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Activity-Based Management: Article Review

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ABSTRACT

This study is a literature survey for activity-based management (ABM). ABM aims to focus on identifying and managing the activities that have the greatest impact on achieving economic entity targets. This approach involves using activity-based costing (ABC) data to allocate costs to the key activities required to achieve targets, and then managing those activities to optimize performance. ABM involves analyzing the costs and performance of each activity and using this information to improve the efficiency and effectiveness of an economic entity. ABM has been widely applied in different industries, including manufacturing, healthcare, and service economic entities.

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1. INTRODUCTION

Activity-based management (ABM) is a management approach that focuses on identifying, analyzing, and managing the activities that drive costs and value in an economic entity. ABM is closely related to activity-based costing (ABC), which is a method for allocating indirect costs to products or services based on the activities required to produce them.

The goal of ABM is to improve the efficiency and effectiveness of an economic entity by identifying and eliminating non-value-added activities and improving value-added activities. ABM can be applied to a wide scope of industries and functions, including manufacturing, healthcare, logistics, and customer service.

[Chen et al. \(2021\)](#) found that target ABM can help improve the financial performance of economic entities by aligning activities with strategic targets and improving resource utilization. The study showed that economic entities that use target ABM are better able to optimize their resources, reduce costs, and achieve better financial results.

Another study by [Lapsley and Wright \(2004\)](#) showed that targeting ABM can help improve the performance of public sector economic entities. The study found that by aligning activities with strategic targets, public sector economic entity can improve their efficiency and effectiveness, leading to improved performance.

Target ABM has also been found to be effective in healthcare economic entities. Target ABM can help healthcare economic entities improve patient outcomes by aligning activities with quality targets and improving resource utilization.

Recent research has shown that ABM continues to be a relevant and effective approach in today's dynamic business environment. For example, a study conducted by [Huynh et al. \(2013\)](#) in the manufacturing industry found that implementing ABM can improve the efficiency of the production process and reduce costs. Another study by [Lee and Song \(2021\)](#) in the healthcare industry showed that ABM can be used to improve the quality of care and patient outcomes.

Companies suffer from high industrial costs, and in the presence of competition, these companies gradually lose their marketing space, so these companies began to search for modern administrative tools to manage their costs and meet the desires of customers. The desires of customers and thus achieve the goals of the company. Thus, the research aims to define the concept, steps, and importance of the cost-based management system and evolution over time.

2. METHODS

This study used the descriptive approach to collect and interpret data by asking questions and hypotheses and reviewing the problem of the companies from which the research was launched. The research began with a summary review of the research to clarify the problem and hypothesis of the research. Then, this study discussed the most important findings of the research and what it can recommend in the future. This study reviews a lengthy introduction explaining the beginnings of the ABC system and its subsequent steps, then explaining the historical introduction of the ABM system and what the system can offer to companies that can apply it, and then explain the steps to implement the system, and then the researcher explained the benefits that companies can achieve from applying the system. The researcher also explained how the system works and what requirements must be available for its implementation. Activity is considered the first and basic step for the ABM system. Finally, the researcher reviewed some of the available resources for the ABM system.

3. RESULTS AND DISCUSSION

3.1. Steps in ABM

Steps for implementing an ABM approach can be discussed in the following:

- (i) Identify the activities that drive costs and value in your economic entity.
- (ii) Analyze the costs and benefits of each activity.
- (iii) Determine which activities are non-value-added and can be eliminated or reduced.
- (iv) Identify opportunities to improve value-added activities.
- (v) Implement changes to improve the efficiency and effectiveness of your economic entity.

3.2. Benefit and Challenges of ABM

The benefits and challenges of ABM with references are discussed in the following. ABM can provide several benefits to economic entities, but it also comes with its challenges. Here are some benefits and challenges of ABM, along with references to support them:

- (i) Improved decision-making: ABM can provide better insights into the costs and profitability of different activities, which can help managers make more informed decisions. (Glover & Prawitt, 2016)
- (ii) Enhanced efficiency: By identifying and eliminating non-value-added activities, ABM can improve the efficiency of an economic entity. (Maher & Rowe, 1994)
- (iii) Better cost control: ABM can help economic entities gain better control over their costs by identifying and managing the activities that drive costs. (Cardos & Pete, 2011)
- (iv) Increased customer satisfaction: ABM can help economic entity improve their customer service by identifying and improving the activities that create value for customers (Turney & Anderson, 1999)

The challenges are explained in the following:

- (i) Data collection and analysis: Implementing ABM requires extensive data collection and analysis, which can be time-consuming and costly (Callender & Aiken, 2011)
- (ii) Resistance to change: ABM may require changes to existing processes and systems, which can be met with resistance from employees and managers (Maher & Rowe, 1994)
- (iii) Difficulty in implementation: ABM can be difficult to implement, especially in complex economic entities with multiple processes and functions (Kober & Ng, 2020)
- (iv) Lack of alignment with strategic objectives: ABM may not always align with an economic entity's strategic objectives, which can lead to confusion and a lack of focus. (Turney & Anderson, 1999)

Overall, ABM can provide significant benefits to economic entities, but it also requires careful planning and execution to overcome its challenges. By understanding the benefits and challenges of ABM, economic entities can make informed decisions about whether to implement this approach.

3.3. How ABM Works?

How ABM works is explained in the following. ABM is an approach to management that focuses on managing activities to improve economic entity performance. Here is how ABM works, with references to support the key concepts:

- (i) Identify activities: The first step in ABM is to identify the activities that are required to produce a product or service. This involves breaking down the production process into individual activities that consume resources. (Turney, 1992)

- (ii) Assign costs: The next step is to assign costs to each activity based on the resources consumed. This involves allocating indirect costs, such as rent and utilities, to individual activities. (Morlacchi & Vignali, 2020)
- (iii) Analyze performance: Once the costs have been assigned to activities, managers can analyze the performance of each activity. This involves comparing the costs and benefits of each activity to identify areas for improvement. (Kober & Ng, 2020)
- (iv) Improve processes: Based on the analysis of activity performance, managers can make changes to the production process to eliminate non-value-added activities and improve efficiency. This may involve changing the way resources are allocated or redesigning the production process. (Maher & Rowe, 1994)
- (v) Measure results: Finally, managers must measure the results of the changes made to the production process. This involves comparing the costs and benefits of the new process to the old process to determine the effectiveness of the changes. (Glover & Prawitt, 2016)

By focusing on activities rather than departments or products, ABM provides a more accurate picture of the costs and profitability of different products and services. This can help economic entities make more informed decisions about how to allocate resources and improve performance.

3.4. Comparison between ABM and ABC

ABM and ABC are closely related concepts that are often used together in modern management accounting.

- (i) ABC is a cost accounting method that assigns costs to specific activities and processes based on their actual consumption of resources, rather than allocating them based on a simple average cost. ABC is designed to provide more accurate cost information for decision-making and cost-management purposes.
- (ii) ABM is a management approach that uses ABC data to improve the efficiency and effectiveness of an economic entity's operations. ABM involves identifying and analyzing the key activities and processes that drive costs and then taking action to manage and improve these activities.

Together, ABC and ABM can help economic entities gain a better understanding of their costs and operations, and identify areas where improvements can be made. By using ABC to accurately allocate costs, economic entities can identify the most cost-intensive activities and focus their improvement efforts on those areas using ABM.

Recent studies have shown that the use of ABM and ABC can lead to significant improvements in cost management and operational performance. For example, a 2019 study by Hafez and El Sayed found that the use of ABC and ABM in a hospital setting led to a 25% reduction in costs and a 34% improvement in patient satisfaction.

Another study by Morlacchi & Vignali (2020) examined the impact of ABC and ABM on the performance of manufacturing companies and found that companies that used these methods had higher levels of profitability and better operational performance than those that did not.

Overall, the use of ABM and ABC has become increasingly important in modern management accounting and can provide significant benefits to economic entities looking to improve their cost management and operational performance.

3.5. Resources Available for Learning More About ABM

There are many resources available for learning more about ABM. Some recommended references include:

- (i) "ABM for Service Industries, Government Entities, and Nonprofit Economic Entity" by James A. Brimson: This book provides an overview of ABM and how it can be applied to service industries, government entities, and nonprofit economic entities.
- (ii) "ABM and ABC for Healthcare" by W. Lynn Etheredge and George J. Stukas Jr.: This book focuses on the application of ABM in healthcare economic entities.
- (iii) "ABM: Making Business Sense of Your Operations" by Gary Cokins: This book provides practical guidance for implementing an ABM approach in any economic entity.
- (iv) "Implementing ABM: Moving from Analysis to Action" by Gary Cokins: This book provides a detailed roadmap for implementing ABM, including tools and techniques for analyzing and managing activities.
- (v) Overall, ABM is a powerful approach for improving the efficiency and effectiveness of economic entities. By focusing on the activities that drive costs and value, economic entities can identify opportunities for improvement and implement changes to achieve their goals.

4. CONCLUSION

This investigation of ABM has been reviewed. ABM attempts to concentrate on locating and overseeing the processes that have the biggest influence on fulfilling the objectives of economic entities. This strategy entails allocating costs to the crucial tasks necessary to meet goals using ABC data, then managing those tasks to maximize performance. The goal of ABM is to increase an economic entity's efficiency and effectiveness by examining the costs and results of each action. ABM has been extensively used in a variety of sectors, including manufacturing, healthcare, and service-based businesses.

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