# THE IMPLEMENTATION STAGE OF ACTIVITY BASED COSTING SYSTEMS IN JORDANIAN MANUFACTURING SHAREHOLDING COMPANIES

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# THE IMPLEMENTATION STAGE OF ACTIVITY BASED COSTING SYSTEMS IN JORDANIAN MANUFACTURING SHAREHOLDING COMPANIES

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## ABSTRACT

Activity Based Costing (ABC) adoption and implementation have been widely researched in developed countries. However, in developing countries like Jordan, research regarding these issues in general, and within the Jordanian manufacturing shareholding companies in specific, is still sadly limited. The present research attempts to increase the understanding of ABC implementation in Jordanian manufacturing shareholding companies. Toward this end, a questionnaire survey was administered with the primary aim to determine the current state of ABC adoption and implementation, to know the factors that motivate, facilitate and hinder ABC implementation, and to examine if these factors (type of sectors, size, diversity and level of overhead) have a significant influence on ABC implementation in Jordanian manufacturing shareholding companies. Data was analyzed using descriptive analysis, logistic regression analysis, and chi-square. In the second stage, semi-structured interviews on 13 companies were conducted to probe the significant results of the survey. Data was examined by using both within company and cross-company analysis, to determine the factors that influence ABC implementation. Findings indicate that ABC implementation among Jordanian manufacturing shareholding companies is quite satisfactory, with 19.5% stages of ABC implementation. Results from both questionnaire survey and semi-structured interviews show that fashion, forced decision, fad, and efficiency are factors associated directly with the implementation decision in Jordanian manufacturing shareholding companies. Top management support, non-accounting ownership, higher information technology, education, globalization of consumer, increased competition, growing costs, allocation problems, and inability of the traditional cost systems to provide relevant information in the new environment were found to facilitate and motivate the implementation of ABC. Findings show no relationship between type of sectors, size, diversity, and level of overhead, and ABC implementation. It can be concluded that both demand and supply factors influence the implementation of ABC within the Jordanian manufacturing shareholding companies.



**Keywords:** Activity-based costing (ABC), Developing countries, Manufacturing shareholding companies, Jordan

**ABSTRAK**

Penggunaan dan pelaksanaan pengekosan berasaskan aktiviti (Activity Based Costing [ABC]) telah dikaji secara meluas di negara-negara membangun tetapi, di negara-negara kurang membangun seperti Jordan, kajian tentang isu ini secara umumnya dan bagi pegangan saham syarikat pembuatan di Jordan khususnya, masih terhad. Kajian ini bertujuan meningkatkan kefahaman tentang pelaksanaan ABC di pegangan saham syarikat-syarikat pembuatan Jordan. Bagi mencapai tujuan ini, satu tinjauan soal selidik telah dilakukan bagi menentukan keadaan semasa penggunaan dan pelaksanaan ABC, bagi mengetahui faktor-faktor yang memotivasi, memudah cara dan menghalang penggunaan dan pelaksanaan semasa ABC, dan menyelidik sama ada faktor-faktor ini (jenis sektor, saiz, kepelbagaian, dan tahap overhed) memberi pengaruh signifikan terhadap pelaksanaan ABC di pegangan saham syarikat pembuatan Jordan. Data telah dianalisis dengan menggunakan analisis deskriptif, analisis regresi logistik, dan chi-square. Pada peringkat kedua, temu duga separa berstruktur terhadap 13 syarikat dilakukan untuk mendapat maklumat lanjut tentang dapatan yang signifikan daripada tinjauan yang dilakukan. Data diteliti dengan menggunakan analisis dalam syarikat dan antara syarikat bagi menentukan faktor yang mempengaruhi pelaksanaan ABC. Dapatan menunjukkan bahawa pelaksanaan ABC dalam pegangan saham syarikat pembuatan Jordan agak memuaskan, dengan 19.5% tahap pelaksanaan ABC. Dapatan daripada tinjauan soal selidik dan temu duga separa berstruktur menunjukkan bahawa fesyen, keputusan terpaksa, keputusan terpaksa, fad, dan kecekapan merupakan faktor yang dikaitkan secara langsung dengan keputusan melaksanakan ABC di pegangan saham syarikat pembuatan Jordan. Sokongan pengurusan atasan, pemilikan tidak berkepentingan, teknologi maklumat yang lebih canggih, pendidikan, globalisasi pengguna, persaingan yang semakin sengit, kos yang semakin meningkat, masalah agihan, dan ketidakmampuan sistem pengekosan tradisional menyediakan maklumat relevan dalam persekitaran baharu didapati memudah cara dan memotivasi pelaksanaan ABC. Dapatan juga menunjukkan bahawa jenis sektor, saiz, kepelbagaian, dan tahap overhed tidak berhubung kait dengan pelaksanaan ABC. Oleh yang demikian disimpulkan bahawa faktor permintaan dan bekalan mempengaruhi pelaksanaan ABC bagi pegangan saham syarikat pembuatan Jordan.

**Kata kunci:** Pengekosan berasaskan aktiviti, Negara membangun, Pegangan saham syarikat pembuatan, Jordan

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## LIST OF ABBREVIATIONS

| | |
|---|---|
| AA | Activity Analysis |
| ABB | Activity-Based Budgeting |
| ABC | Activity-Based Costing |
| ABM | Activity-Based Management |
| ACA | Activity Cost Analysis |
| ASE | Amman  Stock Exchange |
| BSC | Balanced Score Card |
| CAM-I | Computer Aided Manufacturing-Internatio |
| CBJ | Central Bank Of Jordan |
| CEO | Chief Excutive Officcer |
| CIMA | Chartered Institute of Management Accou |
| CPA | Certified Public Accountant |
| **GDP** | General Domestic Product |
| GM | General Motors |
| HS | Harris Semiconductor |
| IS | Information System |
| IT | Information Technology |
| JD | Jordanian Dinar |
| JMFC | Jordanian manufacturing companies |
| KLSE | Kuala Lumpur Stock Exchange |
| QIZs | Qualifying Industrial Zones |
| RM | Ringgit Malaysia |
| ROI | Return on Investment |
| SPSS | Statistical Package for Social Sciences |
| TCS | Traditional Costing System |
| TQM | Total Quality Management |
| UK | United Kingdom |
| USA | United States of America |
| WCM | World-class manufacturing |
| WTO | World Trade Organization |

# CHAPTER ONE

# INTRODUCTION

## 1.0 Background of the Study

This chapter introduces the research agenda of the study and outlines the background of the study, problem statement, research question, research objectives, and significance of the study and organization of the study.

In recent years, most organizations have faced fast changes in their business environment. Management challenges have been intensified by the deregulation, in conjunction with the increasing global competition and reduction in product life cycles resulting from technological innovations (Abdel-Kader & Luther, 2008; Fei & Isa, 2010b;Narong, 2009; Raffish,1990). Emergence of advanced manufacturing technologies has resulted in greater automation and changes in the cost structure. The cost structure changes involved direct labor costs being replaced by indirect costs (Cooper, 1988). As a consequence new management practices, such as just-in-time management philosophy, total quality management practices and activity based costing system have emerged.

Many researchers (e.g., Abdel-Kader & Luther, 2008; Askarany& Yazdifar, 2010; Johnson & Kaplan, 1987) asserted that management accounting practices is in crisis, because its implementation percentage is still low. They also mentioned the significant

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