

# COST REDUCTION STRATEGIES AND FINANCIAL PERFORMANCE OF LISTED CONSUMER GOODS COMPANIES IN NIGERIA

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**Abstract:** The purpose of this study is to assess the association between cost-cutting measures and the financial performance of Nigerian consumer product companies that are publicly traded. Data for the study was gathered from the annual reports of six consumer products companies listed on the Nigerian Stock Exchange over a five-year period (2017–2021). While net profit was employed as the measure of financial performance, the study used change in material cost, change in labour cost, and change in overhead cost as cost reduction measures. Descriptive statistics, multiple regression, and correlation coefficients were used to obtain the results. The empirical results showed a substantial positive link between cost-cutting measures and financial performance. The study comes to the conclusion that financial performance is impacted by cost reduction strategies. It was advised that value-engineering research be used to cut costs as much as possible.

**Keywords:** Cost Reduction Strategies, Value Engineering, Work Study, Net Profit

## 1. INTRODUCTION

Any business' ability to manage costs effectively will have a significant impact on how profitable it becomes because costs must be kept to a minimum in order to maximise profit. In order to withstand the fierce competition and

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continue doing business, every organisation seeks to maximise profit while reducing costs. In order to draw in clients, industry manufactures a variety of goods and supplies them to consumers at a low cost with great quality. Cost reduction is a key strategy employed by businesses to stay ahead of the competition as it intensifies in the workplace (Egbide *et al.*, 2019).

According to Sharma (2017), cost reduction refers to a genuine and long-lasting decrease in the price per unit of products produced or services provided without lowering the quality. He said that by lowering the cost per unit and raising productivity, the goal of cost reduction will be accomplished. The primary objective of the majority of organisations is to maximise profits since management is more interested in profitability as one method of assessing organisational success. To maximise profits in a cutthroat market where the cost of goods and services has an impact on demand, cost control and reduction are essential. In order to cut needless discretionary and non-value-adding costs and maintain an organisation's competitiveness, every part of its cost structure must be carefully examined (Lawal, 2017).

Cost reductions are very essential to any enterprise because they help to regulate and reduce expenses that are not wanted, which results in an increase in market demand for the firm's product. It is a fact that cost reduction influences profit maximisation because any organisation that successfully reduces costs can sell its goods and services at a lower rate than its competitors without reducing quality. Ogunnaike (2010) opines that the effective and efficient management of costs is not only essential for the profit motive but also necessary for the going concern of the companies, as such a cost reduction mechanism should be adopted. Cost reduction strategies like value engineering and analysis, target costing, and life cycle costing can be adopted by manufacturing companies to reduce labour costs, material costs, and the cost of production (Egbide *et al.*, 2019).

Cost reduction is a method used to reduce the price per unit of a service or good while maintaining the same level of quality. Utilising fresh and enhanced strategies is possible. It determines alternative strategies to lower an entity's manufacturing costs. Cost-cutting measures to guarantee savings on a per-unit basis and maximise company profitability. Cost reduction tries to eliminate extra expenses that arise during the product's manufacture, storage, sale, and distribution processes. The goal of cost reduction should be to reduce production costs per unit while maintaining the quality of the final product and making non-volatile savings. Aditya (2018) claimed that achieving profit maximisation had been the organisation's objective, driving management to grow sales, which in turn led to an increase in production capacity and a rise

in production costs. In a competitive market, profit maximisation requires measures for cost reduction.

It has been noted that some businesses' failure to adopt cost-cutting strategies like target costs and lifecycle costing has an impact on profitability, particularly in a market that is highly competitive. Contrary to developed economies where appropriate cost reduction strategies are adopted before products are produced, it has been observed that the majority of companies in third-world nations do not adopt cost reduction strategies, which is the cause of their poor financial performance and even corporate failure. The evidence from the literature analysis showed that there had been little research on the topic in Nigeria, but to the best of our knowledge, there has not been any work on the financial performance of listed consumer products businesses in Nigeria or cost reduction plans. As a result, there is a knowledge gap that must be filled. This work, *Cost Reduction Strategies and the Financial Performance of Listed Consumer Goods Companies*, was performed with this in mind.

### **1.1. Objectives of the study**

The main purpose of this research is to determine the relationship between cost reduction strategies and the financial performance of listed consumer goods companies in Nigeria.

### **1.2. Hypotheses formulation**

The following are the stated null hypotheses:

- Ho<sub>1</sub>: There is no significant relationship between change in material cost as a cost reduction strategy and net profit of listed consumer goods companies in Nigeria.
- Ho<sub>2</sub>: There is no significant relationship between change in labour costs as a cost reduction strategy and net profit of listed consumer goods companies in Nigeria.
- Ho<sub>3</sub>: There is no significant relationship between change in overhead costs as a cost reduction strategy and net profit of listed consumer goods companies in Nigeria.

## **2. CONCEPTUAL REVIEW**

### **2.1. Cost reduction**

According to Sharma (2017), cost reduction is an effort to lower the cost of manufacturing or the cost of providing customers with services. He claimed

that the strategies for cutting costs included getting rid of waste, increasing productivity by using less expensive materials, enhancing operations, and raising quality standards by lowering costs through other accessible means. According to Ojha and Guatam (2008), cost reduction comprises actual reductions in production, management, selling, and distribution costs brought on by the elimination of unnecessary and inefficient components from product design.

According to Asaolu and Nassar (2007), cost reduction is a term used to outline a constructive strategy to improving efficiency. It can be interpreted in a variety of ways, including reducing waste and boosting productivity. The fundamental goal of cost reduction is to lower costs from an established norm or benchmark without sacrificing the project's efficacy or performance. Cost control is the process of limiting an organization's operational costs to an acceptable level. The restriction is sometimes referred to as the standard or goal cost limit, which promotes efficiency and cost consciousness while preventing the excessive use of valuable resources (Lawal, 2017). Oyerogba, Olaleye, and Solomon (2014) examined the connection between price and quality.

Manufacturing companies' and its management practises. For their investigation, the study analysed information from 40 manufacturing companies that were listed on the stock exchange between 2003 and 2012. Results indicate that cost management strategies and company performance in the manufacturing sector have a substantial positive association. The study discovered that manufacturing companies with modest administrative overhead expenses continue to operate. The study suggested that manufacturing organisations implement a cost-reduction approach that places a focus on production and administrative overhead costs if they want to maximise profits and create wealth.

Businesses have little alternative but to raise the price of their products in order to maximise profit given the current increase in the cost of production-related components. Customers, by nature, always choose a product when the price is low rather than when it increases, hence an increase in price typically results in lower sales. The quantity of goods sold decreases as product prices rise in a sensible economy. A company's financial performance is mostly determined by its ongoing sales growth. Sales generate revenue, and profit is obtained by deducting all expenditures from the revenue. Hence, a decline in revenue has a negative impact on a company's ability to grow. (Tepper, 2017). Similar to how labour costs make up a substantial amount of production or manufacturing costs. Since labour costs make up a sizable component of corporate expenses, rising labour costs raise operating expenses, which are then

passed on to customers as high pricing. Sales will decrease due to the price increase in accordance with the law of demand, which indicates that the higher the price, the lower the demand and vice versa. Thus, it is true that labour expenses have an impact on firm turnover (Tonkins, 2016).

Oyerogba, Olaleye, and Solomon (2014) assessed the connection between the practises of cost management used by manufacturing companies. For their investigation, the study analysed information from 40 manufacturing companies that were listed on the stock exchange between 2003 and 2012. Results indicate that cost management strategies and company performance in the manufacturing sector have a substantial positive association. The study discovered that manufacturing companies with modest administrative overhead expenses continue to operate. The study suggested that manufacturing organisations implement a cost-reduction approach that places a focus on production and administrative overhead costs if they want to maximise profits and create wealth.

Cost reduction technique is the process of removing unnecessary costs in order to achieve meaningful and lasting cost reductions in units of goods manufactured or services rendered without lowering or degrading the utility value of the product, according to Egbide *et al.* (2019)..

According to Isaac *et al.* (2018), value engineering is a technique for cost reduction that involves lowering material costs, labour costs, and overhead costs in order to increase product quality and customer loyalty while also enhancing organisational performance. They claimed that the three components of manufacturing costs are material, expenses, and labour, and that decreasing production costs and increasing sales are necessary to enhance earnings, both of which may be accomplished by conservative accounting. The term “cost reduction technique” refers to methods for lowering costs by removing waste and boosting efficiency, which in turn improves organisational performance. Cost reduction is a dynamic and active notion that seeks to increase the amount of the production factors while maintaining effectiveness (ICAN, 2009).

## 2.1. Cost reduction techniques

**Value analysis** is a scientific approach to cost reduction by increasing the value of the product. A systematic assessment of the techniques and functions in the various fields of an entity with a view to ascertaining the channels of performance improvement so that the value of the particular product or service can be improved is known as value engineering or value analysis (Lawal, 2017).

Egbide *et al.* (2019) viewed value analysis as a measure of cost reduction, a method that identifies and eliminates unnecessary costs associated with production or rendering services. Value analysis, also known as value engineering, is an assessment process undertaken by a team during the design stages of a product with the aim of designing a product or methods of rendering a service that meet the essential design objectives of minimum cost (ICAN, 2009). Value analysis encompasses the investigation of the specification, design, planning, buying, manufacturing, testing, and sales and distribution of a product or service.

Value analysis, according to Adeniyi (2008), is a planned scientific method to cost reduction that examines a product's material composition and production designs in order to make changes and improvements without lowering the product's value for the user or the consumer.

**Work study** is a cost-cutting strategy that entails figuring out how to use input resources like labour, materials, and equipment in the most effective way possible. It is a method for increasing productivity and decreasing waste in factories and can be used in a variety of contexts, including workflow, tool design, scheduling, layout, and material management in factories (ICAN, 2009).

### 3. EMPIRICAL LITERATURE REVIEW

Sharma (2017) investigated the application of cost reduction tools in manufacturing organisations at Pokhara. The study sought to ascertain the application of cost reduction tools in Nepalese manufacturing organisations with reference to Pokhara Valley. Primary data was collected through a questionnaire issued to the production and finance managers of a sample of ten (10) organisations. The finding showed that most organisations used product line rationalisation, supply chain management, the Kaizen system, and re-engineering as techniques for cost reduction. Many organisations do not use design for manufacturability, concurrent engineering, on-demand lean production, build-to-order, port standardisation, and just-in-time production systems as tools for cost reduction. The study concluded that most of the organisations in Pokhara used total quality management and preferred product line rationalisation as cost reduction techniques.

In Nigeria, Lawal (2017) examined how cost control and cost reduction strategies affected organisational performance. The chosen study design was a descriptive survey. 50 respondents from the Chemster Paint Industry made up the study's population; they were chosen using judgmental sampling. Top,

middle, and low-level employees were given the questionnaires, which were used as the primary data source. With the help of SPSS, the data were analysed using statistical tools, including regression analysis. The results showed that cost control and management style both have positive effects on an entity's performance. The budget must be used to monitor an organisation's operations in order to prevent resource and money waste. It was advised that in order to achieve cost management, comprehensive data collection, analysis, and administrative control should be implemented.

Egbide *et al.* (2019) looked into cost-cutting tactics and the expansion of a few industrial firms in Nigeria. Changes in material costs, labour costs, and administrative overhead costs are used as the referent for cost reduction techniques, but changes in turnover are employed as the variable for growth, which is a criteria variable. The study's foundational hypotheses include the going concern theory and the neo-classical growth theory. It was decided to use a descriptive research design. Using a purposive sample, secondary data was obtained from the annual reports of 40 manufacturing businesses listed on the Nigerian stock exchange between 2012 and 2016. Descriptive statistics, regression, and correlation analysis are among the statistical techniques employed in the study. The results showed a strong correlation between cost-cutting measures and the expansion of manufacturing businesses in Nigeria. In order to lower the cost of materials, it was suggested that manufacturing enterprises in Nigeria apply the value analysis approach to cost reduction. It was advised that cost-cutting measures be used by all Nigerian manufacturing firms.

In order to determine the effects of cost management and cost reduction techniques on the manufacturing sector, Barbole, Yuraj, and Santosh (2013) conducted a study. According to the report, cost control and cost reduction efforts are necessary for an organisation to advance, expand, and survive. In addition, a variety of cost control and cost reduction approaches were used, and an analysis of the changes in component cost that resulted from the use of the various techniques was also done. The analysis of the study is restricted to material costs; labour expenses and other overheads are not taken into account. In order to control costs and reduce them in the production plant, the study advises manufacturing organisations to utilise value engineering, budgetary control, and quality control.

Anayo (2016) empirically evaluated the effect of value engineering on the profitability of selected public limited manufacturing enterprises in Rivers State, Nigeria, in order to decrease costs and enhance profitability without sacrificing

the value derived. The study shows that product design has a major impact on earnings per share, and it is recommended that manufacturing organisations work to find new product designs that lower the cost of the product without compromising functionality in order to be successful.

Oyerogba, Olaleye, and Solomon (2014) assessed the connection between the practises of cost management used by manufacturing companies. For their investigation, the study analysed information from 40 manufacturing companies that were listed on the stock exchange between 2003 and 2012. Results indicate that cost management strategies and company performance in the manufacturing sector have a substantial positive association. The study discovered that manufacturing companies with modest administrative overhead expenses continue to operate. The study suggested that manufacturing organisations implement a cost-reduction approach that places a focus on production and administrative overhead costs if they want to maximise profits and create wealth.

Gichuki (2012) sought to determine how the financial success of manufacturing companies listed on the Nairobi Stock Exchange related to their cost management techniques. The study looked at the impact of stock cost, labour cost, and distribution cost as cost methods on financial success. The results of the study showed that these industrial companies' financial results were positively impacted by the managed cost of their stock.

Patrick and Segun (2017) performed research on cost-cutting tactics and business performance in Nigeria amid the recession. Employee downsizing and wage reductions were used as cost-cutting measures, while return on assets was used as a gauge of a firm's profitability. A survey research design was used as the methodology for the study. The study's sample includes ten banks with money deposits. The sample frame was chosen using a purposeful sampling strategy. For the study, secondary data were gathered from the annual report and fact book of the chosen population for the years 2006–2016. Multiple regression analysis and descriptive statistics were used to analyse the data that had been obtained. The analysis's findings showed a negative, statistically significant correlation between employee downsizing and staff compensation reductions, which can help reduce costs but have no positive impact on a bank's profit margin. According to the study, banks could consider lowering staff salaries as an alternative to mass layoffs.

Oyerogba, Olaleye, and Solomon (2014) assessed the connection between the practises of cost management used by manufacturing companies. For their investigation, the study analysed information from 40 manufacturing



companies that were listed on the stock exchange between 2003 and 2012. Results indicate that cost management strategies and company performance in the manufacturing sector have a substantial positive association. The study discovered that manufacturing companies with modest administrative overhead expenses continue to operate. The study suggested that manufacturing organisations implement a cost-reduction approach that places a focus on production and administrative overhead costs if they want to maximise profits and create wealth.

Sliman, Ali, and Abdulhakim (2015) looked into how strategic costing methods affected the performance of publicly traded manufacturing companies in Jordan. The survey research design was the methodology used in the investigation. The study relied on primary data, and a questionnaire was used as the data gathering tool. Only 60 of the 91 issued questionnaires were returned and used for the study. Several regressions and descriptive statistics were used in the data analysis process. The analysis's findings showed that while lifecycle costing and value chain costing had no statistically significant impact on performance, activity-based costing, target costing, and cost of quality all had a statistically significant beneficial impact on financial performance. According to the report, further research on the topic should be done.

Lasisi and Nuhu (2015) looked into cost control and how it affected Nigerian businesses' ability to survive. It was decided to use a descriptive research design. Primary data for the study came from Nigeria Bottling Company plc. Thirty questionnaires were randomly distributed to chosen employees of the companies as a means of gathering data. A student t-test and comparative percentage were used to analyse the data. The results showed that cost containment contributed to the company's increased profitability. The study found that the high overhead costs incurred by the company are the issue facing manufacturing companies. The report suggested putting mechanisms in place to do value analysis in order to control costs.

#### **4. METHODOLOGY**

In this study, a descriptive research design was used. Six consumer goods companies that were listed on the Nigeria Stock Exchange as of July 2022 make up the study's population. Judgmental sampling, a non-probability sample technique used in the study, was based on the availability of financial data for the study period. The study made use of secondary data that was taken from six annual reports of publicly traded consumer goods businesses in Nigeria over a five-year period (2017–2021). Since six (6) companies were chosen for a five-

year period, 30 data observations were made for the study. Using SPSS version 22.0, descriptive statistics, multiple regression, and correlation were used to analyse the data.

The model used for the study was:

$$CNP = b_0 + b_1 CMC + b_2 CLC + b_3 COC + u$$

Where;

CNP = percentage change in net Profit.

CMC = percentage change in material cost.

CLC = percentage change in labour cost.

COC = percentage change in overhead cost.

Bo = regression constant/intercept

b<sub>1</sub>-b<sub>3</sub> = regression coefficient

u = error term.

## 5. RESULTS AND DISCUSSIONS

### 5.1. Results

**Table 1: Summary of Descriptive Statistics on the study variable.**

	<i>CNP</i>	<i>CMC</i>	<i>CLC</i>	<i>COC</i>
N	30	30	30	30
Missing	0	0	0	0
Mean	56.02	31.58	45.65	28.84
Std. deviation	23.78	12.33	19.89	10.13

Source: SPSS output, 2022

Table 1 displays the mean and standard deviation for each variable used in the study. It demonstrates that percentage changes in net profit (CNP) had a

**Table 2: Correlation analysis on Cost Reduction Strategies and Financial Performance**

		Cost reduction	Net profit
Cost reduction	Pearson correlation	1	0.415*
	Sign. (2 tailed)		0.031
	N	30	30
Net profit	Pearson correlation	0.415*	1
	Sign. (2 tailed)	0.031	
	N	30	30

\*correlation is significant at 0.05 levels (2 tailed)

Source: SPSS output 2022

mean value of 56.02 and a standard deviation of 23.78; material cost (CMC) had a mean value of 31.58 and a standard deviation of 12.33; labour cost (CLC) had a mean value of 45.65 and a standard deviation of 19.89; and overhead cost (COC) had a mean value of 28.84 and a standard deviation of 10.13.

The above table 2 shows a negative coefficient of 0.415 significant at  $0.031 < 0.05$  level of significance. The table depicts moderate relationship between cost reduction strategies and financial performance. The observed positive correlation coefficient indicates that cost reduction strategies have an impact on the increase observed in financial performance.

**Table 3: Regression results indicating the influence CMC, CLC and COC on Net Profit**

Variables	Coef	t-cal	t-tab (0.05, 30)	Sig.T	R	R <sup>2</sup>	Durbin Watson	F-cal	F-tab (0.05, 3,26)	Sign. F
Con-stant	5.214	2.367		0.003						
CMC	3.621	2.120		0.038						
			2.045		0.681	0.476	2.124	3.752	2.920	0.032
CLC	4.812	2.521		0.027						
COC	3.015	3.216		0.024						

Dep. Variable net profit

Source: SPSS output, 2022

$CNP = F(CMC, CLC, COC)$

$CNP = b_0 + b_1 CMC + b_2 CLC + b_3 COC$

$CNP = 5.214 + 3.621 CMC + 4.812 CLC + 3.015 COC$

T-values = (2.367)(2.120)(2.521)(3.216)

The Pearson correlation value in Table 3 is 0.681, demonstrating a significant relationship between the regressors and changes in net profit. The determination coefficient  $R^2 = 0.476$  means that 47.6% changes in net profit is described by changes in the regressors, likewise 52.4% changes in net profit describe variables other than the one used in the model. The researchers concur that the model was useful because the associated probability for the F-calculate value of 3.752 was 0.032. Conventional  $F\text{-calculated } 3.752 > f\text{-table } (0.05, 5, 26) = 2.920$ . Also, the statistical table generated for Durbin Watson shows a value of 2.124, confirming the absence of autocorrelation. So, the investigator determined the model's usefulness.

Change in material cost (CMC) with calculated t-value  $2.120 > t\text{-table}(0.05,30) = 2.045$  and important probability value  $0.038 < 0.05$  significant level, this affirm that change in material cost as a cost reduction strategy influence net profit of listed consumer goods companies in Nigeria.

Change in labour cost (CLC) with calculated t-value of  $2.521 > t\text{-table}(0.05,30) = 2.045$  and important probability value  $0.027 < 0.05$  level of significant, hence the researcher affirm that change in labour cost as a cost reduction strategy influence net profit of listed consumer goods companies in Nigeria.

Change in overhead cost (COC) with calculated t- value of  $3.216 > t\text{-table}(0.05,30) = 2.045$  and important probability value  $0.024 < 0.05$  level of significant, this affirm that change in overhead cost as a cost reduction strategy influence net profit of listed consumer goods companies in Nigeria.

## 5.2. Discussion of findings

It is necessary to discuss the findings of the study and relate them to the literature reviewed on cost reduction strategy and financial performance. There is a moderately positive correlation of 0.415 (significant at 0.05 level of significance) between cost reduction strategies and financial performance. The discovered positive correlation coefficient indicates an increase in financial performance is associated with an increase in cost reduction strategy. The regression analysis test also revealed a coefficient of correlation of 0.681 and a moderate coefficient of determination of 0.476 in Table 3, indicating that variations in cost-cutting strategies are responsible for 47.6% of the variation in financial performance, which was significant at  $f = 0.032$ . The researcher confirms that cost-cutting measures have an impact on the financial success of Nigerian consumer products companies that are publicly traded. The results support those of Lawal (2017), Sliman *et al.* (2019), and Egbide *et al.* (2019). (2015).

## 5.3. Summary of hypotheses

**Table 4: Summary of Hypotheses**

	<i>Hypothesis</i>	<i>Accept</i>	<i>Reject</i>
Ho <sub>1</sub>	There is no significant relationship between change in material cost as a cost reduction strategy and net profit of listed consumer goods companies in Nigeria.		√
Ho <sub>2</sub>	There is no significant relationship between change in labour costs as a cost reduction strategy and net profit of listed consumer goods companies in Nigeria.		√
Ho <sub>3</sub>	There is no significant relationship between change in overhead costs as a cost reduction strategy and net profit of listed consumer goods companies in Nigeria.		√

Table 4 presents the summary of hypotheses tested in this study. It is clear that all the three ( $H_{01}$ ,  $H_{02}$  and  $H_{03}$ ) are rejected. It implies that the findings of this study support the prior findings.

## 7. CONCLUSION AND RECOMMENDATION

The basic goal of the notion of cost reduction is to lower costs from a previously acceptable norm without sacrificing effectiveness. This study was conducted to ascertain the impact of cost-cutting measures on the financial performance of Nigerian consumer product companies that are publicly traded. It was shown that the association between the cost reduction plan and financial performance has a somewhat favourable correlation of 0.681, which is significant at 0.0320. The results of this study suggest that a more aggressive cost-cutting strategy will improve the financial performance of consumer product companies. This study's conclusion that cost reduction strategy affects the financial performance of listed consumer goods businesses in Nigeria is based on the study's financial implications. This study suggests that, in order to lower material costs and ensure that cost-cutting policies are effectively implemented in their organisations, directors of corporations apply value engineering.

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### *Declaration of conflict of interest*

There exist no ethical issues bothering the study and sponsorship regarding funding and related issues of contradictions

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