

Adoption of Target Costing Method by Manufacturing Companies in Pakistan

By Research & Publications Directorate, ICMA Pakistan

Preamble

In conformance to the theme of 'Total Cost Management' selected for this issue of Management Accountant Journal, the Research and Publications Directorate of ICMA Pakistan thought it prudent to conduct a feedback survey to assess how widely 'target costing' method is being used as a cost management technique in manufacturing companies and to what extent this approach is being adopted by the industry in Pakistan. This survey also aimed to ascertain how management accountants are associated in successful implementation of target costing technique in organizations.

Methodology and Survey Statistics:

The feedback survey questionnaire was uploaded on Institute's website on 15th August 2016 and placed on Google Drive to provide an opportunity to members to

As far as representative sector of respondents is concerned, 21% responses have come from the 'textile and clothing' sector whereas 10% responses are each from the 'FMCG' and 'Financial' sectors. Other responses are from cement and construction sector (8%); Education, Engineering, Pharmaceutical & Healthcare, Telecommunications & IT, Oil & Gas and Power Sector (5% each) and Auto sector (3%).

Survey Questions

The Survey comprised of following six questions with regard to use of target costing method in companies:

- Q1. Does your company use 'Target costing' approach in manufacturing?
- Q2. What is the level of adoption of target costing in your company?

“Management Accountants rated as most ideal professional to implement target costing technique in companies”

submit their responses online. The members were also invited via email to participate in this brief survey and provide feedback on six specific questions related to target costing applicability in their companies, especially the level of adoption; benefits of adoption; reasons for non-adoption, relevant department and professional assigned to implement target costing method. The members were given the deadline of 30th August 2016 for submitting their responses.

With regard to profile of respondents, the survey statistics reveals that around 21 percent of respondents are holding positions of Directors or General Managers whereas 5 percent are CEOs or MDs in companies. The majority of responses i.e. 74 percent came from the level of Managers and Executives. About 64 percent of survey respondents are members of ICMA Pakistan who are directly or indirectly associated in target costing implementation in companies, whereas 36 percent respondents are non-members.

- Q3. Please identify one most important benefit or advantage to your company by adopting target costing approach?
- Q4. Please select one most important reason for not adopting target costing?
- Q5. Which Department in your company is mostly involved in implementation of target costing approach?
- Q6. Who is the main professional in your company who has been assigned the task of implementing target costing?

The first two questions (Q1 & Q2) intended to know from participants whether target costing is being used in their companies and if so what is the level of adoption i.e. fully adopted or partially adopted or in planning stage or there is no intention at all to implement it in future.

In Q3, the respondents who answered in affirmative to Q1 were provided six different options with request to tick mark only one option that in their opinion was the most significant benefit or advantage for them as a result of using target costing method. These options were cost reduction; product design improvement; customer satisfaction; quality control; efficient pricing decisions and timely introduction of new products.

In Q4 as well different options were provided to those respondents who had answered in negative to Q1 that they are not using target costing in their companies. They were asked to pinpoint one main reason for not adopting target costing method from the given options of (1) lack of knowledge (2) lack of management support (3)

Inconsistency to nature of business (4) complexity and costliness and (5) time consuming.

In Q5 the respondents were asked to identify which, out of five operational Departments viz. Product Planning & Designing; Production & Manufacturing; Accounts & Finance, Sales and Marketing, are involved in implementing target costing technique. Similarly, in Q6 the responding companies were asked to pinpoint which professionals in their companies have been tasked to implement target costing i.e. MBAs, Management Accountants, Chartered Accountants, Engineers or any other professional.

Now, let's have a look at the outcomes of the survey in the light of above-specified questions.

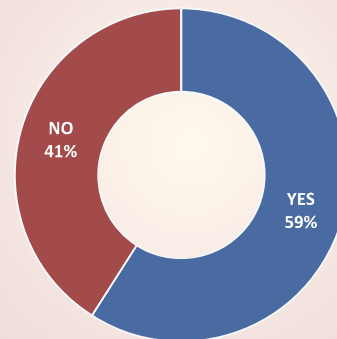
Survey Results

59% companies using target costing method: **26%** fully adopted, **28%** partially adopted

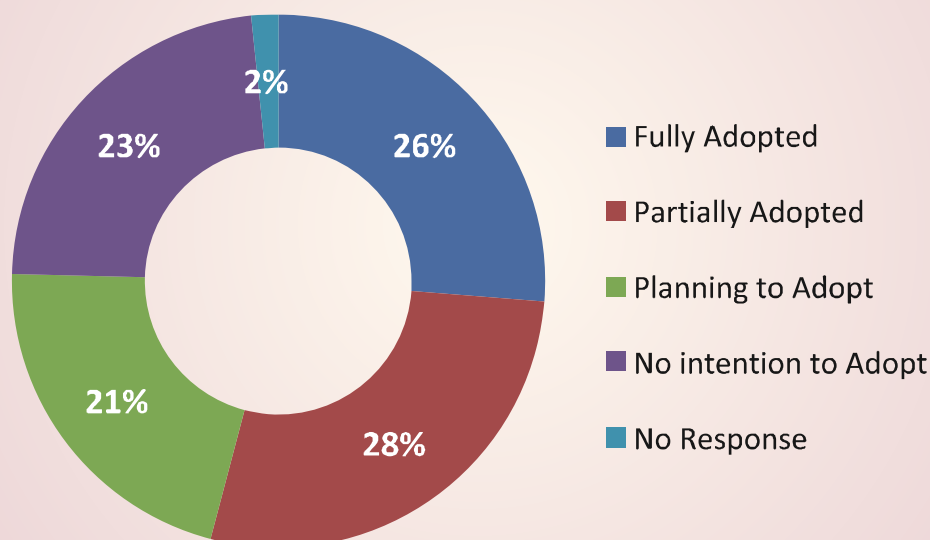
Around 59% of survey respondents have indicated that target costing technique is being used in their companies whereas 41% have answered in negative. Out of these 59% responses, 26% have said that target costing is being fully adopted whereas 28% indicated that it is being partially implemented.

Around 21% of responding companies have pointed out that they are contemplating to use target costing method in the near future which shows the growing significance of this costing method in industries. About 23% survey respondents were of the view that they do not have any plan to implement target costing method. Through a separate question, reasons for non-adoption have been asked from such companies.

Use of 'Target Costing' method by Companies

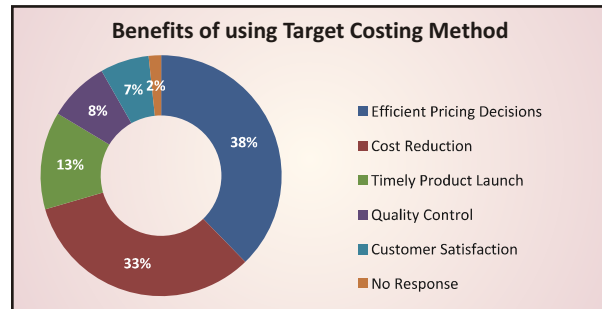


Level of Adoption

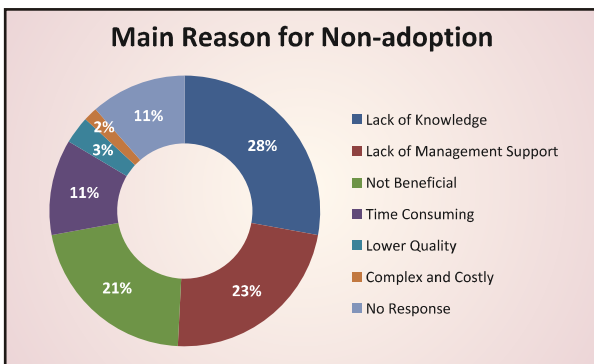


71% says target costing has helped in efficient pricing decisions and cost reduction

Around 71% survey participants have pointed out that adoption of target costing method has helped their companies in taking efficient pricing decisions (38%) and reducing the cost of operations (33%). Around 13% companies indicated that use of target costing resulted in timely product launch; 8% say it led to better quality control and 6% were of the view that this paved way for higher customers' satisfaction level.



51% points towards lack of knowledge and management support as two main reasons for non-adoption of target costing technique

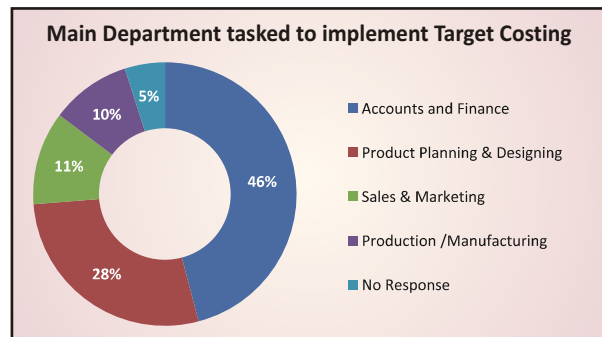


Those companies who had mentioned that they are not using target costing method in their companies were asked to identify the main reason for non-adoption. A mixed response has been received from survey respondents with 28% indicating 'lack of knowledge' about target costing and 23% pointing towards 'lack of management support' as the two main reasons for not using this costing technique. Around 21% have said that they are not using this costing method as it is not beneficial or consistent with their nature of business. The fourth identified reason with 12% responses is that target costing is 'time consuming' as it takes sufficient time

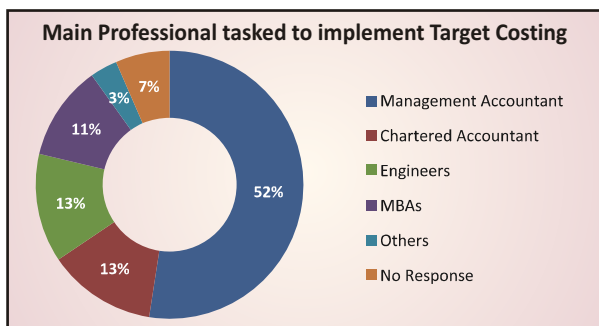
in information gathering and analysis. Around 11% respondents say that they do not use this technique as it may lead to 'lower quality' as product become cheaper due to reduction in costs.

Accounts & Finance identified as main implementing department with 46% responses

The survey participants were asked to identify the main department in their companies which has been tasked to implement the target costing technique. The 'Accounts and Finance' department have been ranked first by participants with 46% responses, followed by 'Product Planning & Designing' department with 28% responses and 'Sales & Marketing' department at third position (11%). Around 10% respondents have indicated 'Production/ Manufacturing' department as the main implementing department.



52% identifies 'Management Accountants' as main professional to implement TC



Just over fifty percent (52%) survey respondents have pointed out that 'Management Accountants' (CMAs) have been assigned the task in their respective companies to implement target costing method, which shows their professional expertise in this area. Chartered Accountants (CAs) and Engineers have been rated as the other two professionals with just 13% responses, respectively. MBAs with 12% responses have been marked by the respondents at the fourth position with only 12% responses.

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