

**RATIONALIZING PRICING DECISIONS
THROUGH TARGET COSTING: A
QUALITATIVE ANALYSIS OF A REAL ESTATE
DEVELOPMENT COMPANY'S OFF-PLAN
SALES**

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UNIVERSITI SAINS MALAYSIA

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by

ALRUBAYAN LULWAH MOHAMMED A

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LIST OF ABBREVIATIONS

GCC	Gulf Cooperation Council
HR	Human Resources
REDF	Real Estate Development Fund
TC	Target Costing
TVD	Target Value Design
US	United States

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Appendix A Summary Details of Interviews

**RASIONALISASI KEPUTUSAN HARGA MELALUI KOS SASARAN:
ANALISIS KUALITATIF TERHADAP JUALAN PRA-PELAN SEBUAH
SYARIKAT PEMBANGUNAN HARTANAH**

ABSTRAK

Objektif utama kajian ini adalah untuk meneliti kesan pelaksanaan kos sasaran (TC) dalam merasionalisasikan keputusan penetapan harga unit kediaman prajual (off-plan) serta meneroka bagaimana TC dilaksanakan dalam sebuah syarikat pembangunan hartanah di Arab Saudi. Kajian ini menggunakan reka bentuk penyelidikan kualitatif untuk mengkaji pengalaman individu dan amalan organisasi melalui satu kajian kes interpretatif terhadap sebuah syarikat—dikenali sebagai AHC—yang baru-baru ini mengadaptasi TC selaras dengan peralihan strategik mereka ke arah jualan off-plan. Data dikumpul melalui temu bual separa berstruktur, analisis dokumen, dan pemerhatian langsung, serta dianalisa menggunakan pendekatan analisis tematik. Perspektif logik institusi digunakan sebagai kerangka analisis bagi memahami bagaimana interaksi antara pelbagai logik—khususnya logik negara dan logik komersial—mempengaruhi proses membuat keputusan harga dan transformasi perakaunan dalam AHC. Penemuan kajian menunjukkan bahawa pelaksanaan TC di AHC telah membawa kepada perubahan organisasi yang signifikan. Melalui penyelarasan reka bentuk produk mengikut kehendak pelanggan dan membina kerjasama strategik bersama pembekal, AHC berjaya merasionalisasikan strategi penetapan harganya secara efektif. Interaksi antara logik negara (keperluan kawal selia dan pematuhan) dan logik komersial (daya saing pasaran dan keuntungan) memainkan peranan penting dalam memacu transformasi ini. Kajian ini menyumbang kepada

literatur sedia ada dengan menawarkan pemahaman yang lebih mendalam tentang aplikasi TC dalam sektor hartanah, terutamanya dalam pasaran yang sedang pesat membangun seperti yang diamalkan di Arab Saudi. Dapatan kajian menekankan kepentingan TC sebagai alat pengurusan yang fleksibel dan integratif yang bukan sahaja meningkatkan kecekapan dalaman, tetapi juga menyokong pematuhan terhadap peraturan yang kompleks. Kajian kes AHC menunjukkan bagaimana TC dapat membantu syarikat menyeimbangkan keperluan ekonomi dengan tuntutan dasar, sekali gus memberi implikasi praktikal kepada pemaju hartanah yang beroperasi dalam persekitaran yang dinamik.

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ABSTRACT

The main objective of this study is to examine the impact of target costing (TC) in rationalizing off-plan residential unit pricing decisions and to explore how TC was implemented in a real estate development company in Saudi Arabia. Using a qualitative research design, this study investigates individual experiences and organizational practices through an interpretive case study of a company—referred to as AHC—that recently embraced TC in response to its strategic shift toward off-plan sales. Data were collected from semi-structured interviews, document analysis, and direct observations, and were analyzed using a thematic analysis approach. The institutional logic perspective served as the analytical lens, facilitating an understanding of how different logics—specifically state and commercial—interacted to shape both pricing decisions and accounting transformations within AHC. The findings reveal that the adoption of TC at AHC led to significant organizational changes. By aligning product design with customer expectations and cultivating strategic partnerships with suppliers, AHC was able to rationalize its pricing strategy effectively. The interplay between state logic (regulatory and compliance obligations) and commercial logic (market competitiveness and profitability) was instrumental in facilitating this transformation. This study contributes to the literature by offering nuanced insights into the application of TC in the real estate sector, particularly within emerging markets like Saudi Arabia. The findings highlight the value of TC as a

flexible, integrative management tool that not only enhances internal efficiency but also supports compliance with complex regulatory requirements. The AHC case illustrates how TC can enable firms to reconcile economic imperatives with policy-driven demands, offering practical implications for real estate developers navigating similarly dynamic environments.

CHAPTER 1

INTRODUCTION

1.1 Introduction

This chapter provides an overview of the research study, including several key elements, and explains the background of this study in sections 1.2.1, The Housing in the Kingdom of Saudi Arabia, and section 1.2.2, Off-Plan Sales. It also outlines the research problem, followed by stating the research objectives and questions, followed by a discussion of the significance of the study. It briefly explains the research methodology, the theoretical framework, and finally, the structure of this thesis.

1.2 Background of the Study

Cost management during product development is one of the most important tasks of companies and a principal task of management accounting. However, managing costs has become increasingly difficult due to higher complexity during product development (Homburg et al., 2021; Isai & Geru, 2020 ; Stadtherr & Wouters, 2021). Optimizing the cost of product components during the design process has the largest leverage for optimizing the profitability of products (Alkababji, 2023; Sedevich-Fons, 2023). In the context of residential real estate development, a number of international and local studies indicate that the high cost of construction is one of the main obstacles to providing suitable housing units for different classes of buyers (AlQahtany, 2022; Dano, 2024). It can be said that the cost of housing issue has become very complex and has been approached from different points of view in different parts of the world (Hariri, 2022; Zhu, 2020). Therefore, residential product development programs must establish methods focusing on reducing product costs and enhancing customer value (De Melo & Granja, 2017; Oncioiu et al., 2021).

While global competition increases, companies are subject to increasing pressures to implement modern management accounting techniques. Such pressures caused a rapid change in designs and production processes according to customers' desires. Doubtlessly, traditional strategies have hindered innovation and profitability for a long time (Zanella & Oyelere, 2020). Modern management accounting techniques seek to overcome traditional methods' inefficiencies in response to today's highly competitive environment (Alkababji, 2023; Sedevich-Fons, 2023).

The literature has referred to target costing (TC) as a factor contributing to the rapid growth of competitive features in Japanese companies (Oncioiu et al., 2021). The literature has indicated that TC has been used as an effective cost management technique to reduce total cost during the early design phase to achieve target profits (Ansari et al., 2006; Cooper & Slagmulder, 1999; Kato, 1993; Taha et al., 2024). TC is a well-established strategic cost management tool in theory and practice (Homburg et al., 2021). Many researchers described TC as a market-oriented profit planning and cost management tool for reducing the total cost of products (Ansari et al., 2006; Ewert & Ernst, 1999; Homburg et al., 2021; Kato 1993; Taha et al., 2024). TC considers the significance of cost, price, functions, and quality (Cooper & Slagmulder, 1997; Kato, 1993).

Cooper and Slagmulder (1997) described the three characteristics (cost, quality, and function) as a tripod stand which is considered the basis of success for companies. They argue that this stand must be balanced according to market requirements and company strategy. This, in turn, requires the collaborative efforts of a wide range of specialists from different fields of work to achieve TC (Ahn et al., 2018; Alwisly et al., 2020; Taha et al., 2024). In this regard, using employees' creativity from several

departments to develop alternative plans can lead to cost reductions (Alqhisan et al., 2023; Oliva et al., 2021; Zhu, 2020). The role of TC emerges when selling the product in competitive markets. Thus, the prices set by competitors for their products are among the important factors in pricing decisions (Burrows & Chenhall, 2012; Oliva et al., 2021; Zhu, 2020). It is worth noting that due to changes in the competitive environment, institutions must be more flexible in taking appropriate measures towards changes in the labor market to survive and continue (Heinicke et al., 2016). TC is a process in which sales prices are determined before incurring production costs to accommodate the desired profit margin. This is in contrast to the local attitude of traditional costing method, widely known as the cost-plus method, where managers add a profit margin to costs for determining the final price. The traditional costing method is widely used in real estate development companies (Oliva et al., 2021).

Given the above, it can be understood that the concept of TC includes product planning that meets customer attributes and generates profits for the company, focusing on the external market as a starting point for competing with other companies based on prices determined by the market. By so doing, the company can continue and remain in the market and compete profitably against its competitors (Ibusuki & Kaminski, 2007; Homburg et al., 2021; Taha et al., 2024). It is important to emphasize the role that TC plays in reducing costs by focusing on strengthening relationships with suppliers and improving design and value engineering (Musa et al., 2019; Oliva et al., 2021).

The motivation for conducting this study is due to the response of many real estate development companies in Saudi Arabia to the initiative presented by the Saudi government to contribute to supporting and motivating real estate developers to

generate suitable housing units to meet the needs of citizens (Ministry of Housing, 2019b). The initiative is to legislate and develop the off-plan sales program implemented by the Saudi Ministry of Housing, which had an impact on the real estate development sector in particular (the housing sector). The term “off-plan sales” means the sales of real estate units, whether land or undeveloped commercial/residential buildings (Ministry of Housing, 2019a). The off-plan sales program prompted real estate development companies to focus on pricing methods determined by the market rather than the internal orientation of traditional costing methods. This type of contracts "off-plan sale" enables the real estate developer to mobilize (interest-free) capital, using the proceeds to complete the project, thereby reducing the overall project cost. Moreover, the off-plan sales model enhances suppliers' confidence in the organization's financial stability, thereby strengthening the organization's negotiating power and allowing it to secure lower prices (Olayiwola et al., 2024; Thanh Doan et al., 2022). The off-plan sales philosophy is based on pre-determining the selling price, which requires performance at a specific cost to achieve the target profit. Cost management plays a critical role in decision-making based on the importance of early pricing decisions for off-plan sales. The insights from this study can guide real estate development companies in navigating multiple institutional opportunities and constraints, offering strategies to address and reconcile conflicting interests among stakeholders.

1.2.1 The Housing in the Kingdom of Saudi Arabia

Saudi Arabia is the largest country in the Middle East (covering 80% of the Arabian Peninsula) and the 14th largest country in the world with an area of approximately 2.15 million km² and 35.3 million people living there as of 2024

(General Authority for Statistics, 2025). It is bordered to the northeast by the Arabian Gulf with a shoreline of 560 km, to the west by the Red Sea with a shoreline of 1,760 km, and by a number of countries: the UAE, Bahrain, Qatar and Kuwait to the east; Iraq and Jordan to the north; Yemen and Oman to the south. The roots of the country go back to the oldest civilizations of the Arabian Peninsula. Over the centuries, the peninsula has played an important role in history as the cradle of Islam and an ancient trading center. The Kingdom of Saudi Arabia underwent various historical transformations before it was completely unified in 1932 by King Abdulaziz Al Saud and transformed from a desert country to a modern developed country that plays a major role in the international arena (AlQahtany, 2022).

In the context of residential real estate development, the housing deficit has received increasing attention from the Saudi government for the past five decades through a number of programs, initiatives and financial support required for this purpose (AlQahtany, 2022; Hariri, 2022). The real estate market in Saudi Arabia has grown ten times more than any other Gulf market (Ajeeb & Lai, 2024). The housing sector represents the heart of real estate growth in the Kingdom and accounts for 75% of the total construction market (or the real estate industry). The main driver of the housing market is the size and rapid growth of the population (Dano, 2024). The population of the Kingdom of Saudi Arabia has multiplied several times over the past decades, increasing from 7.3 million in 1975 to 35.3 million in 2024 (General Authority for Statistics, 2025).

From the 1970s, the Kingdom of Saudi Arabia witnessed remarkable progress in the development of human settlements, as population growth and migration from rural areas to cities and urban centers led to a rapid urbanization. In 1995, the number of

housing units reached 2.85 million units, with an ownership rate of 60%. Unfortunately, the percentage of homeownership has decreased in Saudi Arabia from 60% to 47% due to the large population growth and the rapid shift to urban areas (Alhajri, 2022). It should be noted that housing construction projects in the Kingdom of Saudi Arabia suffer from cost overruns and poor quality (Alqahtany & Bin Mohanna, 2019; Al-Yami & Sanni-Anibire, 2021; Hassanain et al., 2017; Mathar et al., 2019).

The Ministry of Housing in the Kingdom of Saudi Arabia determined many challenges facing the housing sector, the most prominent of which was the weak efficiency of the real estate development sector (Alqahtany & Bin Mohanna, 2019; Al-Yami & Sanni-Anibire, 2021). The legislative and regulatory environment of the housing sector has been developed, its economic impact has been maximized, and its attractiveness to the private sector has been enhanced. This includes the off-plan sales initiative whose local content has been developed, which has led to strengthening cooperation between the private sector and the Ministry of Housing (Ministry of Housing, 2019a). The next part will discuss in more detail the initiative of the off-plan sales.

1.2.2 Off-Plan Sales

The literature has highlighted that the importance of real estate finance not only to individuals but also to the real estate developer (Ajeeb & Lai, 2024). Developers rarely finance their projects on their own, in addition to the fact that most developers do not have sufficient property rights to finance their projects. As such, developers are expected to look for other innovative ways to finance real estate development. Studies in the field of real estate development focused on traditional methods of financing real

estate development (Olayiwola et al., 2024). Real estate development companies used to have difficulty in obtaining funds from banks or financier companies. Therefore, it resorted to the real estate contributions option with poor profitability returns. This method involved raising capital from private investors who would finance the acquisition and development of land in exchange for a share of the profits. However, these real estate contributions were prohibited by a government decision. This suspension was a preventive measure aimed at protecting stakeholders and curbing the rampant speculation that threatened the stability of the real estate market (Opoku & Abdul-Muhmin, 2013).

Available studies revealed a significant lack of information about off-plan real estate sales as a means of financing real estate development (Thanh Doan et al., 2022). The term “off-plan sales” means the sales of real estate units, whether land or undeveloped commercial/residential buildings, that are not subject to any development but only with some early (specific) design and concept (Ministry of Housing, 2019a).

It should be noted that the Saudi regime in the past prohibited all types of off-plan sales (Opoku & Abdul-Muhmin, 2013). However, to meet the increasing demand for housing and to target an increase in the rate of home ownership, the government sought to stimulate investment in housing projects by encouraging the participation of the private sector in building homes and providing real estate financing solutions. In this regard, the Ministry of Housing has launched several programs, the most important of which is the off-plan sales program as a form of financing. The “off-plan sales” legislation aims to promote access to housing at a lower cost (Alhajri, 2022). The price of the off-plan sales is expected to be lower than that of a similar property already constructed (Ministry of Housing, 2019a).

However, the Ministry of Housing in Saudi Arabia has enacted a number of strict laws and regulations that guarantee the preservation of the rights of both the developer and the consumer. For example, the real estate developer must obtain a qualification from the Ministry of Housing and submit an approved feasibility study for the residential project with building plans, in addition to a table of specifications of the housing unit and a table of quantities that must be adhered. Besides, a uniform contract format for the off-plan sales program has been drafted, by which all parties are bound, guaranteeing the rights of all beneficiaries (Ministry of Housing, 2019a).

With regard to the financing aspect, the real estate developer must open an “escrow account” in a local bank to establish the project to allow buyers to deposit all amounts paid. The disbursement mechanism depends on the percentage of project completion with the approval of the engineering consultant supervising the project and the external chartered accountant (Ministry of Housing, 2021). Although the off-plan sales program is a new method to the housing culture in the Kingdom of Saudi Arabia, off-plan sales projects account for an increasing share of the sales of new housing units in the Kingdom of Saudi Arabia. During 2022, projects licensed by the off-plan sales committee recorded index numbers of growth rate of more than 223% compared to 2019, reaching more than 358,000 various real estate units. This may be due to the tax exemption included in the off-plan sales initiative, in addition to the strict laws in preserving the rights of developers and consumers alike (Ministry of Housing, 2023).

On the other hand, this type of contract achieves “off-plan sales” for the real estate developer to mobilize capital by using the proceeds to complete the project, thereby reducing the overall project cost. Although the off-plan sale model enhances supplier confidence due to the financial stability of the organization, it does not enable

the real estate developer to control costs and provide housing products at a lower cost (Olayiwola et al., 2024; Thanh Doan et al., 2022). Therefore, real estate developers must employ such methodologies that focus on reducing product costs and enhancing customer value so as to achieve profitable returns while maintaining a competitive level of quality and price (Oncioiu et al., 2021; Zhu, 2020). It is important to emphasize the role that TC plays in reducing costs by focusing on strengthening relationships with suppliers and improving design and value engineering (Musa et al., 2019; Oliva et al., 2021). In this regard, using employees' creativity from several departments to develop alternative plans can lead to cost reductions (De Melo & Granja, 2017). There is wide agreement on the use of TC, as an effective cost management technique to reduce total cost during the early design phase (Ansari et al. 2006; Homburg et al., 2021; Tommelein & Ballard, 2016).

In short, it seems that the off-plan sales can only be implemented at a pre-determined selling price. Therefore, it is necessary for real estate developers to manage costs in a manner commensurate with the off-plan Sales philosophy. TC is an outward-oriented strategy for managing profits with a market price-driven philosophy. The allowable cost is determined based on the market price for target profit management (Alkababji, 2023; Cooper & Slagmulder, 1999; Navissi & Sridharan, 2017). Rationalizing the pricing decision in off-plan sales requires prior determination of the allowable cost based on the market price to manage targeted profits. The literature indicates that TC has emerged in the industry as a result of searching for cost management best practices in new product development (Ahn et al., 2018; Ansari et al. 2006). Moreover, TC assists managers in making rational decisions and providing them with ideas that may improve upcoming projects (Ahn et al., 2018; Alkababji,

2023). This study attempts to shed light on a Saudi real estate development company that is qualified to practice off-plan sales of residential products, to generate a set of results that illustrate the role of the TC approach in rationalizing the pricing decision for residential buildings in light of off-plan sales.

1.3 Problem Statement

The housing crisis is no longer just a social challenge but an economic and security challenge due to the connection of housing with all social segments of society, the real estate developer, the government official, the citizen, and the financier. Undoubtedly, the rise in residential real estate prices directly impacts a country's social and economic development (Assaf et al., 2010; Dano, 2024). Therefore, governments are expected to intervene in enacting measures to solve the problem before it worsens. The success of governments in both developed and developing countries is determined by their ability to deal with the housing issue. There is no doubt that housing plays a significant role in the stability of societies due to its special importance for every citizen (AlQahtany, 2022). Although the Kingdom of Saudi Arabia is the largest economy in GCC countries, it has gone through several housing crises, the latest of which was in 2015. The cause of this crisis was that real estate development companies faced difficulty obtaining funds from banks or financing companies, leading to a decrease in housing supply, rising prices, and poor quality (Al-Yami & Sanni-Anibire, 2021). This is in addition to the absence of strict regulations protecting buyers' rights (Olayiwola et al., 2024).

The Ministry of Housing in the Kingdom of Saudi Arabia recently determined many challenges facing the housing sector, the most prominent of which was the weak efficiency of the real estate development sector in addition to the difficulty of obtaining

financing, which caused cost overruns and poor quality (Alqahtany & Bin Mohanna, 2019; Al-Yami & Sanni-Anibire, 2021; Hassanain et al., 2017; Mathar et al., 2019).

In response to this issue, the Ministry of Housing intervened through a set of initiatives and programs to provide suitable housing units for citizens in line with their financial capabilities and social desires (Ministry of Housing, 2019a).

The Ministry of Housing has presented various housing and financing solutions to stimulate the real estate development sector. The most important solution is the “off-plan sales” program, which can affect the dynamics of the future within this sector. The off-plan sale program is preferred as a financing strategy amongst real estate developers as it provides financing solutions for their projects. Furthermore, real estate developers can contract electronically with the beneficiaries through the database available on the Ministry of Housing website, which contributes to reducing investment risks. In addition, it provides the opportunity for real estate developers to implement multiple housing projects at a lower cost (Ministry of Housing, 2020). However, the strict regulations stipulated that a developer may receive money from buyers only after the completion of the agreed-upon percentage, subject to the approval of both the external consultant and auditor. Poor cost management could lead to the developer's failure to complete the project within the specified time and for the agreed price. This would result in withdrawal of the project from the developer to be awarded to another developer, and transference of buyers' money deposited in the escrow account to the new developer (Ministry of Housing, 2019a).

Therefore, real estate development companies need to pay attention to the market and competitors to survive (Oncioiu et al., 2021; Zhu, 2020). The off-plan sales philosophy is based on pre-determining the selling price, which requires performance

at a specific cost to achieve the target profit. Cost management plays a critical role in decision-making based on the importance of early pricing decisions for off-plan sales. It can be said that TC is an important “input” to control the profit target (Alqhisani et al., 2023; Oncioiu et al., 2021).

The underlying philosophy of TC is based on reverse pricing, i.e., from the outside to the inside (Alkababji, 2023; Almghafee & Chakroun, 2024). This contrasts with the traditional method, which relies on information that is internally oriented and based on history (Khechai & Abdelkader, 2021; Stadtherr & Wouters, 2021). While the traditional costing method is often perceived as poorly managed and lacks dialog with stakeholders during the initial design phase which results in projects that are over budget, difficult to construct, and delayed outcomes (Oliva et al., 2021; Oncioiu et al., 2021), TC emphasizes early-stage cost control by involving multiple stakeholders in the design and pricing processes (De Melo & Granja, 2017; Oncioiu et al., 2021). This approach ensures that products meet both market demands and cost constraints, making it particularly useful in highly regulated environments where compliance with external requirements is critical.

Interestingly, the literature has made an excellent contribution to furthering the understanding of TC in various sectors and contexts (Ahn et al., 2018; Alkababji, 2023), but it is still a relatively unknown area in the construction sector (De Melo et al., 2017; Neto et al., 2016; Oliva & Granja, 2019; Oliva et al., 2021; Oncioiu et al., 2021). While the above literature provides some insight into TC practices within the real estate development sector, the exploration of TC in off-plan sales remains insufficient. A significant gap persists in understanding the practical application of TC in off-plan sales, particularly in the context of Saudi Arabia. Practicing TC in real

estate development involves the challenge of accurately determining the selling price of property units to establish profit margins, which is especially pronounced in off-plan sales of residential units. Unlike manufacturing products, which typically have uniform selling prices, real estate products vary widely due to their diverse features and market conditions (De Melo et al., 2017; Wu et al., 2013). Effective application of TC necessitates comprehensive market research encompassing all building features, including the number of rooms, functionalities, facilities, and materials used (Alwisy et al., 2020; Zhu, 2020). Understanding TC in practice is essential for optimizing pricing strategies and ensuring profitability in real estate development projects such as off-plan sales.

The foregoing facts raise questions about why and how AHC (i.e., pseudonym) had adopted TC in pricing its residential premises. From a specific perspective, this study aspires to examine the role that TC played in rationalizing pricing in the residential real estate development sector.

Understanding the context of TC and its impact on pricing decisions would help to understand the motivating force of institutional change. Therefore, there is a serious need to study the issues discussed above to generate a clear set of results that reveal the role of TC in making and rationalizing decisions on residential real estate pricing, especially in a developing country such as Saudi Arabia.

1.4 Research Objectives and Questions

Given the above research background and problem, the research objectives of this study are formulated as follows:

- 1) To explain the role of TC in influencing real estate (residential) prices in AHC (following the introduction of the off-plan sales program, which concerned deciding prices before the development of residential houses).
- 2) To examine the process of implementing TC in AHC to accommodate the off-plan sales program.
- 3) To unravel the ways in which AHC had responded to institutional pressures with conflicting interests (logics) amongst various stakeholders in pricing its real estate (residential houses) using TC.

The research objectives are set to answer the following questions:

- 1) What was the role of TC in influencing the real estate (residential) prices in AHC (following the introduction of the off-plan sales program, which concerned deciding prices before the development of residential houses)?
- 2) In rationalizing the pricing decision under the off-plan sales program, why and how had the process of implementing TC unfolded in AHC?
- 3) How had AHC responded to the institutional pressures with conflicting interests (logics) amongst various stakeholders in pricing its real estate (residential houses) using TC?

The above research objectives and research questions set the scene for understanding the TC application in a Saudi real estate development company and the unfolding process that might have significant implications for how this Middle Eastern company responded to institutional pressures.

1.5 Significance of the Study

This study has made contributions from a theoretical and practical perspective by conducting an in-depth study on the role of the TC approach in rationalizing the pricing decision in the residential real estate development sector in Saudi Arabia under the off-plan sales program. Many previous studies focused on the application of TC in the industrial sector (Alkababji, 2023; Almghafee & Chakroun, 2024; Ansari et al., 2006; Cooper & Slagmulder, 1997; Feil et al., 2004; Kato, 1993; Stadtherr & Wouters, 2021). However, studies that document the practice of TC in the context of the construction industry in real-world projects have received little attention. Only a little has been described in the literature (Alwisay et al., 2020; De Melo & Granja, 2017; Nicolini et al., 2000; Oncioiu et al., 2021; Zhu, 2020).

The literature indicates that the application of TC in the construction industry took place in very narrow contexts, for example in the United States of America. It was applied to healthcare construction projects (Neto et al., 2016; Oliva et al., 2021; Oliva & Granja, 2019), and construction projects in the educational sector (Ballard, 2012; De Melo et al., 2015; Oliva et al., 2021; Oliva & Granja, 2019). In Brazil, it was applied to the social housing project (Jacomit & Granja, 2011; Neto et al., 2016; Oliva et al., 2021).

Given the above, it appears that the application of TC in the construction industry is still in its early stages of maturity. To the best of the researcher's knowledge, it can be emphasized that this study is the first of its kind that discusses the role of TC in rationalizing the pricing decision in the residential real estate development sector in the Kingdom of Saudi Arabia in light of off-plan sales (King Fahad National Library, 2024).

This study has provided substantial theoretical and practical contributions regarding the role of TC in rationalizing the pricing decision in the residential real estate development sector under off-plan sales.

1.5.1 Theoretical Significance

This study examined how TC is practiced in the context of residential real estate development under off-plan sales to explain how and why the company under study practices TC. This study has contributed to enriching knowledge about the role of TC in rationalizing pricing decisions for residential units under off-plan sales. Thus, the results of this study enrich the current management accounting literature. This research contributes to the accounting literature through highlighting the role of target costing as a tool for rationalizing pricing decisions in an Arab real estate environment characterized by a scarcity of accurate data. Furthermore, the study contributes to providing Arab case study data that may be lacking in the global literature. Through searching using the following keywords ("target costing" AND "pricing decisions" OR "pricing strategy" OR "price determination" AND rationaliz* OR optimiz* OR improv* OR "cost management") across the Scopus database, applying this search query to the "Article title, abstract, keywords," and limiting the search to the "Business, Management, and Accounting," it is found that there is only one paper published about the rationalization of pricing decisions through TC until May 2025. Through searching using the following keywords ("target costing" AND construction OR "construction industry" OR "construction development" OR "building industry" OR "real estate development") across the Scopus database, applying this search query to the "Article title, abstract, keywords," and limiting the search to the "Business, Management, and Accounting," it is found that there are only 19 papers published about the usage of TC

in construction industry until May 2025, and none of them has concentrated on Kingdom of Saudi Arabia.

Moreover, the study has contributed to providing insights and understanding of the institutionalization process when applying TC using institutional logics. The current study goes beyond disclosing the impact of TC on pricing decisions and explores issues related to the regulatory responses when applying TC, hence enhancing the interpretation of the effective organizational changes made when the TC is implemented. This enhanced our understanding of how organizational actors embody institutional logics when applying TC in the company under study.

The study also has contributed to providing insights into the rising debates about the use of the institutional logics perspective on the organizational responses to institutional pressures in the context of the real estate industry. In the case of this study, AHC has used TC to rationalize pricing decisions through off-plan sales in the Kingdom of Saudi Arabia. The study presented an application of the TC concept in a context that has rarely been analyzed. Therefore, it is hoped that this study will contribute to filling a gap in the literature on the use of target costing in the real estate development context.

1.5.2 Practical Significance

From a practical perspective, the chosen case study has supported managers in making decisions that align with customer preferences in the housing market. It has also highlighted opportunities for enhancing organizational performance practices by managing and rationalizing costs, and by fostering a culture among all participants in real estate development, including technicians, supervisors, and administrators. The insights from this study can guide real estate development companies in navigating

multiple institutional opportunities and constraints, offering strategies to address and reconcile conflicting interests among stakeholders. This approach not only aids in resolving tensions but also supports the sustainability and survival of real estate development firms. More broadly, the study has provided practical lessons for managing regulatory pressure, such as changes in financing or tax legislation. In addition, this study has provided valuable insights to numerous government agencies interested in the real estate sector, including the Ministry of Housing, the General Authority for Real Estate, and the General Authority for Contractors.

1.6 Methodology

This study utilizes a case study approach to explore the implementation of TC within the real estate development company, AHC. The case study method is particularly suited for exploring complex, real-world phenomena in depth and in their natural context (Yin, 2015, 2017). Given the unique regulatory environment in Saudi Arabia's real estate development sector, where companies like AHC must balance both commercial goals and regulatory compliance, this method allows for a comprehensive understanding of how TC is implemented in such an environment.

Semi-structured interviews are the primary data collection tool. These interviews provided a detailed understanding of how various actors within AHC viewed, interpreted, and implemented TC. Participants were selected based on their influence over the company's decision-making processes. To analyze the data, thematic sorting and categorization of responses were used to identify key themes that reflect the role of TC in rationalizing pricing decisions in the company under study.

This study utilizes the institutional logics perspective as an analytical lens to study the experience of the real estate development company that introduced the TC approach, after preferring off-plan sales. This is because institutional logics drive the behavior and actions of individuals and guide business operations and organizational activities. This perspective shall enable the study to explain processes of institutional change by relating organizational responses to forms of rationality (ter Bogt and Scapens, 2019).

1.7 Structure of the Thesis

This thesis has been organized into seven chapters as follows. The first chapter begins with the introduction to this thesis in addition to the background of the study, followed by a statement of the problem, the objectives and questions of the research, and the significance of the study. The second chapter reviews some of the main literature related to the subject of the study. Respectively, Chapter Three explains the institutional theory that guides this study, particularly the institutional logics perspective, which will be useful in explaining institutional responses to change. The fourth chapter explains the methodology that was followed to achieve the research objectives and its design. The qualitative approach was preferred based on the case study. The fifth chapter presents the results of the case study, followed by a discussion of the most important results together with a description of how to practice the TC approach in the company subject of the study. The seventh and last chapter concludes the study and puts some suggestions for future research.

CHAPTER 2

LITERATURE REVIEW

2.1 Introduction

This chapter discusses the available literature on the role of TC in real estate development, costing an eye on TC versus traditional costing. It focuses specifically on studies conducted on the practice of TC in real estate development, highlighting research gaps in this area, by the factors affecting the application of the approach.

2.2 Target Cost in Real Estate Development

Since the early 1960s, TC has been used as an effective cost management method in the Japanese industry (Feil et al., 2004; Khechai & Abdelkader, 2021; Taha et al., 2024). The competitive nature and difficult financial conditions in the Japanese industry at that time prompted the leading companies to explore TC as a viable lifeboat to continuously improve product costs (Isai & Geru, 2020; Kato, 1993; Stadtherr & Wouters, 2021).

According to Ansari et al. (2006), the Japanese literature contains several case studies describing the successful implementation and positive results achieved from TC application. The most notable companies mentioned are Daihatsu, Toyota, Nissan, Denso, Panasonic, and Canon. Interestingly, TC's practice has moved from Japan's automobile industry to other Japanese assembly industries and even some manufacturing industries. TC has become widely used in Japanese companies (Tani et al., 1994; Yazdifar & Askarany, 2012). Kato (1993) claims that more than 80% of assembly companies in Japan have implemented TC. Surprisingly, according to Jacomit et al. (2008), 15% of companies in the Japanese construction industry use TC or some TC concepts and 36% would like to use it in the future. Furthermore, it appears

that there are no statistics outside Japan that reflect the extent to which TC is implemented in this industry (Alkababji, 2023; Jacomit et al., 2008; Homburg et al., 2021). Since the motives for using TC are not specific to Japan, TC can also be used outside of the Japanese context, although the actual application of such practices may deviate from the method used by Japanese companies.

Ansari et al. (2006) claim that TC has reached the automotive and assembly industries in the US and Europe, for example Caterpillar, Mercedes, and German company Siemens. Langfield-Smith (2008) noted that the financial success of some companies in the US in the mid-1990s was due to the adoption of TC.

The extant literature recognizes TC as a market-oriented profit planning and cost management tool (Ansari et al., 2006; Kato, 1993; Zanella & Oyelere, 2020). Zanella and Oyelere (2020) defined target costing as a strategy that takes the market price of an existing or potential product and uses it as a parameter to determine the feasible cost for a desired profit margin. Khechai and Abdelkader (2021) view TC as a method that combines customer requirements, product quality, and cost reduction, making it an entry point for cost reduction and management during the planning and design phases of the product.

In short, TC in the context of real estate development can be defined as a cost management approach that aims to reduce costs by engaging all parties to examine all cost-reduction ideas in the product planning process while still meeting customer requirements. This approach sets a price based on a desired profit margin for the organization.

The core principle of TC is to derive allowable costs from the market price of a product, ensuring that the final design and production processes stay within these cost constraints (Ahn et al., 2018; Desmarais & Alves, 2024; Oliva et al., 2021). Instead of basing prices on historical costs, TC sets target costs aligned with market expectations and then designs products to meet these predetermined costs (Alwisy et al., 2020; Ansari et al., 2006; Zhu, 2020). This method ensures that products are priced competitively from the outset, fostering alignment with market demands and enhancing overall profitability strategies. Some researchers have noted that the traditional approach to costing calculation results in a systematic increase in construction costs (Alwisy et al., 2020; De Melo & Granja, 2017; Nicolini et al., 2000; Oliva et al., 2021; Oncioiu et al., 2021; Zhu, 2020).

The next section delves into the distinctions between Target Costing (TC) and Traditional Costing, to underscore the strategic advantages of TC in addressing external market conditions and customer demands.

2.3 Target Costing vs. Traditional Costing Approaches

With increasing competition, developers face ever-changing market conditions, forcing them to employ innovative operational strategies to maintain the desired profitability in their operations. Therefore, TC strategies are among the most important management tools and techniques used by developers (Alwisy et al., 2020; Zhu, 2020).

TC is a process in which sales prices are determined before incurring production costs to accommodate the desired profit margin. This is in contrast to the local attitude of traditional costing methods, widely known as the cost-plus method,

where managers add a profit margin to costs for determining the final price. This method is widely used in real estate development companies (Oliva et al., 2021).

TC emphasizes early-stage cost control by involving multiple stakeholders in the design and pricing processes (De Melo & Granja, 2017; Oncioiu et al., 2021). This approach ensures that products meet both market demands and cost constraints, making it particularly useful in highly regulated environments where compliance with external requirements is critical.

The comparison between TC and Traditional Costing, as presented in Table 2.1, highlights fundamental differences in their approach to cost management. TC is characterized by its proactive engagement with the external environment, enabling organizations to respond effectively to customer requirements and competitive threats. This approach is fundamentally market-driven, where the allowable costs are derived from the market-determined price. In contrast, Traditional Costing is internally focused, with cost determination preceding pricing decisions, often leading to a disconnect between the product’s cost structure and market realities.

Table 2.1 Traditional Costing vs. Target Costing

Aspect	Target Costing	Traditional Costing
Interaction with External Environment	Engages with the external environment to respond to customer requirements and competitive threats.	Ignores the external environment; focuses on internal measures of efficiency.
Price-Cost Relationship	Market-determined price dictates allowable costs.	Costs are determined first, and price is set based on these costs.
Focus of Cost Reduction	Design is central to cost reduction, ensuring costs align with market-driven price.	Quality and profit are the primary focus of cost reduction.
Supplier Involvement	Involves suppliers early in the design process.	Suppliers are typically involved late in the design process.

(Source: Ansari and Bell, 1997)

The table elucidates how TC's focus on design as a key element for cost reduction aligns with the overarching goal of developing products within strict cost constraints while still meeting quality and profitability targets. This design-centered approach enables firms to optimize costs early in the product development process, ensuring that the final product can be competitively priced in the market (Oliva et al., 2021; Zhu, 2020). Moreover, the early involvement of suppliers under the TC framework fosters collaboration, leading to innovative and cost-effective design solutions from the outset.

In contrast, traditional costing methods do not integrate external market dynamics into the cost management process. The initial focus is on internal efficiency, with costs being determined independently of market conditions. This inward focus can result in pricing strategies that are misaligned with market realities, potentially reducing the product's competitiveness (Oliva et al., 2021; Zhu, 2020). Additionally, the late involvement of suppliers in the Traditional Costing process often limits opportunities for early cost-saving innovations, as design decisions may already be finalized by the time suppliers are consulted.

The comparison presented in Table 2.1 demonstrates the strategic benefits of TC, particularly in real estate development sector where responsiveness to market conditions and customer preferences is critical. TC's integration of market-driven pricing, design-focused cost management, and early supplier involvement positions it as a more agile and competitive approach than Traditional Costing.