

## Study the possibility of applying a target costing system in Industrial establishments in Jordan

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### ABSTRACT

This study provides a brief overview of how the target costing approach is used in Jordanian industrial facilities. In addition, the adoption and efficacy of target costing in Jordanian industrial enterprises, as well as the influence on cost management and competitive advantage. According to the findings of previous research, while target costing is regarded as important, its implementation in Jordanian industrial establishments is low owing to a lack of awareness, insufficient resources, and reluctance to change. For successful target costing implementation, it is critical to have managerial commitment, staff training, and corporate cultural development. When used correctly, target costing provides benefits such as greater cost management, higher product quality, increased customer satisfaction, and competitiveness in domestic and foreign markets. It also fosters cross-functional cooperation, product innovation, and value engineering.

**KEYWORDS:** Target costing, cost management, industrial establishments, Jordan, competitive advantage.

### 1. INTRODUCTION

Today's highly competitive manufacturing environment, many are against the use of traditional cost and management accounting techniques. Many manufacturers worldwide are relying heavily on advanced cost and management accounting techniques. Advanced techniques have been seen by the evolution framework of the International Federation of Accountant (IFAC, 1998) as a shift towards value creation and providing timely and relevant information needed for decision making, especially in response to today's highly competitive environment. These techniques are sought to overcome the deficiencies of the traditional methods of coping with the fast changing manufacturing environment. Among the advanced techniques, Target Costing (TC) has widely been adopted and promoted as a response to structural changes in the manufacturing environment thus achieving cost reduction and maintaining profitability. Hamood, H. H., Omar, N., & Sulaiman, S. (2011). Traditionally, cost reduction and cost control activities focused mainly on the production stage rather than the design and development stage of products. Hence, TC is an effective cost management technique to manage and control product costs at the design and development stage of product life cycle.

According to Kato (1993), TC is an important technique for managing product costs during the design and development stage. Additionally, Cooper & Slagmulder (1999) consider TC as a primary technique employed to manage companies' future profits. The idea of using the target costing approach in industrial organizations has sparked attention and debate in Jordan. Jordan's industrial enterprises, like those of many other emerging countries, confront issues such as fierce competition, shifting client demands, and growing prices. In this regard, the target costing approach may be a useful cost-management tool for Jordanian industrial enterprises, allowing them to increase their worldwide competitiveness. One of the primary advantages of establishing a target costing system in Jordanian industrial enterprises is its capacity to assist them in meeting cost reduction and control goals.

The idea of using the target costing approach in industrial organizations has sparked attention and debate in Jordan. Jordan's industrial enterprises, like those of many other emerging countries, confront issues such as fierce competition, shifting client demands, and growing prices. In this regard, the target costing approach may be a useful cost-management tool for Jordanian industrial enterprises, allowing them to increase their worldwide competitiveness. One of the primary advantages of establishing a target costing system in Jordanian industrial enterprises is its capacity to assist them in meeting cost reduction and control goals.

Setting a target cost for a product or service allows firms to identify cost drivers, assess cost structures, and make educated decisions on how to cut. Costs without sacrificing product quality. This can assist Jordanian industrial organizations improve their cost structures, operating efficiency, and profitability. Furthermore, the target costing technique might assist Jordanian industrial organizations better grasp their customers' demands and preferences. Companies can better meet consumer expectations by defining target costs based on market demand and competition. This might result in better customer satisfaction, repeat business, and higher revenues for Jordan's industrial companies. Another advantage of using the target costing method in Jordanian industrial organizations is the opportunity for cross-functional collaboration and integration. To reach cost objectives, different departments must collaborate, including marketing, design, manufacturing, and finance. Resulting in more efficient and effective decision-making processes.

While the target costing approach has several advantages for Jordanian industrial enterprises, there are some obstacles and constraints that must be addressed. Companies in Jordan may need to spend in training, technology, and processes to properly establish and maintain a target costing strategy in their operations. In addition, cultural and organizational constraints may impede the successful adoption of the target costing method in Jordan's industrial facilities. Resistance to change, lack of trust, and hierarchical systems all pose barriers to the implementation of target costing in

## 2. THE CONCEPT OF TARGETED COST

There are several concepts contained about targeted by researchers, academics and specialists where cost modern defines the target cost as a system to reduce the cost through the stage of research and development and design of new products or to develop existing products by making changes in the design model or some parts (Kheder, 2005). Kaplan defined the target cost as a cost management tool used by planners during product and process design to drive improvement efforts aimed at reducing future costs of manufacturing the product (Atkinson, 2012). Hansen's target cost is defined as a method of determining the cost of the product or service based on the price (target price) that the customer is willing to pay (Al-Taiee, 2012). It also sees Basile that the target cost is a one cost management method to reduce product costs in the initial stages, and the operational phase of productivity throughout the product life cycle, starting from research and development, planning and product design activities, through the activity of productive activities, post-production of the marketing, distribution, and after-sales services (Al-Taiee, 2012).

### Basic Methods in Target Costing

Tanaka *et al.* (1993) identified three basic methods for setting up TC, which are: subtraction method, addition method, and integrated method. Based on the subtraction method, the critical factor in establishing TC is the price charged by competing companies. Hence, the TC can be determined by using the following formula:

$$\text{Target Costing} = \text{Selling Price} - \text{Required Profit}$$

In the addition method, the focus will be on the internal factors and capabilities of the company including the level of technology, the production plant and machinery, the delivery time, the production volume, and the company's strategy as a whole. Tanaka *et al.* (1993) also identified three ways of using additional method to establish a TC based on similar products, design properties, and new ideas. On the other hand, the integrated method combines the above two methods (the subtraction method which is based on the market approach, and the addition method which is based on the existing technology and capabilities). It therefore involves a reconciliation of the two methods and stimulates discussion and ideas of the team involved in the negotiation process based on the results of the subtraction and addition methods.

However, the subtraction method is the common method in use. It works backwards from the market price to identify the TC and simultaneously it may be impossible to be achieved by using the company's existing technology. Kocsoy *et al.* (2008) examined three methods of new product price determination of Turkish companies which include: cost plus method, market-oriented pricing - "the price which the customers are willing to pay and/or the price that will provide achieving the market share", and competition-oriented pricing method - "the price set to be equal to or less than that of the competitors". Both, the second and the third methods, are the components of market-driven target price step stated by Crow (1999), as cited by Ibusuki & Kaminski (2007). Kocsoy *et al.* (2008) found

$$\text{Target Costing} = \text{Selling Price} - \text{Required Profit}$$

*Target Costing Practices: A Review of Literature* 35 that the least used method (2.74 – 3.7 per cent) was the competition-oriented pricing method whereas the majority of the companies used the cost plus method and market-oriented pricing method, (3.46 – 44.4 per cent) and (3.52 – 51.8 Per cent) respectively. This may imply that the Turkish companies may have misunderstood the market factors that must be considered in determining the product's sale price.

### 3. REVIEW OF LITERATURE

The literature review shows the importance of knowledge management review, effects of knowledge management on organizational and how it affects their performance. However, many scholars have put clear the importance and the right process for organizational performance and the studies are categorized as world related studies and Jordanian related studies.

**1. Study of Kaplan & Atkinson (1998).** Most target costing definitions are related to what happens in competitive markets where cost reduction is a requirement and necessary element to achieve profitability. Cost reduction is necessary in all phases of product design and development which will be reflected in cost reduction for the entire product lifecycle. Target costing is a cost management tool that planners use during product and process design to drive improvement efforts aimed at reducing the product's future manufacturing costs, it's a tool that promote a facilitate communication among the members of the cross-functional team that is responsible for product design, it begins with price, quality and punctuality requirements defined by customers.

**2. Study of Atkinson et al. (2001),** target costing requires active involvement of various functions within the organization, including marketing, design, production, and finance, to work together towards achieving the target cost. This approach can help businesses in fostering teamwork and cooperation among different departments, leading to better decision-making and cost management practices. However, there are also some challenges associated with the application of target costing in industrial establishments in Jordan. One of the main challenges is the lack of awareness and understanding of target costing concepts among businesses in the country.

**3. Study of Hilton, (2002).** Target Cost Management provides analytical methods and tools to develop new products and supporting strategic objectives such as market share and profit of the company, Target costing can be a critical tool for management as it seeks to strategic ally manage the company's cost and profit, by ensuring that product is designed so that they can be produced at a low enough cost to be priced competitively.

**4. Study of Cagwin and Bouwman (2002),** many businesses in Jordan are not familiar with target costing and its benefits, which can hinder its implementation in the industrial sector. Therefore, there is a need for awareness-raising and training programs to educate businesses about the benefits of target costing and how it can be applied to enhance cost efficiency and competitiveness. Another challenge is the cultural and organizational barriers that can impede the implementation of target costing in industrial establishments in Jordan.

**5. Study of Ratlray, et al (2007)** examined the extent of implementing target costing in New Zealand manufacturing firms. The study was conducted on (80) industrial companies in New Zealand. The study revealed that the production department contributes effectively to achieving the target cost through the addition of improvements to the product design and modifications to the manufacturing methods, which led to the reduction of costs to be equal to the target cost.

**6. Study of (Kocsoy, et al, (2008)** the study aimed to how the Turkish industrial projects benefit from modern techniques in administrative accounting and the most important of these methods is the target cost the study showed that companies must follow a parallel competitive strategy Especially that majority of companies operate under competitive market conditions and in order for companies to achieve the expected benefits of the target costs, they must pay great attention to customer expectation before designing the product.

**7. Study of Kocsoy, et al. (2008)** aimed to find how companies can make a benefit from modern technologies in management accounting, notably the system of target costing, especially in the light of the rapid developments in technology and changes in customer expectations. The study showed that the majority of companies operating under competitive market conditions in order to reap the expected interest costs by giving greater importance to determine customer expectations before the product design and following parallel competitive strategies.

**8. Study of Basheer (2010)** aimed to evaluate traditional cost systems and ways to develop it and study the role of target costing system to achieve a competitive advantage in manufacturing oil and gas companies to enable them to survive in global markets. The study showed that the distribution of costs is based on unfair efforts, the application of the systems of cost based on activity indicates the presence of an environment for the application of target costing in sufficient degree, as well as supplementary industries markets and the company's transference from public ownership to participation is considered a way to implementation target costing due to increased interaction of the company with the surrounding environment circumstances.

**9. Study of Ansari & Bell (2010).** Target costing involves seven key principles: Price- led costing, that is subtracting the target profit margin from this target price yields the target cost. Focus on the customer, management must listen to the company's customers. Focus on product design, engineers must design a product from the ground up so that it can be produced at its target cost. Focus in process design, every aspect of the production process must be examined to make sure that the product is produced as efficiently as possible. Cross-functional team, manufacturing a product at or below its target cost requires the involvement of people from many different functions in an organization. Life –cycle cost, in specifying a product's target cost, analyzing must be careful to incorporate all of product's life-cycle costs. Value-chain orientation, efforts are made to eliminate non-value added costs to bring the projected cost down.

**10. Study of Yazd far and Askarany (2011)** aimed to make a comparison to adopt and apply the target costing in The United Kingdom; Australia and New Zealand by apply it on qualified administrative accountants who have legally administrative accountant and working in industrial and service companies in the previous countries. through testing the level of adoption and application of target costing approach; the results showed that the prevalence of using the target costing approach between industrial and service companies in the mentioned countries but there are substantial differences in the level of application between industrial and service companies.

**11. Study of Bahar (2012).** Target costing is an important tool to enhance management's awareness of costs and therefore focus on profit margin, which strengthens the competitive position of the company.

**12. Study of Halas and Haddad (2012)** aimed to recognize the extent of the application of the target costing entrance in worked Palestinian industrial contribution companies in Gaza strip. The results showed that industrial companies operating in Gaza strip are aware of and understand the concept of target costing and it doesn't use equivalent cost target in modern scientific method in reducing its costs.

**13. Study of Alkababji (2014)** aimed to identify the availability of viable application of target costing and value engineering as an entrance of reducing costs in Palestinian Contribution industrial companies. The results showed that the industrial companies have viable application of target costing entrance, it also shows that companies are aware of the concepts, principles and the importance of using the entrance of cost target of management its costs and improve profitability and that companies are using value engineering entrance to decrease costs in order to reach to the target costing.

**14. Study of Yasmina et al. (2015),** the hierarchical structure and bureaucratic culture prevalent in many businesses in Jordan can hinder the adoption of target costing, as it requires a more collaborative and participative approach to cost management. Therefore, there is a need for organizational change and transformation to create a more conducive environment for target costing implementation in the industrial sector. In conclusion, the application of target costing system in industrial establishments in Jordan offers significant benefits in terms of cost efficiency, customer value, and competitiveness. However, there are also challenges that need to be addressed, including lack of awareness, cultural barriers, and organizational resistance. By addressing these challenges and promoting awareness and training programs, businesses in Jordan can leverage the benefits of target costing to enhance their cost management practices and achieve sustainable growth in the global marketplace.

**15. Study of Abdeen (2015)** aims to identify the extent of application of the entrance target costing for supporting the competitiveness of ready mix concrete factories in Gaza strip and the obstacles to its application. The study finds that the ready mix concrete factories in Gaza strip apply the entrance of target costing also use modern methods to reduce costs as it does not affect the quality.

**16. Study of Matarneh and EL-Dalabeeh (2016)** “The Role of Target Costing in Reducing Costs and Developing Products” This study aimed to identify the role of target costing in reduce cost, development of products in Jordanian shareholding industrial companies. The questionnaire has been prepared to and distributed to a sample of (60) Jordanian shareholding industrial companies who responded to this study. And study the effective factors on the cost of the product in order to reduce costs to the lowest level while maintaining the quality of products. Also, the study concluded that the implementation of the target cost system leads to the development of products in the Jordanian industrial companies bearing in mind some factors such as: The Company prepares a set of designs for the same product, where each design has similar characteristics but with different degrees of cost.

**17. Study of AL-Delemi and AL-Momani (2016)** conducted a study to identify the effect of the implementation of target cost method in reduce the cost and pricing of products in food companies. To achieve the objectives of the study the researchers designed a questionnaire and distributed to a sample of (25) factory workers in food industry. This study concluded that the development of cost systems is to rationalize the decision-making process when adopting the target costing method to pricing, in light of which it helps companies to survive and achieve the desired volume of sales. Also, the expansion of the food industry by using the standard cost system, and not only the use of the standards of materials, through the most accurate measure of costs, is reflected in the rationalization of pricing decisions.

**18. Study of Talebnia, G. et al (2017)** studied the linkages between Target costing and Value Engineering and Expected profit and Kaizen. The results of study showed that there is a relation between customer orientations, the product has a direct effect on target costing and Product Lifecycle costs are directly related to the objectives.

**19. Study of Al-Adwan, AL-Singlawi and Al-Hawatmeh (2018)** investigated the applicability of target costing methodology (TC) in Jordanian hotels industry. This study was conducted to address examining whether or not such organizations are aware of great benefits of using target costing in setting service market price; further the study investigated whether or not the essential requirements for implementing target costing are available in these hotels. To achieve the study objectives, the researcher employed structured questionnaire addressed to (29) Jordanian hotels. And the results also proved that the essential requirements of target costing are available in hotels and can be employed to apply target costing technique. The findings of the study concluded based on the increase of competition in market between service companies to attract most of customers has promoted companies to review the cost of their services. Traditional methods that are currently applied to set the market price for services became irrelevant to set competitive market prices of services. The newly emerged costing system such as target costing proved their usefulness in determining service cost if applied successfully; this method mainly focuses on eliminating the unbeneficial costs that have no value added to products or services.

#### 4. RESEARCH GAPS

Despite the rising relevance of target costing in the worldwide manufacturing sector, there have been few empirical research on its application in Jordanian industrial organizations. The previous research on target costing focuses mostly on established and growing economies, including the United States, Japan, and China. This research gap provides an opportunity to investigate the particular problems and possibilities that come with adopting target costing in Jordanian industrial organizations. Furthermore, little study has been undertaken on the factors that impact the use of target costing in developing nations such as Jordan. While The previous studies emphasize the benefits of target costing in decreasing costs, boosting profitability, and promoting competitiveness, there is inadequate study on how and regulatory issues in Jordan can While theoretical frameworks show that target costing can lead to better profitability, improved product quality, and enhanced customer satisfaction, empirical data is needed to support these statements in the context of Jordan's industrial enterprises. However, firms must overcome hurdles such as employee reluctance, a lack of understanding, and the requirement for training and specialized technologies.

Overall, the literature suggests that target costing has the potential to be applied in industrial establishments in Jordan, with the right support and resources. However, it is important for companies to overcome challenges such as resistance to change, lack of awareness among employees, and the need for training and specialized tools.

However, the success of implementing target costing in Jordanian industrial establishments will depend on several factors, such as the commitment of top management, the involvement of cross-functional teams, and the willingness to embrace change and innovation.



## 5. CONCLUSION

In conclusion, the use of the target costing approach in Jordanian industrial establishments is mostly unexplored, indicating a huge research gap in the previous literature. Future research should address the identified gaps by investigating the factors influencing target costing adoption in Jordan, assessing industrial establishments' awareness and readiness to implement the system, and investigating the impact of target costing on performance outcomes. By filling these research gaps, researchers may add to the body of knowledge on target costing while also providing significant insights for policymakers, managers, and practitioners in Jordanian industrial organizations.

### **According to the findings, the study suggests the following:**

Balancing firm capabilities with customer demands is key to developing successful products. The study suggests utilizing strategies that align product quality with consumer expectations. Prioritizing worker qualification through cost-effective programs, including the target cost system, which will play a significant role in improving product performance, pricing, and quality in the future. The study recommends in the research and development process using the target cost approach, which contributes to designing new products in the shortest possible time, pricing them, and improving their quality. Resulting in faster product design, price, and quality improvement. It also suggests that the public industrial sector Jordanian enterprises are staying up-to-date on pricing and product structure improvements. Further research is needed to explore how this strategy might be applied to other sectors or the same industry from a different perspective.

## 6. RECOMMENDATIONS FOR FUTURE RESEARCH

**Industry Benchmarking:** Compare the cost management practices, including target costing, across different industries in Jordan. Identify the industries that have successfully implemented target costing and explore the factors contributing to their success. This will help identify best practices and lessons learned that can be applied to other industries.

**Cost Reduction Strategies:** Investigate specific cost reduction strategies that can be effectively applied in the Jordanian industrial context. Analyze the potential impact of target costing on reducing costs related to materials, labor, overhead, and supply chain management.

**Supplier Collaboration:** Examine the level of supplier collaboration in the industrial establishments in Jordan. Investigate the barriers and enablers for effective collaboration with suppliers in implementing target costing. Explore strategies to enhance collaboration and develop partnerships with suppliers to achieve mutual cost reduction objectives.

**Organizational Culture and Readiness:** Assess the organizational culture and readiness of industrial establishments in Jordan to adopt a target costing system. Investigate the factors that influence the adoption of cost management techniques and the role of leadership in fostering a culture of cost consciousness and continuous improvement.

**Financial and Non-Financial Performance:** Evaluate the impact of target costing on the financial performance of industrial establishments in Jordan. Measure cost savings achieved, profitability improvements, and return on investment. Additionally, explore the non-financial benefits, such as enhanced product quality, customer satisfaction, and innovation.

**Training and Education Programs:** Develop and evaluate training and education programs to enhance the skills and knowledge of employees in industrial establishments regarding target costing. Assess the effectiveness of these programs in facilitating the successful implementation and sustainability of target costing practices.

**Government Support and Policies:** Investigate the role of government support and policies in promoting the adoption of cost management techniques, including target costing, in Jordanian industrial establishments. Explore potential policy interventions that can incentivize cost reduction initiatives and create an enabling environment for implementing target costing.

By addressing these research areas, a comprehensive understanding of the applicability, challenges, and potential benefits of target costing in industrial establishments in Jordan can be developed. The findings from such research can guide practitioners, policymakers, and academics in effectively implementing and promoting cost management practices in the Jordanian industrial sector.

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