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New Product Development, Accounting Information, and Internal Audits: A Proposed Integrative Framework

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Abstract

Innovation activities and processes of an organization have been given considerable attention within the past decade by both managers and academics. The new product development (NPD) process is a critical innovation process that has been explored from different functional perspectives, such as marketing, engineering, finance and manufacturing, due to its interfunctional nature. As new product failure rates continue to remain high, management control systems have become an important issue. While perceptions of the 'intervention' of accounting practices in business processes have been widely regarded as unwelcome constraints on innovation (e.g. R&D), the view taken here is that accounting, particularly the tasks of auditing, becomes an integral internal information generating activity that enhances, rather than constrains, the NPD process and ultimately overall NPD team performance. The purpose of this paper is to identify and explain accounting information and accounting audit tasks that are essential for efficient execution of the NPD process. In doing so, a conceptual framework is presented, which integrates accounting information and practices into the NPD process. Moreover, it is argued that the extent to which accounting information is actually utilized as part of the NPD process has an influence on the performance outcomes of the NPD process. Theoretical and practical contributions, as well as suggestions for future research are also discussed.

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1. Introduction

New product development (NPD) is an important process for a firm's marketing team to launch a meaningful innovative product (Racela, O. C., Chaikittisilpa, C., & Thourunroje, A. 2010), as an important potential source for competitive advantage (Sheng, S., Zhou, K. Z., & Lessassy, L. 2012), and for cross-functional integration within the organization. The NPD process requires organization resources to create new products with adaptations to

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interfunctional activity. As failure rates of new products continue to remain high, management control systems have become an important issue in NPD order to exploit new market opportunities and sustain firm profitability (Leenders, M. A. A. M., & Wierenga, B. 2008). The more common management and marketing control systems are often ineffective and an internal audit may prove more useful activities (e.g. cost and financial budgetary into development process within NPD process) as a means of enhancing the NPD process and NPD team performance (Brownlie, D. 1996).

A generic NPD process may have five stages including: 1) opportunity identification selection, which involves gathering preliminary information to assess risk and opportunity of a need in the marketplace that can be filled by a new product, 2) concept generation, that involves the generation of ideas for product innovation, 3) concept evaluation, which requires systematic procedures to rate and rank different concepts, 4) development, which implements both technical design and marketing strategy planning, and 5) launch, which is the execution of the marketing plan. During each of these NPD stages, accounting information and accounting audits are crucial in facilitating effective NPD team output and product design.

While accounting practices have been widely regarded as unwelcome constraints on innovation (Song, M., & Montoya-Weiss, M. M. 2001, Clark., Kim, B. & Fujimoto, T. 1991), an internal audit process is critical to improve programs that are aimed at reducing error or fraud, to design and control resource allocation, and to evaluate organizational performance in order to reduce non-value adding activities (Sisaye, S. 1999) of the NPD process. Hence, the NPD process is relevant to all kinds of functions within organization, e.g. project management to organize the control system of NPD, the information technology (IT) team to implement and prepare needed software applications and systems, accounting information to estimate budgets, internal audits to control and appropriate approvals, which means organizations must adopt proper strategies to reduce unnecessary costs (Yang, L-R. 2012).

According to organization theory, product team performance enhances the application of knowledge that is needed for the creation of innovative ideas for NPD (Ju, T. L., Li, C. Y., & Lee, T. S. 2006). From a resource-based view, organizational knowledge and expertise are valuable, rare, and non-substitutable resources. Different sources of knowledge, particularly from accounting information and internal audits, become a valuable means to achieve competitive advantage (Barney, J. B. 1991). The NPD process integrates different knowledge and perspectives from different functions (Poon, J. P. H. & MacPherson, A. 2005), thus applying tacit knowledge and codified knowledge of the organization (Boer, M. D., & Bosch, V. D. 1999).

The purpose of this paper is to explore and discuss accounting information and accounting audit task that are essential for efficiency execution of the NPD process and better NPD team performance. In this paper, NPD team performance refers to effectiveness, efficiency, and economy based on NPD teamwork. The highlight of this paper is that it attempts to integrate accounting information and practices into the NPD process, particularly the tasks of auditing, and suggests that such information generating activities enhance, rather than constrains, the NPD process and ultimately overall NPD team performance. Moreover, it is argued that the extent to which accounting information is actually utilized as part of the NPD process has an influence on the performance outcomes of the NPD process.

2. Theoretical Framework

To expand the conceptualization of the NPD process in order to integrate accounting information and internal audits, the relationships among concepts are based on the theoretical underpinnings of the resources-based view of the firm (RBV) and contingency theory. RBV posits that different resources within the organization, like those in marketing, human resource, accounting and financial management are deployed to execute processes, including the execution of the NPD stages (Morgan, N. A., Clark, B. H., & Gooner, R. 2002, Wernerfelt, B. 1984). NPD resources can include accounting knowledge and internal audits that the NPD team uses to learn and support part of NPD process (Durmuşoğlu, S. S., & Barczak, G. 2011) because the new product team relies on a variety of knowledge from different functions in order to proceed effectively through the NPD process. Therefore, accounting information and internal audits can be regarded as information that are used to facilitate knowledge creation in a NPD process.

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