strategic plan is to drive transactional banking, we ensure that we drill this further back to cost visibility. (ii) Our group (division) heads now understand the strengths of ABC's results, so do their bosses. We actually have been very fortunate with the way it has worked out.

		Where it has picked up kickback and resistance, as part of the process is in a number of divisions whether they are feeling threatened by the introduction of ABC. This is however expected for any change mgt.
37. What is ABC/M specifically supposed to do?	<p style="text-align: center;">GSC 1-37</p> <p>(i) We have had good progress in our cost allocation. We had about R740 million as an unallocated amount about two years ago. This is because we lacked cost visibility, had inaccurate costing methodologies, poor management information systems and inaccurate cost allocation.</p> <p>(ii) When we looked at our last year's report, we only had an amount of had R32 million as unallocated.</p>	<p style="text-align: center;">GSC 2-37</p> <p>(i) The ABC model is supposed to establish clarity and confidence of cost performance. Due to ABC, there is nobody in the entire bank that can say that there is no understanding of any cost allocated to their centres. We believe that this has been a great breakthrough and this is exactly the expectation from the ABC/M system.</p>
38. Please describe process in which the ABC/M was implemented (Probe: What was the roll-out process? - Who were the main champions of its roll-out?)	<p style="text-align: center;">GSC 1-38</p> <p>(i) The first level of our experience is that we acknowledged that we could not implement ABC with the bank that was moving so much with mergers and acquisitions. And after such changes, there were so much restructuring which rendered the ABC meaningless.</p> <p>(ii) When everything was bedded down, keeping in mind its ABC was done in a single position through its back operating office unit, we thought that we were in a much better position to roll it out.</p> <p>(iii) We - at the GSC division then decided after the restructure that give the nature of customer facing business units such as the retail banking; shared services, HR, finance, executive, risk and others became aware of the importance to increasingly support the operations. It basically became important for everyone of these business units to do ABC, because they needed to understand the bank's value chain better.</p> <p>(iv) We adopted a broad enterprise approach to ABC for all business areas. We negotiated with the current software vender to provide us with a new version of the software that allows us to past cost from one business model to another; to take care of a lot of the shared services costing and where that ends up in, so if the bank has different models.</p> <p>(v) We have HR, finance, marketing model, that do work for each other but they also do work for the customer facing unit (retail banking). So if one needs to do costing and profitability all the cost needs to end up in retail banking, corporate or capital/investment because these are the guys facing the customer; even though operations are mainly with the retail banking. The answer in all of those models at the back should be nil. If it is for absorption, for all those models as in the ABC case for instance, we had some activities that stay behind, some of these activities are business sustaining, a lot of</p>	<p style="text-align: center;">GSC 2-38</p> <p>(i) We have a bottom up mgt approach. Retail banking at the moment is card, home loans, branches, their own projects. They have built costing model for each of these, they then receive all these charges so they have their own direct costs, they then receive what we call inward transfer pricing and then that is then splits back into IT, HR, Finance. They then also have their own overheads and that equal a total cost. For example, card could drop down into acquiring and behind that is issuing card, replacing the card, charge back and that's the level it goes down and so on.</p> <p>(ii) We have all our underlining costing models and is largely in progress at least 95% completion, there is 5% remaining.</p> <p>(iii) We have a Group technology Support Services (GTSS) which is the IT shop. They have different models running within themselves. The system has individuals that are built like a general ledger system on different software and it is all done modular. We used all the input for the current and previous years pricing information; consolidated to make sure that we include all their costs. After these delivered their result to a central point there is a clear cut off. We at the group strategic costing division own the processes, collate the data and make sure it gets costed, allocated and passed on correctly.</p> <p>(iv) We have an official project in the group. We have a financial process architecture which reviews the financial systems and we have created a product profitability pricing model. We have project managers, but the owner of the project is the group head for strategic costing.</p> <p>(vi) We mainly use external consultants for software development and implementation. But with the internally technical deliverables, we believe that we must own the intellectual capital; but the Information Technology and Systems becomes an ongoing operational process once implemented.</p>

	<p>activities cannot be passed on. The objective was to make sure that all these costs end up in the business unit inside the customer facing clusters.</p> <p>(vi) We have a project team headed by my self and my accountability is to ensure a successful roll-out of ABC. We trialled the model with a specific dept within retail banking i.e. card and proved to be effective. We then saw the benefits and decided to extend it throughout the entire bank.</p>	<p>(vii) We have spent about four months in Europe for training and development through the company where we sourced the technology from. Our roll-out plan is that we need to intensify the program for the next couple of month.</p> <p>(viii) We are now able to provide the basic possible details for all our activities as well as their associated costs.</p>
<p>39. Please describe exactly how is ABC/M applied in supporting the new strategic thrust?</p>	<p style="text-align: center;">GSC 1-39</p> <p>(i) In essence, ABC absolutely does support the corporate strategy. Because we are giving the right information to the divisions, CFO, CEO, the strategy does not depend on the strategy itself, but ABC helps one decide on what is the best strategy to develop and implement based on ABC data. So accurate costing is the answer.</p> <p>(ii) We generally measure the bank with bases to costing data. Where in retail banking for instance we find that after receiving the costs or charges, we need to understand the cost contents. We actively drive the cost down - the cost that they are receiving for the operations. We would meet with the CFO and his management team to analyse the accounts and identify costs that are below targets and question those that would be beyond targets.</p>	<p style="text-align: center;">GSC 2-39</p> <p>(i) If the group executives don't have a full understanding of their cost structures, their decisions may not be properly aligned to the direction of the bank as planned.</p> <p>(ii) Now that we are able to make the correct information available to them, we are basically empowering the management to find ways and means of improving their costs as well as the attempt reviewing the processes being applied in the operations.</p> <p>(iii) As such, opportunities for efficiencies and effectiveness will become imminent and realign the strategic thrusts to the expectations of the markets.</p> <p>(iv) Improved/reduced fees/prices for products and services, as well as reliable cost information for decision making.</p>
<p>40. Given the nature of ABC/M's support to strategic thrusts; what should be different when it is successfully operational?</p>	<p style="text-align: center;">GSC 1-40</p> <p>(i) We should be able to the difference in improved operational processes, improved customer satisfaction, customer retention, lower operating costs, speed of services, better resource utilisation, energised employees, understanding of cost structures, correct product pricing and most importantly greater product profitability and channel profitability.</p>	<p style="text-align: center;">GSC 2-40</p> <p>(i) We should be able to see an improved in customer perception of our prices and fees that were traditional viewed as being the most expensive products and services.</p> <p>(ii) This is obviously due to the fact that we would now have the capacity to supply cost information that is correct and reliable for proactive decision making.</p>
<p>41. Please describe the kind of ABC information is needed and collected from the new management systems? (Probe: How is such information communicated to the operating business units? - How is such information used by the operating business units to address the problems and improve management processes?)</p>	<p style="text-align: center;">GSC 1-41</p> <p>(i) We needed to have the details with all the transparency and be able to indicate that a particular amount was allocated by whom and against which costs centre and understand variance against budget.</p> <p>(ii) As such, we needed to understand products specifics in terms of profitability and then identify the profitable from the unprofitable ones.</p> <p>(iii) We never had that possibility before of such cost chains, enabling absolute cost clarity. We now know with the software that the software we implemented will deliver effective pricing for our products and services.</p> <p>(iv) We generally draw the line on the level of reporting. When a department is in retail banking for instance is reporting to Card only - we then roll it up and may find that is reporting to the head of retail banking. Under these circumstances the system</p>	<p style="text-align: center;">GSC 2-41</p> <p>(i) One of our competitors has implemented a similar process but they only ever run the costs once a year, but we run it on a monthly basis. This in reality has placed in competitive position because we are aware of our number at detailed level.</p> <p>(ii) We are sitting with 95% accuracy; 100% to the end degree. The products and services are calculated at unit rate and this ABC solution will continue to be refined as we proceed with the integration process with our stakeholders.</p>

	<p>may not show all the associated activities because one would have over 1000 activities. The system has all the activities but it is irrelevant to show the CEO all the activities, because there is nothing he can with them.</p> <p>(v) But from an operations perspective, when costs have moved and the answer is different, we need to have the route course analysis available to trace all the various inputs into that – as low as possible.</p> <p>(vi) Up this point, the information supplied by the ABC model is not being used at operational level in order to start questioning the integrity of our processes and find ways for managing processes improvements. We are currently dealing with the group executives accountable for the operations in retail banking for instance; as well as the CFO and our CEO. So the down-scaling of the data is not yet happening.</p> <p>(vii) We generally sit with the CFO's and the CEO to assess the level of performance and then submit reports with questions to the group head of retail banking for clarification.</p>	
<p>42. Which other advanced management technique(s) if any, do you consider as superior tool(s) in supporting sustainable competitive advantage(s); and why?</p>	<p style="text-align: center;">GSC 1-42</p> <p>(i) I personally have not been able to identify any cost accounting system that is better than our ABC system.</p> <p>(ii) People in the support areas i.e. HR, Cash and IT never understood what they were selling to other departments. Now they have a detailed list of ten to fifteen products and services and as part of one of the support areas. The cash, procurement and the handling is all part of the shared services area but it has four or six specific services that is cash related and that they sell towards the rest of the bank (internally. It is now easier for them to do accurate pricing calculations.</p>	<p style="text-align: center;">GSC 2-42</p> <p>(i) Other than ABC/M, we have not seen any other systems. Unless it is real time, I have not seen one.</p> <p>(ii) The is a generally benchmarking problem in the SA banking sector because we don't have full control of the fees and charge which get influenced and decided by the market. So the fees that we can charge out are basically as close as the market benchmark will allow. As such, we needed to understand products specifics in terms of profitability and then identify the profitable from the unprofitable ones.</p>

APPENDIX C

DATABASE FOR RETAIL BANKING (RETAB)

RETAIL BANKING INTERVIEW RESULTS

Retail Banking Division	Operations Management	Operations Management
Job Title	Executive Operations	Branch Mgr. Sales and Services
Department Name	RETAB 1	RETAB 2
Period in service	05 Years	18 Years
Organisation's Background		
01. What is the management philosophy? (Probe: Towards customer needs - shareholder value)	<p>RETAB 1-1</p> <p>(i) The purpose of our existence is the well being of our customers and then shareholders. We have transformed our business unit in a manner that make us more dynamic and accountable to our end consumers.</p> <p>(ii) We have become more approachable and open. There is consequence mgt if one does not do something efficiently throughout the SBUs.</p>	<p>RETAB 2-1</p> <p>(i) We strive to continually increase the shareholders value.</p> <p>(ii) We also don't believe on elitist mgt approach. Most people up to the CEO's level have become flexible and accept independent criticism.</p>
Strategic Change Imperatives		
02. What was your previous strategy before the change. Its successes and failures?	<p>RETAB 1-2</p> <p>(i) We had a highly fragmented strategy that did not look at the consumers in a broader nature.</p>	<p>RETAB 2-2</p> <p>(i) Our previous strategy focussed on rendering retail services to the corporate segments and high end consumer markets.</p>
03. What is the importance of strategic change in your view?	<p>RETAB 1-3</p> <p>(i) Strategic change is always important in order to cope with our consumers new expectations.</p> <p>(ii) We went through significant financial difficulties three years ago and have in the past year been turning around towards a positive direction.</p>	<p>RETAB 2-3</p> <p>(i) For us to survive in this competitive market, it is crucial that we have adequate capacity to anticipate change, implement changes and adapt the change to the new environment that we operate in.</p>
04. Who were the main champions and sponsors of the past as well as the new strategy?	<p>RETAB 1-4</p> <p>(i) Individual group executives for retail banking. But we now have a centralised unit that looks at the strategy for the entire bank.</p>	<p>RETAB 2-4</p> <p>(i) The strategies used to be handled by the divisional heads.</p>
05. How would you classify the impact with this strategic change? (Probe: Formal vs informal - Revolutionary vs evolutionary - Progressive vs regressive)	<p>RETAB 1-5</p> <p>(i) This model is definitely a combination of an informal and progressive change: generally because it provides a broad customer focus and there is also transparency of operating costs and enables us to be more proactive.</p>	<p>RETAB 2-5</p> <p>(i) We believe that this is certainly informal, yet progressive.</p>
Strategic Intents/New Strategic Focus Areas		
06. What were some of the re-organisation or restructuring issues associated with the changes needed	<p>RETAB 1-6</p> <p>(i) Building customer confidence in the bank is one of the issues. We believe in trust. Consumers place their hard earned salaries</p>	<p>RETAB 2-6</p> <p>(i) The structures to enhance focus on target markets were challenging.</p>

<p>as part of the new strategy?</p>	<p>and reserves, their home loans, through us, because they have trust in us.</p> <p>(ii) We think that customers don't buy products or services from a bank; they buy a person when they go into our bank and hence they buy 'trust'. It is our accountability to ensure that risks are managed effectively.</p>	<p>(ii) We had to change our focus to concentrate on the SA market, as oppose to our traditional ambition to expand aggressively in the international arena. We have changed because we want to understand our market better.</p>
<p>07. How was the new strategy formulated?</p>	<p style="text-align: center;">RETAB 1-7</p> <p>(i) Our 3 years growth strategy involved the coordination of business initiatives to retain our clients, increase cross-sell ratios and acquire new accounts, coupled with a clearer value proposition, based on competitive products and prices, world-class and best-of-industry service and a stronger brand.</p> <p>(ii) The development of our strategy was done by the corporate level within headquarters. We conducted a number of workshops country wide, with the purpose of understanding what was going to be our new values, aspirations and so on. Employees from various management levels, across the country were involved in these workshops.</p> <p>(iii) The strategy development unit then consolidated all data and market information that was collected from the various sessions, structured a single view of the organisation's strategy, in order to arrive at a level that would deliver competitive repositioning of the bank as a group and agreed on what which key focus areas that it should focus on.</p>	<p style="text-align: center;">RETAB 2-7</p> <p>(i) Various workshops were carried through the country. Views on the way forward and key focus areas were developed in an integrated fashion with internal stakeholders.</p> <p>(ii) Our strategic focus is about serving the financial needs of individuals and small businesses; this is delivered by providing various products and services i.e. credit, lending, savings, investments, insurance and transactional.</p> <p>(iii) At the end, we shared the strategy with our shareholders on how we thought we were going to manage the bank in the future.</p> <p>(iv) We are generally organised around key product monolines such as card, home loans, personal loans, bank-assurance and wealth, asset-based finance and transactional banking, to name a few.</p>
<p>08. What were some of the internal challenges from an organisation perspective? (Probe: People views - Their capacity to understand the new strategic thrust - Organisation politics/resistance)</p>	<p style="text-align: center;">RETAB 1-8</p> <p>(i) The achievement and measurement of some of our aspirations i.e. to be a great place to work, was and by large is still a great challenge. So, we have to consistently train our employees to create core competency, ensuring that they are happy, getting what they need and so that they love their jobs.</p> <p>(ii) Transformation leadership was another area. We now ensure that we have clearly defined responsibilities and accountabilities aligned to the business approach to cost management roles for instance. If one is accountable for the costing, the responsibility would lie somewhere at the lower level. So we take full accountability for what anyone may be assigned to do.</p>	<p style="text-align: center;">RETAB 2-8</p> <p>(i) We are basically a cost centre; and so we had to agree on processes on how we would manage our operating costs. As such, Internal service level agreements were implemented.</p> <p>(ii) Capacity with our staff along with great resistance to change appeared to be challenging.</p>
<p>09. How was this strategy implemented? (Probe: As a pilot project first and then rolled out to the rest of the company? - What exactly was the roll-out process?)</p>	<p style="text-align: center;">RETAB 1-9</p> <p>(i) Our strategies are rolled out through the banking network once they have been agreed and aligned with stakeholders.</p> <p>(ii) This is done massively, at the same time; not in a pilot project manner. Group executives take full accountability to ensure that every individual understand the strategy and the effect it has to the end consumer</p> <p>(iii) With the pricing strategy for products and services for instance; we determine our pricing for our products and service through our monoline system. We then have a pricing committee that determines what the rates would be on current accounts for services,</p>	<p style="text-align: center;">RETAB 2-9</p> <p>(i) Our mandate is to understand and agree on the set strategy; with emphasis on building our core retail operation and keep our people empowered and motivated</p> <p>(ii) We place specific focus to strategic cost management when a strategy is being rolled out. We have 20 geographic regions in Southern Africa. Every region runs its individual branches in such as way that is suitable to the market that it would be serving, they way they would think appropriate and customise accordingly. There are obvious similarities because all regional managers meet once a month at</p>

	for overdrafts, interest rates and so on. This happens at a group level, not at operational or regional level.	the headquarter and the branches network with the head of retail banking. Topics of our discussions generally range from cash management, risk, people, for the country as a whole.
10. What were the information needs of the new strategic focus? <i>(Probe: Did you have that information?)</i>	RETAB 1-10 (i) Market share, costing information for products and services, consumer segments, pricing framework and so on. (ii) Yes, we had the information but the cost data was not as detailed as currently.	RETAB 2-10 (i) Market share, costing information for products and services, consumer segments, pricing framework and so on (ii) We had the necessary information to deliver at the time.
11. What are the core areas of your strategy and how do they link together?	RETAB 1-11 (i) The core strategic areas involved the coordination of business initiatives to retain our clients, increase cross-sell ratios and acquire new accounts, coupled with a clearer value proposition, based on competitive products and prices, world-class and best-of-industry service and a stronger brand.	RETAB 2-11 (i) One of our main targets is to increase the shareholders wealth and we have just gone beyond the 20% ROE target. We are tracking below against our competitors at this stage because they are performing at a rate of 35 to 40%. However, we have made huge inroads because we were performing at 6% ROE two years ago.
12. What are the key competitive challenges facing your organisation? <i>(Probe: How do these challenges influence your strategic thrusts?)</i>	RETAB 1-12 (i) We are beginning to see positive results for our strategic repositioning. We were presented with both the Code of Banking Practice Marketing Commitment Award and the Marketing Commitment Award. These awards were previously awarded to our competitors in the SA banking services; this is an indication that our strategic plan is effective. (ii) We have also attracted about 650000 new customers, with a lost of about 340 000 previous customers. This is a clear indication that we are relatively well positioned in the market but we need to ensure that we have systems in place to retain existing customers.	RETAB 2-12 (i) We have a huge problem that our fees are still viewed as too expensive. (ii) Our strategy still needs to be refined to eliminate this perception among our customers.
13. How is competitive advantage defined in your organisation? <i>(Probe: How do innovation and technology contribute to competitive advantage? - How does management accounting contribute to competitive advantage? - What role does senior management play in sustaining competitive advantages?)</i>	RETAB 1-13 (i) To be able to deliver products and services that are well structured, effectively priced and delivered on time. (ii) We have predefined target markets. We services merchants and large corporate in respect of card acquiring services. Some of the product portfolio includes transactional accounts, home loans, asset-based finance, card (both card issuing and merchant acquiring), personal loans, bank-assurance, investments and specialised banking products.	RETAB 2-13 (i) We look at competitive advantage in the context of providing products and services that our competitors cannot supply at the same and level of service that we do. So management support plays a crucial role in ensuring that we have proper alignment.
14. Do you evaluate the constituency of your strategic thrusts for their contribution to the organisation? <i>(Probe: If yes: please describe the evaluation criteria - If no: why not?)</i>	RETAB 1-14 (i) Yes. We do prior to the implementation of the strategy. (ii) It is really about understanding how relevant the strategy is to our world and the market we serve.	RETAB 2-14 (i) No
15. Have you reengineered your dept's function in the last two years? <i>(Probe: If yes: How? - If not: Why not?)</i>	RETAB 1-15 (i) Yes, our intention is to be process driven. We constantly review and reengineer our business processes.	RETAB 2-15 (i) Yes, more on processes side. We review our processes consistently.
16. How is the performance of your function evaluated?	RETAB 1-16 (i) Through volumes and costs	RETAB 2-16 (i) We are measured on volumes against targets
17. What are the key elements of your	RETAB 1-17 (i) The key elements of our decisions are	RETAB 2-17 (i) Product and channel profitability,

<p>strategic decision? (Probe: Process to deliver strategy - Sustainable competitive advantage? - Exploit linkages and synergies? - Viability to move the firm forward)</p>	<p>based on channel profitability, product profitability, integration</p>	<p>integration with a view of creating competitive advantages.</p>
<p>18. Please describe exactly which aspects of strategic thrusts that have changed from the previous strategy and which ones that haven't changed?</p>	<p style="text-align: center;">RETAB 1-18</p> <p>(i) We have made inroads with our business planning processes. This is also influenced by the level of interest rates; although there is a continued credit demands.</p> <p>(ii) We operate in a highly competitive environment, resulting in pressurise margins and unchanged operating costs</p>	<p style="text-align: center;">RETAB 2-18</p> <p>(i) Our turnaround strategy has made significant progress in addressing the business structure of the division, creating a disciplined culture of delivery and improving our financial performance.</p> <p>(ii) We have begun exceeding our financial targets. Our net interest income grew by approximately 30% and operating expenses rose by only 10% comparably. This contributed to a 75% improvement in headline earnings and the ROE improving from 20 to 25%.</p>

Nature of Information System required in the new Strategic Focus

<p>19. What are the pros and cons of your management information systems?</p>	<p style="text-align: center;">RETAB 1-19</p> <p>(i) We don't really have much participation of our MIS.</p> <p>(ii) Our existing information systems enable us to have a broad view of our customer base. We however remain with an unanswered question on how we could sell a clear customer value proposition or the value for money concept to the end consumers with the current capacity of MIS.</p>	<p style="text-align: center;">RETAB 2-19</p> <p>(i) We don't make significant contribution to the mgmt accounting systems of the bank as a whole.</p> <p>(ii) We focus on the fact that we are able to generate our general ledgers; the focus is maintained on those deliverables that are measurable.</p> <p>(iii) Our responsibility is to check the general ledgers on a daily basis. These general ledgers are automatically printed overnight and every morning the branch</p>
<p>20. What contribution do management information systems make in activity analysis?</p>	<p style="text-align: center;">RETAB 1-20</p> <p>(i) None. We are heavily based on sales volume, because we consider ourselves as a volume business. We don't get measured on measured on profitability, we are rather measured on pure volume. We have 'key volume indicators. If we have a particular branch that has to have a target or key volume of R10m on a monthly basis in home loans for instance; we exactly get measured on that indicator.</p> <p>(ii) We manage this very tightly because we recognise that we have cost centres which are driven by volume and hence must have a very strict approach to internal development needs in order to add value to customers. This is significantly driven by the approach that if volume does not increase, cost would consequentially escalate. However, one can still verify cost escalation if he or she can show the volume but if one cannot show the volume he or she won't have the cost.</p>	<p style="text-align: center;">RETAB 2-20</p> <p>(i) The current management system does not have the capacity for activity analysis. It only enables to manage our sales more adequately, with controlled measures.</p> <p>(ii) We for instance know how to avoid bankers selling purely for selling sake. They get measured on 'a ladder', and that ladder is spread into four segments and or pillars. The 1st segment is 'assets', home loans again for the bank it is the other way around than for clients.</p> <p>(iii) Our assets are home loans, student loans, personal loans and so on. The 'liabilities' which is the investment side of the business and is the 2nd segment. The 3rd one is 'transactional banking', these are all things like credit cards, internet profiles and so on and then the 4th one is 'bank assurance' which is the combination of various services like leads bank's financial planners.</p> <p>(iv) They also get measured on a system called 'Client Management Systems (CMS)' where it weights and places into CMS all the sales they do, we weight these sales to a certain category such as 40% on assets, 40% on transactional, 10% on liability, 10% on assurance so this is to ensure that bankers sell a suite of</p>

		products.
<p>21. What are/is the source(s) of information? (Probe: How is this information collected?)</p>	<p style="text-align: center;">RETAB 1-21</p> <p>(i) We draw our information from our financial accounting system. This system provides us with general ledgers accounting data for our revenue, expenditures and balances.</p> <p>(ii) The obtained data is generally in the form of sales reports, cost reports, financial accounting reports and we are able to generate them as and when required - weekly, monthly, half yearly and yearly.</p>	<p style="text-align: center;">RETAB 2-21</p> <p>(i) We draw our information from our financial accounting system, through general ledgers.</p> <p>(ii) The obtained data is generally in the form of sales reports, cost reports, financial accounting reports and we are able to generate them as and when required - weekly, monthly, half yearly and yearly.</p>
<p>22. What types of reports do these management information systems produce?</p>	<p style="text-align: center;">RETAB 1-22</p> <p>(i) Financial, customers profitability, product profitability, cost allocation, customer segmentation</p>	<p style="text-align: center;">RETAB 2-22</p> <p>(i) Financial, customers profitability, product profitability, cost allocation, customer segmentation</p>
<p>23. Based on the specific nature of the information required by the new strategic thrust, were the previous information systems adequate? (Probe: If yes: how did they support the previous strategic thrusts? - If no: what did you do to address those inadequacies?)</p>	<p style="text-align: center;">RETAB 1-23</p> <p>(i) Yes but not as detailed as we currently have.</p> <p>(ii) The level of details and activity visibility of today enables us to be more proactive in our executive decisions, as opposed to the previous information system.</p>	<p style="text-align: center;">RETAB 2-23</p> <p>(i) The way that our general ledgers are structured is not different from our previous system.</p> <p>(ii) From the operations' perspective, there has been little difference.</p>
<p>24. Why did the organisation consider ABC/M more appropriate to its information needs in the context of the new strategic focus?</p>	<p style="text-align: center;">RETAB 1-24</p> <p>(i) Our view is that ABC would be able to deliver the shortcomings that our existing systems are delivering. These could include adequate visibility and transparency of costs at functional and activity level, as well as the accurate allocation of these costs. This hopefully resulting in better planning of our operations.</p> <p>(ii) We use the "Resource capacity management (RCM)" for our cost management. It is a tool that we use to see how productive our branches are.</p> <p>(iii) It takes CMS (which is the tool that measures sales), the sales figures which are loaded onto CMS, it takes the teller statistics which are received from another system and it collates all of that into one system and provides details if a particular branch is productive or not. Some branch may have 25 staff members but operate at 40% productivity which indicates that they do not need so many employees, which then means the manager can reduce the number of employees from that branch and perhaps place them in a branch where is performing at a rate of 140% productivity and the client service is suffering due the lack of enough employee there.</p>	<p style="text-align: center;">RETAB 2-24</p> <p>(i) The use of CMS as a pure measuring tool for sales needed some other decision support systems and hence the ABC.</p> <p>(ii) We have approximately 27 different products and services for our clients. These 27 products and services are all on the CMS system and structured and driven in a context of purely sales orientation. The actual volumes get recorded on CMS. The ladders system is also integral to the CMS framework. Then we have what is called a "micro marketing platform" on CMS as well. Assuming that a new branch has been opened, the branch manager may go into the system to search for information on how to drive sales, he or she may need to do some marketing to develop the market awareness of the bank, the CMS framework would provide the necessary details on what the next step would be, particularly the key performance forces that drive sales.</p> <p>(iii) We also use industrial benchmarking as our strategy and this is considered to have similar effect to the "ladder concept or design". This concept was introduced by the Bank of Scotland and we have followed that design for internal benchmarking. The nature in which it operates is that it measures a specific department on the actual volume it achieved for that month, totalling to a 50% measurement and the other 50% measurement is the incremental increase. In other words one is continuously increasing his or her performance and sales volume. It is emphasised that 80% of the bank's cost line is fixed cost, branch structure, its rental and so on. We cannot keep on cutting costs; instead, one has to increase the volume. On the ladder the</p>

		<p>structure is 50% based on the volume and 50% based on how much more can the branch or individual do or at what level that branch could possibly perform further.</p> <p>(iv) Due to the fact that this system is of an international standard, it is often considered as the external benchmarking approach, added to this are the reviews on market awareness focussed on what or which new product competitors are introducing into the market and how we would respond.</p>
Strategic Cost Management		
<p>25. How important is cost management within your function? (Probe: Why?)</p>	<p>RETAB 1-25 (i) Cost management is a very important strategic component in our business, because of product and channel profitability.</p>	<p>RETAB 2-25 (i) This is an extremely important aspect of our business' long term survival.</p>
<p>26. Given the nature of information systems required on the new strategic focus, what contribution does it make towards cost management?</p>	<p>RETAB 1-26 (i) We have about 20 general ledgers per branch that the branch manager needs to monitor. One of the reasons is driving accountabilitys at branch managers' level particularly from strategic cost management perspective is that if a branch is run with a controlled approach, they are able to control their accounts and costs better.</p>	<p>RETAB 2-26 (i) It is extremely important that at ground level, we have clear account understanding as well as the availability of correct information for all transactions.</p>
<p>27. How do the reports produced by the management information systems assist management accounting for decision-making?</p>	<p>RETAB 1-27 (i) The people responsible for cost in the branch are the only ones that can avoid the extra costs that may not be necessary, by being more proactive to avoid the actual costs.</p>	<p>RETAB 2-27 (i) These financial reports assist us to reduce costs, avoid irrelevant operating costs and enable us to ensure that costs are the correct cost centres.</p>
<p>28. Where do you focus your cost management efforts within your department?</p>	<p>RETAB 1-28 (i) We focus a lot on operations costs at branch level, increasing efficiencies on asset utilisation, risks associated to non compliance of processes and costs thereof and so on.</p>	<p>RETAB 2-28 (i) Our key control is to view that both sales volumes and costs stay within the budgets agreed with the headquarters.</p>
<p>29. What is the responsibility of your function for cost of products produced?</p>	<p>RETAB 1-29 (i) We have to ensure that monitor performance on budget and approve. (ii) We also have the role of investigating allocated amount and therefore make recommendations.</p>	<p>RETAB 2-29 (i) Maintain the operating costs as low as possible. (ii) We also have to justify why cost are high, if we go above budget.</p>
<p>30. Please describe your organisation's overall approach to product costing</p>	<p>RETAB 1-30 (i) Our product costing is still influenced by volume</p>	<p>RETAB 2-30 (i) Volume driven</p>
<p>31. Which management accounting system does your organisation use? (Probe: How long has it been implemented? - What are the benefits derived from this accounting system?)</p>	<p>RETAB 1-31 (i) Not sure, it has been with us for a while now.</p>	<p>RETAB 2-31 (i) Not sure, but we have had this system for about 10 years now.</p>
<p>32. Do you know the costs for specific activities carried out in your SBU? (Probe: if yes: How do you keep track? - if not: What are the bottlenecks?)</p>	<p>RETAB 1-32 (i) Yes, but this is currently knowledgeable at our executive level only. We know as and when we make a special request from our group strategic costing division. (ii) We are still not as proactive as one would expect when we look at the role of our cost and management accountants in the retail banking division.</p>	<p>RETAB 2-32 (i) No, we don't. Some of the reasons include the fact that the management accounting role within our operations focus on management reporting, by producing monthly reports on expenditures and income for the branches (through general ledgers) (ii) Also, the COSC1 has not made visible</p>

		the progress it made on the ABC model
33. What are the main functions of your department? (Probe: How do they support the business strategy?)	RETAB 1-33 (i) We are responsible for all operations pertained to running retail banking. We ensure that our programs are integrated into the strategy as a whole.	RETAB 2-33 (i) Management of branch operations, in alignment with the business that has been operating plan to the lower operations and branch levels.
34. Do you determine the cost drivers? (Probe: If yes how?)	RETAB 1-34 (i) Yes; this is part of the budgeting process.	RETAB 2-34 (i) No
35. How is your department held accountable for cost management?	RETAB 1-35 (i) Through the justification of variances from the agreed budget. (ii) Performance bonuses are also part of these appraisals.	RETAB 2-35 (i) Budget control and justification.
Application of ABC/M, as part of the Information Systems, to support the new Strategic change and Focus Areas.		
36. In the context of the new strategic thrust, what are the attributes of ABC/M that were seen as suitable in supporting your strategy?	RETAB 1-36 (i) A strategic level. ABC/M play a significant role within the retail banking, because it attempts to drive cost performance. (ii) There is now a level of acceptable transparency in that all costs have the respective details.	RETAB 2-36 (i) We are a customer facing division; it is important that we understand what are operating costs. So the information produced for product costing becomes of utmost importance, due to its specific core competences.
37. What is ABC/M specifically supposed to do?	RETAB 1-37 (i) The role that this model would play is that we would be able to query amount from whichever departments, revenue or cost centre. (ii) We also would have the possibilities to track and trace cost down to the associated centre of consumption; and such transparency of details available when requested from GSC division. The turnaround time would also be very short for them to respond with adequate cost details and explanation.	RETAB 2-37 (i) GSC1 has taken full control of the implementation of ABC/M and is purely at strategic level. This is part of the project plan.
38. Please describe process in which the ABC/M was implemented (Probe: What was the roll-out process? - Who were the main champions of its roll-out?)	RETAB 1-38 (i) We have had no contribution or inputs into the development and implementation of the ABC/M model. GSC took complete control of the entire development process, trial and implementation. (ii) This is a totally centralised model and is therefore managed by the GSC division.	RETAB 2-38 (i) I believe that it has taken GSC about four years to implement this model; but we at branch and operations level have not been involved. (ii) We would like to create the same level of understanding on the ABC model at the operational level (as is at strategic level) to enable us create a broad view, understand and determine the best way forward, in order to enhance operations efficiencies.
39. Please describe exactly how is ABC/M applied in supporting the new strategic thrust?	RETAB 1-39 (i) From our division's (retail banking) perspective, only the CFD and senior executive have a view of our activity based costs and hence enables us to timely and accurate cost information to make decisions, i.e. product pricing. (ii) So the level of accuracy with the costing of our products and services along with the visibility of our operating costs as well as the prompt availability of this information enable the management to be	RETAB 2-39 (i) I think it is more on the accuracy of information, the availability of such data and the integrity of cost allocation. (ii) ABC as a bottom up approach should be done at operational business units. We have less interaction and understanding at the operational level of the retail banking. It is only viewed well understood at the top and strategic management level.

	<p>better prepared in our strategic planning processes so that we can take full account of all key success factors for management decisions; which would eventually lead the entire bank into product and channel profitability.</p> <p>(iii) We believe that the consumers would benefit by basically purchasing products and services that are priced correctly and that we as the bank would also reduce the risks and increase our profitability.</p>	
<p>40. Given the nature of ABC/M's support to strategic thrusts; what should be different when it is successfully operational?</p>	<p>RETAB 1-40</p> <p>(i) We should have improved processes, better customer service, reduced costs, correctly priced products and services; improved resources utilisation and so on.</p>	<p>RETAB 2-40</p> <p>(i) Our staff would understand the costs related to operational inefficiencies.</p>
<p>41. Please describe the kind of ABC information is needed and collected from the new management systems? (Probe: How is such information communicated to the operating business units? - How is such information used by the operating business units to address the problems and improve management processes?)</p>	<p>RETAB 1-41</p> <p>(i) At strategic level the ABC/M's support to the retail banking strategy is of a diverse nature. We need to understand the dynamics of our costs and their side effects.</p> <p>(i) Collected information generally include list of products, services performed in a specific time frame, detailed activities, cost centres, revenue centres; and so on.</p> <p>(iii) We would then have the respective costs associated to each activity, according to their respective branches, operating regions or business units</p> <p>(iv) We (the executives) would then use this information in our product reviews meetings to understand areas of opportunities i.e. product pricing, process optimisation, activity analysis; and so on, in order to improve on customer services, product and channel profitability.</p> <p>(v) Our greatest challenge is to take what we have to the lower operating units. This would require an aggressive top-down approach for process improvements.</p>	<p>RETAB 2-41</p> <p>(i) No sure yet. I would assume it is costs related to all or most of our activities, as well as cost associated to our processes.</p>
<p>42. Which other advanced management technique(s) if any, do you consider as superior tool(s) in supporting sustainable competitive advantage(s); and why?</p>	<p>RETAB 1-42</p> <p>(i) Due to the fact that we volume driven, our techniques are generally on the measurement (a) ladder, (b) resource capacity management and (c) benchmarking.</p> <p>(ii) The ladder has 4 areas: "assets" such as home loans, student loans, personal loans and son on - the "liabilities" from an investment perspective - "transactional banking" which include credit cards, internet profiles and so on - "bank assurance" as the combination of various services like leads to the bank's financial planners. There aspects are measured on a system called "Client Management Systems (CMS)" where it weights and places into CMS all the sales they do, it weights these sales to a certain category such as 40% on assets, 40% on transactional, 10% on liability, 10% on assurance so this is to ensure that bankers sell a suite of products.</p>	<p>RETAB 2-42</p> <p>(i) We use the "Resource capacity management (RCM)" as the tool to see how productive our branches are. We take CMS, the sales figures which are loaded onto CMS and take the teller statistics which it receives from another system and it collates all of that into one system and provides details if a particular branch is productive or not.</p> <p>(ii) An additional management technique is called the "ladder technique/concept".</p> <p>(iii) We also use benchmarking as another technique, which has similarities to the ladder technique. But this approach is applicable for the whole industry both within Southern African and across the globe.</p>

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