# EFFECT OF ORGANISATIONS’ INPUT COST ON FINANCIAL PERFORMANCE OF LISTED MANUFACTURING COMPANIES IN NIGERIA

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# IGBINEDION UNIVERSITY, OKADA, EDO STATE.

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# BEING A DISSERTATION SUBMITTED TO THE DEPARTMENT OF ACCOUNTING OF MALLAM SANUSI LAMIDO SANUSI COLLEGE OF BUSINESS AND MANAGEMENT STUIDES IN PARTIAL FULFILMENT OF THE REQUIREMENTS FOR THE AWARD OF MASTERS OF SCIENCE DEGREE (M.Sc) IN ACCOUNTING OF IGBINEDION UNIVERSITY, OKADA, EDO STATE, NIGERIA

**SEPTEMBER, 2021.**

# DECLARATION

I declare that this dissertation was based on a study undertaken by me in the Department of Accounting under the supervision of Dr. (Mrs.) Mary Josiah. This project has not been previously submitted to any other university. All ideas and views were product of my personal research and where the views of others were used and expressed, they were duly acknowledged.

# ----------------------------------- EGOT TESSY EJUNO PG/19/022151/BMS

# DEDICATION

This project is dedicated to the Almighty God who gave me all the strength, health and wisdom to make this research work a great success.

# CERTIFICATION

This is to certify that this dissertation was carried out by EGOT, TESSY EJUNO with matriculation number PG/19/022151/BMS of the Department of Accounting. It is adequate in scope and content for the award of Master of Science (M.Sc) degree in Accounting.

# Dr. (Mrs.) Josiah, Mary Date

Project Supervisor

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**Head of Department**

# External Examiner Date

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# Abstract

*One of the major problems which face manufacturing companies is the growing trend of input costs which erode business profit and, as such, lead to constant shutdowns of companies in Nigeria.*

*Based on this, this study investigated the effect of input cost on the financial performance of manufacturing companies using water-max Plc, Yola, Adamawa State, as a case study. The Survey research design was adopted the primary method of data collection was through a well structured questionnaire. 130was used as the sample size with the random sampling techniques out of which Percentages and frequencies was used for the descriptive statistics and question items. Multiple regression analysis was used to analysis the hypotheses. We found out that finance cost, operational cost and direct cost had a positive and significant relationship with financial performance while monitoring cost has a negative and significant effect on financial performance. Based on the findings we recommended that all input costs should be properly monitored to achieve a better performance in manufacturing companies.*

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# CHAPTER ONE INTRODUCTION

# Background to the Study

The importance and effect of organizations input cost on firm profitability especially among large companies cannot be undermined. It has raised a lot of anxiety recently within the global market especially since most global economies are still reeling from the financial crises and corporate failures that were experienced in the last decade (Ogbadu, 2009). In spite of this anxiety, firm input cost continues to exert pressure on corporate performance particularly within the manufacturing sector all over the world. (Ola, 2001). For any firm to sustain the growing concern objective, it should be able to generate enough revenue to cover its operating cost and make enough profit to compensate the shareholders. Hence, in the context of firms’ financing structure and profitability, agency cost surfaces which is a result from the conflicts of interest between shareholders and managers surface. Debt financing raises the pressure on managers to perform, but it implies that interest payment obligations must be satisfied by the firms’ agents since the company may come under the threat of bankruptcy if these obligations are not satisfied. Little wonder why several studies support the positive effect of debt financing on corporate profitability (Jensen & Meckling, 1976).

According to Akinmulegun (2012), a proportionate mix of owners’ funding (equity) and borrowed funding (debt) finance a firm’s investment proposals has been the subject of intensive theoretical modelling and empirical examination for several decades which gave rise to the serious consequences of corporate financial performance. Banerjee (2009) state that there should be a proper mix between debt and equity so that management could take advantage of proper financial planning because debt capital was cheaper than equity capital with the attendant effect of lowering the average cost of the

capital of the firm. Furthermore, Gatsi, Gadzo & Akoto (2013) opined that the ability of the company’s management to increase its profit by using debt indicate the quality of the management’s corporate governance since the use of debt capital increase earnings on equity capital as long as the rate of return on firms’ investment exceeded the explicit cost of financing the investment (Abdul & Adelabu, 2015)

The monitoring function of independent directors has been prominently featured in both popular press and academic literature, especially after the passage of the Sarbanes-Oxley Act (SOX). Extant study by Hermalin and Weisbach (2003) on corporate boards conclude that independent directors were generally effective in the traditional monitoring function, which included decisions regarding Chief Executive Officer (CEO) succession and CEO compensation, but were generally not correlated with firm performance. In contrast, the boards’ advisory/monitoring function, although considered very important in the popular press, received far less attention in the academic literature. The board of directors of a company acts on behalf of shareholders to monitor and restrict the activities of management ensuring behaviour that maximizes shareholder value. Therefore, the cost of having a board of director is, at least to some extent, considered an agency monitoring cost (Denis, Denis & Sarin, 1997). Outside directors are expected to perform better monitoring than other directors because they are independent from management and have incentives to keep their reputation as experts. Black,

B.S., H. Jang and W. Kim (2006) reported that firms whose outside directors’ accounted for more than half of the board’s constitution had higher firm performance.

The study by Robbins (2001) revealed that another developing and significant input cost confronting the firm was tied to global transition from manufacturing activities to service based (human capital) economies. However, the fundamental difference between the two sectors lies in the very nature of

their assets which substantially determine organizational performance. Expectedly, expenditures on human capital have generally risen faster than those for non-human capital in today’s knowledge- driven economies. This shift appears to have induced more investments in employees and thus triggered off enquiries for the development of accounting tools for measuring and reporting human resource costs as assets (Erasmus & Josephine, 2014). In another dimension, Kekre (2002) noted that a company’s expenditure on employees’ training and development was generally viewed as one of the critical investments that firms should engage in and be adequately appropriated for capital expenditure. Stressing on the importance of intellectual capital, Ghasempour and Yusof (2014) explained that intellectual capital and human resources had created a great competitive advantage with a significant positive impact on firm performance.

In this new world of information technology, Ilebrand, N., Mesoy, T., & Vlemmix, R. (2010) observed that manufacturing firms which were highly driven by technology had shown to benefit from reduced operational, marketing, general and administrative costs. Information technology systems have improved the efficiency of operational and supply chain processes within and across firms by supporting lean transformational efforts (Ilebrand, N., Mesoy, T., & Vlemmix, R. 2010).

These systems come along with expanded productivity and a reduction in inventory and cycle times, thus reducing overall operational costs (Banker et al. 2006a; Mukhopadhyay et al. 1995; Banker et al. 2006b; Bardhan, Mithas & Lin, 2007; Cotteleer & Bendoly, 2006; Kohli, 2007; Mukhopadhyay & Kekre 2002; Whitaker et al. 2011). However, in a developing society such as Nigeria, Ogbodu, (2009) emphasized the danger of a perpetual increase in input cost among manufacturing companies. Hence, in a bid to understand as well as provide probable solutions to the foregoing issues, this study explored the effect of firms’ input cost as it related to the financial performance in manufacturing companies in

Nigeria using Water-max PLc, Yola, Adamawa State, as a case study.

# Statement of Problem

There is no business organization that can thrive without a specific objective and often the most important objective is profit maximization. With a well-established agenda set by the organization, measuring the effectiveness or otherwise of the steps taken by the management can be very easy. The most paramount purpose of any business entity is to maximize profit (Lucey, 1993). Other secondary objectives include survival, expansion, employee motivation, corporate social responsibility and so on. The two objectives are considered very important, as stated above, but profit maximization is usually more critical as it protects the investors’ interest which is the ultimate (Oyerogba, Olaleye & Solomon, 2014). Therefore, as a result of the competitive nature of the business environment, profit maximization has a great limitation. So, for a company to meet its profit target, there is the need for an adequate cost control policy. A company with an adequate cost control policy on its indirect costs is more likely to attain its profit target (Robert, 2007). Cost control and cost reduction are both necessary in ensuring that the indirect costs do not hamper the attainment of the organization’s objectives. Adeniji (2014) posited that cost could be classified according to behaviour, functions, nature, responsibility centres, degree of control and so on. This classification enables the management to identify the cost which can be controlled or reduced with the manager’s expertise and experience. Managers are unable to reduce uncontrollable costs such as head office costs and, as such, they cannot be held accountable. Cost control perhaps is the most important in today’s unstable economic environment due to the competitive nature of the business environment. Cost control is germane to the

survival of manufacturing companies to ensure the adequate utilization of the material resources and ultimately enhance the growth of profit. The importance of reducing the indirect costs cannot be underestimated by a manufacturing company as a strategic edge to stay ahead of competition. Moreover, it is one of the most important traits of business success in a developing economy like Nigeria. Furthermore, indirect costs need the conscious effort by the management in negotiating with suppliers of services to the organization. This enables the management to diligently implement the budget with minimal deviation. One of the most critical problems of manufacturing companies in Nigeria is the growth of indirect cost which is inimical to the profit maximization objective. Most companies have shut down their operations as a result of escalating operations costs. On the other hand, the insatiable demand for higher quality by the customers at the lowest price possible is a pointer to the need for cost leadership. The shareholders also expect higher returns from their investment. It is a critical task for manufacturing companies to cope with the twin challenges of delivering products of a higher quality at a low cost to customers and also….????

Globally, the manufacturing sector has become progressively significant to the development and growth of both developing and developed societies which suggest appropriate consideration of the relative importance of its operational activities vis-a-vis input cost in order to generate appropriate measures against its devastating impact. According to Gatsi, Gadzo & Akoto (2013), input costs which are economic resources or factors of production refer to the firm’s expenditures incurred to create a product or a service obtained from direct materials, direct labour and factory overhead. Although the primary objective of a corporation is profit maximization and growth of shareholders’ value, these objectives can only be achieved through increased sales and increased production capacity which, in turn, will require an increase in input costs. According to Ogbadu (2009), a major

challenge which confronts manufacturing firms in Nigeria is the growing trend of operational costs

which erode business profits thereby leading to shut downs and, in some cases, complete collapse of manufacturing firms, job loss, poor economic growth, sub-standard national development and the creation of social problems (especially unemployment) within the Nigerian economy. Obviously, a decline in profits in manufacturing firms in Nigeria is counter- productive to the economic growth and development of the Nigerian economy.

Several related studies documented different results which emerged from the effects of firm’s input cost on financial performance around the globe especially among developed economies. For instance, a positive and significant relationship was obtained from the studies by Kinyugo (2014) Sivathaasan, Tharanika; Sinthuja and Hanitha (2013) and Pradhan (2017) while Ndolo (2015) documented a negative effect of input cost on firm financial performance among listed Latin American companies. However, little attention was given to monitoring costs that were involved in managing large companies in Nigeria. Thus, this constitute one giant stride which this study attempted to take in examining monitoring costs as it affects firm performance.

In Nigeria, the studies by Siyanbola and Raji (2013), Ifurueze, Odesa and Ifurueze (2014), Omodero, Ogechi and Ihendinihu (2016), Nwanna and Ivie (2017) and Okwo, Ugwunta and Agu (2012), indicated that firms input cost rose astronomically with the emergence of the internet and ever since, increased operational cost had been documented for the service sector. A review of the above prior related studies showed that most of the studies concentrated on individual firms within the manufacturing sector without due cognizance to monitoring cost, direct cost, financing cost and operating cost. Specifically, we found that related studies conducted in Nigeria had sufficiently employed accounting financial ratios of return on asset and return on equity as proxies for firm performance (Andow & David, 2016; Adebiyi & Sunday, 2011; Uwuigbe & Olusanmi, 2012; Tsegba

& Herbert, 2013) while neglecting the performance variable of Enterprise Value Added (EVA).

Specifically, the gap between enterprise and accounting values was documented by previous researches (Helms Cahan, S., Lal, M. and Riceman, S. 2002). Enterprise value is the theoretical takeover price if a company were to be bought. Enterprise value differs significantly from simple market capitalization in several ways, and many scholars consider it to be a more accurate representation of a firm's value. For example, if the value of a firm's debt would need to be paid off by the buyer when taking over a company, enterprise value provides a much more accurate takeover valuation because it includes debt in its value calculation. Reviewed extant literatures revealed varying empirical strategies and contradictory results partly due to the differences in sample sizes of the sampled firms. Hence this study empirically examined the impact of input cost on firm performance in the Nigerian context.

# Objective of Study

The broad objective of this study was to examine the effect of input costs on the firm performance of non-financial quoted companies in Nigeria. Specifically, the study tended to:

* + 1. Examine the effect of finance cost on the financial performance of listed manufacturing companies in Nigeria.
    2. Find out the effect of direct cost on the financial performance of listed manufacturing companies in Nigeria.
    3. Evaluate the effect of operating cost on the financial performance of listed manufacturing companies in Nigeria.
    4. Investigate the effect of monitoring cost on the financial performance of listed manufacturing companies in Nigeria.

# Research Questions

This study sought answers to the following questions:

* + 1. Does finance cost have any significant effect on the financial performance of listed manufacturing companies in Nigeria?
    2. Does direct cost have any significant effect on the financial performance of listed manufacturing companies in Nigeria?
    3. Does operation cost have any significant effect on the financial performance of manufacturing companies in Nigeria?
    4. Does monitoring cost have any significant effect on the financial performance of listed manufacturing companies in Nigeria?

# Statement of Hypotheses

Based on the objectives, and to answer the research questions of this study, the following null hypotheses were be tested:

**H01:** Finance cost have no significant effect on the financial performance of listed manufacturing companies in Nigeria.

**H02:** Direct cost has no significant effect on the financial performance of listed manufacturing companies in Nigeria.

**H03:** Operation cost has no significant effect on the financial performance of listed manufacturing companies in Nigeria.

**H04:** Monitoring cost has no significant effect on the financial performance of listed manufacturing

companies in Nigeria.

# Significance of the Study

This study contributed to the awareness and knowledge of the effect of input costs on the financial performance of listed manufacturing firms in Nigeria. The study provided management, practitioners, investors and analysts the ‘must have’ tools to aid them in making informed business and investment decisions. Specifically, this study would to be of immeasurable benefit to the following parties: **Management and Practitioners**

Managers are interested in quality internal controls, better financial conditions and improved performance of the firm. The knowledge of the findings from this study would improve the decision- making capability of managers and practitioners.

# Regulatory Authorities

Regulatory and tax authorities are interested in earnings and profitability of firms for policy making and taxation purposes. The findings from this study would to help regulatory authorities in their decision-making processes. Improvements in regulations and decision making would in turn, lead to improved decision making by existing and potential investors.

# Shareholders and Prospective Investors

The benefits of analysing the performance of listed manufacturing firms for both current and prospective investors cannot be overemphasized. Investors (present and prospective) who are interested in present and future earnings as well as the stability of the earnings of the firm would find this study useful in the course of making decisions about their investments. Investors would to use the findings of this study to determine what constitutes firms’ cost, and be better equipped in the evaluation and assessment of financial statements before making investment decisions.

# Academics and Researchers

This study is expected to contribute to the existing body of knowledge in the fields of input costs

behaviour and performance of listed non-financial companies in Nigeria. Researchers would use the findings of this study as a basis for further research in related fields of knowledge.

# Scope of the Study

This study focused on investigating the effect of input costs on the performance of selected manufacturing companies using Water- max Plc. Yola, Adamawa State. Furthermore, the variables adopted for this study included: finance cost, direct cost, operational cost, and monitoring cost. Primary sources of data collection were be adopted which made the study to be different from other studied one.

# Definition of Operational terms

**Finance costs:** These are the interest and other costs incurred by the company while borrowing funds.

**Operational costs:** These are the ongoing expenses incurred from the normal day-to-day running a business.

**Monitoring cost**: The cost of maintaining the board of directors

**Direct cost:** A price that can be directly tied to the production of specific goods or services

**Financial performance:** This is a subjective measure of how well a firm can use assets from its

primary mode of business and generate revenues.

# CHAPTER TWO LITERATURE REVIEW

# Introduction

This chapter consists of the conceptual framework, empirical literature that discusses what other researchers did in related areas and the theoretical framework that discusses the theory on which the study was based.

# Conceptual framework

# Concept of financial performance

Pandey (2008) defined financial performance as a subjective measure of how well an organization used assets from its primary mode of business to generate revenues. He further state that the term

could also be used as an accepted measure for organization’s overall financial position over a period

of time, and to compare similar organizations across the same sectors in aggregation. Evaluating the performance of organizations is critical in order to ascertain whether the business is viable. A key performance measure is used in the modern financial management and financial ratio analysis. The type of financial analysis varies according to the specific interests of the parties involved.

According to Holtzman (1994), trade creditors are interested primarily in the liquidity of an organization. These claims are short term, and the ability of the organization to pay the claims is through the analysis of its liquidity. The claims of bondholders are long term and they are more interested in the cash flow of the organization to service the debts in the long run. The bondholder evaluates the of capital structure of the organization which is the major sources of funds, and the projections of future profitability. Investors are concerned principally with the present and expected future earnings, and the constant stability of the organizational earnings. Most organizations concentrate on the profitability analysis of the businesses, financial condition of the organization, ability to pay dividends and avoid bankruptcy. There are different ways to measure the financial performance of organizations input cost, but all measures taken in aggregation of some of the financial performance indicators are return on equity, liquidity ratios, asset management ratios, profitability ratios, leverage ratios, market value ratios, finance cost, operational cost, monitor cost and direct cost. Firm performance refers to the profitability of the firm which is the benchmark upon which economic, managerial efficiency and social objectives are appraised. Profitability is the concept of being able to make profits from all the business operations of an organization. Harward and Upton (1991) and Nishanthini and Nimalathasan (2013) document explained that 'profitability is the ability of a given investment to earn a return from its use including the development of market for it'. It is excess of return over outlay. Profitability is the unique measure of corporate success and an essential indicator of economic performance. Profit is not profitability. While profit is an aggregate term, profitability or performance is a

progressive view. Profit represents the total income earned over a defined period of time by an organization, whereas profitability refers to the operating efficiency of the organization.

Performance refers to the ability of the organization to make profit on sales and get sufficient return on the capital, and the employees used in the business operation. Profits are generators of retained earnings within a firm. Weston and Brigham (1992) advocated that 'profit to the financial management is the test of efficiency and a measure of control; to the creditors it represents a margin of safety; to the government it is a measure of taxable capacity and a basis of legislative actions; to the country it is an index of economic progress, national income generated and the rise in the standard of living; whereas performance is an outcome of profit'. Therefore, profit and profitability or performance are closely related, but they have distinct roles in business.

# Concept of Input Cost

The importance of the cost of input in a manufacturing company, especially the brewery industry, cannot be over emphasized. Input in the form of materials, labour and investments in fixed asset, taxes, interest rate and changes in foreign exchange rate, in one way or the other, have an effect on the performance of the industry. Manfred, Pierre and Bo (2011), while listing the cost of input, included exchange rate as one. Drury (2008) defined direct costs as those cost that could be specifically and exclusively identified with a particular cost object. Horngren etal (2006) described direct cost as those costs that were related to the particular cost object and which could be traced to it in an economically feasible (cost-effective) way. According to Okwo (2008), direct costs are costs that can be traced to a particular product.

They can be identified with a product, job or service. In addition to that, Glen (2008) identified transportation costs as one of the factors that affected brewers’ performance. Direct labour cost can be specifically traced to or identified with a particular product. The wages paid to the operatives engaged

in the production process are an example of direct wages (Drury 2008). Okwo (2008) described direct expenses as those expenses that are incurred in the production of a particular product or service, for example charges for plant or tool hire.

Alex (2008) commented on the effect of the scarcity of the major ingredients of beer- barley and hops. The input price on barley and hops hit small breweries the hardest as they recently raised the price of its pints from $2 to $6. He further explained that the beer industry experienced cost increases in raw materials. This is just one of the many factors that contribute to the price of beer. Yinxia (2003) asserted that prices and the cost of alcoholic beverages had been unstable. For instance, t wage rates rose relative to both capital and material prices until 1980. Thereafter, wages fell relative to capital and continued to rise relative to material prices. He however, concluded that the substantial narrowing of output-input price margin in the alcoholic beverage sector suggested that the sector had become more cost efficient through technical change, scale economies, improved utilization rates and other means.

Booze (2009) explored the impact of inflation of the input costs on the gross margins of brewers in the liquor industry. He found out that the inflation in the prices of barley and aluminum led to steep rises in the input costs of the alcohol brewers. He reported that in the two previous years, brewers’ gross margin fell by 350 billion pounds due to inflation in input costs.

# Finance Cost

According to (Dr. Sayantan Mukhopadhyay (2020), financing costs are widely defined as the interest and other costs incurred by organizations while borrowing funds. An organization funds its operations using equity financing or debt financing, and none of the financings come as a free gift to the organization. Equity investors require capital gains and dividends for their investments, and debt

providers seek interest payments. However, the interest costs and other fees that are given to the debt financers plus, the interest on expense can be short term financing and long term borrowing. In broader terms, borrowing costs include the following:

Amortization of discounts and premiums based on the borrowing organization; amortization of other costs incurred which are related to borrowings; foreign exchange differences and fees when the borrowings happen in foreign currency; finance charges concerning the financial leases’ and the income statement of the organization

# Types of Debt Financing

We considered the various costs included in different types of debt financing

1. Short term financing includes a bank overdraft. A bank overdraft includes an annual maintenance charge plus interest on the drawn amount and fees on the non-utilization of funds. The interest charges vary and increase if the risk to default increases. A higher rate and fees are charged if the unauthorized facility of limits is utilized.
2. Medium and Long-Term Financing: The primary cost of long term and medium term financing is interested in charge, and fees are usually taken by the bank when the loan is applied. While the loan application fee is the same, the interest rate charged varies according to the risk profile. It may be included if the loan is a secured or an unsecured loan and the type of assets put as collateral in case of a secured loan. Organizations lease a lot of machinery to make it an asset light model for their business.

# Cost Centre

A cost center is a function within an organization that does not directly add to profit but still costs the organization money to operate. Cost centers only contribute to a company's profitability indirectly, unlike a profit center, which contributes to profitability directly through its actions. Managers of cost

centers, such as human resources and accounting departments are responsible for keeping their costs in line with the budget.

* 1. A cost center is a function within an organization that does not directly add to profit but still

costs money to operate, such as the accounting, human resources, public relations or IT

departments.

* 1. The main use of a cost center is to track actual expenses for comparison to budget.
  2. A cost center indirectly contributes to a company’s profit via operational excellence, customer

service and enhanced product value.

* 1. The manager of a cost center is only responsible for keeping costs in line with budget and does

not bear any responsibility regarding revenue or investment decisions.

* 1. Equity holders need dividend and capital gains, whereas creditors require fees and interest payments, interest payments and fees which the company pays to the creditors for taking on short-term or long-term financing facilities.

# Operational Cost

Operating costs are associated with the maintenance and administration of a business on a day to day basis. Operating costs include direct costs of goods sold and other operating expenses which include rent, payroll and other overhead costs as well as raw materials and maintenance expenses. Operating costs exclude non-operating expenses related to financing such as interest, investments or foreign currency translation.

The operating cost is deducted from revenue to arrive at operating income and is reflected in an organizational income statement.

Operating costs are the ongoing expenses incurred from the normal day-to-day running of a business.

1. Operating costs include both costs of goods sold and other operating expenses—often called selling, general and administrative expenses.
2. Common operating costs, in addition, may include rent, equipment, inventory costs, marketing, payroll, insurance, and funds allocated for research and development.
3. Operating costs can be found and analysed by looking at a company's income statement.

# Understanding Operating Costs

Businesses have to keep track of operating costs as well as the costs associated with non-operating activities such as interest expenses on a loan. Both costs are accounted for differently in a company's books, allowing analysts to determine how costs are associated with revenue generating activities and whether the business can be run more efficiently.

# Types of Operating Costs

Operating costs do not include capital outlays, but include other components of operating expenses such as accounting and legal fees, bank charges, sales and marketing costs, travel expenses, entertainment costs, (research and development expenses), office supply costs, rent, repair and maintenance costs, utility expenses, and salary and wage expenses.

Operating costs also include the cost of goods sold which are the expenses directly tied to the production of goods and services: direct material costs, direct labour, rent on the plant or production facility, benefits and wages for the production workers, repair costs of equipment and utility costs, and taxes of the production facilities

**Organizational Operating Costs** comprise two components, fixed costs, and variable costs which differ in important ways.

# Fixed Cost

A fixed cost is one that does not change with an increase or a decrease in sales or productivity, and must be paid regardless of the company’s activity or performance. For example, a manufacturing company must pay rent for factory space regardless of how much it produces or earns. While it can downsize and reduce the cost of its rent payments, it cannot eliminate these costs, and so they are considered to be fixed. Fixed costs generally include overhead costs, insurance, security and equipment. Fixed costs can help in achieving economies of scale because as when most of a company’s costs are fixed the company can make more profit per unit as it produces more units. In this system, fixed, costs are spread out over the number of units produced thus making production more efficient as production increases by reducing the average per-unit cost of production. Economies of scale can allow large companies to sell the same goods as smaller companies for lower prices. The economies of scale principle can be limited in that fixed costs generally need to increase with certain benchmarks in production growth. For example, a manufacturing company that increases its rate of production over a specified period will eventually reach a point where it needs to increase the size of its factory space in order to accommodate the increased production of its products.

# Variable Costs

These comprised costs that vary with production. Unlike fixed costs, variable costs increase as production increases and decrease as production decreases. Examples of variable costs include raw material costs and the cost of electricity. In order for a fast food restaurant chain that sells french fries to increase its fry sales, for instance, it will need to increase its purchase orders of potatoes from it is supplier. It's sometimes possible for a company to achieve a volume discount or "price break" when purchasing supplies in bulk, wherein the seller agrees to slightly reduce the per-unit cost in exchange for the buyer’s agreement to regularly buy the supplies in large amounts. As a result, the agreement

might diminish the correlation somewhat between an increase or a decrease in production and an

increase or decrease in the company’s operating costs.

# Semi Variable Costs

In addition to fixed and variable costs, it is also possible for a company’s operating costs to be considered semi variable. These costs represent a mixture of fixed and variable components, and can be thought of as existing between fixed and variable costs. Semi variable costs vary in part with increases or a decrease in production like variable costs, but still exist when production is zero like fixed costs. This is what primarily differentiates semi variable costs from fixed and variable costs. An example of semi variable costs is overtime labour. Regular wages for workers are generally considered to be fixed costs because while a company’s management can reduce the number of workers and paid work hours, it will always need a workforce of some size to function. Overtime payments are often considered to be variable costs as the number of overtime hours that a company pays its workers will generally rise with increased production and drop with reduced production. When wages are paid based on conditions of productivity allowing for overtime, the cost has both fixed and variable components, and are considered to be semi variable costs.

# Monitoring Cost

This cost is commonly referred to as the disagreements between shareholders and managers of the company and the expenses incurred to resolve the disagreement and maintain a harmonious relationship. This form of disagreement becomes obvious as the principals or the shareholders want the managers of organizations to maximize the shareholders’ value while, on the other hand, the managers want to operate in a way to maximize the wealth. This might even affect the market value of an organization. The expenses to handle the opposing interests are termed agency costs. If the management is involved in a project that will add up to the operating costs of the company such as

building or purchase of plant and equipment, it will reduce the profit margin of an organization, and it

will affect the value of the benefit received by shareholders. This is a form of opposing interests and it needs to be addressed.

# Types of Monitoring Cost

Monitoring costs can be classified into direct and indirect monitoring costs.

# Direct Monitoring Cost

***Monitoring Costs:*** When the activities of the management of the organization align with the benefits of the shareholders and these restrict the activities of the management. The cost of maintaining the board of directors therefore, to a certain extent is also a part of the monitoring costs. Monitoring costs are the employee stock options plan available into the employees of an organization.

***Bonding Costs:*** These are contractual obligations that are entered into between an organization and an agent. A manager who continues to stay with an organization even after it is acquired might forego the employment opportunities.

***Residual Losses:*** In case the monitoring bonding costs are not enough to diverge the principal and agent interests, additional costs are incurred which are called the residual costs.

# Indirect Monitoring Cost

The indirect monitoring costs refer to the expenses incurred due to the opportunity lost. For example, if there is a project that the management can undertake but which might result in the termination of their jobs, the shareholders of the company behave that if the company undertakes the project it will improve the shareholders’ values, and if the management rejects the project, it will have to face a loss in terms of shareholders’ stake. Since this expense is not directly quantifiable but affects the interests of the management and shareholders, it becomes a part of the indirect **monitoring** costs.

# How to Limit Monitoring Costs

The most common method of handling the agency costs involved in a company is by way of implementing an incentive scheme, which can be of two types: financial and non-financial incentives scheme.

## Financial Incentives Scheme

Financial incentives help the agents by motivating them so that they can act in the interest of the company and its benefits. The management receives such incentives when they perform well on a project or achieves the required goals. The financial incentives schemes are:

* 1. **Profit-Sharing Scheme:** The management becomes eligible to receive a certain percentage of the company’s profits as a part of the incentive scheme.
  2. **Employee Stock Options:** A pre-determined number of shares are available to be bought by the employees at a price which is usually lower than the market price.

## Non-financial Incentives Scheme

This scheme is less prevalent than the financial incentives scheme. These are less effective to reduce the organizational costs when compared to the financial incentives scheme:

Non-financial rewards and recognition from peers and colleagues, corporate services and added benefits, better workspace, better or improved opportunities, are targeted at aligning the management and shareholders’ benefits and interests. This means keeping the company in good shape for both parties. Due to the right application of the agency costs, the market value of the firm remains intact and improves in the eye of the stakeholders of the company.

It is an important point to note that **monitoring** costs are nearly impossible to eliminate by

organizations. However, as mentioned above, the incentive schemes should be appropriately used to

help reduce **monitoring** costs. The management, if left to handle the disagreements and the competing interests, would need to act in its own interest and that would lead to incurring much higher costs. **Direct Cost**

Direct cost is a price that can be directly tied to the production of specific goods or services. Direct

cost can be traced to the cost object which can be a service, product or department. Direct and indirect

costs are the two major types of expenses or costs that companies can incur. Direct costs are often

variable costs which fluctuate with production levels such as inventory. However, some costs such as

indirect costs are more difficult to assign to a specific product.

# Understanding Direct Costs

Although direct costs are typically variable costs, they can also include fixed costs. Rent for a factory,

for example, could be tied directly to the production facility. Typically, rent would be considered

overhead. However, companies can sometimes tie fixed costs to the units produced in a particular

facility.

# Input costs and Financial Performance

The main goal of a business organization, as stated in Lucey (1993) is to make and maximize profit while other secondary goals include growing concern, growth, corporate social responsibility, benefits to employees and so on. Lucey (1993) asserted that a business objective has the starting point for any business organization to thrive and provide direction for action. It is also a way of measuring the effectiveness or otherwise of the actions taken by the management of the organization. Although other objectives are also considered very important, as listed above, but profit maximization is usually the ultimate because it maximizes shareholders’ wealth which is the ultimate aim of investing in a business. People will naturally prefer to invest in a highly profitable business (Charles,1998).

Therefore, in the long run, only the profit maximizers survive in the business environment.

However, for proper profit to be recorded from a business, there is the need for adequate control of cost.

As stated in Robert (2007), a company with an adequate cost structure possessed the higher chance of attaining its profit target. Innes, John, Mitchell and Sinclair (2000) asserted that the survival triplet for any company was how to manage product/service cost, quality and performance. The shareholders demand a required rate of return on their investment from the company. Thus, cost has become a residual. The challenge is being able to manufacture products or provide services within the acceptable cost framework. Innes, John, Mitchell and Sinclair (2000) concluded in their study with a recommendation that cost had to be managed in an ongoing and continuous improvement activity within the company so as to enhance profitability and survival.

There have been substantial research efforts made by different scholars using different approaches in determining what seems to be the optimal cost reduction strategy or trying to explore the theories of indirect cost for firms and the effect on the reported profit. Yet there are no universally accepted findings. For example, Okwo and Ugwunta (2012) studied the impact of input costs on firm profitability of the brewery industry in Nigeria. They, among others, found that general administrative expenses (overhead) had no significant relationship with profitability while Ezekiel, Michael and Solomon’s (2014) result indicated that a positive significant relationship existed between cost management practices and firm performance in the manufacturing organization. It was therefore, recommended that a cost reduction strategy with emphasis on production overhead cost and

administrative overhead cost should be embarked upon if their profit maximization and wealth

creation objective would be achieved.

Ehi-Oshio, Adeyemi and Enofe (2013) further explained that 'corporate profitability is the degree to which an organization can effectively utilize it available funds and assets and convert them into profits. Profitability empowers an organization to resist adverse shocks and add to the sustainability of the businesses'. Enyi (2011) and Ademola, (2014) postulated that profitability was to business as circulation of blood was necessary to the human body. It makes business to run effectively, and efficiently; and management needs to focus on what will make her earn more profits in order to remain solvent. Hence, understanding and measuring the profitability of a business cannot be underplayed.

# Theoretical framework

This study was anchored on the Kaizen costing theory but other theories that were relevant to the study were also discussed.

**2.3.1 Kaizen Costing Theory**

According to Rof (2012), Kaizen, a term with Japanese origin was propounded by Masaaki Imai. The concept is a coinage of two Japanese words: KAI (Change) and ZEN (for better) (Rof, 2012).

Thereafter, Yashuhiro Monden from Japan developed Kaizen Costing as the costing counterpart to the Kaizen approach (Sani & Allahverdizadeh 2012). This concept refers to the process of 'continuous improvement' (Rof,2012). The principle behind Kaizen Costing application is on achieving small, gradual but continuous improvements in the production process at minimal costs (Rof, 2012).

**2.3.2. The Tradeoff Theory**

The tradeoff theory refers to the idea that a company chooses how much debt finance and how much equity finance to use by balancing the cost and benefits. The classical version of the hypothesis goes back to Kraus and Litzenbreger (1973) who considered a balance between the debt weight costs of bankruptcy and the tax saving benefits of capital structure. It states that there is an advantage to financing with debts and therefore a cost for financing with debts. The cost of financing with debts results mostly from financial distress, i.e, bankruptcy cost of debts and non-bankruptcy cost of debts. Examples of non-bankruptcy cost include staff leaving, suppliers, demanding disadvantageous payment terms, bond/stock holders in fighting, etc.

# Empirical Literature

Cynthia and Birger (1991) carried out a research on the sources of Superior performance: market share versus industry effects in U.S brewing industry. They used the financial measures of performance to investigate the sources of value creation in U.S brewing industry between 1969 and 1979. They found out that market share gains in the industry at that time did not correlate with changes in value, but the performance of individual leading firms highly correlated. They concluded that the absence of fundamental shifts in the relative resource positions of industry firms, share gains came at too high a price. In addition, the research showed that intra-industry correlations in returns could result from

excessive competition rather than collusion.

The International Federation of Scholarly Association of Management (2006) carried out a study on Internationalization and financial performance – empirical evidence from multinational brewing groups. The study shed some empirical light on (1) the degree to which 18 major breweries had internationalized their businesses since the late 1990s and (2) the relationship between the degree of internationalization and financial performance for the sample. Furthermore, it showed that the leading brewing groups around the globe had undergone a rapid international expansion in the 1999 – 2004 periods but that there were still larger variations between the brewers in the degree of internationalization achieved by 2004. The research highlighted some large variations between various breweries around the globe in their international involvement and corporate success.

Owusu (2010) examined the financial performance of Ghana Breweries Limited after merger and enlistment on the Ghanaian Stock Exchange. The study assessed the profitability level of Ghana Brewery Ltd (GBL), its solvency and liquidity position; the effectiveness and efficiency of the use of owners and creditors fund and the appropriateness of mix of debt and owner’s equity in financing its operations. The findings showed that despite the severe attack from cheaper brands on its products and the unfavorable economic environment that followed the merger, the company’s performance over the period under study was satisfactory.

During the same period, Adjeii (2010) carried out a research on the evaluation of the financial position of Accra Brewery Limited (ABL). The study was designed to evaluate the financial position and the profitability position of Accra Brewery Limited, a public company, whose stock has listed and traded on the Ghanaian Stock Exchange over a seven year period, from 2000 – 2006. The study assesse Accra Brewery Ltd (ABL) risk of bankruptcy using bankruptcy prediction model, the Altman’s Z- score. It revealed that ABL’s risk situation was more threatening in 2000 and 2006. The study again

used traditional ratios analysis in appraising the financial performance of ABL by focusing on the

assessment of liquidity, solvency and financial profitability. Based on the ratios analysis, the study revealed trends of ABL’s financial ratio and the results showed both impressive and unimpressive performances.

The Equity Research Report (2006) carried out a comparative analysis of the performance of selected breweries in Nigeria. They were the Nigerian Breweries Plc, Guiness Nigeria Plc, Champion Breweries Plc and Jos International Breweries Plc. The criteria for the comparison were based on market share by turnover, profit after tax, latest stock price, price earnings ratio, profit sales ratio, twelve months trading earning per share, market capitalization, share outstanding, Return on Equity, Return on Asset, Net asset per share, profit margin, shareholders fund, Beta, Dividend yield, and 5- year dividend yield average percentage derived from 2005 financial reports of the breweries. The analysis yielded varying degrees of performance for the studied firms.

Ezekiel, Michael and Solomon (2014) investigated the relationship that existed between cost management practices and firm performance in manufacturing organizations using data from 40 manufacturing companies listed on the Nigerian Stock Exchange during the period 2003 to 2012. Four hypotheses were formulated for the study and tested using t-statistic. The study relied on secondary data extracted from the audited financial statements of the selected companies. Direct material cost, direct labour cost, production overhead cost and administrative overhead cost were taken as the independent cost management variables while profitability (Operating profit) was taken as dependent variable representing the firm performance. The result indicated that a positive significant relationship existed between cost management practices and firm performance in the manufacturing organization. It was therefore, recommended that a cost reduction strategy with emphasis on production overhead and administrative overhead costs should be embarked upon if their profit maximization and wealth

creation objective would be achieved.

Etale and Bingilar (2016) examined the effect of cost management on the profitability of listed brewery companies in Nigeria. Cost management, a proxy for raw materials cost, work in progress cost and finished goods cost was regressed against profitability proxy by gross profit margin. Secondary time series data were collected from the annual reports and accounts of selected brewery companies from the Nigerian Stock Exchange from 2005 to 2014. A multiple regression technique using the computer software statistical package Windows SPSS 20 version was used to analyse the data obtained from NSE. The study revealed that efficient cost management had a positive influence on the profitability of brewery companies in Nigeria. Based on the findings, the study recommended that brewery companies should adopt effective and efficient inventory cost management practices, deploy appropriate modern technology for effective inventory cost management, and employ capable and qualified staff who should be trained regularly on proper and efficient inventory cost management.

Abowd, Kramarz and Margolis (1999) showed that while worker- “quality” was most important in explaining overall individual wage Kim and Robert (2014) Took a study to integrate research with strategy, economics and applied psychology to examine how organizations could leverage their human resources to enhance firm performance and competitive advantage. Little research has examined whether and why staffing and training influenced firm-level financial performance (profit) growth under different environmental (economic) conditions. Using 359 firms with over 12 years of longitudinal firm-level profit data, we suggested that selective staffing and internal training directly and interactively influenced firm profit growth through their effects on firm labour productivity. It implied that staffing and training contributed to the generation of slack resources that helped buffer and then recover from the effects of the Great Recession. Furthermore, internal training that creates

specific human capital resources is more beneficial to prerecession profitability, but staffing is more

beneficial to post-recession recovery apparently because staffing creates generic human capital resources that enable firm flexibility and adaptation. Thus, the theory and findings presented in this article had implications for the way staffing and training could be used strategically to weather economic uncertainty (recession effects). They also had important practical implications by demonstrating that firms with more effectively trained staff train would outperform competitors throughout all pre- and post-recessionary periods, even after controlling for prior profitability.

Abowd, Kramarz and Margolis (1999) showed that while worker- “quality” was most important in explaining an overall individual wage variation, firm specific effects were also significant and the two were not highly correlated. What are these firm-specific effects? There is evidence that part of the effect is related to the profitability of the firm. Firms that have more profits appear to pay higher wages than otherwise identical firms. Manning (2011) reviewed the literature. There are two key difficulties with this body of evidence. First, most studies use data on average wage in a firm, so the panel is at the firm-level rather than at the individual level. This then raises the concern that more profitable firms hire more-able workers and the positive correlation captures this effect.

Lawal (2017) investigated the effect of cost control and cost reduction of cost control techniques in organizational performance. Primary data were gathered using a sample size of 50 respondents from Chemster Paints Industry in Nigeria. The independent variable was cost control and cost reduction while the organization’s performances was dependent variable. The study showed that cost control and organizational management style had a positive impact on organizational performance.

In a survey conducted by Lasisi and Nuhu (2015) to investigate the influence of cost control on the survival of firms in Nigeria, structured questionnaires were administered to 30 staff of the Nigerian Bottling Company Plc (Jos Plant) at random. The findings showed that 70% of the respondents

strongly agreed that cost control impacted on the profitability of firms, 13.3% were undecided and

16.7% disagreed. The study recommended that cost control mechanisms such as Just – in – Time (JIT) techniques should be employed to meet production and sales requirement in Nigeria Bottling Company Plc.

Oyerogba, Olaleye and Solomon (2014) examined the relationship between cost management practices and performance of firms in Nigeria. The data were sourced from audited reports and accounts of 40 manufacturing companies listed on the Nigerian Stock Exchange for 10 years period, ranging from 2003 to 2012. Four hypotheses were formulated and tested for the study. The proxies for independent variables were direct material cost, direct labour cost, production overhead cost and administrative overhead while operating profit was taken as the dependent variable representing the firm performance. The findings indicated that a positive significant relationship existed between the cost management practices listed above and firm performance. The study recommended that a cost reduction strategy should focus on production overhead cost and administrative overhead cost so as to achieve profit maximization and wealth creation objective.

Okwo and Ogwunta (2012) investigated the impact of firms’ input costs on firm profitability, an evaluation of the Nigerian brewery industry. They used cross sectional data for the period 1999 to 2010. They used ordinary least square to analyse the data collected and their findings revealed that the ratio of selling and general administrative expenses had a positive and statistical significant impact on profitability. They concluded that sale was a major factor to be contended with by the Nigerian breweries in enhancing or boosting their profitability.

Olayinka (2019) examined indirect costs and profitability of selected manufacturing companies in Nigeria. They used 5 conglomerate manufacturing companies in the food and beverage sector of the economy which were quoted on the Nigerian Stock Exchange for the period 2008 to 2017. They used

pooled ordinary least square regression (OLS) method. The study used secondary data extracted from

audited annual accounts of the selected companies. Selling and distribution cost, administrative cost and finance cost were the independent variables while Profit Before Tax (PBT) was the dependent variable representing profitability. The result indicated that a positive significant impact existed between indirect costs and profitability in the manufacturing companies. The R2 implied that 69% of the total variation in profitability was accounted for by administrative cost, selling and distribution cost, financial cost and other variables while the stochastic term accounted for the remaining 31% of variations in profitability. They recommended that manufacturing companies should strengthen their control procedures to eliminate waste and therefore selling and distribution cost and administrative cost. Management was also encouraged to sustain the cheaper source of financing to increase profitability.

Okezie, Okezie and Ogbu (2017) evaluated the effect of indirect costs on corporate profitability of quoted companies in Nigeria. The indirect costs were measured by power and electricity, rent charges, and employees' salaries, while firm performance was measured by return on assets. The study used secondary data from the financial reports of the quoted companies. The study employed multiple regression analysis to test the hypothesized variables, and the explanatory variables showed p-values of 0.001<0.05 (PWE), 0.046 ≤0.05 (RNT) and 0.107>0.05(EMP) at 0.05 alpha level of significance. It was discovered that power and electricity had a significant impact on return on assets, while rent charges and employees' salaries had an insignificant impact on return on assets of quoted companies studied. They recommended that quoted companies in Nigeria should look into their power and electricity costs with a view to applying innovative energy management solutions that were available for reducing operational cost and preventing device failure to improve profitability.

# Introduction

# CHAPTER THREE METHODOLOGY

This chapter discusses the procedure adopted to conduct the research. The discussion is divided into sub-headings such as research design, method of data collection, population of the study, determination of sample size, model specification and method of data analysis.

# Research Design

This study adopted the survey design and employed the use of primary data with the aid of a questionnaire to collect data from the respondents in order to achieve the stated objective of the study The descriptive design is the plan of study which aims at collecting data on the topic and describing in a systematic way the characteristics and features of facts about a given population (Nworgu, 2006). The design was considered the most suitable in carrying out this study because it facilitated the collection of data systematically from a sample population.

# Population of the Study

According to Ogundipe et al., (2006), population means the totality of all elements, subjects or members that possess a specific set of one or more common definite attributes. Polit and Hungler (2009) refered to the population as an aggregate or totality of all the objects, subjects or members that conform to a set of specifications. In this study the population was all the members of staff and customers of Water-Max Nigeria PLC, Yola South, Adamawa State of Nigeria who were one hundred and eighty (180).

# Sample technique

The simple random sampling technique was adopted in the selection of the sample. It gaves all the elements in the population an equal chance of being selected. A sample size of 130 was used based on the availability of the staff of Water- Max Nigeria Plc at the time of the visit. 120 questionnaires were returned and they were used for the analysis.

# Sample Size

The sample size for the study was 130 staff of Water-Max Nigeria PLC, Yola, out of the 180 population due to the availability of the staff during the time of the visit. 120 questionnaires were returned and they were used for the analysis.

# Method of data collection

According to Olannye (2006), data collection is the gathering of relevant information for addressing the questions raised in the research and the problem statement. The method of data collection used in this study was the primary source of data. The data were sourced from the staff of Water-Max Plc at all levels through the distribution of questionnaires.

# Source of data

In order to collect much relevant material on this study as possible, a number of methods of data collection, both primary and secondary sources of data, were used.

# Primary Data

Primary sources of data were used in this study because they provided basic reliable and concrete information from the respondents. The questionnaire was be the major source of my data collection. The information got was be analysed and findings were drawn.

# 3.7.2 Secondary Data

The secondary source involved the review of journals, magazines, newspapers, the internet and materials from the library.

# 3.8 Reliability Test

Reliability ensures testing and evaluating a research quantitatively. Reliability is “the extent to which results are consistent over time and an accurate representation of the total population under study and if the result of the study can be reproduced under a similar methodology, then the research instrument is considered reliable”. A reliable measurement is that which, if repeated, will yield the same result as it did the previous time (Mugenda, 2008). The principle in a reliability test is that the measuring instrument produces similar results when repeated. The coefficient alpha (Cronbach alpha) was used to test the reliability of the measurement instrument.

# Content Validity

Validity is used to determine if the research actually measures what it set out to measure or how true the result of the research is. According to Norland (1990), validity refers to the accuracy and meaningfulness of inferences which are based on research results. The validity of the research instrument is determined by the amount of build in error in measurement. Draft copies of the questionnaire were made available to experts such as my supervisor for comments and opinions so as

to create validity in terms of contrast, content, criterion and readability in order for it to be suitable for

the objectives of the study. Areas that were not needed were removed but the needed areas were collected and added to the research work. Content and face validity was be used to identify the validity of the research. Content validity is the extent to which research items measure the variables of the study while face validity is face to face check.

# Data analysis method

Data analysis is a practice of ordering and organizing raw data so that useful information can be extracted from them. Responses from the questionnaire were tabulated, coded and processed using percentage and frequencies. The multiple regression analysis was used to analyse the hypotheses formulated.

# Model Specification

The broad objective of the model was to specify and examine the effect of input cost on the financial performance of manufacturing companies. The multiple regression model was stated below:

FP = β0+β1FC+β2 OC+β3MC +β4DC +e

Where:

FP= Financial performance FC = Finance Cost

OC = Operational Cost MC = Monitoring Cost DC = Direct Cost

e = Stochastic term β0- β4 = Coefficients

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# CHAPTER FOUR

**DATA PRESENTATION, ANALYSIS AND INTERPRETATION**

# Introduction

This chapter presents and analyses the data which were gathered through the questionnaire administered to respondents to provide answers to the research questions posed in the first chapter. To achieve the feat, therefore, the research questions were presented and analysed one after the other through the answers provided by the respondents in the questionnaires. Only the answers to questions which had bearing with the research questions were considered.

# 4.2. Data Presentation

**Table 4.2.1**

# Demography of Respondents

|  |  |  |  |
| --- | --- | --- | --- |
| **S/N** | **VARIABLE** | **FREQUENCY** | **PERCENTAGE %** |
| 1 | **Gender:** |  |  |
|  | Male | 72 | 60 |
|  | Female | 48 | 40 |
|  | **Total** | **120** | **100** |
| 2 | **Age:** |  |  |
|  | Below 18years | 23 | 19.2 |
|  | 19-30years | 77 | 64.2 |
|  | 40-50years | 20 | 16.7 |
|  | **Total** | **120** | **100** |
| 3 | **Marital Status:** |  |  |

|  |  |  |  |
| --- | --- | --- | --- |
|  | Single Married Divorced Widow  **Total** | 51  43  15  11  **120** | 42.5  35.8  12.5  9.2  **100** |
| 4 | **Status** Executive Staff Senior Staff Junior staff Contract staff  **Total** | 6  12  60  42  **120** | 5.0  10  50  35  100 |
| 5 | **Educational Qualification:**  Primary Secondary Tertiary  **Total** | 6  24  90  120 | 5.0  20  75  **100** |

## Source: Field Survey, 2021 (SPSS 23)

The table 4.2.1 above showed the demographic presentation of the respondents. The genders of the respondents were 72(60%) and 48(40%) for males and females respectively. We concluded that the number of both male and female respondents was the same. From the ages of the respondents as shown in the above Table, 23(49.2%) were below 18years, 77(64.2%) were between ages 19 and 30years, and 20(16.7%) were between 40 and 50 years. We confirmed that ages 19 to 30years were the highest among the respondents. The marital status showed that 51(42.5) were single, 43(35.8%) were married, 15(12.5%) were divorced and 11(9.2%) were widows. It showed that majority of the respondents were single. The highest educational qualifications of the respondents showed that 6(5.0%) had primary education while 24 (20%) had secondary education and 90(75%) had tertiary education.

# Table 4.2.2: Reliability Statistic test for variables Reliability Statistics

|  |  |  |
| --- | --- | --- |
| Cronbach's Alpha | Cronbach's Alpha Based on Standardized  Items | N of Items |
| .974 | .975 | 20 |

Using the rule of Geory and Mallery (2003), the Table 4.2.2 above showed the reliability test of the variables. The result for the variable showed an excellent result of 0.974. Based on that we assumed

that the degree to which the instrument yielded was consistent.

# Question Analysis

**Question One:** Does finance cost have any significant effect on financial performance? Of what? Below were the description and presentation of the sampled respondents’ answers to question one in Table 4.2.3.

# Table 4.2.3. Effect of finance cost on financial performance

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Finance Cost** | | | | | | |  |  |
|  |  | **SA** | **A** | **U** | **D** | **SD** | **Mean** | **SD** |
| FC1 | All borrowed funds are paid back with their interest as and when due. | 60  (50%) | 54  (45%) | 1  (08  %) | 5  (4.2  %) | 0  (0%) | 4.4083 | 0.7159 |
| FC2 | All funds are adequately utilized by the management at all levels. | 54  (45%) | 59  (49.2  %) | 1  (0.8  %) | 6  (5%) | 0  (0%) | 4.3417 | 0.7390 |
| FC3 | Our organization sources for funds outside the organization  in running the business. | 61  (50.8  %) | 54  (45%) | 1  (0.8  %) | 4  (3.3  %) | 0  (0%) | 4.4333 | 0.6827 |
| FC4 | Our organization looks for lower interest rate fund to borrow for business. | 59  (49.2  %) | 57  (47.5  %) | 1  (2%) | 3  (2.5  %) | 0  (0%) | 4.4333 | 0.6447 |

## Source: Field Survey, 2021

In the Table 2.2.3 above, it was seen that many of the respondents showed a level of agreement with the statement 50% (60) and 45 %( 54) strongly agreed and agreed respectively that “*All borrowed funds are paid back with their interest as and when due “(FC1),* 0.8%(1) were undecided while

* 1. %(5) were disagreed with mean of 4.4083 and standard deviation of 0.7159. 45 %( 54) and 49.2 %( 59) strongly agreed and agreed with second statement that “*All funds are adequately utilized by the management at all level” (FC2)* while 0.8 %( 1) disagreed and 5%(6) disagreed with a mean of 4.3417 and standard deviation of 0.739. Also, 50.8 %( 61) and 45 %( 54) are strongly agreed and agreed with the third statement that “*Our organization sources for funds outside the organization in running the business” (FC3*), 0.8%(1) and 3.3%(4) were disagreed with a mean of 4.4333 and standard deviation of 0.6827. 49.2%(59) and 47.5%(57) strongly agreed and agreed with the fourth statement that “*Our organization looks for lower interest rate fund to borrow for business*” (*FC4*) while 0.8%(1) and 2.5%(3) were undecided and disagreed respectively with a mean of 4.4333 and standard deviation of 0.6447.

**Question Two:** Does operational cost have any significant effect on financial performance? of what? Table 4.2.4 below presented the respondents’ answers to question two

# Table 4.2.4. Effect of operational cost on financial performance

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Operational cost** | | | | | | | | |
|  | | **SA** | **A** | **U** | **D** | **SD** | **Mean** | **SD** |
| OC1 | All operational cost are paid as and when  due. | 62  (51.7%  ) | 54(45%  ) | 1(0.8%) | 3(2.5%) | 0  (0%) | 4.4583 | 0.6468 |
| OC2 | Salaries and wages are  paid as and when due. | 65(54.2  %) | 51(42.5  %) | 2(1.7%) | 2(1.7%) | 0  (0% | 4.4917 | 0.6216 |
| OC3 | Assets are maintained  regularly for a better performance. | 63(52.5  %) | 54(45%  ) | 1(0.8%) | 2(1.7%) | 0(0%) | 4.4833 | 0.6078 |
| OC4 | All administrative charges are  adequately taken care of. | 64  (53.3%  ) | 52  (43.3%) | 1  (0.8%) | 3  (2.5%) | 0  (0%) | 4.4750 | 0.6477 |

## Source: Field Survey, 2021

From the table 2.2.4 above, it was shown that most of the respondents gave a level of agreement on

the statements that 51.7% (62) and 45%(54) strongly agreed and agreed respectively that “*All operational costs are paid as and when due*”, *(OC1),*0.8% were undecided while 2.5%(3) disagreed. It had a mean of 4.4583 and standard deviation of 0.6468. 54.2 %( 65) and 42.5 %( 51) strongly agreed and agreed respectively with the second statement “*Salaries and wages are paid as and when due” (OC2),* 1.7% (2) were undecided and 1.7% (2) disagreed with a mean of 4.4917 *a*nd standard that deviation of 0.6216. Also, 52.5 %( 63) and 45 %( 54) strongly agreed and agreed respectively with the third statement that “*Assets are maintained regularly for a better performance” (OC3)*, 0.8%(1) were undecided and 1.7%(2) disagreed with mean of 4.4833 and standard deviation of 0.6078. Finally, 53.3

%( 64) and 43.3 %( 52) strongly agreed and agreed while 0.8 %( 1) were undecided and 2.5%(3) disagreed respectively. It has a mean of 4.4750 and a standard deviation of 0.6477 to the fourth statement that “*All administrative charges are adequately taken care of* “(O*C4).*

**Question Three:** Does monitoring cost have a significant effect on financial performance? The Table 4.2.5 below illustrated the respondents’ answers to question three.

# Table 4.2.5. Effect of monitoring cost on financial performance.

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Monitoring cost** | | | | | | |  |  |
|  | | **SA** | **A** | **U** | **D** | **SD** | **Mean** | **SD** |
| MC | Managers are paid | 64 | 54 | 1 | 1 | 0 | 4.5083 | 0.5650 |
| 1 | their travel expense | (53%) | (45%) | (0.8 | (0.8 | (0%) |  |  |
|  | whenever they travel |  |  | %) | %) |  |  |  |
| MC | Our organization’s | 64 | 53 | 2 | 1 | 0 | 4.5000 | 0.5977 |
| 2 | financial statement’s | (53%) | (44.2 | (1.7 | (0.8 | (0%) |  |  |
|  | are audited regularly |  | %) | %) | %) |  |  |  |
| MC | Hotel accommodation | 62 | 51 | 4 | 1 | 2 | 4.4167 | 0.7512 |
| 3 | booked for the | (51.7 | (42.5 | (3.3 | (0.8 | (1.7% |  |  |
|  | management’s staff | %) | %) | %) | %) | ) |  |  |
|  | whenever the need |  |  |  |  |  |  |  |
|  | arises for official |  |  |  |  |  |  |  |
|  | assignments. |  |  |  |  |  |  |  |
| MC | Auditing takes place | 64 | 49 | 4 | 1 | 2 | 4.4333 | 0.7529 |
| 4 | regularly | (53.3 | (40.8 | (3.3 | (0.8 | (1.7% |  |  |
|  |  | %) | %) | %) | %) | ) |  |  |

## Source: Field Survey, 2021

From the Table 2.2.5 above, it was revealed that most of the respondents showed a level of support with the statement that 53% (64) and 45 %( 54) strongly agreed and agreed respectively that “*Managers are paid their travel expenses whenever they travel” (MC1)* while 0.8 %( 1) and 0.8 %( 1) were undecided and disagreed with a mean of 4.5083 and standard deviation 0.5650. 53 %( 64) and

44.2 %( 53) strongly agreed and agreed respectively with the second statement that “*Our organization financial statements are audited regularly” (MC2)* Also, 1.7 %( 2) and 0.8 %( 1) were undecided and disagreed. It had a mean of 4.5000 and standard deviation of 0.5977. Also, 51.7 %( 62) and 42.5 %( 51) are strongly agreed and agreed respectively with the third statement that “*Hotel accommodation is booked for the management staff whenever the need arises for official assignments” (MC3),* 3.3%(4), 0.8%(1) and 1.7%(2) were undecided, disagreed and strongly disagreed respectively with the statement with a mean of 4.4167 and standard deviation of 0.7513*.* 53.3 %( 64) and 40.8 %( 49) strongly agreed and agreed respectively with the fourth statement that “*Auditing takes place regularly” (MC4)* while 3.3%(4), 0.8%(1) and 1.7%(2) were undecided, disagreed and strongly disagreed respectively with a mean of 4.4333 and standard deviation of 0.7529.

**Question four:** Does direct cost have a significant effect on financial performance? Of what? The Table 4.2.6 below illustrated the respondent’s answers to question three.

# Table 4.2.6. Direct cost on financial performance.

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Direct Cost** | | | | | | |  |  |
|  | | **SA** | **A** | **U** | **D** | **SD** | **Mean** | **SD** |
| DC1 | Costs of production | 64 | 49 | 4 | 1 | 2 | 4.4333 | 0.7529 |
|  | are properly managed | (53.3 | (40.8 | (3.3 | (0.8 | (1.7% |  |  |
|  | at all levels of | %) | %) | %) | %) | ) |  |  |
|  | production. |  |  |  |  |  |  |  |
| DC2 | There is a proper | 59 | 51 | 7 | 1 | 2 | 4.3667 | 0.7771 |
|  | costing system in | (49.2 | (42.5 | (5.8 | (0.8 | (1.7% |  |  |
|  | place. | %) | %) | %) | %) | ) |  |  |

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| DC3 | Our organization has a policy in place for stock valuation and cost control. | 59  (49.2  %) | 52  (43.3  %) | 6  (5.0  %) | 1  (0.8  %) | 2  (1.7%  ) | 4.3750 | 0.7676 |
| DC4 | All direct costs are properly accounted for before, during and after production | 63  (52.5  %) | 55  (45.8  %) | 2  (1.7  %) | 0  (0%) | 0  (0%) | 4.5083 | 0.5344 |

## Source: Field Survey, 2021

From the Table 2.2.6 above, it was seen that most of the respondents showed a level of support with the statement that risk assessment had an effect on the working capital of SMES. 53.3% (64) and 40.8% (49) strongly agreed and agreed respectively that the “*Costs of production are properly managed at all levels of production” (DC1),* 3.3%, 0.8%(1) and 1.7%(2) were undecided, disagreed and strongly disagreed respectively with a mean of 4.4333 and standard deviation of 0.7529. 49.2 %( 59) and 42.5 %(51) strongly agreed and agreed respectively with the second statement that “*There is a proper costing system in place” (DC2)* 4.5%(7), 0.8%(1) and 1.7%(2) were undecided, disagreed and strongly disagreed. It had a mean of 4.3667 and standard deviation of 0.7771*.* Also, 49.2 %( 52) and 43.3%( 22) strongly agreed and agreed respectively with the third statement that “*Our organization has a policy in place for stock valuation and cost control” (DC3)*5%(6), 0.8%(1) and 1.7%(2) were undecided, disagreed and strongly disagreed with a mean of 4.3750 and standard deviation of 0.5767. 52.5%( 63) and 45.8 %( 55) were strongly agreed and agreed respectively with the fourth statement that “*All direct costs are properly accounted for before, during and after production” (DC4)* while 1.7% (2) were undecided with a mean of 4.5083 and standard deviation of 0.5344.

# Table 4.2.7. Effect On financial performance

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Financial performance** | | | | | | |  |  |
|  |  | **SA** | **A** | **U** | **D** | **SD** | **Mean** | **SD** |
| FP1 | There are proper accounting | 64 | 50 | 4 | 1 | 1 | 4.4583 | 0.6847 |
|  | records for all cost and | (53.3 | (41.7 | (3.3 | (0.8 | (0.8 |  |  |
|  | revenues in place. | %) | %) | %) | %) | %) |  |  |

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| FP2 | There is always profit on all production | 60  (50%) | 48  (40%) | 9  (7.5  %) | 2  (1.7  %) | 1  (0.8  %) | 4.3667 | 0.7662 |
| FP3 | All financial obligations are met as and when due. | 55  (45.8  %) | 56  (46.7  %) | 5  (4.2  %) | 2  (1.7  %) | 2  (1.7  %) | 4.3333 | 0.7814 |
| FP4 | Our financial health has improved due to proper costing management over the years | 61  (50.8  %) | 56  (46.7  %) | 3  (2.5  %) | 0  (0%) | 0  (0%) | 4.4833 | 0.5497 |

## Source: Field Survey, 2021

The Table 4.2.5, showed that 53.3% (64) and 41.7 %( 50*)* respondents strongly agreed and agreed respectively with the statement that *“the company’s operating system tracks all transactions”* (*FP1*), 3.3%(4), 0.8%(1) and 0.8%(1) were undecided, disagreed and strongly disagreed respectively with a mean and standard deviation of 4.4583 and 0.6847 respectively. Also, 50% (60), 40 %( 48), 7.5% (9), 1.7%(2) and 0.8%(1) respondents strongly agreed, agreed were, undecided, disagreed and strongly disagreed respectively with the statement that *“The company’s system assists in analysing all financial transactions*.*”* (*FP2*) with a mean of 4.3667 and standard deviation of 0.7662. 4.5.8% (55) and 46.7 %( 56) respondents strongly agreed and agreed respectively with the statement that *“effective maintenance levels of stock are carried out”* (*FP3*), 4.2%(5), 1.7%(2) and 1.7%(2) were undecided, disagreed and strongly disagreed with a mean of 4.3333 and standard deviation of 0.7814. 50.8% (61) and 47.7 %( 56) respondents strongly agreed and agreed respectively with the statement that *“*minimizing investment in stock helps in avoiding cost associated with stock*”* (*FP4*) while 2.5%(3) were undecided with a mean of 4.4833 and standard deviation of 0.5497.

# 4.3 Test of hypotheses

## Decision rule: Accept null hypothesis if p-value > 0.05 and reject alternative hypothesis. Reject the null hypothesis if the p-value <0.05 and reject alternate hypothesis.

The tables below showed the result obtained from multiple regression for the hypotheses. They were

interpreted accordingly.

Table 4.3.1

**Model Summaryb**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate | Durbin-Watson |
| 1 | .946a | .894 | .890 | .19927 | 1.892 |

1. Predictors: (Constant), Direct cost, operational Cost, Finance cost, Monitoring cost
2. Dependent Variable: Financial Performance

The Table 4.3.1 above revealed, The R value was 0.946 which indicated a good level of the prediction

of the independent variables (finance cost, operational cost, monitoring cost and direct cost). Also, the R2 was the coefficient of determination, that is, the proportion of dependent variable (financial

performance) that could be explained by the independent variables (finance cost, operational cost, monitoring cost and direct cost). The value of the R2 was 0.894, that is, the independent variables

could explain approximately 89% of the dependent variable.

# Table 4.3.2

**ANOVAa**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| Model | | Sum of Squares | df | Mean Square | F | Sig. |
| 1 | Regression | 38.550 | 4 | 9.638 | 242.697 | .000b |
|  | Residual | 4.567 | 115 | .040 |
|  | Total | 43.117 | 119 |  |

1. Dependent Variable: Financial Performance
2. Predictors: (Constant), Direct cost, operational Cost, Finance cost, Monitoring cost

The Table 4.3.2 above (the Anova table) showed whether the overall regression model was of good fit or not. From the table the value of p was 0.000 which showed that the independent variables statically and significantly predicted the dependent variable. It showed that the regression model was a good fit of the data.

# Table 4.3.3

**Coefficientsa**

a. Dependent Variable: Financial Performance

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| Model | | Unstandardized Coefficients | | Standardized Coefficients | t | Sig. |
| B | Std. Error | Beta |
| 1 | (Constant) | .247 | .148 |  | 1.670 | .098 |
|  | Finance cost | .132 | .048 | .145 | 2.776 | .006 |
|  | operational Cost | .187 | .067 | .185 | 2.786 | .006 |
|  | Monitoring cost | -.224 | .113 | -.216 | -1.984 | .050 |
|  | Direct cost | .846 | .074 | .905 | 11.494 | .000 |

# HO1: finance cost does not have any effect on financial performance.

From the Table 4.3.3, it could be seen that finance cost had a positive and significant effect on

financial performance as the p value (0.006) was less than 0.05 with a coefficient of 0.132. It showed

that finance cost can increases the financial performance with about 13%. It meant that finance cost

could influence the financial performance positively with about 13%. Based on that result, we could

reject our null hypothesis which said that finance cost did not had any significant effect on financial

performance, and accept our alternate hypothesis that finance cost have a significant effect on

financial performance.

# HO2: operational cost does not have any significant effect on financial performance

From the table 4.3.3, it was shown that operational cost had a positive and significant effect on

financial performance as the p value (0.006) was less than 0.05 with a coefficient of 0.187. It showed that operational cost could increase the financial performance by approximately 18%. Based on that result, we could reject our null hypothesis which said that operational cost did not have any significant effect on financial performance, and accept our alternate hypothesis that says operational cost had a

significant effect on financial performance.

# HO3: monitoring cost does have any significant effect on financial performance.

The Table 4.3.3 showed that monitoring cost had a negative and an insignificant effect on financial performance the p value (0.050) was greater than 0.05 with a coefficient of -0.224. It showed that

monitoring cost could decrease financial performance with about 22%. Based on that result, we accepted our null hypothesis which said that monitoring cost did not have any significant effect on

financial performance, and rejected our alternate hypothesis that says monitoring cost had a significant effect on financial performance.

# HO4: direct cost does not have any significant effect on financial performance

The Table 4.3.3 showed that direct cost had a highly positive and significant effect on financial

performance, the p value (0.000) was less than 0.05 with a coefficient of 0.846. It showed that direct

cost could increase financial performance by about 84%, and was highly significant compared with

other costs under study. Based on that result, we could reject our null hypothesis which said that direct cost did not have any significant effect on financial performance, and reject our alternate hypothesis

which said that direct cost had a significant effect on financial performance.

# Discussion of Findings

The empirical analysis showed that finance cost, operational cost and direct cost had positive and significant effects on financial performance while monitoring cost had a negative and an insignificant effect on organiasational financial performance. It showed that the three variables (finance cost, operational cost and direct cost) were very important in achieving a good financial performance for any organization. The analysis showed that if the management could borrow fund with interest and invest it, the organization would get returns from such an investment to pay back both the principal and the interest, still have money to meet other organizational needs and increase the financial performance of the organization.

Our result supported of the study by Oyerogba, Olaleye and Solomon (2014), Lawal, Etale and Binngilar (2016) and Ezekiel, Michael and Solomon (2014) but not Cynthia and Birger’s (1991) work.

# CHAPTER FIVE

**SUMARY OF FINDINGS, CONCLUSION AND RECOMMENDATIONS**

# Introduction

The study attempted to empirically investigate the effect of input cost on the financial performance of manufacturing companies using Water-max Plc. This chapter deals with the summary of findings, conclusion and recommendations.

# Summary of Findings

The findings of the study were summarized as follows:

1. Finance cost had a positive and statically significant effect on the financial performance of manufacturing companies.
2. Operational cost had a positive and statically significant effect on the financial performance of manufacturing companies.
3. Monitoring cost had a negative and significant effect on the financial performance of manufacturing companies
4. Direct cost had a positive and an insignificant effect on the financial performance of manufacturing companies.

# Conclusion

From the empirical analysis done above, it was established that finance cost, operational cost and direct cost were positively and statistically had an effect on the financial performance of manufacturing companies while monitoring cost has a negative and significant effect on the financial performance of manufacturing companies. It showed that input cost must be properly monitored and managed so as to have a better financial performance.

# Recommendations

The following policy recommendations were offered from the findings of this study.

1. That management should make policies on how to raise fund for business, putting into consideration all associated costs so as to avoid a higher finance cost that could affect the financial performance of the organization.
2. Also, the management should control the operational cost at all levels of production and otherwise to its minimal so as to increase the financial performance…
3. Monitoring cost should be considered and minimized since it did not really have any return in terms of revenue to the organization, but it had its effect indirectly…
4. Finally, all direct costs should be properly monitored to reduce the cost of production and achieve a better performance.

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# APPENDIX I QUESTIONNAIRE

Department of Accounting,

College of Business and Management Studies,

Igbinedion University Okada, Edo State.

Dear Respondent,

I am a postgraduate student of the above named Department/Institution. I am currently conducting a research on the “**EFFECT OF ORGANISATION’S INPUT COST ON FINANCIAL PERFORMANCE OF LISTED MANUFACTURING COMPANIES IN NIGERIA”.**

In this regard, your response to this questionnaire will go a long way in ensuring the success of this research. I promise that your responses will be treated with utmost confidence and only be used for the purpose of research. Receive my highest regard as I anticipate your cooperation. Thank you.

Yours faithfully,

# Egot Tessy Ejuno

**QUESTIONNAIRE FOR THE STUDY**

# Effect of Organizations Input Cost on Financial Performance

**Section A: Demographic Characteristics of Respondent.**

Please tick in the box containing answers of your choice Gender: (a) Male ( ) (b) Female ( )



Religion: (a) Christian ( ) (b) Traditional ( ) (c) Islam ( ) (d) None

( )

Age: (a) 0 – 18 ( ) (b) 19 – 39 ( ) (c) 40 – 50 ( )

(d) Above 58 years ( )

Marital status: (a) Single ( ) (b) Married ( ) (c) Divorced ( )

(d) Widowed ( )

Level of Education: (a) No Formal ( ) (b) Primary ( ) (c) Secondary ( )

(d) Tertiary ( )

Status: (a) Executive ( ) (b) Senior Staff ( )

(c) Junior Staff ( ) (d) Contract Staff ( )

# Section B: The Following Questions Cover Issues in the Study.

**Instruction:** In this section kindly tick the option that best describe your opinion.

**Key:** Strongly Agreed (SA), Agree (A), Strongly Disagree (SA), Disagree (D) and **Undecided (U)**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  | **Statement** | **Strongly Agreed**  **(SA)** | **Agreed**  **(A)** | **Undecided**  **(U)** | **Disagree**  **(D)** | **Strongly Disagreed**  **(SD)** |
|  | **Finance Cost** |  |  |  |  |  |
| FC1 | All borrowed funds are paid back with  their interest as at when due |  |  |  |  |  |
| FC2 | All funds are adequately utilized by the  management at all level. |  |  |  |  |  |
| FC3 | Our organization source for funds outside the organization in running the  business. |  |  |  |  |  |
| FC4 | Our organization look for lower interest  rate fund to borrow for business |  |  |  |  |  |
|  | **Operational Cost:** |  |  |  |  |  |
| OC1 | All operational cost are paid as at  when due |  |  |  |  |  |
| OC2 | Salaries and wages are paid as at when  due |  |  |  |  |  |
| OC3 | Assets are maintain regularly for better  performance |  |  |  |  |  |
| OC4 | All administrative charges are  adequately taken care of |  |  |  |  |  |
|  | **Monitoring Cost:** |  |  |  |  |  |
| MC1 | Managers are giving travelling  allowance whenever they are travelling |  |  |  |  |  |
| MC2 | Our organization financial statement |  |  |  |  |  |

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  | are audited regularly |  |  |  |  |  |
| MC3 | Hotel accommodation are booked for the management staff whenever the  need arises for officer assignment |  |  |  |  |  |
| MC4 | Auditing takes place regularly |  |  |  |  |  |
|  | **Direct Cost:** |  |  |  |  |  |
| DC1 | Cost of production are properly  managed at all level of production |  |  |  |  |  |
| DC2 | There is proper costing system in place |  |  |  |  |  |
| DC3 | Our organization has policy in place for  stock valuation and cost control |  |  |  |  |  |
| DC4 | All direct cost are properly accounted  for before, during and after production |  |  |  |  |  |
|  | **Financial performance:** |  |  |  |  |  |
| FP1 | There is proper accounting records for  all cost and revenue in place |  |  |  |  |  |
| FP2 | There is always profit on all production |  |  |  |  |  |
| FP3 | All financial obligations are meet as at  when due |  |  |  |  |  |
| FP4 | Our financial health has been on the increase due to proper costing  management over the years |  |  |  |  |  |
|  |  |  |  |  |  |  |

# APPENDIX

**Gender**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid | male | 72 | 60.0 | 60.0 | 60.0 |
|  | female | 48 | 40.0 | 40.0 | 100.0 |
|  | Total | 120 | 100.0 | 100.0 |  |

**Religion**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid | Christianity | 60 | 50.0 | 50.0 | 50.0 |
|  | Traditional | 24 | 20.0 | 20.0 | 70.0 |
|  | Islam | 36 | 30.0 | 30.0 | 100.0 |

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Total | 120 | 100.0 | 100.0 |  |

**Marital Status**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid | Single | 51 | 42.5 | 42.5 | 42.5 |
|  | Married | 43 | 35.8 | 35.8 | 78.3 |
|  | Divorced | 15 | 12.5 | 12.5 | 90.8 |
|  | Widow | 11 | 9.2 | 9.2 | 100.0 |
|  | Total | 120 | 100.0 | 100.0 |  |

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Age** | | | | | |
|  | | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid | Below 18years | 23 | 19.2 | 19.2 | 19.2 |
|  | 19-39years | 77 | 64.2 | 64.2 | 83.3 |
|  | 40-50years | 20 | 16.7 | 16.7 | 100.0 |
|  | Total | 120 | 100.0 | 100.0 |  |

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Status** | | | | | |
|  | | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid | Executive | 6 | 5.0 | 5.0 | 5.0 |
|  | Senior staff | 12 | 10.0 | 10.0 | 15.0 |
|  | Junior staff | 60 | 50.0 | 50.0 | 65.0 |
|  | Contract staff | 42 | 35.0 | 35.0 | 100.0 |
|  | Total | 120 | 100.0 | 100.0 |  |

**Educational level**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | Frequency | Percent | Valid Percent | Cumulative Percent |

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Valid | Primary | 6 | 5.0 | 5.0 | 5.0 |
|  | Secondary | 24 | 20.0 | 20.0 | 25.0 |
|  | tertiary | 90 | 75.0 | 75.0 | 100.0 |
|  | Total | 120 | 100.0 | 100.0 |  |

**All borrowed funds are paid back with their interest as and when due**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid | Disagreed | 5 | 4.2 | 4.2 | 4.2 |
|  | Undecided | 1 | .8 | .8 | 5.0 |
|  | Agreed | 54 | 45.0 | 45.0 | 50.0 |
|  | Strongly Agreed | 60 | 50.0 | 50.0 | 100.0 |
|  | Total | 120 | 100.0 | 100.0 |  |

**All funds are adequately utilized by the management at all levels.**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid | Disagreed | 6 | 5.0 | 5.0 | 5.0 |
|  | Undecided | 1 | .8 | .8 | 5.8 |
|  | Agreed | 59 | 49.2 | 49.2 | 55.0 |
|  | Strongly Agreed | 54 | 45.0 | 45.0 | 100.0 |
|  | Total | 120 | 100.0 | 100.0 |  |

**Our organization sources for funds outside the organization in running the business**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid | Disagreed | 4 | 3.3 | 3.3 | 3.3 |
| Undecided | 1 | .8 | .8 | 4.2 |
| Agreed | 54 | 45.0 | 45.0 | 49.2 |
| Strongly Agreed | 61 | 50.8 | 50.8 | 100.0 |

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Total | 120 | 100.0 | 100.0 |  |

**Our organization looks for lower interest rate fund to borrow for business**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid | Disagreed | 3 | 2.5 | 2.5 | 2.5 |
|  | Undecided | 1 | .8 | .8 | 3.3 |
|  | Agreed | 57 | 47.5 | 47.5 | 50.8 |
|  | Strongly Agreed | 59 | 49.2 | 49.2 | 100.0 |
|  | Total | 120 | 100.0 | 100.0 |  |

**All operational costs are paid as and when due**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid | Disagreed | 3 | 2.5 | 2.5 | 2.5 |
|  | Undecided | 1 | .8 | .8 | 3.3 |
|  | Agreed | 54 | 45.0 | 45.0 | 48.3 |
|  | Strongly Agreed | 62 | 51.7 | 51.7 | 100.0 |
|  | Total | 120 | 100.0 | 100.0 |  |

**Salaries and wages are paid as and when due**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid | Disagreed | 2 | 1.7 | 1.7 | 1.7 |
|  | Undecided | 2 | 1.7 | 1.7 | 3.3 |
|  | Agreed | 51 | 42.5 | 42.5 | 45.8 |
|  | Strongly Agreed | 65 | 54.2 | 54.2 | 100.0 |
|  | Total | 120 | 100.0 | 100.0 |  |

**Assets are maintained regularly for a better performance**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid | Disagreed | 2 | 1.7 | 1.7 | 1.7 |
|  | Undecided | 1 | .8 | .8 | 2.5 |

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | Agreed | 54 | 45.0 | 45.0 | 47.5 |
| Strongly Agreed | 63 | 52.5 | 52.5 | 100.0 |
| Total | 120 | 100.0 | 100.0 |  |

**All administrative charges are adequately taken care of**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid | Disagreed | 3 | 2.5 | 2.5 | 2.5 |
|  | Undecided | 1 | .8 | .8 | 3.3 |
|  | Agreed | 52 | 43.3 | 43.3 | 46.7 |
|  | Strongly Agreed | 64 | 53.3 | 53.3 | 100.0 |
|  | Total | 120 | 100.0 | 100.0 |  |

**Managers are paid their travel expenses whenever they travel**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid | Disagreed | 1 | .8 | .8 | .8 |
|  | Undecided | 1 | .8 | .8 | 1.7 |
|  | Agreed | 54 | 45.0 | 45.0 | 46.7 |
|  | Strongly Agreed | 64 | 53.3 | 53.3 | 100.0 |
|  | Total | 120 | 100.0 | 100.0 |  |

**Our organization’s financial statements are audited regularly**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid | Disagreed | 1 | .8 | .8 | .8 |
|  | Undecided | 2 | 1.7 | 1.7 | 2.5 |
|  | Agreed | 53 | 44.2 | 44.2 | 46.7 |
|  | Strongly Agreed | 64 | 53.3 | 53.3 | 100.0 |
|  | Total | 120 | 100.0 | 100.0 |  |

**Hotel accommodation is booked for the management staff whenever the need arises for official assignments**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid | Strongly Disagreed | 2 | 1.7 | 1.7 | 1.7 |
|  | Disagreed | 1 | .8 | .8 | 2.5 |
|  | Undecided | 4 | 3.3 | 3.3 | 5.8 |
|  | Agreed | 51 | 42.5 | 42.5 | 48.3 |
|  | Strongly Agreed | 62 | 51.7 | 51.7 | 100.0 |
|  | Total | 120 | 100.0 | 100.0 |  |

**Auditing takes place regularly**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid | Strongly Disagreed | 2 | 1.7 | 1.7 | 1.7 |
|  | Disagreed | 1 | .8 | .8 | 2.5 |
|  | Undecided | 4 | 3.3 | 3.3 | 5.8 |
|  | Agreed | 49 | 40.8 | 40.8 | 46.7 |
|  | Strongly Agreed | 64 | 53.3 | 53.3 | 100.0 |
|  | Total | 120 | 100.0 | 100.0 |  |

**Costs of production are properly managed at all levels of production**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid | Strongly Disagreed | 2 | 1.7 | 1.7 | 1.7 |
|  | Disagreed | 1 | .8 | .8 | 2.5 |
|  | Undecided | 4 | 3.3 | 3.3 | 5.8 |
|  | Agreed | 49 | 40.8 | 40.8 | 46.7 |
|  | Strongly Agreed | 64 | 53.3 | 53.3 | 100.0 |
|  | Total | 120 | 100.0 | 100.0 |  |

**There is a proper costing system in place**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid | Strongly Disagreed | 2 | 1.7 | 1.7 | 1.7 |
| Disagreed | 1 | .8 | .8 | 2.5 |
| Undecided | 7 | 5.8 | 5.8 | 8.3 |
| Agreed | 51 | 42.5 | 42.5 | 50.8 |

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Strongly Agreed | 59 | 49.2 | 49.2 | 100.0 |
| Total | 120 | 100.0 | 100.0 |

**Our organization has a policy in place for stock valuation and cost control**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid | Strongly Disagreed | 2 | 1.7 | 1.7 | 1.7 |
|  | Disagreed | 1 | .8 | .8 | 2.5 |
|  | Undecided | 6 | 5.0 | 5.0 | 7.5 |
|  | Agreed | 52 | 43.3 | 43.3 | 50.8 |
|  | Strongly Agreed | 59 | 49.2 | 49.2 | 100.0 |
|  | Total | 120 | 100.0 | 100.0 |  |

**All direct costs are properly accounted for before, during and after production**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid | Undecided | 2 | 1.7 | 1.7 | 1.7 |
|  | Agreed | 55 | 45.8 | 45.8 | 47.5 |
|  | Strongly Agreed | 63 | 52.5 | 52.5 | 100.0 |
|  | Total | 120 | 100.0 | 100.0 |  |

**There are proper accounting records for all costs and revenues in place**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid | Strongly Disagreed | 1 | .8 | .8 | .8 |
|  | Disagreed | 1 | .8 | .8 | 1.7 |
|  | Undecided | 4 | 3.3 | 3.3 | 5.0 |
|  | Agreed | 50 | 41.7 | 41.7 | 46.7 |
|  | Strongly Agreed | 64 | 53.3 | 53.3 | 100.0 |
|  | Total | 120 | 100.0 | 100.0 |  |

**There is always profit on all production**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid | Strongly Disagreed | 1 | .8 | .8 | .8 |

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | Disagreed | 2 | 1.7 | 1.7 | 2.5 |
| Undecided | 9 | 7.5 | 7.5 | 10.0 |
| Agreed | 48 | 40.0 | 40.0 | 50.0 |
| Strongly Agreed | 60 | 50.0 | 50.0 | 100.0 |
| Total | 120 | 100.0 | 100.0 |  |

**All financial obligations are met as and when due**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid | Strongly Disagreed | 2 | 1.7 | 1.7 | 1.7 |
|  | Disagreed | 2 | 1.7 | 1.7 | 3.3 |
|  | Undecided | 5 | 4.2 | 4.2 | 7.5 |
|  | Agreed | 56 | 46.7 | 46.7 | 54.2 |
|  | Strongly Agreed | 55 | 45.8 | 45.8 | 100.0 |
|  | Total | 120 | 100.0 | 100.0 |  |

**Our financial health has greatly improved due to proper costing management over the years**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid | Undecided | 3 | 2.5 | 2.5 | 2.5 |
|  | Agreed | 56 | 46.7 | 46.7 | 49.2 |
|  | Strongly Agreed | 61 | 50.8 | 50.8 | 100.0 |
|  | Total | 120 | 100.0 | 100.0 |  |

**Reliability Statistics**

|  |  |  |
| --- | --- | --- |
| Cronbach's Alpha | Cronbach's Alpha Based on Standardized  Items | N of Items |
| .974 | .975 | 20 |

**Model Summaryb**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate | Durbin-Watson |
| 1 | .946a | .894 | .890 | .19927 | 1.892 |

1. Predictors: (Constant), Direct cost, operational Cost, Finance cost, Monitoring cost
2. Dependent Variable: Financial Performance

**ANOVAa**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| Model | | Sum of Squares | df | Mean Square | F | Sig. |
| 1 | Regression | 38.550 | 4 | 9.638 | 242.697 | .000b |
|  | Residual | 4.567 | 115 | .040 |
|  | Total | 43.117 | 119 |  |

1. Dependent Variable: Financial Performance
2. Predictors: (Constant), Direct cost, operational Cost, Finance cost, Monitoring cost

**Coefficientsa**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| Model | | Unstandardized Coefficients | | Standardized Coefficients | t | Sig. |
| B | Std. Error | Beta |
| 1 | (Constant) | .247 | .148 |  | 1.670 | .098 |
|  | Finance cost | .132 | .048 | .145 | 2.776 | .006 |
|  | operational Cost | .187 | .067 | .185 | 2.786 | .006 |
|  | Monitoring cost | -.224 | .113 | -.216 | -1.984 | .050 |
|  | Direct cost | .846 | .074 | .905 | 11.494 | .000 |

a. Dependent Variable: Financial Performance