

CHAPTER 8

GENERAL CONCLUSIONS

We addressed the motivational aspects of target cost determination. The two main issues considered relate to: the effects of tightness of target information and that of the methods of target cost and profit on target cost achievement; and the effects of participation of parts designers in allocating the product's target cost into parts and their performance evaluation measures on the target cost achievement. The research scheme is divided into two phases: first, we conducted laboratory experiment to generate valid causal inference, second, to address the generalizability or external validity we conducted the survey research.

The results of a laboratory experiment to the effects of types and tightness of target information shows that the cost-reduction performance of the high-acceptance group improves with the level of tightness. In addition, when incremental targets are assigned to the low-acceptance groups, setting loose-targets improve their actual performance ratio more than tight targets. When ideal targets are provided along with total targets to the low-acceptance group, setting tight total targets produce better performance. The effects of tightness on cost-reduction performance become conspicuous only if the concerned subjects accepts and internalizes the target. The reason for the failure to observe any effect expected by hypotheses 1, 2 and 3 before considering goal-acceptance proposition may be due to the similar performance of all the subjects irrespective of target information types or the level of tightness. Therefore, to make the target effective the company has to ensure that the determined targets are well accepted by the people responsible for their attainment.

The survey phase of the research relating to the tightness of information, two types of information have been used, that is, target profit and cost methods. The result

shows that greater the tightness of the target profit and cost methods employed the better the target cost achievement. At this stage we did not divide the companies in terms of target acceptance because in the real world situation, irrespective of the methods of target cost and profit, the established targets get the product designers' acceptance in the process of checking their attainability by investigating alternative designs. Both the experiment and the survey results are consistent in that target-costing performance improves with the level of tightness. However, for optimal results the determined targets should be tight, realistic and attainable.

We examined the effects of designers' participation and their performance evaluation measures on the target cost achievement through both laboratory experiment and survey research. The findings of both phases of research are consistent that confirm that the target cost achievement can better be improved if the designers: (1) are allowed to participate in the target cost allocation process, (2) would not feel any conflicts with the product manager's behavior and can find some mechanism to resolve the cognitive dissonance without affecting the achievement of target cost, (3) participate in target cost allocation process when they are evaluated by controllable information only. However, when designers are evaluated by the uncontrollable information, they should not be allowed to participate but the product manager should give the target. The intrinsic validity of the experiment has been proved as the results are mostly confirmed by the real world situation except only in case of the effect of the controllable information which is found significant in experimental phase while not in real world setting.

To find the effects of behavioral factors in target cost determination and allocation processes we combined target cost methods, participation and performance-evaluation factors and identified their effects on target cost achievement level. We

used survey data at this phase of analysis. We found that neither a strictly top-down approach nor a strictly bottom-up approach will provide higher level of target cost achievement. If a lenient method is employed in setting target cost, then adopting a top-down approach in target cost allocation process will provide better target costing performance. On the other hand, the use of a tighter method for setting target cost followed by a bottom-up approach in its allocation will provide higher target cost achievement level. Therefore, we can propose that in target costing adopting top-down approach in each phase of accounting process will not provide better performance. In certain stage, a stricter policy followed by the management is indispensable, while in other situation, a comparatively loose policy should be followed by the management for getting higher target cost achievement.

The use of goal-setting theory, expectancy theory and cognitive dissonance theory has proved to be successful as they facilitate theory formulation on target costing. We mostly observed the hypothesized relations among the variables regarding the effects of tightness, participation and performance evaluation factors in both experimental and survey phases. The effect of the personality of the employees should be considered as it may have some effect on their aspiration level and the firms should fix the target considering the personality aspect. If target information is to work, the manager must ensure that subordinates will accept and remain committed to the targets. Simple instruction backed by positive support and an absence of threats or intimidation are enough to ensure target acceptance. Subordinates must perceive the targets as fair and reasonable and they must trust management, for if they perceive the targets as no more than a means of exploitation, they will be likely to reject the targets.

One of the most crucial factors for successful implementation of target costing is dealing with the human side of the organization. To get the benefits of behavioral base of target costing, the company has to ensure that due importance is given to the issues of employee motivation, morale and performance measurement and evaluation. For this a company needs to know what behaviors it “desires” for successful target costing, how to “obtain and sustain” these behaviors, and how to avoid “dysfunctional” behaviors. Target costing is a different way of doing things and requires many behavioral changes. To a certain extent each organization must list the behavioral changes it needs, based on the behaviors in place. Among others, an important behavioral change is to make participants accept targets as serious commitments. Actual behaviors, not just good intentions, must be directed at achieving cost targets. Communication and motivation are instrumental in obtaining desired behaviors. Communication informs and provides feedback to participants about what behaviors are considered functional for target costing. Performance measurement and rewards motivate behaviors target costing needs. Employees can be motivated through performance measurement and by rewards.

Since this is the first empirical research dealing with the behavioral issues related to the determination of target cost of products and allocation to their constituting parts, further research is obviously needed to verify whether the findings vary across various industries and different cultures.