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Analysis of Cost Management on Performance of Corporate Firms in Nigeria

Raymond A. Ezejiofor[1], Nwakoby Nkiru Peace[2], Okoye Jane F N[2]
[1]Department of accountancy, Nnamdi Azikiwe University, Awka
[2]Department of Entrepreneurship studies, Nnamdi Azikiwe University, P. M.B. 5025. Awka

*Corresponding Author
Raymond A. Ezejiofor
Email: raychii4love@gmail.com

Abstract: This study assesses the cost management on corporate operating performance in Nigerian manufacturing companies. Specifically, the study ascertained the significant effect between cost management, operating profit and earnings per share of Nigerian corporate firms. Time series data was used. Data for the study were extracted from five years Annual accounts and reports of five(5) food production companies. Simple Regression Analysis was used with the aid of SPSS version 20.0 in testing the hypotheses. The study discovered that there is a significant effect between cost management, operating profit and earnings per share in Nigerian corporate firms. Based on this, the study recommends that Nigerian corporate firms should adopt modern strategic cost management method for effective operation to enable them to be at advantage in competing with their contemporaries in foreign country.
Keywords: Cost management, corporate performance and efficient operation.

INTRODUCTION

The sole aim of any business organization is to make profit and most business owners believe that the best way to make profit is to improve in their sales and this brings up another conundrum. In order to increase sales, there must be a corresponding increase in cost because of the increased amount of work involved. These increased costs are what need to be curtailed Olagunju, Imeokparia & Afolabi, [1].

However, the contemporary world of business is generally described by a common parlance called the “global village”. This is because satellites have enabled world-wide communication in such a way that business transactions can be concluded online in few minutes between parties geographically separated from each other. As a result, business organizations face world-wide competition [2]. Barney [3] ties competitive advantage to corporate performance, hence when a firm achieves above-average performance, it experiences competitive advantage.

There are different strategies for a firm to achieve a competitive advantage. According to Porter [4], a firm can gain competitive advantage from three alternatives-cost leadership, differentiation, and market focus. The formulation and implementation of these strategies depend on an effective information system [5]. Information is the fuel that drives management thoughts and actions. In the absence of accurate and relevant information, management would be incapacitated in the formulation and implementation of business strategies for competitive advantage. The traditional management accounting system, which currently provides accounting information for strategy formulation and decision making is in-ward looking and focuses only on financial data thereby hindering its effectiveness in generating external information particularly about the customers and competitors.

Most of the studies on this area were carried out using primary data, two of the study that made use of practical data such like Ogwo and Ugwunta [6] who ended up in 2010 with only Brewery and Oluwagbemiga, Olugbenga and Zaccheaus [7] which was carried out in Kenya. So few of the related studies were carried out in Nigeria with audited report and account of the companies, this study therefore attempts to contribute to the existing body of the studies performance by using annual accounts of selected companies in Nigeria on the relationship between cost management and firm’s performance.

This study therefore contribute to the existing body of the studies on cost management on performance by using annual accounts of selected companies in Nigeria on the relationship between cost management and firm’s performance. Specifically, the study intends to achieve the followings;

1. *To evaluate the effect of cost management and operating profit of Nigerian corporate firms.*

2. *To determine the effect cost management and Earning per share of Nigerian corporate firms.*

Hypotheses (null)
1. H_O: Cost management has no significant effect on operating profit of Nigerian corporate firms.
2. H_O: Cost management has no effect on Earning per share of Nigerian corporate firms.

THEORETICAL AND EMPIRICAL FRAMEWORK

Theoretical Review

Kaizen Costing System

Kaizen term with Japanese origin [8] was launched by Masaaki Imai the concept is a coinage of two Japanese words: KAI (Change) and ZEN (for better) [9]. This refers to the process of 'continuous improvement' [8, 9]. The principle behind Kaizen Costing application is on achieving small, gradual but continuous improvements in the production process at minimal cost [9]. However, Kaizen Costing ensures that products meet the demands of the customer for product's competitiveness. This according to Rof can be achieved through a sequential elimination of all the processes that would increase the product's cost of production without a corresponding increase in value [9].

This technique has made tremendous changes in management policies not only in Japan, but all over the word [10]. [11] Kaizen costing technique it focuses on making production and service delivery processes more efficient. Kaizen costing is used for making improvement to a process through small incremental amounts, rather than through large innovations. Unlike target costing, Kaizen costing is applied during the production stage of the product life cycle.

[12] asserted that Kaizen costing is the process of continuous improvement, encouraging constant reductions by tightening the 'standard'. The cost reduction objective is to set for each process, and then adopt value analysis and Value engineering to achieve the set objective.

This study therefore anchored on this theory in the sense that it encourages achieving small on a continuous process in the production process at minimal cost thereby increase in the firm's profitability.

Review of Empirical Studies

Oluwagbemiga, Olugbenga & Zaccheaus, [7] investigates the relationship that exists between cost management practices and firm's performance in the manufacturing organizations using data from 40 manufacturing companies listed on the Nigeria stock exchange during the period of 2003 to 2012. The study relied on secondary data extracted from the audited financial statement of the selected companies. Direct material cost, direct labour cost, production overhead cost and administrative overhead cost were taken as independent cost management variables while profitability (Operating profit) was taken as dependent variable representing the firm's performance. The result indicates that a positive significant relationship exists between cost management practices and firm's performance in the manufacturing organization.

In another study of [13] determine whether Strategic Cost Management (SCM) techniques are practically used by Nigerian companies and the extent of their utilization- particularly in the Nigerian manufacturing and financial services industries, identify the factors influencing the adoption of strategic cost management and investigate whether strategic cost management can be used as competitive strategy for survival in recessionary times. Questionnaire was used as a major instrument for data collection. Data collected were subjected to statistical procedures using the Mann-Whitney test. The research found out that although Nigerian companies are receptive to the philosophies of SCM, there are challenges inhibiting their adoption and implementation in the Nigerian environment.

In a similar study by Akinbor and Okoye [2] investigated Strategic Management Accounting (SMA) with a view to determining the extent to which it influences Competitive Advantage in the manufacturing industry in Nigeria. To achieve this purpose, some research questions were raised, and a review of related literature was made. The population of this study consists of Chief Executives, Chief Accountants and Marketing Directors of those manufacturing companies quoted in the Nigerian Stock Exchange Factbook of 2009. The data generated for this study were analyzed using tables, frequencies, bar charts, and mean scores. Our findings revealed that Strategic Management Accounting enhances Competitive Advantage although several factors bedevil its adoption in Nigerian manufacturing firms.

[14] examined the effect of formal strategic management on organizational performance of medium sized manufacturing enterprises in Nairobi Kenya. He investigated the effect of various administrative/legal factors on the extent to which formal strategic management are adopted, and also determined the relationship between level of competition and formal strategic management. He selected eighty medium enterprises (MEs) using simple random sampling. Primary data was collected using a semi-structured questionnaire. Results showed that the MEs have not fully adopted formal strategic management and that administrative/legal factors and competition influence adoption of strategic management.

Similarly, a study conducted by Ogbadu, [15] examines and outlines the roles and benefits of materials management. Secondary data and primary data were utilized in this study. The finding shows that there is need to recognize the materials management function and it has been suggested that for a firm to achieve profitability, the goal of materials management outlined in this paper should be properly carried out.

In like manner, empirical evidence by Innes and Michel [16] on cost management and companies' performance using a sample of 380 respondents drawn from the US listed companies revealed that companies with low administrative and selling expenses had better performance than those with high administrative and selling expenses. Also, fixed manufacturing overhead was found to be negatively correlated with profitability which was used as one of performance indicators in the study.

Dauda, Akingbade & Akinlabi, [17] examined the influence of strategic management on corporate performance in selected small scale enterprises in Lagos, Nigeria. Cross sectional survey research method was adopted for the study and 140 participants were randomly selected among small-scale enterprises in Lagos metropolis. Findings of the study showed that strategic management enhances both organizational profitability and company market share.

Askarany and Yazdifar [18], investigated the diffusion of six proposed strategic management tools of the past few decades through the lens of organizational change theory, examined the relationship between the adoption of these techniques and organizational performance in both manufacturing and non-manufacturing organizations in New Zealand. The findings suggested a significant association between the diffusion of these relatively new strategic management tools and organizational performance.

Muogbo US [19] examined the impact of strategic management on organizational growth and development in selected manufacturing firms in Anambra State, Nigeria. The study used a descriptive survey design to collect detailed and factual information. Cluster sampling was used to select equal number of manufacturing firm s from each sample cluster in the study. The data collection instrument was a structured questionnaire. The study found out that Strategic management was not yet a common business practice among manufacturing firms in Anambra State.

Adesina, Ikhu – Omoregbe and Aboaba [20] investigated the effect of cost information, sales information and marketing information on profitability. Descriptive and inferential statistics were carried out on the opinion of 222 top management staff purposively selected from the listed manufacturing companies in Nigeria with the aid of statistical package for social sciences (SPSS version 20). The results of the data analysis carried out in the study revealed that a positive significant relationship exists between accounting information and profitability of manufacturing organizations.

Ogwo and Ugwunta [21] evaluate the effect of input costs on the profitability of brewing firms in Nigeria. A cross sectional data was gathered for the analysis from the annual reports of the sampled brewery firms for a period of 1999 to 2010. Measures of profitability are examined and related to proxies for the inputs cost assumed by brewers. The Ordinary Least Squares (OLS) stated in the form of a multiple regression model was applied in the analysis. The study revealed that the focal variable RSGAE (Ratio of Selling and General Administrative Expenses) designed to capture the effect of a company's operating expenses on profitability is statistically positive and impacts on profitability of the brewery firms in Nigeria.

Most of the studies were carried out using primary data, two of the study that made use of annual accounts such like Ogwo and Ugwunta [21] who ended up in 2010 with only Brewery and Oluwagbemiga, Olugbenga & Zaccheaus [7] which was carried out in Kenya. So few of the related studies were carried out in Nigeria with audited report and account of the companies, this study therefore attempts to contribute to the existing body of the studies performance by using annual accounts of selected companies in Nigeria on the relationship between cost management and firm's performance.

METHODOLOGY

Research Design

Time series research design was adopted which is the aspect of statistic that involves the various techniques of describing data collections has been adopted for the purpose of this research.

Sample Size

This study used simple sampling techniques to select three food Production Companies, under consumer goods manufacturing company in Nigerian Stock Exchange. The study covered five years annual reports and accounts of these companies from 2009 to 2013.The name of these companies under foods production in Nigerian manufacturing companies are: Dangote Four Nigerian Plc, Nestle Nigerian Plc, and UAC Nigerian Plc, Dangote Sugar and Holley well

Method of Data Analysis

This method was considered appropriate by the researcher as it measures the type of relationship between two variables (dependent and independent variables). The study adopted the use of secondary data only which was extracted from the audited financial statement of the selected companies. The study used simple Regression Analysis with the aid of statistical package for social sciences (SPSS) 20.0

Decision Rule: If F-value is equal or greater than "Sig" value there is significant interaction effect or significant difference i.e. F-value $\geq$ sig value we reject Null and accept alternate hypothesis.

PRESENTATION AND ANALYSIS OF DATA

Data Presentation

Table 1: Management Cost

Companies	2013	2012	2011	2010	2009
Dangote Sugar	63,827,855	92,635,659	100,499,719	75,380,192	71,890,283
Dangote flour	8,364,193	31,101,371	34,648,437	36,216,460	34,630,274
UAC	1,667,453	1,570,111	1,823,050	3,289,512	3,422,903
Nestle	77,481,000	75,971,000	76,446,987	63,792,850	52,585,100
Holley well	42,133,042	34,671,556	26,161,870	24,843,370	19,097,521
Total	193,473,543	235,949,697	239,580,063	203,522,384	181,626,081

Source: Companies annual accounts (2009-2013)

Table 2: Operating Profits

Companies	2013	2012	2011	2010	2009
Dangote Sugar	13,402,200	14,232,395	10,554,219	16,148,876	12,870,318
Dangote flour	-1,771,670	-1,241,395	4,031,407	6,478,923	7,209,645
UAC	6,945,917	2,495,259	7,955,156	324,628	1,281,005
Nestle	14,892,000	13,960,000	21,514,73	18,933,379	15,732,203
Holley well	3,720,406	2,201,706	2,583,464	2,874,159	2,458,901
Total	37,188,853	31,647,965	25,124,246	44,759,965	39,552,072

Source: Companies annual accounts (2009-2013)

Table 3: Earning per Shares

S/N	Companies	2013	2012	2011	2010	2009
	Dangote Sugar	1.26	0.90	0.59	0.94	1.10
	Dangote flour	-235.70	-53.60	12.47	0.75	1.07
	UAC	1.92	2.57	0.37	1.00	1.48
	Nestle	3.14	26.67	20.81	19.08	14.81
	Holley well	35.86	32.80	30.34	24.57	2.64
	Total	-193.52	9.34	64.58	46.34	21.1

Source: Companies annual accounts (2009-2013)

Test of Hypotheses

Hypothesis One

H_O: Cost of management has no significant effect on operating profit of Nigerian corporate firms.

H_I: Cost of management has significant effect on operating profit of Nigerian corporate firms.

Table 4: ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	559183327556 498.060	1	559183327556 498.060	4.788	.116[b]
	Residual	350390158157 577.200	3	116796719385 859.060		
	Total	909573485714 075.200	4			

a. Dependent Variable: Operatingprofit

b. Predictors: (Constant), Costmanagement

Table 5: Coefficients[a]						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	167882069.290	44399860.488		3.781	.032
	Costmanagement	-.229	.105	-.784	-2.188	.116
a. Dependent Variable: Operatingprofit						

Decision: Since the *F-value* is greater than the *Sig Value, (4.788>.116)* means that there is a significant effect between the two variables, we therefore reject the null hypothesis and accept the alternative hypothesis which uphold that cost of management has significant effect on operating profit of Nigerian corporate firms.

Hypothesis two

H_O: Cost management has no significant effect on Earning per shares of Nigerian corporate firms.

H_I: Cost management has significant effect on Earning per shares of Nigerian corporate firms.

Table 6: ANOVA[a]						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	30329.598	1	30329.598	.629	.486[b]
	Residual	144695.501	3	48231.834		
	Total	175025.100	4			
a. Dependent Variable: EPS						
b. Predictors: (Constant), Costmanagement						

Table 7: Coefficients[a]						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-732.096	902.263		-.811	.477
	Costmanagement	1.687E-006	.000	.416	.793	.486
a. Dependent Variable: EPS						

Decision: Since the *F-value* is greater than the *Sig Value, (.629>.486)* means that there is a significant effect between the two variables, we therefore reject the null hypothesis and accept the alternative hypothesis which uphold that cost management has significant effect on Earning per shares of Nigerian corporate firms.

DISCUSSION OF FINDINGS

According to the analysis of the various financial performance variables in relation to the cost management, it shows that the variable operating profit has significant with cost management, In hypothesis one, it observe a significant effect between cost management and operating profits. The relations shows if the management applies cost management strategies to reduce cost of operations of the company, then the operating profit will increase.

In hypothesis two, it observes a significant effect between cost management and Earning per share. It implies that cost management of the companies help to explain 17% of the variance in Earning per shares. From the above result, the study discovers that the confidence level between cost management and Earning per shares of Nigerian corporate firms is normal.

This result was in line with [2]; [7]; [13]; [20] and [21], these authors' findings show that a firm's profitability is significantly affected by the increase in cost of input viz - material and labor.

CONCLUSION AND RECOMMEMDATIONS

Based on the results from the data analyzed and tested, the study drawn the following findings;

Despite the negative effects that the global melt down imposed on companies globally, the effects are not entirely negative. The recession has forced companies to look inward to craft cost management strategies that will ensure their survival and continued relevance in the business environment. Independent variables captured in the study cost management (cost of sales, administrative cost, operational cost and distribution cost) while the dependent variable was profitability (operating profit and earnings per share,). The results indicate that a positive significant relationship exists between cost management, operating profit and earnings per share. Based on the findings of the study above, the study suggests that Nigerian corporate firms should adopt modern strategic cost management method for effective operation and to enable them to be at advantage in competing with their contemporaries in foreign country.

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