ABSTRACT

New product development is a critical success factor for high tech companies and helps them produce competitive advantage. New products account for a remarkable proportion of total revenue and, on the other hand, product development costs are huge. Moreover, as much as 80% of a product’s life cycle costs are determined during the product design and development phases. In Finland, there is sparse research concerning the interaction between product development and financial control.

The research object of this thesis is the financial control practices applied in new product development at the case unit Nokia Telephone Gateways. The first objective is to analyse the current practices based on the academic literature and empirical studies. The second is to evaluate the applicability of the financial control practices to the case unit. The thesis focuses in particular on the following issues: how accounting is organised, the role of accounting information in new product development, and management accounting techniques, namely life cycle costing, target costing and performance measurement. The empirical research material comprises theme interviews, discussions, and case unit internal documents. The methodological approach is action oriented.

The manner of organising and role of financial information in product development at the case unit is affected by the resource situation, level of understanding of product development, availability of relevant financial information, and adhering to the old organisational setup and procedures. In the product development phase, it is possible to affect the life cycle costs of the product. Life cycle costing has the potential to raise cost consciousness. The challenges to the application of comprehensive life cycle costing are the difficulty of forecasting, need to collect information from several sources, and a general time pressure.

Product decisions at the case unit are primarily made on the basis of the desired technical result, not based on the desired target costs. Challenges to the application of target costing are the fear that setting cost targets might constrain creativity and diminish quality. Another obstacle is that there is no current product price to compare with, since the products are totally new.

In defining performance measurement for new product development, it is important to consider the nature of the development work and the product’s stage in the life cycle. Metrics in the case unit follow the Balanced scorecard concept, where measures are derived from the company’s strategy.

In planning to organise accounting closer to product development and implementing new accounting techniques, careful attention should be paid to the adversarial opinions among different functions concerning the current status of the role of financial practitioners and information in product development.

Keywords: product development, target costing, life cycle costing, performance measurement