



Chapter XV

A Basic Approach Towards Cost Accounting for Virtual Web Organizations

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INTRODUCTION

Virtual corporations (VCs) may be defined as a specific form of inter-company networks. Whereas vertically integrated strategic networks primarily appear in the automobile industry, VCs are frequently found in the software industry or the consulting sector. In the last years, VCs have been subject to different research activities, e.g., the relevance of IT infrastructure for VCs or the economical reasons for their appearance. Today, questions of how to manage VCs arise more and more often. Nevertheless, until today issues concerning planning and control have rarely been discussed. One traditional and major element of a planning and control system is the cost accounting system. As will be shown, multiple questions regarding cost accounting for virtual Web organizations come up theoretically as well as in practice.

Since VCs compete with other forms of coordination in markets, their products and services need to be competitive. Cost accounting in virtual Web organizations may provide important information for the decision making of an intercompany network-management. In order to assure a competitive output of a certain cooperation, costs need to be measured and prices for the marketed goods need to be calculated. Principally, only those partner companies join a VC that, besides certain quality requirements, meet the customers' target price. In addition, with the partner companies transferring products during the cooperation, transfer prices need to be established. Given that costs of coordinating the shared performance may display a

significant share of the total costs of a VC, another issue to be discussed in the following is how standardized coordination-cost rates may be reviewed in VCs. In order to generate appropriate information, a cost accounting system for virtual Webs has to bridge the individual cost accounting systems of each partner of a virtual Web, taking into account the general autonomy of the members of a virtual Web organization. Different classifications of costs and variant methods of cost allocation are just two examples demonstrating the need for a flexible cost accounting system for virtual Web organizations.

The following three sections of this paper develop a first solution of how a cost accounting system for virtual Web organizations may be designed in order to support the life cycle of a VC. In section 2 we present the context of a cost accounting system for virtual Web organizations. Therefore, we give a brief overview of the traditional purposes of cost accounting, the state of the art of cost accounting as well as the specific requirements of virtual Web organizations. Section 3 describes the conceptual framework of a cost accounting system for virtual Web organizations. We discuss the typical information needs of the management and submit the basic structure of such a cost accounting system. In section 4, we examine three specific tools of a cost accounting system for virtual Web organizations: transfer pricing, total order pricing and coordination-cost rate analysis. To also refer to the concepts of cost accounting in the practice of virtual Web organizations, empirical experiences will be given throughout the sections. Finally, section 5 summarizes the results of the essay and presents an outlook on future research activities in the field of cost accounting for virtual Web organizations.

CONTEXT

Purposes of Cost Accounting

Cost accounting methods are the result of information requirements of management and their derived cost accounting purposes (Horngren, Foster, & Datar, 2000). Providing cost information to management is entirely purposive. As a dominating part of a firm's internal information system, cost accounting's traditional objective is to map and record the production of goods and services. Since World War II cost accounting developed to a system for decision making and control. The purposes of cost accounting today emphasize planning and control. Nowadays, a central objective of cost accounting is to prepare various kinds of managerial decisions such as production, pricing and capital budgeting decisions by providing knowledge for management (Zimmerman, 1997, pp. 4-5). When decision rights are decentralized to organization units of a firm (e.g., divisions or profit centers), cost information serves to influence the units' decisions and to coordinate the activities of these units. Today, the cost accounting theory as well as the cost accounting practice present multiple purposes of cost accounting (e.g., Horngren et al., 2000, chap. 2; Schweitzer & Küpper, 1998, pp. 38-49):

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