

**INTEGRATING TARGET COSTING (TC) INDICATORS WITHIN
THE BALANCED SCORECARD (BSC) MODEL:
AN EMPIRICAL EVIDENCE OF SELECTED ASIAN COMPANIES**

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4. Enhanced Research Title and Objectives:

Since previous studies have either used only “financial” or “non-financial” measures of TC variables hence resulting in inconclusive results, product quality and functionality factors should be ensured in reducing cost from the extent of a broader balance among both financial and non-financial dimensions. As TC has been mainly used to reduce product cost whilst not sacrificing the other critical elements; product quality, functionality, and lead time, the balance between these elements is crucial to make sure that the company is moving towards its strategic objectives. However, Yilmaz & Baral (2010) comment that TC has some similarities in certain aspects with BSC system. In particular, both are used specifically to satisfy customers' needs and requirements for achieving financial objectives and overall strategic objectives. Hence, by using the four dimensions stated in CAM-I's definition of TC; price-led, customer-focused, design-centered and cross-functional, the relevant set of organizational capabilities measures under these dimensions can be reflected in the four perspectives of BSC; financial, customer, internal process, and learning and growth; respectively. Here, the context of the project title is to address whether the BSC can serve in the TC process as an interactive measurement system of TC variables in terms of performance to ensure the best balance across all crucial elements for the successful implementation of the TC including cost, quality, functionality, and lead time, and ensure that there is no conflict existing among them.

The main objective of the project is to explore the possibility level of integrating the four TC's principles of “Price-led”, “Customer-focused”, “Design-centered”, and “Cross-functional” in the four BSC's perspectives of “Financial”, “Customer”, “Internal Process”, and “Learning and Growth”:

1. How the four TC's principles of “Price-led”, “Customer-focused”, “Design-centered”, and “Cross-functional” can be reflected in the four BSC's perspectives of “Financial”, “Customer”, “Internal Process”, and “Learning and Growth”.
2. How this could affect the decision made by management to implement TC and ultimately to explore its influence on organizational performance.

5. Report:

5.1 Abstract

Target Costing (TC) is not only seen to be related to cost reduction. Instead, quality and functionality features, in similar extent, should be seriously perceived when determining of marketplace and customers' attitudes in the planning and design stages of products. This particularly requires serious and effective integration of relative TC indicators to establish future customers' expectations toward company's products. This project aims to examine the integration of TC indicators within the Balanced Scorecard (BSC) model in three selected Asian countries; Japan, Thailand and Malaysia with a considerable focus on Malaysia. The integration framework developed posits that the four TC's principles of "Price-led", "Customer-focused", "Design-centered", and "Cross-functional" can be reflected in the four BSC's perspectives of "Financial", "Customer", "Internal Process", and "Learning and Growth". The findings indicate that the proposed framework strikes to get the right balance across the crucial elements of TC which include cost reduction, quality, functionality, and lead time.

5.2 Introduction

In today's rapid changes of customers' expectations and rigorous diversity of products, organizations endeavor to implement an effective management control system for product costs whilst not sacrificing the other features; quality, functionality and lead time. Adopting Target Costing (TC) is mainly initiated as a cost management technique to drastically manage product features; cost, quality, and functionality. The TC philosophy was pioneered by TOYOTA Corporation in the beginning of the 1960s, and it has been used since that period by Japanese companies (Afonso *et al.*, 2008). In TC literature, many studies have reported that the most important benefit of TC is to assist companies in making effective trade-off between cost, quality and functionality (e.g. Kato 1993; Cooper, 1995; Cooper & Slagmulder, 1997; Cooper & Slagmulder, 1999; Ax *et al.*, 2008). According to Cooper's (1995) *Survival Triplet* framework, organizations should ensure the minimum level of the three dimensions; cost, quality, and functionality, in order to survive in today's competitive market. Since all these three elements are extremely important, Souissi & Ito (2004) extended the Cooper's *Survival*