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EFFECT OF COST CONTROL AND COST REDUCTION ON PROFITABILITY OF MANUFACTURING FIRMS IN NIGERIA: A CASE OF NESTLE NIGERIA PLC

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Abstract
The study focuses on the effect of cost control and reduction on the profitability of manufacturing firms in Nigeria. The population of the study is the 78 manufacturing firms listed on the Nigerian Stock Exchange where a sample of one firm was use for this study for a period of ten years (2012-2021). Data used for the work were collected from the audited financial report of the selected firm. The collected data was analyzed, using the multiple regression. The result of the analysis revealed that administrative expenses are significantly influence profitability. However, both finance cost and change in cost of materials are negatively and insignificantly influencing the profitability of Nestle Nig. Plc. the study concluded that cost control and cost reduction are significantly influencing the profitability of Nestle Nig. Plc. The study recommends a proper adoption of cost control and reduction techniques that will not lead to company failure in the future; there should also be proper evaluation of cost control and reduction techniques and constant monitoring and check on the techniques adopted to ensure they suit the purpose in which it was adopted.

Keywords: Cost Control, Cost Reduction, Cost Of Material, Admin Cost, Profitability, Finance Cost

1. Introduction

The growth of any company is largely determined by how well it can manage its costs. This is partly because to be able to maximize profit, cost must be reduced to a minimum level possible. Cost reduction has become a vital tool for companies to constantly stay ahead of the increased competition in the business environment (Alireza & Mahdi, 2012). The ultimate goal of every firm is profit maximization and cost minimization through proper cost management, in order to maximize shareholder wealth (Christian, 2019). The profit motive behind business income is universal to most business entities. The crippling Nigerian economy had brought an adverse effect on financial capability of most manufacturing firms, making it difficult for the firms to maximize profitability. Most of the firms that are into household products industry had been taking out of the markets and operations as a result of high cost of producing its products (Oyedokun, Tomomewo & Owolabi , 2019).

The financial strength of an organization are measured in monetary terms and the results are reflected in firm's profitability ratio such as return on capital employed (ROCE), Net profit margin (NPM) and Earnings per shares (EPS) etc. Okegbe, Ofurum and Darlington (2019) opined that financial performance measures are the life blood of economic units, since without it no decision can be made. Financial performance is one of the important performance measures for economic units as return on capital employed (ROCE) measures the ratio of net operating profit of a company to its capital employed. It shows the profitability of a company by expressing its operating profit as a percentage of its capital employed (Irfanullah, 2019).

It is important for companies to be strong and stay competitive in terms of human resource to succeed and increase their financial performance. In order to survive and maintain the said competitive advantage in the existing market, the manufacturing firms in Nigeria must adopt cost reduction and cost control measures that will result in an improved production, productivity, and profitability, while maintaining product quality (Cheng & Lin, 2018). Nwatu, & Idoko (2020) opined that reducing operating costs will have a direct impact on profitability. The manufacturing firms in Nigeria must get better in the allocation of scarce resources from unpromising areas toward areas of strength with the highest growth potential. The success of firms whether large, medium or small, depends on the quality and value of resources they have and effective cost-reduction programs (Henrich, Little, Martinez, Shah, & Sichel, 2019).

The sole aim of any business organization is to improve the growth of the organization through selling costs and income of the organization. Most business owners believe that the best way to make profit is to increase sales and this brings up another problem. The current manufacturing industry in Nigeria is facing some challenges that warrant crucial attention. The sale of goods in Nigerian has faced strong competition from most imported goods, which are cheaper than those manufactured in Nigeria (Adigbole,A debayo & Osemene, 2020). The study of Nwatu, et al. (2020) confirmed that manufacturing firms has witnessed an unexpected high operating cost with the attendant reduction in profitability as a result of high operating costs associated with the maintenance and administration of day to day business activities. Adeleke (2014) submitted that quite a number of manufacturing companies in Nigeria have ceased to operate, whereas the bigger companies have acquired many other companies and at best, merged with other more bigger companies. Some have relocated their operational base to neighboring countries (Abdul & Isiaka, 2015).

However, review of extant literatures revealed so many inconsistence results on cost control and cost reduction on profitability of firms within and outside the Nigerian economy. In some studies, the periods covered are shorter compare to the current study while some studies were conducted in a different country with either larger or smaller economy compare to that of Nigeria thereby making it impossible to generalize the findings of such studies from those environments because of the differences that exist in terms of political, economic and cultural. However, this study intends to fill these gaps. It is premised on the aforementioned problem that the main objective of the study is to investigate the effect of cost control and cost reduction on the profitability of manufacturing firms in Nigeria with particular emphasis on Nestle Nigeria Plc.

2. Literature Review

2.1. Conceptual Issues

Concept of Profitability: The success of every business depends on its ability to continually earn profits. Profit is the resultant of two varying factors, sales and cost. The wider the gap between these two factors, the larger is the profit (Temitayo & Adegbie, 2020). Profitability according to Erasmus (2021) is a performance measurement that emphasizes the general operations of a business entity. Profitability was defined by Lucey (1997) as the excess of revenue over cost. In other word, it is the deduction of cost from revenue. Nooteboom (2016) stated that profitability encompasses all income earned regardless of the sources such as sales, commission, services revenue and interest. Profitability may be defined as the ability of a given investment to earn a return from its use (Monica, 2014).

Concept of Cost Control: Oluwayemisi, Elkanah, Ademola, Mathew and Mamidu (2022) defined cost control as the process of keeping expenses at the level that was meant for them to be at or at the level that was anticipated for them using substantial budgetary and budgetary management systems. Parker (2018) sees cost management as the application of appropriate accounting techniques in processing the historical and projected economic data of an entity to assist management in establishing a plan for reasonable economic objective and in making of rational decision with a view towards achieving these objectives. According Johnson (2018) cost management is a method or concepts necessary for effective planning decision making choosing among alternative business action and controlling through the evaluation and interpretation of performance.

Akeem (2017) defined cost control as a process of establishing a standard and maintaining the performance according to the standard. He further stated that, it is more concerned with an element of marginal costs which involves the determination of unit cost and measurement; costs are kept within acceptable limits. Anthony, et al (2005) sees cost control as cost management or cost containment which has to do with a broad set of cost accounting methods and management techniques having the goal of improving business cost efficiency, by reducing costs or at least restricting their rate of growth. According to Lawyer (2014), cost control is a complete set of accounting processes and management strategies that improve business efficiency by reducing expenses or, at the very least, decreasing the growth in costs.

Concept of Cost Reduction: Chartered Institute of Management Accountants (CIMA), London defined cost reduction as the achievement of real and permanent reduction in the unit cost of goods manufactured or services rendered without damaging the ability of the product to serve the purpose for which it was intended. Groth and Kinnery (1994) defined cost reduction as an act of lowering current fixed costs and variable costs by looking at reducing total cost compared to income generated which will directly or indirectly influence the financial performance of the organization. Nwatu, et al. (2020) sees cost reduction as a planned positive approach to reduce expenditure and a corrective function by continuous process of analysis of costs and functions for further economy in application of factors of production. John, (2017) defined cost reduction as the process of eliminating waste and improving processes to reduce overhead and or cost of goods sold. Nwatu, et al. (2020) defined cost reduction as the process used by companies to reduce their costs and increase their profits. They further asserted that, cost reduction is an integral aspect of manufacturing firms that is concerned with the means by which organization products move from one stage of processing to another in such a way that bank charges and travelling expenses are minimized.

2.2 Empirical Review

Oluwayemisi, et al (2022) examined the effect of cost control and financial performance selected quoted manufacturing firms in Nigeria. The data of 10 selected firms was sourced through secondary sourced from the audited annually financial reports sampled firms from 2011 to 2020. Data was analyzed using then panel regression model. The findings of the study revealed that insignificant negative effect between administrative financial performance of the sampled firms, while selling and distribution cost showed an insignificant positive effect on financial performance. The study concluded that cost control has both positive and negative effect on financial performance of manufacturing firms in Nigeria. The study recommended that manufacturing firms should strive to maintain an optimal control of administrative cost as any attempt to employ as positive change agent for a specific financial performance measure can lead to unfavorable effect in another measure.

Erasmus (2021) investigated the effect of cost management practice on the financial performance of listed Deposit Money Banks in Nigeria. The population of the study consists of 15 listed deposit money banks in Nigeria. The study adopts judgmental sampling techniques to select 10 banks as sample size for the study. Primary data was obtained through structured designed questionnaire while the secondary data was obtained from annual financial report of listed DMBs in

Nigeria from 2010-2018. The Ordinary Least Square Regression was use for data analysis. The finding shows that activity based costing had significant impact on profit before tax. Again, the result shows that target costing had negative impact on profit before tax. The findings also revealed that standard costing had positive significant impact on profit before tax. The study concluded that cost management practice influences the financial performance of listed DMBs in Nigeria. The study recommended that banks should ensure routine training, seminars for their staffs on new and modern cost management practice to enhance effective cost control and cost reduction leading to financial performance. Management should also adopt cost management practice that focus on cost control and cost reduction. Banks policy on cost management practice should be formulated with emphasis on cost control and cost reduction.

Mamidu and Akinola (2021) studied the effect of cost management on performance of manufacturing companies in Nigeria. Secondary data sourced from the financial reports of the firms was used to analyze the situation. The data was tested using the Ordinary Least Square Linear Regression model. The result shows that equity is significantly related to the profitability of the firms while total asset was positively and significantly related to profitability. Cost management on the other hand have a significant impact on profits. The study concluded that cost management has significant influence on profitability. The study then recommended that company policy makers and transaction advisors should be keen on making cost management policies to be applied since they greatly impact on financial performance of the company.

Muse (2021) asses the relationship between cost management and financial performance of three telecommunication companies in Turkey, Egypt and Saudi Arabia. The study used the multiple regression model to analyze the data. The analysis reveals that the cost management of Egypt telecommunication are insignificant with financial performance of the firms for the period while Saudi Arabia telecom companies cost management was significant with financial performance. The study concluded that Turkey Telecom Company's cost management is poorly oriented. It was recommended that, there is need for development of a scale for the effective financial performance of the company in order to the keep the company's liabilities under control, the management should pay off the creditors quickly and reduce the repayment terms on the loans. Moreover, Egypt Telecom Company needs to venture into the financial performance of the company by developing up avenues necessary for the development of the financial performance such as improving the business attractiveness and expanding its customer's base.

Ayorinde (2021) examined the impact of cost control on financial performance of pharmaceutical firms in Nigeria from 2010 to 2019. Secondary data were used in this study. The secondary sources of data were sought from published annual reports of the six quoted pharmaceutical firms in Nigeria. Panel regression analysis was employed to evaluate the impacts of cost control on financial performance of pharmaceuticals firms in Nigeria. The results revealed that cost control has significant influence on financial performance of pharmaceuticals firms in Nigeria. The study recommended that the management of the firms should adopt modern strategic cost management method for effective operation in the organization in order to enhance their performance.

Nwatu and Idoko (2020) evaluates the reducing operating costs and profitability of manufacturing firms in South East, Nigeria. A population of 3866 staff was used. The population of the study was drawn from the groups under study using a stratified sampling method. The adequate sample size of 350, using Freund and William's statistic formula was applied. The primary sources were personal interview and the administration of questionnaire. The data was analyzed using Pearson correlation coefficient. The findings of the study reveals that Bank Charges and the growth significantly influence profitability. Travelling expenses and the value per unit product also significantly relate to profitability. Moreover, selling costs and income are significantly related profitability. The study concluded that bank charges, travelling expenses and selling costs had significant relationship with growth, value per unit products, and income of the manufacturing firms in south East, Nigeria. The study recommended that manufacturing firms should partner with the Banks to bring their charges at their affordable rates.

Yushang, Chipwere and Adu-Gyamfi (2020) investigated the effect of cost management on the financial performance of manufacturing firms in Zimbabwe. The study employed a descriptive research design. The study employed panel data covering four (4) years 2014-2018 which was gathered from the financial statement of a selected manufacturing firm. The study employed the pooled regression analysis for its data analysis. The study revealed that cost of inventories has insignificant positive effect on return on equity. The cost of labor will increase performance but could be detrimental if the money spent on labor is taking a larger percentage of the overall profit component of the organization. The study recommended that organizations should ensure well accountable cash or gains are spent on the labor component in order to improve the return on equity for their major shareholders. Again, organizations should spend more on their sales component of the operations; mindfully, prudence should be applied knowing fully well that money or gain spent in this area will be re-coped back through turnover.

Temitayo and Adegbie (2020) examined the effect of cost management on financial performance of quoted Consumer goods firms in Nigeria. The population of the study was 27 companies listed on the Nigeria Stock Exchange. A sample frame of 10 companies was selected for a period of 10 years (2009 – 2018). Data were obtained from the audited financial statement of the companies. The study adopted the descriptive and inferential statistics for it data analysis. The result revealed joint insignificant effect of cost management on, Net profit margin. The study concluded that there is an insignificant effect of cost management on financial performance. The study recommended that adequate management and quality cost ascertainment and control is highly needed.

Akintoye, Oyedokun, Tomomewo and Owolabi, (2019) examined the effect of cost control on the profitability of selected manufacturing companies in Nigeria. The population of the study was the 78 manufacturing companies listed on the Nigeria Stock Exchange. A sample frame of 23 companies listed on the consumer goods sector was selected out of which five companies were considered for a period of 10 years (2005-2017). The study adopted a judgmental sampling technique. Data were obtained from the audited financial statement, and the accounts have already validated by regulatory authorities. The study took descriptive and inferential (regression) statistics. It was found that there is a significant negative relationship between the cost of raw materials (CORM) and profitability. The study concluded that cost control has a significant positive effect on the profitability of manufacturing companies in Nigeria for the period under review. Therefore, it was recommended that adequate management and alternative sourcing of raw materials should be employed.

Akayisenga and Mulyungi (2018) examine the impact of cost control on the performance of commercial banks in Rwanda. The population of this study was 305 employees of Bank of Kigali in Kigali. For the purpose of this study, a sample size of 75 respondents was determined from total population of 305 individuals. The study used descriptive and inferential statistics. Based on the information drawn from findings, the researcher concluded a significant positive correlation between operational cost control and performance of bank of Kigali and finally; the researcher concluded a significant positive relationship between administrative costs and performance of bank of Kigali. The study recommended that management of Bank of Kigali should strengthen the production cost control measures since poor control of production and operation costs may negatively affect the financial performance of performance of Bank of Kigali by declining or reducing the profits of the bank of Kigali.

Egbunike and Adeniyi (2017) examine the influence of cost reduction strategy on profitability of Nigerian banks. Purposive sampling technique was used to select three banks out of a population of ten banks as the sample size of the study. The study collected its data from the Nigerian Stock Exchange Fact-book and Annual Report and Accounts of the sample population for the period 2006 to 2016. The study also used the linear regression analysis in estimating the parameter of the model. The findings revealed that a negative relationship between reducing of employee, reduction of staff salary and profitability. The study recommended that banks should reduce their employee salary instead of laying them off. Then, salary increment can be done when the financial performance is improving.

The Efficiency Structure Theory (ES) was use to underpinned the study. The ES theory states that companies enjoy high profits because of their level of efficiency over other companies. There are two distinct approaches within the ES; the X-efficiency and scale-efficiency approaches. According to the X-efficiency approach, more efficient firms are more profitable since they have lower costs. Such firms tend to gain larger market shares, which may manifest in higher levels on market concentration, but without any causal relationship from concentration to profitability (Athanasoglou, Denis & Staikouras, 2006). The scale approach emphasizes economies of scale rather than differences in management or production technology. Larger firms can obtain lower unit cost and higher profits through economies of scale. This enables large firms to acquire market share, which may manifest in higher concentration and then profitability.

3. Methodology

The study employed ex-post facto research design using panel data analyses of financial information extracted from published financial statements and accounts of manufacturing firms on the Nigerian Stock Exchange for a period of Ten (10) years (2012 -2021). One (Nestle Nig. Plc.) firm was purposively sampled out of the 78 listed manufacturing companies in Nigerian Stock Exchange (NSE). The data was collected via secondary sources from the audit financial report of the firm. Multiple regression analysis was adopted in analyzing the data of the study. The regression analysis is appropriate because it measure, explain and predict the effect and connection between the variables. The dependent variable is profitability (measured as profit before tax divided by total assets) while the independent variable is cost control proxy by administrative cost (measured as log of total administration expenses, Akindele, et al. 2022, and Temitayo, et al. 2020) and finance cost (measured as log of total finance cost, Akindele, et al. 2022, and Temitayo, et al. 2020) while cost reduction is proxy by change in cost of raw material (measured as Δ in cost of raw material Egbide, et al., 2019). The model is mathematically represented as:

$$PRT_{it} = \beta_0 + \beta_1 ADMC_{it} + \beta_2 FC_{it} + \beta_3 CMC_{it} + \varepsilon_{it} \quad (1)$$

Where;

PRT = Profitability
ADMC = Administrative Cost
FC = Finance Cost
CMC = Change in Material Cost
β_0 = Constant
$\beta_1 - \beta_3$ = Coefficient of the Independent Variables
ε = Error Term
i = Firm
t = Period

4. Result and Discussions

This section presents and discussed the results of the data analysis starting with the descriptive statistics, correlation matrix and the regression result.

4.1 Descriptive Statistics Result

Table 1: Descriptive Statistics

Variables	Min	Max	Mean	Std. Deviation
PRT	0.1271	0.3681	0.2626	0.0746
ADMC	15.4856	16.2813	15.9523	0.2615
FC	14.4299	16.8536	15.4294	0.8702
CMC	12.7473	16.4091	14.4488	1.2801

Source: STATA Output

The average value of profitability is 26.26 (0.2626) percent for the selected firm. The maximum profit made by the selected firm for the period was about ₦36.81 million while the minimum profit for the period was about ₦12.71 million. The standard deviation coefficient value of 0.0746 compare to the mean value of 0.3681 suggests a low level of variability of profitability of the firm. The average value of administrative cost (ADMC) is ₦15.95 million and a min and max value of 15.4856 and 16.8635 respectively. For finance cost (FC) the mean value for the period is ₦15.43 million while the minimum and maximum profit recorded for the period by the firm was ₦14.43 million and ₦16.84 million respectively. Finally, the average change in cost of material for the period was ₦14.45 million while the minimum and maximum profit realized was about ₦12.75 million and ₦16.41 million respectively.

Table 2: Correlation Matrix

	PRT	ADMC	FC	CMC
PRT	1.0000			
ADMC	0.1379	1.0000		
	0.7040			
FC	-0.5795	0.4604	1.0000	
	0.0782	0.1805		
CMC	-0.2754	0.8289*	0.6306	1.0000
	0.4411	0.0030	0.0506	

Source: STATA Output

It can be observed from the table above that a weak positive but insignificant correlation exists between ADMC and PRT as shown by a coefficient value of 0.1379 and a p-value of 0.7040. On the variable FC and PRT, the result revealed a strong negative but significant association between the variables as indicated by coefficient values of -0.5795 and p-value of 0.0782. Furthermore, the variable CMC and PRT revealed a weak negative and insignificant correlation between the variables as indicated by a coefficient value of -2754 and p-value of 0.4411 respectively.

Table 3: Regression Analysis

	Coefficient	Std. Error	t. Value	p-Value
Constant	-3.1371	1.6384	-1.91	0.104
ADMC	0.3019	0.1168	2.59	0.041
FC	-0.0484	0.0253	-1.91	0.104
CMC	-0.0465	0.0273	-1.79	0.140
R^2				**0.6922**
Adj. R^2 0.5384		**Prob. F. 0.0559**		

Source: STATA Output

In table 3, it was reported that the estimates from the regression that was first carried out by regressing the relationship between cost control and cost reduction variables against profitability shows a probability statistics value of 0.0559 which is significant at 10% level of significance indicating that the model is fit. Additionally, the R-square (R^2) value of 0.6922 implies that independent variables jointly influence the profitability of the Nestle Nig. Plc. up to 69.22% while the remaining 30.78% are explained by other variables not captured in this model.

4.2 Discussion of Findings

The estimated parameters especially that of administrative cost as indicated in table 3 above is seen to be positive and statistically significant with the profitability of the Nestle Nig. Plc. as indicate by a coefficient value of 0.3019 and a p-value of 0.041 respectively. This means that as admin expenses of the firm increase by ₦1 it will lead an increase in the profitability of the firm by ₦30.19 million. The finding associated to this variable is tandem with the studies of Mamidu and Akinola (2021); Ayorinde (2021); Nwatu and Idoko (2020) and Akayisenga and Mulyungi (2018). While the studies of Oluwayemisi, et al (2022) and Muse (2021) shared a contradicting result with the current study.

Conversely, finance cost shows a negative and statistical insignificant influence on the profitability of Nestle Nig. Plc. for the period. The result revealed a coefficient value of -0.0484 and a p-value of 0.104. This implies that for every ₦1 increase in finance cost, the profitability of Nestle Nig. Plc. will decrease by ₦4.84 million. The finding is not in agreement with the studies of Mamidu and Akinola (2021and Ayorinde (2021).

Similarly, change in cost of material as a variable of cost reduction was found to be negative and statistically insignificant with the profitability of Nestle Nig. Plc. as indicated by a coefficient value of -0.0465 and p-value of 0.140 respectively. This implies that for every ₦1 change in cost of material, it will lead to a ₦4.65 million decrease in the profitability of Nestle Nig. Plc. The study also agreed with studies of Akintoye, et al. (2019); Yushang, et al. (2020) and Muse (2021). The study is not in agreement with the study of Erasmus (2021).

5. Conclusion and Recommendations

The rational in carrying out this study is premised on the role that manufacturing firms should play in cost control and cost reduction in order to attain profitability. This study investigated the effect of cost control and cost reduction of listed manufacturing firms in Nigeria with specific interest in Nestle Nigerian Plc. the data was mainly collected from the audited financial reports of the selected firm for a ten year period from 2012-2021. A multiple regression was employed to empirically investigate the relationship between the variables. The result of the ordinary least square (OLS) model revealed that admin cost was positive and significantly impacted on profitability. Conversely, finance cost and change in material cost revealed a negative and insignificant association with the profitability of the selected firm in Nigeria. The study concludes that cost control and cost reduction do influence the profitability of Nestle Nigerian Plc. the study therefore recommends that a proper adoption of cost control and reduction techniques that will not lead to company failure in the future; there should also be proper evaluation of cost control and reduction techniques and constant monitoring and check on the techniques adopted to ensure they suit the purpose in which it was adopted.

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