



TIPS FROM THE FIELD

HOW TO CREATE AN
ACTIVITY
MANAGEMENT
PROGRAM
THAT LASTS

BY BRAD ANDERSON; CHARLES E. DAVIS, CPA;
ELIZABETH B. DAVIS, CPA; AND MICK TWOMEY

Since its arrival on the management accounting scene in the 1980s, activity-based costing (ABC) has received a great deal of attention. Organizations of all types and sizes have used ABC for answers to a variety of questions. ABC has spawned other tools such as activity-based management (ABM) and activity-based budgeting (ABB) as organizations attempt to control costs and plan for their operations. Although the virtues of these programs have been extolled widely in numerous articles, many companies have started to implement such efforts only to halt progress before achieving any benefits.

What new information can be shared to help ensure that your program doesn't fall by the wayside? We talked with key activity management program personnel at several companies that have successfully implemented these programs and asked them to identify critical factors that contributed to the success of their program. We refer here to ABC, ABM, and ABB projects collectively as activity management programs (AMP).

GETTING STARTED

Before an AMP is designed and implemented, the very idea itself needs to be sold to the end users. Butch Camp recently participated in building an ABC system at Bell-South. According to him, “Performance management efforts that are successful are the ones that can make that connection with the operating sides of the business such that the numbers don’t just represent some arbitrary method of keeping score, but that they represent the true blood of the business, and the heartbeat of the business can be seen through the financials.” To garner support from operations groups, educate them about the value they will receive from the AMP. Clearly articulate the new information that will be provided, and demonstrate how that information will better serve the operational managers in meeting their objectives.

For instance, highlight how activity information will assist the managers in achieving specific cost and productivity objectives that may be tied into their bonus plan calculation. Ryan Barth, a manager at USAA’s Federal Savings Bank, found this education to be crucial. “Your lines of business have to want the information. You should be clear about what they can learn and ensure that they will dedicate their own resources to it. Otherwise, no one is going to use the information, and it’s going to be worthless.”

According to Dan Steidle, activity-based cost manager at Coca-Cola, “Ensure you have commitment to the use of the information. It’s one thing to have senior management stand up and say, ‘Yes, this is great, it’s the right thing to do, I fully support it.’ That’s great, but you also need them to understand how they are going to use the information to make decisions. When they have communications with a division president regarding various project functions, how are they going to use the AMP information during those conversations? How are they going to ask questions to get those people to want to use this information? We live by habit; we must give them reason to change.”

PROJECT IDENTIFICATION, SELECTION, AND SCOPE

When Coca-Cola was creating a shared services center as a stand-alone profit center, they began implementing an ABC system before the center was even fully operational. To get ideas for AMPs, each line of business identified projects they wanted to propose (such as cost reduction, process improvement, process view across silos, etc.), and they ended up with 110 proposed projects. According to Peter Williams, the list has been whittled down to 28 pro-



CRITICAL FACTORS OF SUCCESSFUL ACTIVITY MANAGEMENT PROGRAMS

- ◆ Sell the AMP to entire organization.
- ◆ Identify projects and set scope.
- ◆ Select the right full-time team to implement the activity management program.
- ◆ Maintain balance between system output and level of maintenance effort.
- ◆ Communicate and discuss results with operational managers throughout organization.

jects that will be brought into six sigma training. During the training, seven projects will be selected to focus on.

As AMPs become part of the operational culture, a system must be devised to identify new projects for purposes of continual improvement. USAA uses a process improvement mailbox in Outlook for suggestions from the field. The suggestions are reviewed and prioritized weekly by a special projects team. Managers in the business now don’t have to worry about completing these improvement efforts—they can identify opportunities and then have this team actually implement the solution.

Once projects have been selected, the specific business issues that the program will support must be defined clearly, and the scope of those issues must be managed. Without a clear delineation, the project can mushroom, become unmanageable, and be doomed for failure.

“IF YOU HAVE AN ‘A’ TEAM PROJECT, DON’T STAFF IT WITH ‘B’ TEAM PLAYERS AND EXPECT IT TO SUCCEED.”

USAA’s Barth recommends, “Keep it focused, and don’t bite off too much at the beginning. Remember that it’s an evolving model.”

To help limit the scope of a project, some organizations with successful AMPs start by developing a pilot program to address a specific need within one area of the business. In addition to developing information to support the business need, this pilot program provides a training ground for the implementation team and demonstrates the value of the program to the rest of the organization. Coca-Cola’s Steidle agrees. “Think small. If you already think you are thinking small, cut it in half again. Our typical ABC pilot project is 8-10 weeks. Any longer than that and the information is outdated.”

Butch Camp confesses that at BellSouth the AMP beginnings weren’t very successful. “The reason is we tried to do everything at once—too much. We would measure, count, and model absolutely everything. We scaled down the beast and tried to focus on the things that really mattered.” Since that scaling down, the project has made great strides.

After successful implementation of a small-scale AMP, enthusiasm builds and radiates through the organization. Team members are more confident of their activity management skills. The foundation is laid for tackling larger and more complex areas of the business.

TEAM SELECTION

For an AMP implementation to be successful, the project team must be fully dedicated, appropriately staffed, and effectively augmented. As USAA’s Ryan Barth puts it, “These 20% roles just don’t work. It won’t happen. You need full-time, dedicated resources to make this happen.” Relying on a part-time team will lengthen the implementation timeline, limit project momentum, and reduce the benefit-to-cost ratio.

But not just any full-time team will do; you need the right full-time team. In his book, *Good to Great*, Jim Collins found that those companies that made the jump from good to great “first got the right people on the bus...and then figured out where to drive it” (p. 41). The

same is true for staffing an AMP. Companies often staff internal project teams with people who are “available” at that particular time. While activity management is not an overly complex methodology, it does require team members who have analytical skills and who understand the business. BellSouth’s Butch Camp echoes this sentiment: “If you have an ‘A’ team project, don’t staff it with ‘B’ team players and expect it to succeed.”

End-user involvement is a key success factor for systems implementations, and AMPs are no exception. To ensure that the AMP is designed to meet operational objectives, make operations personnel full-time members of the implementation team. In this way, the interests of the operations groups are brought to the implementation team and can be built into the model from the beginning of the design process. In addition, these operations personnel will develop new skills and knowledge about activity management that they can leverage in supporting their managers once the AMP is functional. These team members also can assist in ingraining AMP into the operational culture of the organization. It’s also important to include on the team those employees who will be charged with maintaining the system. Participating in the development of the system will provide these employees with essential knowledge of how information is developed and how it needs to be maintained after initial implementation.

Most organizations with successful AMPs employ external consultants to augment the in-house implementation team. These consultants bring a wealth of AMP experience, additional staff power, and enabling tools and techniques that can greatly reduce the implementation time line and improve the quality of the initial model. They also support change management efforts that promote acceptance of the AMP within the corporate culture.

USAA used external consultants when developing an AMP for its banking operations. Ryan Barth comments, “Our consultants were there to help us get the job done. They rolled up their sleeves and jumped in with us to do the ‘dirty work.’ As a result, we got the job done faster and more correct with their help than we could have on our

A COMPANY REALIZES THE REAL POWER OF AN AMP WHEN THE RIGHT INDIVIDUALS CAN ACCESS THE RIGHT INFORMATION IN THE RIGHT FORMAT TO ASSIST IN IMPROVING PERFORMANCE.

own. They were definitely worth the money.” Peter Williams with the shared services center at Coca-Cola concurs: “If the choice is go external or don’t get it done, then go external. If you have people that have implemented ABC, then do it yourself. If you don’t, bring in the experts. We brought in experts. We would have been better served to do it ourselves, but we just didn’t have the know-how. Given our situation, bringing in the experts was great. They took us from nothing to something. That’s the toughest part.”

But you can’t have a successful, ongoing AMP if you let the external consultants do all the work without the involvement of internal team members. Without internal team members working beside the consultants, all knowledge is lost when the consultants walk out the door. Yet, when the consultants are gone, it’s the responsibility of the internal team to continue to develop the organization’s AMP expertise, ingrain it into the culture, and leverage the information in new ways. So if consultants are used, there must also be a complete internal team made available to ensure knowledge transfer of activity management practices and implementation techniques. This transfer of knowledge is a critical success factor for a successful, ongoing program.

The bottom line is that organizations must choose wisely when selecting the AMP implementation team. The team chosen will ultimately be responsible for developing a tool that will change the way the organization looks at its entire business.

ONGOING MAINTENANCE

Many AMPs have made it successfully through implementation only to perish due to excessive maintenance requirements. Activity management systems are heavily data dependent. While some of this data can be automati-

cally retrieved from ERP or legacy systems, other information such as personnel time estimates must be entered manually. To ensure success of the AMP, the system must maintain a balance between the value being generated by the system and the level of maintenance effort required.

While little technology investment is required in the initial design of an AMP, ongoing maintenance is greatly enhanced with investment in activity management technology. Simple tools and templates designed to collect data, such as forms, queries, and macros, bring accuracy, consistency, and ease to the maintenance effort. In addition, the technology provides a flexible platform for messaging the activity data to meet various informational needs within the organization.

Organizations often struggle with how frequently to update the AMP model. This decision is organization specific and should be determined based on the business issues. Some organizations will require monthly updates, while others may find quarterly or annual updates sufficient. For instance, USAA updates their ABC model monthly, while Greg Behn of CH Guenther & Son, Inc., a manufacturer and distributor of foodservice products, finds annual model updates adequate. Behn states, “We tie our model updates to the annual budgeting process. The ABC information is a key element to justify investments and labor costs we anticipate for the coming year.” In any event, a good starting point is with quarterly updates, which prove adequate more often than not.

USE THE SAME LANGUAGE

A final key component to involving operations is to employ a strong communication program, particularly during the first year after the AMP implementation. The activity management team must be engaged in reviewing and understanding the periodic results of the AMP with

operational managers. This is an important step toward ingraining activity management into daily operations.

Even with a plan to communicate, things don't always work out. For example, Butch Camp discovered that, at BellSouth, words take on different meanings with different people. "When I say 'margin,' it is likely different than what you mean when you say it. So we decided to create a common language when we use all of these terms." Managers went through various training programs to learn the language and how information should be used and communicated. "But what we found was that it quickly went away because nobody made the managers use it—no one said, 'okay, in next month's product review you will have to talk to me in these terms.' We have gone after their bosses and bosses' bosses to educate them on what is possible and what they should expect product managers to be held accountable for."

Once the communication plan is in place and well understood, the benefits start to roll. At USAA, finance talks with operations on a regular basis about changing, deleting, or adding reports to the package. Finance is much more business focused since the implementation of ABC. They have dedicated people within profitability and ABC for each line of business. They have really become more engaged with the businesses to meet their needs from a financial perspective.

AMP PROMOTES CULTURE CHANGE

The information produced by an activity management system is quite powerful. Users are able to view informa-

tion in new ways, and many times the new views will generate more questions than answers. These new questions, however, will be answered as activity management acceptance grows within the organization and the activity model and reporting process matures.

A company realizes the real power of an AMP when the right individuals can access the right information in the right format to assist in improving performance. This information dissemination effort can be enhanced through the use of Web-based decision-support technologies. Many organizations with successful AMPs use Online Analytical Processing (OLAP) to add power to the information analysis. These OLAP tools are user-friendly and allow managers to "slice and dice" information in real-time to get the answers to their questions.

Activity management is an extremely effective tool for improving performance on many fronts. The keys to success in your organization are to develop a program that is simple to maintain on an ongoing basis and that promotes a cultural change in how management uses information to drive better decisions. With such a program, perhaps you, like BellSouth's Shared Service Center Director Mike Basham, will hear your marketing people tell the CFO how much activity information is helping them do their jobs. ■

Brad Anderson, Pendent Consulting, has worked with several Fortune 500 companies in the implementation and application of activity management programs. He has led more than 30 large-scale-enterprise activity-based costing/management implementations in a variety of industries. You can reach him at brad.anderson@pendiant.com.

Charles E. Davis, CPA, Ph.D., is Ernst & Young Teaching Fellow and Chair of the Department of Accounting and Business Law at Baylor University, Waco, Texas. You can reach him at Charles.Davis@baylor.edu.

Elizabeth B. Davis, CPA, Ph.D., is associate dean of undergraduate business programs at the Hankamer School of Business, Baylor University, Waco, Texas. You can reach her at Elizabeth.Davis@baylor.edu.

Mick Twomey is a leader in the activity management practice at Pendent, L.P. and has worked with Fortune 500 companies in a wide range of industries to implement activity management programs in many forms. You can reach him at mick.twomey@pendiant.com.

FOR FURTHER READING

S.W. Anderson, J. W. Hesford, and S. M. Young, "Factors Influencing the Performance of Activity Based Costing Teams: A Study of ABC Model Development Time in the Automobile Industry," *Accounting, Organizations and Society*, April 2002.

Mohan Nair, "Activity-Based Costing: Who's Using It and Why?," *Management Accounting Quarterly*, Spring 2000.

D. Swenson, "Best Practices in Activity-Based Management," *Journal of Cost Management*, November/December 1997.