# SAINT MARY UNIVERSITY

# SCHOOL OF GRADUATE STUDIES

## COST MANAGEMENT PRACTICES IN MANUFACTURING COMPANIES (IN CASE OF BGI ETHIOPIA PRIVATE LIMITED COMPANY)


**BY**

**ASEFASH WORKU**

**ID NOSGS/0271/2009A**



**JUNE 2018**

**ADDIS ABABA, ETHIOPIA**

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**A THESIS SUBMITTED TO SCHOOL OF GRADUATE STUDIES IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR THE DEGREE OF MASTERS OF BUSINESS ADMINSTRATION IN ACCOUNTING AND FINANCE**

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# DECLARATION

I, the undersigned, declare that this thesis is my original work, prepared under the guidance of Asmamaw Getie (Ass.Prof.). All sources of materials used for the thesis have been appropriately acknowledged. I further confirm that the thesis has not been submitted either in part or in full to any other higher learning institution for the purpose of earning any degree.

___________ ___________

Name Signature

Saint Mary University, Addis Ababa, Ethiopia, June 2018

# ENDORSEMENT

This thesis has been submitted to Saint Mary University, School of Graduate Studies for examination with my approval as a university advisor.

Asmamawu Getie (Ass. Prof.)

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Advisor Signature

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# LIST OF ACRONYM

| | |
|---|---|
| **AACCSA:** | Addis Ababa Chamber of Commerce and Sectoral Associations |
| **ACCA:** | Association of Certified Chartered Accountants |
| **BGI:** | Brasseries et Glaciers Internationals |
| **CIMA:** | Chartered Institute of Management Accountants |
| **DAB DRT**: | DAB- Development Research and Training |
| **MARSI**: | Meta Cognitive Awareness Of Reading Strategies In Inventory |
| **PLC:** | Private Limited Company |

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# ABSTRACT

*The competitive pressures of the world made increasingly companies focus on the cost management that has always been a basic component of any successful business strategy. Cost management practice has an effect on the manufacturing firms' performance. This study focuses on examining cost management practices in reducing and controlling of manufacturing costs of BGI Ethiopia private limited Company (PLC). In doing this descriptive case study research design, mixed research approach were used. Data were collected from 32 BGI Ethiopia PLC employees. The study relied on primary and secondary data. The primary data collected using interview and questionnaires. The secondary data collected from documents and reports of the company. Data analyzed with descriptive statistics such as frequencies, percentages, mean and standard deviation through statistical tool SPSS version 21. The data presented in tables and charts. The study found out that the importance of top management support, employee involvement and responsibility accounting in reducing and controlling manufacturing costs. It also discovered that manufacturing companies can reduce costs and maintain quality products by the use of effective cost control and reduction tools and techniques such as budgetary control, standard costing, quality control and target costing. The study recommends that manufacturing companies should understand the importance of top management support, employees' involvement and responsibility accounting in controlling and reducing manufacturing costs. It also recommends that manufacturing companies should implement cost control and reduction tools and techniques in their cost control schemes.*

**Keywords:** ***Cost management; Cost control and reduction; Manufacturing cost*.**

# CHAPTER ONE

# 1 INTRODUCTION

## 1.1 Background of the Study

In the current time of rapid technological transformation, strong world and local competition, cost management is fundamental to continue business profitability and competitiveness (Anand, Sahay and Saha, n.d.). The ultimate goal of any business entity is earning profit. Therefore, considering all possible ways that increase the benefit of the concern is required (Paramasivan and Subramanian, 2008). Since management is worried with profitability, especially in manufacturing business, the need for higher sales will increase and this will facilitate the need to increase production volume, which in turn brings about increase in cost. For any firm to earn acceptable profit, cost management should be needed because a business with sound and acceptable cost structure has a positive chance of attaining its profit target (Oyerogba, Olaleye and Solomon, 2014). Brumbaug (2008, as cited in Siyanbola and Raji, 2013) indicated that firms should watch the cost than profit for the reason is that the profit will take care of itself. Adeleke (2014) stated that an organization will continue in success with clear and detailed understanding of all elements that pulls profit, as well as minimizes costs.

Global competitive pressures have made companies focus increasingly on the cost management that has always been a basic component of any successful business strategy. Cost should be controlled rather than reduced through unscientific method, because it may result to lowering the quality of the product (Cooper and Slagmuder, 1998). Today, any company should manage three related basic operational issues such as product cost, quality, and performance for survival (Innes, Mitchell and Sinclair, 2000). The desire of customers is getting superior quality and better performance products and at the same time, they need the price to be reasonably low. The main concern of owners is a required rate of return on their share (Oyerogba et al.,2014). Profit maximization for any type of organization depend on efficient cost management and increasing sales resulting from market domination. Thus cost has become a major issue and also cost management has become a substantial existence for many organizations.

Currently, the market leaders are even following cost reduction as a strategic imperative. They need to stay forward the market by constantly widening the gap among their cost and that of their competitors. Caroline (2014) points out that cost management facilitates to determine accurately estimated cost and can help to predict cost amount in the future. Therefore, companies require a deep consideration of a firm's cost structure to manage cost. Cost management is only effective and efficient when proper cost information is collected for managerial decisions. Furthermore, top management support, effective cost reduction and cost control tools and techniques and employees' involvement are required to control and reduce costs in order to achieve firms' ultimate objective.

The most common problem in a manufacturing industry is the increase of input costs. If the manufacturing costs not properly identified and managed, it become unbearable and affect the profitability of the firm. Biruk (2009) stated that one factor of decreasing the competitiveness of Ethiopian manufacturing industries is their manufacturing cost management system. He further stated that Ethiopian manufacturing cost management system should not be designed to help companys' operations and strategy and it provides deceptive targets for managerial attention. Therefore, cost management practice of Ethiopian manufacturing sector should be taken in to consideration.

The brewery industry in Ethiopia has great potential to enhance manufacturing and export production, and thus to increase job opportunities and reduce poverty (Access capital research, 2010). Thus, managing manufacturing costs has an effect on the performance of this type of business. However, there have been a common discussion about lack of adequate cost management practices in brewery industry in Ethiopia. Studies were done on brewery companies in different topics. Nebiyu (n.d) technical efficiency analysis of the Ethiopian brewery industries; Robel (2013) an assessment of factors affecting market share of Dashen Brewery; Daniel (2016) the critical factors affecting supply chain management in brewery industry; Endale (2015) the impact of working capital management on firms' performance: a study on Breweries in Ethiopia. But there is no specific research that was done related to cost management practices in reducing and controlling manufacturing costs of brewery company. This initiate the researcher to study in this area.

The researcher selected to study BGI Ethiopia PLC cost management practices. Because, previously it was the oldest and largest stated owned brewery company having famous oldest brand name called St. George Beer with profound experience in local brewery industry before the internationally well-known strong competitors namely Heineken Ethiopia PLC and Diageo Ethiopia PLC industry entrants. When the local industry market is open for the global known competitor's stiff market computation is expected. To win this competition, in the current business environment cost management is considered as one of the critical element in the competitiveness of a company. Thus, studying the cost management practices in reducing and controlling manufacturing costs of BGI Ethiopia PLC brewery is very important in achieving its competitiveness. Therefore, the main objective of this study is examining and evaluating cost management practices of manufacturing companies in case of BGI Ethiopia PLC. The study assessed the importance of top management support, employee involvement, responsibility accounting, cost reduction and control tools and techniques to reduce and control costs in manufacturing company.

## 1.2 Back Ground of the Company

BGI Ethiopia is subsidiary company of Brasseries et Glaciers Internationals. The holding Company is Group Castel, which was founded by the 9 brothers and sisters of the Castel family in 1949.The Castel group's activities in the beer and soft drinks sectors are mainly managed through the operational subsidiary BGI.

St. George Brewery resumed operation without much change except few reshufflings and replacements to top management after the fall of the Dergue regime in 1991. Towards the end of 1997, BGI – the brewery and beverage production wing of Castel Group – was established as BGI Ethiopia P.L.C. to facilitate private investments in the brewery sector, which was the first of its kind in Ethiopia. The primary objective of the company is to produce and distribute quality bottle and draught beer to local and foreign market. The company was formed by two shareholders with a total paid-up capital of Birr 161,989,000.00. BGI Ethiopia inaugurated its first brewery located in Kombolcha in the year 1998. In order to satisfy local market needs BGI Ethiopia introduced high gravity brewing process and inaugurated the new bottling line at the Saint George Brewery in 2006.In June 2011, BGI Ethiopia inaugurated its third and largest state of the art brewery in the town of Hawassa. BGI Ethiopia also continued to expand its product portfolio by introducing the Amber beer brand in 2012, which was and still is the first of its kind in the country. By mid-2012, BGI Ethiopia has also ventured into the winemaking business, building and operating the first privately owned winery and vineyard in Zeway town with an initial investment of 22 Million USD. According to company profile BGI Ethiopia also invested considerably in conducting unique marketing campaigns and corporate social responsibility schemes, which were non-existent in the industry at the time.

## 1.3 Statement of the Problem

The manufacturing cost challenge is one of the most serious tasks facing Ethiopian manufacturing companies. Biruk (2009) stated the main problem of Ethiopian manufacturing industries is awareness on cost management practice. Cost management is a method used to realize decisions made for planning, controlling and developing competitive strategies, and it is remarkable to say that creating a balance between this factor and other magnitudes of competition like quality and time required (Reiss, 1992). He further stated that it is a control of costs through the formal procedure of budget preparation, evaluation and make corrective actions to attain the maximum goal at a specified level of quality unless unknowns and uncertainty may cause costs to increase beyond acceptable levels. In profit maximization, cost control and reduction play significant role. Any type of organization that is successful in cost control and reduction, without reducing its quality can sell its products at lower amount than its competitors. Having price competitive advantage, the company can enhance its market share and become a market leader (Locky, 2002, as cited in Akeem, 2017). He further stated that in a good or bad periods, cost control and cost reduction scheme remain constant. Currently the increase in the cost of operation become difficult for organizations. So cost reduction and cost control scheme become inevitable. Hence, in order not to exceed their budget and not to run at loss, as well as not to reduce the quality of their products, organization needs to use effective cost reduction and control tools and techniques to reduce their cost to the lowest minimum.

The manufacturing sector makes a significant contribution to the Ethiopian economy and employs about 173 thousand people in 2012/2013 *AACCSA and DAB DRT* (*2014*). This sector is seen as the success of Ethiopia's growth, as well as its development to a large extent the product of a modern developmental state (Admasu,2017). Furthermore, this sector delivers a major contribution to the Ethiopia economy. Nebiyu (n.d) stated that out of the total industry sector, 43% share of the economic contribution comes from manufacturing industry and the brewery industry is one of the six main industries. The brewery industry provides a good employment opportunity for the society. It participates in various social responsibility and contributes for the growth of the economy (Abiy,2014). These economic benefits from the brewery industry can only be continued when this kind of firms gain profit to guarantee their staying in business. In addition to these, even if the free market competition seems to prevail in the beer market, breweries are forming an agreement to set price of their products. This seen by uniformity of price on bottled and draught beers. Therefore, breweries are not competing by price and they focus on cost structure to get a better benefit than their rivals. In this case cost management become a major issue for such type of manufacturing firms.

In many countries studies were made on cost management practices to reduce and control of manufacturing costs; Caroline (2014), the effects of cost management on the financial performance of manufacturing companies; Olalekani & Tajudeen (2015), cost control and its impact on the survival of Nigeria firms as a case study on Nigeria bottling company plc; Akeem (2017), the effect of cost control and cost reduction techniques in organizational performance; Adeleke, (2014) the relationship between cost management techiques and performance of Nigerian banks. In the country, in brewery companies, studies were made on various issues; Nebiyu (n.d) technical efficiency analysis of the Ethiopian brewery industries; Robel (2013) an assessment of factors affecting market share of Dashen Brewery; Daniel (2016) the critical factors affecting supply chain management in brewery industry; Endale (2015) the impact of working capital management on firms performance: a study on Brewries in Ethiopia. However, in Ethiopia cost management practice in manufacturing companies was not yet widely examined. Hence, this study examined and evaluated cost management practices that help the manufacturing firm mangers to reduce and control manufacturing costs.

As a business organization in general and as a manufacturing company in particular BGI Ethiopia's primary objective is to generate optimal profit (Biruk, 2009). When we are talking about profit, it's obvious that the company should maintain its cost low and raise its quality as per the expectation of its customers. If the company fails to minimize its costs and keeps its customers satisfied, there will be a simple shift of customers to other similar products that leads to low profit. And for the company to fulfill its objective, the cost management plays a vital role in minimizing costs and producing a quality product that exceeds customer expectation. In addition to this before few years, there was no as such a rigorous competition in the beer industry of Ethiopia. Because there were no strong companies in the market and St. George, now BGI had taken the larger market share. Currently BGI Ethiopia is facing a strong competition from international brands and successful international companies. Therefore, cost management practices become a major issue for BGI Ethiopia.

Thus, the main objectives of this paper is examining and evaluating cost management practice to control and reduce manufacturing costs of BGI Ethiopia PLC.

## 1.4 Research Questions

In order to achieve the intended objectives this study tried to answer the following specific research questions.

- How manufacturing company's managers support the application of cost management practices to improve the performance of their company?
- Which type of cost reduction and control tools and techniques the company uses in its cost saving and profit maximization?
- How frequently management review standard cost and cost budget to communicate its measure in decision making?
- What are the usefulness of employees' involvement in order to control and reduce manufacturing costs?
- How responsibility accounting system help manufacturing company's mangers in cost budgeting, cost reduction and cost controlling?

## 1.5 Research Objectives

### 1.5.1 General Objective

The general objective of this study is to evaluate and examine the application of cost management practices in reducing and controlling manufacturing costs.

### 1.5.2 Specific Objectives

The specific objectives of this study are : -

- ☞ To examine how top managers support the application of cost management practices to improve the performance of their company;
- ☞ To identify different cost management tools and techniques that help to control and reduce cost to the lowest minimum;
- ☞ To examine how frequently management reviews standard cost and budget to communicate control measures in decision making;
- ☞ To evaluate the importance of employees' involvement in the process of cost control and cost reduction; and
- ☞ To assesses the benefit of responsibility accounting in cost budgeting, cost reduction and cost controlling.

## 1.6 Significance of the Study

This study examined and evaluated the application of cost management practice sin reducing and controlling manufacturing costs. This research enables to establish a framework for subsequent studies that can work with more comprehensive data sets. Furthermore, it can encourage further research, on keeping continued interest in the area cost management practices of manufacturing companies in Ethiopia. The findings of the research have great importance for shareholders of manufacturing companies in order to have higher return from their investment; governments to collect reasonable tax; and other stakeholders like banks and other creditors in order to know the profitability of the company. Specifically, the study supports manufacturing company managers to identify best cost reduction and control techniques, to know the benefit of responsibility accounting system on cost controlling, to identify the place where in the organization that needs attention for better performance; and for accounting students in their study.

## 1.7 Scope and Delimitation of the Study

The delimitation of the study confine to BGI Ethiopia PLC. The study focuses on the usefulness of cost management practice sin reducing and controlling manufacturing costs of Brewery Companies. The scope of this study covered the collection of data from executives and staff of finance and production departments. This research tried to explore the logics behind cost reduction and control practices and its effects on company's profitability.

## 1.8 Limitations of the Study

The study limited to BGI Ethiopia PLC and the findings are only from the brewery manufacturing company's perspective. In case, similar research in the future may extend to cover other industries. The other limitation that researcher confronted was the BGI's confidentiality policy obliged only to observe orginal documents. Hence, the researcher could not obtain the copy of the documents. The other limitation as in all case studies, the generalizability of the conclusions is limited to this brewery company.

## 1.9 Organization of the Paper

This paper has five chapters. The first chapter deals with the introductory part which contains background of the study, back ground of the organization, statement of the problem, research questions, research objectives, significance of the study, scope and delimitation of the study, limitation of the study and organization of the paper. The second chapter contains the literature review. The third chapter deals with the research design and methodology, the forth chapter reveals data analysis and interpretation. Finally, the fifth chapter deals with summary, conclusions and recommendations.

# CHAPTER TWO

# 2 LITRATURE REVIEW

This section presents the review of related literatures in order to establish a basis for the application of cost management practices in reducing and controlling manufacturing costs. The selected sub topics will look into the general theory relating to cost reduction and control techniques and tools of manufacturing companies. The review covered previous theoretical literature, empirical studies conducted in various countries on this subject, the conceptual frame of the study and the research gap.

## 2.1 Review of Theoretical Foundation

Cost management practices are apprehensive with the examination and the data used in order to support managers in making decisions and help for managerial cost control. Shank and Govindarajan (1989, as cited in Ghanshyam & Radhe, 2016) specified that it is a means to help a firm in achieving its objectives, but not an end in itself. Companies commonly strive to improve their performance in this globalized competitive economy (Ghanshyam and Radhe, 2016). On cost management and control strategies, research theories have been formulated. These are traditional cost theory, contextual theory of cost and value- engineering program theory. Traditional theory of cost differentiates the short-run costs from long-run costs. Short run is a period in which some factors are fixed. Capital equipments are considered as fixed in the short-run. All factors are become variable in the period of long-run. In traditional theory of the firm the total cost of the company split as total fixed costs and total variable costs. Traditional theory of cost enables a firm to conclude the output level that gives the optimum profit with the lowest cost (Koutsoyiannis, 1988). Contextual theory of cost mostly states that costs are accepted as expenses in the income statement in the period that benefits from the cost (Garrison, Noreen and Seal, 2003). Value-engineering programme theory states that an organized examination and evaluation methods of improving performance through decreasing of product cost.

### 2.1.1 Costs Definition

Cost is defined as an economic resource related to manpower, equipment, real facilities, supplies and all other resources that required to accomplish work activities or to produce output (Stewart, 1995a). Usually costs are stated in terms of monetary value. Therefore, costs are the value of money which represent the resources paid for the production of the output. Cost is defined as the expensed amount, or attribute to a particular thing or activity cost of no matter what ordinarily is currency spent to obtain that thing (ACCA, n.d.).

### 2.1.2 Cost Elements

In manufacturing companies' costs can be classified as manufacturing and non- manufacturing costs. Direct material cost, direct labor cost and manufacturing overhead costs are classified under manufacturing costs whereas selling & distribution costs and administrative & office costs classified as non-manufacturing costs.

#### 2.1.2.1 Direct Material Cost

Direct manufacturing material costs include the acquisition of materials with their related costs that can be directly traced (Horngren, Datar and Rajan, 2012). Some examples of direct materials are cloth is row material for making garments, timber for making furniture, etc.

#### 2.1.2.2 Direct Labor Cost

Direct manufacturing labor costs include the compensation of all manufacturing labor that can be traced to the cost object that is work in process and then finished goods in an economically feasible way (Horngren et al., 2012). For conversion of raw material into finished goods, human resource is needed, and such human resource is termed as labor. Labor cost is the main element of cost in a product or service. Direct labor cost is easily traceable to specific products. Direct labor costs are specially and conveniently traceable to specific products. Direct labor varies directly with the volume of output.

#### 2.1.2.3 Manufacturing Overhead Costs

Costs other than direct material and direct labor cost which are not clearly associated with specific product are manufacturing overhead costs. Overheads include the cost of indirect material, indirect labor and indirect expenses. The major category of overhead costs is operation overhead and general and administrative overhead. Manufacturing overhead costs are costs incurred in the factory for production of goods and services. These include all indirect material like grease, oil, cost of tread etc., indirect labor like salary for factory managers, salary of warehouse man and indirect expenses incurred in the factory such as rent for factory building, power and fuel used in the factory, insurance of factory building etc.

### 2.1.3 The Behavior of Cost, Revenue and Profitability

Cost behavior is associated with knowing that how costs change with the changes of organization level of activities. Cost behavior is the study of the ways in which costs fluctuate or do not fluctuate with the level of activity in the organization (Asaolu and Nassar, 2007). The level of activity was defined as the amount of work done or the number of events that have occurred.

In accounting costs are a monetary value that a company has spent in order to produce, acquire and accomplish anything. Costs are also defined as the amount spending in order to generate revenue. The difference between revenue and costs is profit or loss. Therefore, revenue and costs have linear relationship. Costs change to changes in activity level and the term fixed and variable have been used in management accounting. Regardless of changes in production, fixed costs remain the same within a given period of time and range of activity. Per unit fixed cost varies with the change in the volume of production. If the production increases, fixed cost per unit decreases and as there is decrease in production, the fixed cost per unit increases. Short term variable costs vary in a direct proportion to the volume of activity that means increasing the level of activity is increasing the same proportion to the total variable costs. According to Fischer and Schmitz (1998, as cited in Oyerogba et al., 2014) increasing the variable cost lead to increase in profit.

Adeniji (2011) conclude that total variable costs are linear and the unit variable cost is fixed. Hornren et al. (2012), explained that fixed costs remain constant and unchanged in total for a given time period in inspite of wide changes in related level of total activity or volume. Moreover, they further explained that costs as variable or fixed with respect to a specific cost object and for a given time period. This argument continuing, Adeniji (2011) described that in the long run, all costs are variable. Through such a long period of time, reduction in demand will be accompanied by reductions in almost all categories of costs. For example, some manufacturing machineries may not be replaced and buildings may be sold. Likewise, enlargement in the activity will finally cause all categories of costs being incurred by the organization. Step fixed costs are fixed with in a specific level of an activity for a given time period (Olabisi et al.,2012, as cited in Oyerogba et al., 2014). Asaolu and Nassar (2007) in their studies describe that within a certain level of activity many cost items are fixed in nature and actually increased or decreased by a constant amount. The other cost group is semi-variable costs which consist both fixed and variable costs. Semi-variable costs are not varying with the level of output so it is difficult to evaluate (Larry and Cristopher, 2009).

### 2.1.4 Controllable and Non-Controllable Costs

Costs can be categorized as controllable and uncontrollable costs. Controllability is the extent of power that a specific manager has over costs, revenues or other related things for which he is accountable (Horngren, et.al, 2012). Controllable costs are any costs that are subjected to influenced by the responsible centre manager in a given time period. They further stated that the manager of the responsibility Centre should categorize costs and revenue assigned to responsibility centers according to whether or not they are controllable or non-controllable. Drury (2012) stated that a responsibility centre defined as a division of an organization where a specific manager is held accountable for the division's performance. The establishment of responsibility centre is an essential part of management accounting control system. It is significant that to differentiate among the various forms of responsibility center. Responsibility centers can be cost or expense centers, revenue centers, profit center and investment centers. A cost or expense centre is where the manager is accountable for all costs under his control. Revenue centre is a responsibility center where the manager is mainly responsible for financial outputs in the form of creating sales revenues. Profit center is a responsibility center where a manager is accountable for both production and sales whereas investment center is a place where a manager is accountable for cost, revenue and capital investment decision.

The management accounting control systems have two main components (Drury, 2012). The first one is the formal planning process and the other is responsibility accounting which involves the establishment of responsibility centers. Responsibility centers enable accountability for financial outcomes to be allocated to individuals throughout the organization. All costs are controllable at some management level. For instance, top management has authority to dispose of facilities and increase or decrease the amount of managers employed. But not all costs can be controlled at lower level managers. Therefore, it is necessary for costs to be classified into controllable and non-controllable classifications in the performance reports that the accountant prepares for each responsibility centre.

### 2.1.5 Cost Management Practice

Management practices have an effect on the performance of a business. As numerous production activities are added upon cost can be increases and there is a need to keep cost in check arises because standards for production will be set and actual production will be made thus getting about differences which can be minimized or eradicated through effective cost control. Therefore, there will be the need to incur reasonable costs and control it to ensure efficient use of resources in order to achieve the objective. Many researchers are not comprehending about the significance of management practice for explaining variations in firms' performance (Ghanshyam and Radhe, 2016). Syverson (2011) debated that cost can be reduced by profit maximization. Management is usually required to adopt various methodologies and techniques in order to control rather than reduce cost. The revenue of the firm influenced by its costs and expenses. The cost information that is accumulated and presented is therefore important for pricing decisions. Whether the price of the product set by overall market supply and demand forces they have little influence over the selling price of the products. Organization is usually required to assume several approaches and practices in order to control than decrease cost. Cost control is a technique of determining the usefulness or the activities taken by the administration of the business. Several production activities increase cost and the need to have cost in check arises because at the time of comparing production standards with actual, variances may be happened. These variances can only be reduced or eradicated through effective cost control. Since profitability is the main concern of any business, there will be the need to incur reasonable costs and the administration is ensuring careful and efficient use of resources in order to attain the set standard or target.

### 2.1.6 Cost Control

In the process of manufacturing companies, the concern of cost control management is essential in order to effectively utilize the material resources. In addition to this, cost control includes the management measures implemented to ensure that cost continues in accordance with the management plan. The significance of cost control cannot be over emphasized as an existence technique for manufacturing companies because they ensure appropriate monitoring of cost against budget and correct any financially impropriety of the company. The term cost control is used widely and no uniform definition exists (Horngren et, al2012). They further explained that cost control is used to define the activities of manager in short-run and long-run planning and management of costs. They further proceed that planning and cost control is often inseparably related with revenue and profit planning.

Agara (2005) opines that cost control is “a process whereby targets are set against which the daily incidence of cost is compared to ensure that cost targets are not unduly exceeded’’. Adeniyi (2007) specified that cost control is the standard of cost of operating an organization and it’s concerned with holding costs within tolerable limit. He said this limits will regularly in a formal operational plan or budget. Cost control action will be important, if actual cost vary from planned cost by too much amount. He further explained that ‘’is a process of setting targets and receiving feedback information in order to ensure that actual performance is in line with set target and, if not, take corrective action’’.

Cost control and costing systems are identical with common attributes (Lockyer, 2000). Costing system includes an organization’s control, plans and structures which has three levels. Which are the setting, the operation and the feedback phases. In setting a control system, establishment of standards is the criteria for performance and it can be specified in quantitative terms, in units of products or services, labor hour, speed, volume or stated in value such as volume of sales, cost of capital expenditure or profits etc. The operational phase is the part of the association in which the technology is applied row materials inputs transformed to finished goods. The achievements and failure in this regard depends on the set standards. If the set standard unclearly defined, the result will be failure, and if it correctly defined, the operation will bring out best outcome. The feedback phase is a phase that provides information for decision that adjusts the system. Whether or not performance is on the correct target and whether objective is being achieved, the system is monitored as plans are implemented or not. To be efficient, actual performance is measured against standard and deviations investigated.

An organization wants regular information about operations to plan for the future, to control current activities and to evaluate the past performance of managers, workers and linked business units (Cooper et.al,2009). In order to become fruitful, administration guides the activities of its employees in the operation of the business according to the pre-determined goals and objectives. There are two forms of controls that management's leadership takes, the management and supervision of behavior and the evaluation of performance. Behavioral management involves the approach and activities of employees(Ibid). While employees' behavior finally effects on achievement, behavioral management involves certain issues and rules not applicable to accounting control function. On the other hand, performance evaluation measures result of workers' actions by comparing the actual results of management, identified the strengths it needs to maximize and the weaknesses it seeks to correct. The process of evaluation and remedy is known as cost control.

### 2.1.7 Cost Reduction

A systematic process used by companies to reduce their cost without having negative impact on quality product or service. CIMA (n.d) indicated that "cost reduction is the achievement of real and permanent reduction in the unit of cost of goods manufactured or service rendered without impairing their suitability from the use intended for or diminution in the quality of products." Real and permanent cost reduction can be achieved through mass production, lower price input, simplifying the manufacturing process without scarifying the quality products, implementing best practice, elimination of wastage and duplication of work the production process. Cost reduction is a continuous process of critically examining various elements of cost in each aspects of business operation and improving policy and procedure manuals, work instructions, workflow diagrams operation management, and improving efficiency or optimal utilization resources.

### 2.1.8 The Relationship Between Cost Control and Cost Reduction

Most people misapprehend cost control and cost reduction. There is difference between cost reduction and cost control in relation to the method. Cost control is functioned by founding standards and maintaining the performance with regard to standard. Sikka (2003) stated that cost control system involves methods and procedures that assist to manage the cost of functioning a business and make sure that cost do not go more than a certain level. Cost reduction is an intended method to reduce costs. Therefore, cost control and cost reduction are important cost management applications in manufacturing firms for the purpose control and reduce undesirable expenses. These cost management tools also help to bring about rise in market demand in terms of competitive market. The issue of cost control and reduction management is essential in the operation of manufacturing companies in order to utilize the material resources. He further points out that cost reduction are activities such as value analysis and value engineering; components and material standardization; improvement in buying practices; production engineering and method and layout improvement; scrap reduction; manpower planning and system analysis and simplification.

For each cost centre cost is considered separately for which the budget is arranged earlier in order to avoid the certainty of rewarding effects of favorable differences against unfavorable ones. These limits will usually be specified as standard cost or target cost limit in a formal operational plan or budget. It is mostly practical in application where actual cost differs from planned by too much amount. It inspires efficiency and cost consciousness in business. This makes cost control to be effective.

In other way, as Asaolo and Nassar (2007) specified that cost reduction is a planned positive approach to reducing expenses. It is energetic and purposeful activity which tries to minimize cost regardless of the level they belong. It can be explained in many ways like increasing productivity and elimination of waste. In order to show the manners and means of minimizing costs, on each elements of cost, each process is accurately checked and each method is evaluated. Furthermore, cost reduction does not involve a one-time practice. It involves the way of mind, pattern, and philosophy. Therefore, the principle of establishing cost awareness is to minimize cost at all levels and emphasizing the role and responsibility of every part of the organization. ACCA (n.d.) defines cost reduction as the reduction in unit cost of goods and services without harming comfortability for the purpose intended. Therefore, cost control and cost reduction are important in an organization in order to manage and reduce unnecessary expenses and they also help to bring about increase market demand in terms of competitive market.

### 2.1.9 Management Support

Cost management practice cannot be set up without any active support of top management of a company. If management has a positive attitude towards setting standards, budgeting and provides direction for implementation and control, a company will be able to implement its plans efficiently. Management involves directing the activities of others, making sure that other people do what should be done. The basic managerial control process involves three steps. They are establishing standards, measuring performance against these standards and correcting deviations from standards and plans. First managers plan the way they want people to perform, then they implement procedures to determine whether actual performance complies with these plans. Cost control is a continuous process that begins with the budget. Management compares actual results to those projected in the budget and incorporates into the new plan the lessons learned from its evaluation of current operations. Through the budget process and accounting controls, management establishes overall company objectives, defines the centers of responsibility, determines specific objectives for each responsibility center, and designs procedures and standards for reporting and evaluation.

### 2.1.10 Employees Involvement

Worker involvement states to using maximum efforts of all employees of a company to resolve problems. Having active worker involvement is important in cost reduction scheme. Labor cost consists the major part of product cost in manufacturing companies. Thus managing the productivity of workers means reducing labor costs and this results to maximize the returns of the company.  There are several methods that could be used to increase worker motivation that concerns all employees at all stages of the company (Huang and Zhang, 2013). The empowerment of a workers and groups is essential to create incentive for work. Many companies found that itis helpful for companies to set up worker teams. Empowerment of employees is essential to generate motivation for work. Employees should be empowered by top management.

One of the technique to improve worker's productivity is giving training to employees on the area where cost can be controlled. The other method to increase productivity is giving incentives for employees. The employee needs to be encouraged so as to accomplish with interest in order for the desired result to be achieved. Organization should ensure that staff morale is always high. Affording better payment and being aware of the workers' welfare are methods of incentives. The incentive system has to be linked with performance evaluations of employees. Nowadays competition is a common worldwide trend and it cannot be avoided. It may be come to the solution by offering quality products with reasonable price as well as by having capable and knowledgeable man power. Myronenko (2012) stated that focusing on lean production and quality programs, firms should have to be improve productivity by upgrading the skill of their employees. This can be created by more extensive training, job rotation, multi-tasking and empowerment of employees. This enhance employees' morale and can yield substantive benefits in terms of highest quality and workers suggestions for improvements in the process. If employees understand as they are a large portion of the production process, they able to contribute more efforts.

### 2.1.11 Responsibility Accounting and Cost Control

The power assigned on responsibility centre and accounting for the responsibility centre. Responsibility accounting is a system in which authority and responsibility for managers delegated to give decisions on the activities occurred in that specific unit. The aim of responsibility accounting is to establish and report the causes and effect relationship among the activities of managers and the financial result of those activities. Responsibility accounting is a system developed to collect and report costs by each level of responsibility, each supervisory area is accountable only for the costs which incurred in its responsible and over which it has control (Cashin, 1998). For establishing polices and for daily decision making purpose costs are obtained from responsibility accounting system. A good responsibility accounting will involve a good cost information system that will collect well ascertained cost and reflect how the costs are incurred and by whom incurred.

The objective of responsibility accounting is to help management in attaining organizational goal. Responsibility accounting is significant in modern management. Robert (as cited in Fowzia, 2011) states responsibility accounting as "the type of management accounting that collects and reports both planned and actual accounting information in terms of responsibility centers".

### 2.1.12 Cost Control and Reduction Tools

Managerial controls are cost control methods which different organizations applied as a tool in controlling and reducing costs. The techniques are evolved by the finance department and management section at the core of implementation. Cost control and cost reduction methods are a tool for management. The primary task of the management after setting the plan is to ensure that the set plans are carried out or not. Management involves directing the activities of others, making sure that what other people do what should be done.

There are different types of management cost control tools. Management control systems have its own significant role in increasing profitability and going concern (Ayichewu, 2011). Some of the tools that management used for controlling and reducing cost are budgetary control, quality control, material cost control, labor cost control, production control, standard costing, target costing, etc. Adebayo, Lawrence and Taofeel (2014) identified that the merits of cost control are:

a) It has a benefit for utilizing the resources full;

b) It helps to reduce the price of products which are benefited by customers;
c) It makes competitive in the market;
d) It enhances the profit earning potential of the business; and
e) It enhances the goodwill of the business.

#### 2.1.12.1 Budgetary Control

A budget is defined as the monetary expression of income and expenditure for future a definite time. It is a detailed plan that shows how financial and other resources obtained and used at a given period of time. In all types of businesses, budgets play identical role. Budget is a device used by an organization in the accomplishment of its duty of corresponding plan with the available resource (Adebayo et al., 2014). It is an instrument for controlling purpose. Siyanbolaand Raji (2013) indicated that budget as a device, can help to ensure effective cost control, when actual costs incurred are compared with planned costs and the deviations examined to see their reason and management take corrective action. Horngren et al. (2012) stated that without budget it is difficult for managers and their employees to understand whether they are on target for their development and expenditure goals. The act of doing budget is budgeting. Adebayo et al. (2014) defined budgeting is one of the mechanism for controlling costs in manufacturing organization. Budgeting is a plan and a control tool and has a significant impact on firm's performance (Bedilu, 2015). Furthermore, other main benefit of budgeting process is sharing information among the organization members. The members of the organization should participate in the budget preparation as well as involved in budget revision (Chalos and Poon, 2000, as cited in Bedilu, 2015). It is the simplest way of comparing budgeted expenses with actual expense and budgeted income with actual income. Budget in itself will not provide any purpose in cost control unless it embarks on budgetary control. Budgetary control is the monitoring phases of a budget. Budgeting deals with setting what is achieved and how it to be achieved on the other hand control is deals with that the objectives are realized and actual results do not vary from the planned more than needed. He further stated that budgetary control is a cost control tool and it has an impact on profitability of manufacturing companies.

#### 2.1.12.2 Standard Costing

In manufacturing companies, the procedures often are of a repetitive nature and therefore standard costing is pertinent in these kinds of companies. Control activate by the use of different budgets. The methods of standard costing are used in order to make a solution for different limitation of historical costing. Historical costing which the refers to ascertainment of costs after they have been incurred provides the management with an account of what has been happened. "Standard costing methods involves the preparation and use of standard costs, their comparison with actual costs and analysis of the deviations to their causes so as to provide corrective actions (Sikka, 2003)." Standard costing is a financial control system that enables the deviations from the budget to be analyzed more effectively (Drury, 2012). He further stated that standard costs are preset costs; they are target costs that should be incurred under efficient operating circumstances. However, it is not the same as budget costs because budget relates to the whole activity or operation whereas standard presents the same information on per unit basis. A standard therefore offers cost expectations per unit of activity and a budget provides the cost expectation for the total activity. Mainly, standard costing is a method of cost control in which cost data for activity are presented based on the formal level of operation (Larry and Crosphopher, 2009). The pre-determined standards compared with the efficiency and actual cost incurred and if deviation or variance happen is ascertained, an analysis of deviation is made with reference to their cause with a view to fix the responsibility of the specific executives. A report on such investigation is submitted to the management to assist to take corrective measures in order to ensure that actual costs are consistence with standard costs in future. A standard cost is a carefully determined cost of a unit of output (Horgren, 2012). According to Drury (2012), in the application of standard costing system, the standard costs for the actual output for a specific period are traced out by the managers of responsibility centers who are accountable for the operations. When it comes to the actual cost for the same period the costs are charged to the responsibility center. Therefore, the actual and the standard costs are compared and the deviation between them reported.

## Advantages of Standard Costing

Standard costing has the following benefits:

- Standard costing provides a formal platform by which performance may be measured based on the what cost an item or how much should have been produced, on the basis of anticipated levels of activity.
- It provides an identifiable basis for budgeting, forecasting and planning
- It provides a method in which labor and overheads can be consistently recovered and charged in to inventory.
- It provides basis of control for purchasing, usage and efficient work levels.
- In setting up standards, management can reconsider activities to determine if they are being done in the most cost-efficient way.
- It helps management in establishing a yardstick with which the performance is measured that helps to exercise control.
- It helps in decision making by providing forecast of future cost.
- It supports in determining targets and in the evaluation of managerial performance.

**Limitations of Standard Costing**

- Standard costing is quite difficult to apply in practice.
- Regularly, standards became static over the period of time and do not keep pace with changes in conditions.
- If the predetermined standards are higher than reasonable, they act as discouraging issue.
- Adverse attitude of the operating manager against the standards set.
- Difficulty of detecting specific needs of consumers.

### 2.1.12.3 Target Costing

Target costing is a management tool for reducing the overall cost of an output through its product life cycle (Jalaee, 2012). Target costing creates the relationship between cost, price and profit. Helms, Ettkin, Baxter and Gordon (2005) stated that target costing is not like cost reduction techniques or control outline, but it is a part of total strategic profit management system including value analysis and value engineering. It begins with a targeted sales price of a product. This price is set on the consideration of what customer willing to pay for that product. It is different from traditional pricing approach which centered on developing a product, then determining the expected cost based on the expected volume and the setting a selling price. However, in target costing approach the company determine a selling price that the customer willing to pay and the desired profit margin deducted from selling price and the maximum target cost known. The company therefore ensure that the product can produced with this targeted amount.

Jalaee (2012) stated that target costing is a mechanism that exploiting cost information and it aims at on the better price leader and it prevents time wastage on the discussion regarding design and re-engineering of the product. It is based on examining all elements of costs related to possessing the product through all stages of its life cycle. These elements include the purchase price, operating costs, operating supplies and repair and maintenance costs. The objective of target costing system is to reduce the cost of the life cycle of the product.

**Cost Management and Target costing**

Target costing is a general approach or guideline in which different methods used for the managing costs that required in achieving the target costs. There different target costing techniques. Some of them are value analysis, value engineering, just in time, total quality management, material requirement planning, kaizen, lean manufacturing and activity based costing. The selection of method or combination of techniques are differing from company to company CIMA (2005). Once the target costs have been determined, actual costs monitored and Administered against the targets using the usual budgeting and costing methods such as standard costing.

**Value analysis and value engineering in target costing**

Value analysis is a systematic tool of management which deals with saving costs by analyzing the value. Value analysis is used to describe the existing product. Value analysis or value engineering is a systematic examination and evaluation of the methods and functions of an entity with a view to examine channel of performance improvement in order to value the particular product (Horgreen et.al., 2012). It is a systematic examination of all value chain components with the aim of reducing cost and achieving a quality level that fulfill the needs of customers (Akeem, 2017). Value Analysis is an action that typically occurs between purchasing and engineering method jointly. This activity is aimed at modifying the specifications of materials, parts, and products to reduce their costs while reducing their original function. Focus is placed on the value of the product. Value Analysis is also called as value engineering. To apply this method manager should differentiate value added activity from non-value added activities. Value added cost is a cost that incurred for value added actives and non-value added costs are costs that incurred for non-value added activities. Therefore, reducing non value added cost is not reducing the perceived value.

#### 2.1.12.4 Quality Control

Quality Control refers to all those functions or activities that must be performed to fill the company's quality objectives. Quality control deals with the operational techniques for detecting, recording, and taking measures to eradicate quality problems (Alem, 2009). Quality control aims at investigating the root cause for defects indentified by inspection and take corrective action to overcome the defects for future production. It helps to minimize the cost of inspection and rejection. Quality Control is an approach to prevent the defects rather than detecting the defects.

Most Ethiopian Brewery industries spend most of their time in identifying the defects of the products than preventing the defects. As a result of this the quality control activities are inspection-based than preventive-based. Inspection is not a value-adding process, but a waste of human resources and a reason of spending extra costs. If quality ensured, no need to implement inspections. Although, improving inspection can eliminate defects in delivered products, defect products cannot reduce only by making such improvements. In the production process, if defects shown regularly, the information should have sent back to the production stage for correcting the process. Therefore, defect occurring prevented in early stage. This reduce inspection costs and wastage. Reducing inspection cost means reducing labor costs and preventing wastage means reducing material cost. Stan and klein (2012) specified that industrial companies must be responsible to correct, mitigate or eliminate the losses caused by in the product life cycle from design to implementation, use, recycling and this reduced quality related costs.

## 2.2 Review of Empirical Literature

Cost management practice as well as the optimum cost reduction strategy employed have been considerable investigation by different researchers.

Akeem (2017) the study aimed to examine the effect of cost control and cost reduction techniques in organizational performance. To examine the issue data were collected from primary source, questionnaires. The data were analyzed by regression analysis to test the hypothesis with the use of SPSS. The researcher was found that cost control has a positive impact on organizational performance. The researcher recommend that cost control and cost reduction scheme must be properly administered in an organization by setting realistic standard.

Siyanbola and Raji (2013) studied the impact of cost control on manufacturing industries' profitability on West African Portland Cement PLC (WAPCO). The study was conducted based on primary data direct interviews, observations and use of questionnaire from 74 randomly selected respondents. The respondents taken across all the units of the company's employees in production, sales, purchasing, accounts, warehouse divisions and from the customers. In this study budget was considered as the main instrument for achieving effective cost control and it was viewed as from strategic standpoint. They point out that cost control is the major significant concern in business and disregard of which will affect the profit at any time. They also stated that a good cost control system starts with the behavior of employees in the organization as employees are instrumental for the achievement of organizational goals. In analyzing the data and to test the hypotheses, Pearson correlation model was employed. The study found that cost control has a positive effect on business profitability. The study recommended that component of cost such as material, labor and overhead cost and workers' behavior could be tactically controlled with measures like responsibility accounting, data collection and data reporting.

Olalekani and Tajudeen (2015) studied cost control and its impact on the survival of Nigeria firms as a case study on Nigeria bottling company PLC. Descriptive research design method was used. The researchers used primary and secondary data source in order to examine the case. The primary data were gathered by using structure questionnaire from randomly selected staff and other targeted staff of Nigeria Bottling Company Plc. The secondary data source included journal articles, books, newspaper articles, company financial reports and internet. To test the hypothesis t-test statistic and comparative percentage were employed. The study found that major cost incurred in the company like direct materials, direct labor costs and manufacturing overhead and other costs of high level have positive significance impact on profitability like transportation and administrative costs. In addition to this the study discovered that the problem of manufacturing company is the high cost of overhead incurred in the company. The paper recommended that a good budgeting procedure should be in place to control costs; techniques and tools for conducting value analysis in corporate with value engineering should be used permanently; Just in time techniques should be employed to meet production and on sales requisites in the company.

Adebayo et al. (2014) examined the impact of budgetary control on cost control, profitability of manufacturing companies, the causes for deviations and how these variances are reported as a means of control in budgeting and also examined whether the manufacturing companies can reduce cost as well as maintain the quality of their products and services. They used survey method based on 190 staff members Cadbury Nigeria PLC, Friesland Foods Wamco Nigeria PLC and Nestle. To collect the data primary and secondary source questionnaire was used. The collected data were tested with chi-square statistics through a Statistical Package for Social Sciences (SPSS). The study discovered that manufacturing companies can reduce cost and maintain high quality products. The study recommended that realistic forecasts should be made and that there should be sound planning with effective and efficient formulation of policies and strategies.

According to a research conducted in Nigeria by Azeez and Adelabu (2015), to examine the nature of relationship between cost management and profitability, descriptive research design adopted. In this study primary data questionnaire were employed and data were collected from 230 randomly selected staff of five companies. Data regarding to cost management were collected from the employees in production, procuring, warehouse and administrative departments, whereas management and account staff supplied information on issues relating to profit management. The collected data were analyzed using descriptive and non-parametric statistics such as Chi-Square Test, Kendall's tau rank correlation and Spearman's rank correlation coefficient. They found out that there is a positive relationship between cost management and profitability. Hence, their study determined that the relationship between cost management and profitability is statistically significant. The study recommended that every business and institution must frequently lookout its cost in order to continue buoyant in business.

Caroline (2014) examined the effects of cost management on the financial performance of manufacturing companies. The study tried to found the effects of supply chain management, labor management and stock management on the financial performance of manufacturing companies. To conduct the study six manufacturing companies listed on Nairobi Security exchange were selected. The study used quantitative approach as well as casual research design multi variance linear regression model. Data was sourced from both primary and secondary sources namely questionnaire and audited financial statements. The study found that cost management is positively related to financial performance of manufacturing companies. This research recommended that the management should focused on managing cost of distribution, cost of labor and cost of stock.

Oyadonghan and Ramond, (2014) also examined the effect of quality cost management on firm's profitability in hospitality industry in Balyesa State in Nigeria. The researchers were used a survey design. The collected data were analyzed by correlation analyses method. The result revealed that there is a significant relationship between quality cost management systems and profitability.

Adeleke, (2014) shared the same opinion when he studied the relationship between cost management techniques and performance of Nigerian banks for the period 2002 to 2012. To conduct the research data were collected from 21 deposit money banks. The collected data were analyzed by the use of ANOVA and descriptive statistics. He found that the relationship between cost control techniques and performance of Nigerian banks was not statistically significant.

## 2.3 Literature Summary and Research Gap

There have been considerable research efforts by different reserchers in the area of determining the relationship between cost management practice and firms profitability as well as the optimal cost reduction strategy for the manufacturing companies and its effect on profitablility were employed; Caroline,W.(2014), the effects of cost management on the financial performance of manufacturing companies ;Olalekani and Tajudeen (2015), cost control and its impact on the survival of Nigeria firms as a case study on Nigeria bottling company plc; Oyerogba, Olaleye and Solomon (2014), the relationship that exists between cost management practices and firm's performance in the manufacturing companies; Adeleke, (2014) the relationship between cost management techiques and performance of Nigerian banks. However, cost management practice and its effect on firms profitability is still a debatable issue and there is no consensus among researchers. However, cost management practice and its effect on firms profitability is still a debatable issue and there is no consensus among researchers. In addition to this, in Ethiopia studies were made on brewery manufacturing companies in different issue. Ethiopian brewery companies do not compete by price and they focus on cost structure to get a better benefit. Therefore, cost management become a major issue for breweries in Ethiopia.

Thus the main objectives of this paper is examining and evaluating cost management practice to control and reduce manufacturing costs of brewery companies. The paper also tries to reconcile the different opinions of these studies, contribute some points to the existing knowledge and also will contributes its own share to fill this gap.

## 2.4 Conceptual Framework

The objective of this study is examining cost management practice for reducing and controlling manufacturing costs. In doing this as shown in Figure 2-1 under cost reduction and control framework top management support, workers involvement, managerial cost control and cost reduction tools and techniques and responsibility accounting system are considered.

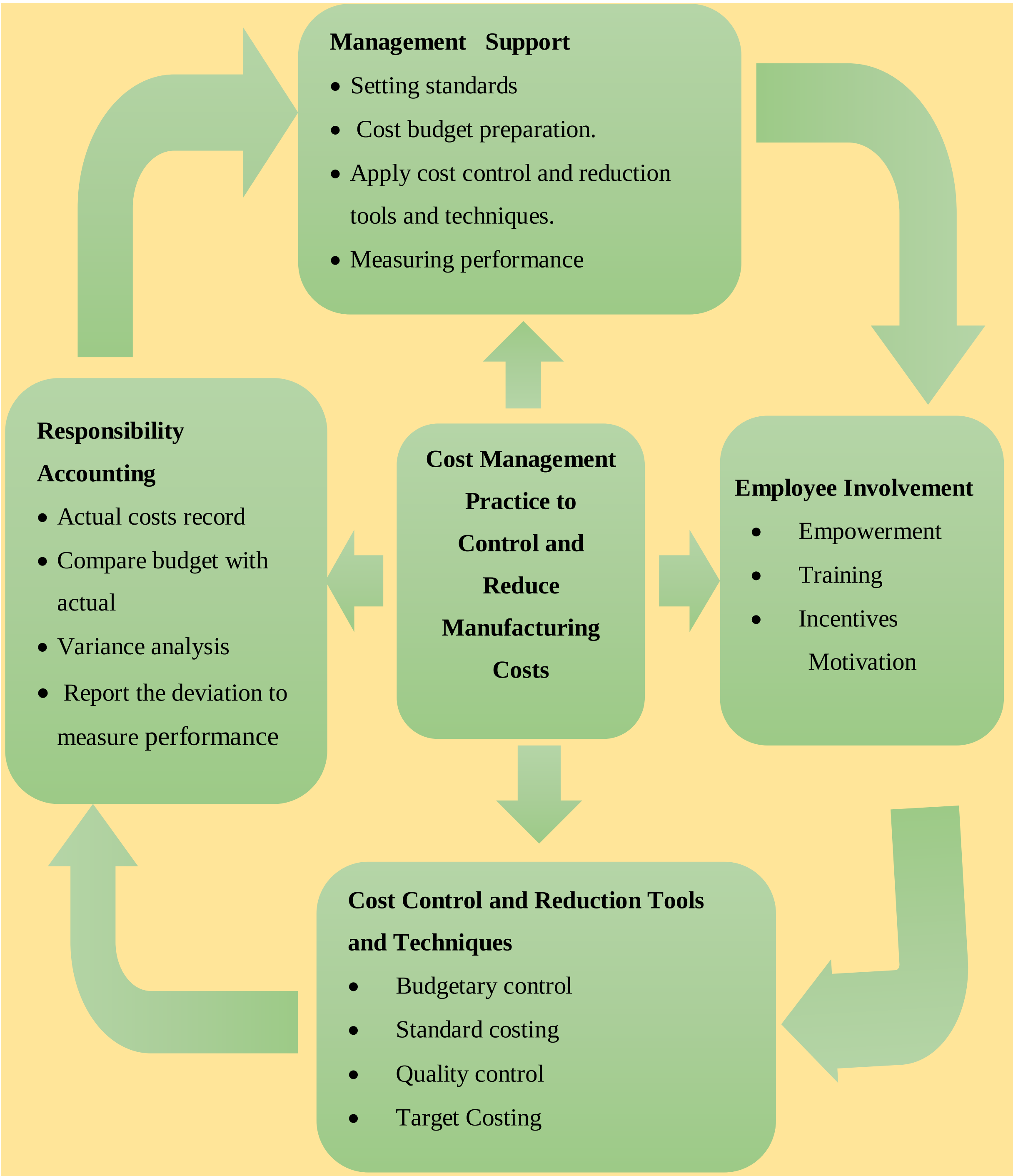
Cost management practice cannot be set up without any active support of top management of a company. Management involves directing the activities of others, making sure that other people do what should be done. The basic managerial control process involves three steps. They are establishing standards, measuring performance against these standards and correcting deviations from standards and plans. A good management control system stimulates action by signaling the significant variations from the original plan and highlighting them to the people who can set things right.

Employee involvement refers to using maximum efforts of all the employees of the company to solve problems. The aim of employee involvement is to get ideas, creativity and energy from the workers of a company to solve problem and for continual improvement. Trained manpower is a managerial tool that enhance productivity. Managing the productivity of workers means reducing labor costs and this results to maximize the returns of the company. This can be done by giving continuous on job training, job rotation, motivation and incentives to them in order to consider themselves as a part of the production process.

Manufacturing company's managers use different tools and techniques in order to control and reduce product costs. Cost control is reducing the actual cost to the targeted amount whereas cost reduction aims at reducing the targeted costs themselves. Cost control and reduction are the practice of identifying and reducing business expenses to increase profit. There are various cost control and reduction tools and techniques in practice. Some of them are budgetary control, standard costing, target costing, quality cost control, value analysis, value engineering etc. Budgetary control is a managerial control and cost control starts with budgeting process. Budget control process involves establishing standards, measuring performance against standards set and correcting deviations from standards and plans. Target costing is a managerial technique that considers financial, manufacturing and customer aspects and begins from designing and ends with distribution. It considers the whole product life cycle in order to ensure that total costs are minimized for both the manufacturer and customer. These include selling price, operating costs and distribution costs. Quality control is another cost management tools that manufacturing mangers employed. According to Alem, (2009) quality improvement involves the commitment of top management and will result in reduction of production costs. Establishment of cost control system to monitor costs and expenses can be used by employing the required expertise in terms of human and organization resource, proper policies and procedures on strategic cost control mechanism through developing checks and balances, budgeting policy and up to date accounting information system and procedures.

The responsibility accounting system enables cost control system to achieve its intended objectives. It serves as a control device for management. The company’s management obtains continuous relevant information from responsibility accounting system. According to Siyanbola and Raji (2013), workers’ behavior and the elements of costs such as material, labor and overhead costs can be measured strategically and controlled with measures like responsibility accounting, data collecting and reporting.

To sum up, top management support, workers’ involvement, managerial cost control and cost reduction tools and techniques, responsibility accounting system are interrelated cost management practice of cost reducing and cost control activities




Source: Developed by the Researcher

Figure 2-1: Cost Reduction and Cost Control Framework

# CHAPTER THREE

# 3 METHODOLOGY OF THE STUDY

This section has provided details of the methodology that was adopted for this study. It describes the research design and research approach, source of data, data collection methods, data analysis methods, ethics, validity test and reliability test.

## 3.1 Research Design

According to Cooper and Schindler (2014) descriptive study is used to describe phenomena related with a subject. The major purpose of descriptive research is describing, recording, analyzing and reporting condition that exists (Kothari, 2004). According to Yin (2003) there are three types of case studies, depending up on the purpose. They are explanatory case studies, exploratory case studies and descriptive case studies. Exploratory case studies are often used to define the framework of a future study. Explanatory case studies, on the other hand, seek to define how and or why an experience took place. Descriptive case study used to present answers to a series of questions based on theoretical constructs (Ibid). The aim of all types case study research is to develop an understanding of the system. The objective of this study is to examine and evaluate the application of cost management practices in reducing and controlling manufacturing costs of brewery companies. Thus, descriptive case study was chosen for this study because it answers the questions based on theory. In addition to this, the case study method is chosen because it allows the conduct of a detailed analysis using multiple sources of data (Yin, 2003). BGI Ethiopia PLC company was chosen for the study. Case study investigation becomes successful if data is collected from multiple sources (Gerring,2007).

## 3.2 Research Approaches

Descriptive research design involves both quantitative and qualitative data. Quantitative approach involves numerical data subjected quantitative analysis whereas qualitative approach involves data in textual form that concerned with subjective valuation of attitudes, thoughts and behavior (Kothari, 2004). According to Schweitzer (2009) quantitative approach was used for its appropriateness to the determination of developing research questions and it is suitable for the type of numerical data required in the study. In this study both qualitative and quantitative data were used. In analyzing case study descriptive research, both qualitative and quantitative research approach is needed (Yin, 2003). Therefore, in this study the researcher employed both research approaches.

## 3.3 Population, Sample and Sampling Technique

The study population included 32 BGI Ethiopia PLC employees, they are management, finance head, production manager, experienced and supervisory level technical experts and supervisors of account and production staffs who are responsible to regulate cost reduction and control tools and techniques in order to minimize manufacturing costs. All the population included in the study (Table 3-1). The researcher used purposive sampling technique for interview questions. Six management members interviwed for the study. The researcher assumed that senior, experienced and supervisory level in each of the selected departments would be knowledgeable enough to provide more accurate responses.

Table 3 1: Population for the Study

| Organizational Hierarchy | Population | Participants in the study |
|---|---|---|
| Management team | 6 | 6 |
| Finance Department | 14 | 14 |
| Production Department | 12 | 12 |
| Total | 32 | 32 |

Source: BGI Ethiopia PLC

## 3.4 Source of Data

In this study, in order to enhance the quality of data through triangulation multiple data sources were used. The required data for the analysis collected from primary and secondary sources. The selection of data is based on good understanding of the operation. Primary data were collected using the application of semi-structured questioner and oral interviews. The secondary data collected from written documents and reports.

## 3.5 Data Collection Procedures

In this study, data collected by the use of questionnaires, interviews and review of documents and reports. Primary data were collected with semi-structured questionnaires distributed to management, department heads and supervisors of finance and production staff. Structured questionnaires employed to gather straightforward and simple information. Unstructured questionnaire employed to gather information that needs in-depth understanding of the topic being studied. However, it may be difficult to classify and measure. Hence, it should be carefully interpreted. Both questionnaires have their own limitations. Dawson (2002) stated that to overcome the limitation of both types, semi-structured questionnaire is preferable and researchers better use the combination of both. In this study, the researcher was used both structured (closed ended) and unstructured (open end) questionnaire. The questionnaires contain structured five point Likert scale questions with some open-ended (unstructured) questions that helps the respondents to supply all they know about the company's cost reduction and control practices.

The interview and document examination were used to substantiate the data collected using questionnaire, so that the validity of the findings could be improved. The interviews were conducted with six management members of the company. It is used to cross check the reliability of the response to the questionnaire. It is also used to gather additional information about cost reduction and control practices of the company. Sreejesh, Mohaoatra and Anusree (2014) indicated that depending up on the amount of guidance extended by the interviewer, individual in-depth interviews can be divided in to unstructured interview, structured interview and semi-structured interview. This study employed semi-structured interview.

Secondary data were collected from observation of documents, records and reports. Walliman (2011) stated that secondary data can used associating with primary data that may have collected. Because secondary data are useful in order to triangulate the findings and put the data into a larger context.

## 3.6 Data Analysis Methods

The data collected were analyzed by qualitative and quantitative data analysis methods. The qualitative data analysis was done using content analysis. During this research, qualitative data were collected in the form of description text. This text was analyzed for its content in order to clarify and describe the application of cost control and reduction practices. According to Bernard (1995, as cited in Armfield S. 2007) "content analysis is a catch-all term covering a variety of techniques for making inference from 'texts'". Quantitative data analysis was done using descriptive statistics to compute mean and standard deviation using a statistical tool known as SPSS version 21. The researcher also employed descriptive statistical method specifically mean, standard deviation, percentage, frequency distribution and present it with tables and histograms in order to avail the finding of the study. Percentages are suitable for comparative analysis of figures. The use of frequency distribution tables by the researcher in analysis of data is to give faster and more understandable presentation of the data collected by the researcher. Histogram is the fastest method of pictorial presentation of statistical data. It gives a concise general impression of the characteristics of mass of statistical data.

Table 3 2: Research Design Plan

| Research Questions | Source(s) | Method(s) | Analysis |
|---|---|---|---|
| 1. How manufacturing company's managers support the application of cost management practices to improve the performance of their company? | • Deputy managers;<br>• Finance manager; and<br>• Production manager. | • Interviews<br>• Document observation (Plans, manual and reports) | • Content analysis |
| 2. Which type of cost reduction and control tools and techniques the company uses in its cost saving and profit maximization? | • Deputy managers;<br>• Finance manager;<br>• Finance officers; | • Interviews<br>• Document observation<br>• Questionnaires | • Content analysis<br>• Percentage; and frequency distribution |
| 3. How frequently management review standard cost and budget for communicate its measure in decision making? | • Deputy managers;<br>• Finance manager<br>• Production manager | • Interviews<br>• Document observation<br>• Questionnaires | • Content analysis<br>• Percentage; and frequency distribution. |
| 4. What are the benefits of applying cost management practices in manufacturing companies? | • Deputy managers;<br>• Finance manager<br>• Production manager<br>• Finance officers<br>• Production department technical experts | • Questionnaires<br>• Interview | • Means;<br>• standard deviations;<br>• Percentage; and frequency distribution<br>• Content analysis |
| 5. What are the benefits derived from the implementation of cost control and cost reduction tools and techniques in manufacturing company?<br>a. Budgetary control;<br>b. Standard costing;<br>c. Quality control; | • Deputy managers;<br>• Finance manager<br>• Production manager<br>• Finance officers<br>• Production department technical experts | • Questionnaires | • Means;<br>• standard deviations;<br>• Percentage; and frequency distribution |
| 6. What are the usefulness of employees' involvement in order to control and reduce manufacturing costs? | • Deputy managers;<br>• Finance manager<br>• Production manager<br>• Finance officers<br>• technical experts<br>• Supervisors | • Questionnaire | • Means and Standard deviations<br>• Percentage; and frequency distribution |

| Research Questions | Source(s) | Method(s) | Analysis |
|---|---|---|---|
| 7. How responsibility accounting system help manufacturing company's managers in cost budgeting and cost controlling? | • Deputy managers;<br>• Finance manager<br>• Finance officers | • Document observation (Reports)<br>• Questionnaires | • Content analysis<br>• Means and Standard deviations<br>• Percentage; and frequency distribution |

*Source: Developed by researcher*

## 3.7 Ethics in Research

Ethics are norms or criteria of behavior that directs moral choices about our conduct and our relationships with others. According to Cooper, et.al (2014), the aim of ethics in research is to ensure that no one is hurt or suffers due to consequences from research doings. Therefore, throughout the course of administering the questionnaires, names and any identifying comments not used. In addition to this, the secrecy of respondents is kept and any data obtained for the study reserved at the hands of the researcher. The data were analyzed on the basis of the questionnaires and interview of respondents rather than using the researcher belief, opinion and inputs. The researcher was free from any personal assessments and he remained honest to responses of the respondents.

# CHAPTER FOUR

# 4 RESULT AND DISCUSSION

In chapter three, methodology of the research adopted to attain the objectives of the case study. The data were collected by interviews, questionnaires and document observations. These data were analyzed in order to answer the research questions. SPSS 21 was used to analyze the data collected. This chapter presents results and discusses the collected data using descriptive statistical methods such as percentages, frequency, mean and standard deviations. In this case study 32 respondents who are member of the management and senior finance and production department experts are included. 32 questionnaires distributed for all respondents. However, the responses of 30 respondents were collected from and two respondent left due to workload. For this study, the response rate was 94 percent, hence this respondents rate is rationally acceptable for the analysis. Before questionnaire distribution, a reliability test has made.

## 4.1 Validity and Reliability Test

Validity refers to the extent to which differences found with a measuring instrument reflect true differences among those being tested (Kothari, 2004). Validity is the most critical criterion and shows the degree to which an instrument measures what it is supposed to measure. For this study to validate the instruments the researcher has ruled out whether there were ambiguous, confusing and poorly organized questions along with the instruments were used to ascertain their validity and suitability, by amending as per respondents understanding in collecting the required data. The advisor has exhaustively examined all item one by one and providing feedback and guidance on the questionnaire particulars that may be amended.

Reliability refers to the degree to which the data collection tools or analysis procedures were yield consistent findings (Saunders, Lewis and Thornhill, 2009). Reliability analysis measures the internal consistency of a group of items which is used in questionnaire construction. Reliability analysis examines the homogeneity or cohesion of the items that comprise each scale. Cronbach's alpha coefficient is the most frequently used index of reliability and the most common way to assess reliability. An alpha score of higher than 0.70 is generally considered to be acceptable, while an alpha score of higher than 0.80 is considered a good measure of reliability (Nunnally, 1978 as cited in Abiy, 2014). As we can see in the table 4-1 the Cronbach's alpha shows that .926. So, we can be confident that all the variables have internal consistency.

Table 4 1 Reliability Statistics

| Questionnaires Scale | Cronbach's Alpha | Cronbach's Alpha Based on Standardized Items | Number of Items |
|---|---|---|---|
| | 0.926 | 0.929 | 54 |

Source: case study result

## 4.2 Descriptive Analysis

To interpret questioners, mean responses were determined on a five-point Likert scale representing 1 strongly disagree and 5 representing strongly agree. The mean value of the respondents shows the extent of their agreement on the issues. MARSI survey method indicated that a calculated composite mean value up to 1.4 strongly disagree, whereas the remaining ranges of 1.5 to 2.4, 2.5 to 3.4, 3.4 to 4.4 and 4.5 to 5.00 representing respondents' perceptions of disagreement, neutrality, agreement and strong agreement respectively (Khan, 2013). The standard deviation result shows that the variability of responses on the issue under study. The larger amount of standard deviation shows the existence of the variability of responses. On the contrary, if standard deviation was close to zero, there was less variability of responses. The percentage result shows the proportion of respondents response. The high percentage shows high agreement and the low percentage shows disagreement. Based on the rule the finding of the study analyzed in the following section.

### 4.2.1 Background Information of the Respondents

Table 4-2 revealed that out of the total respondents 73.3% were males and 26.7% were females. This shows that out of the total respondents the number of men more than female. This does not mean that the research is targeted at only men, but rather it reveals the proportion of male and female respondents in the study.

Regarding age, 3.3% percent of respondents were below 25 years. 73.3% of respondents were between 25 to 35 years, 16.7% of the respondents were between 35 to 50 years and 6.7% above 50 years. The majority of respondents (73.3%) age is between 25 to 35. This situation shows that the majority of the respondents are young to supply their mental and physical efforts to the company. This is supported by the study made by Mingino (1980) who stated that active aging reveals the need and capability of many to remain engaged in economically and socially productive activities.

Table 4 2 Background Information of the Respondents

| No of respondents (N=30) | | Frequency | Percent |
|---|---|---|---|
| **Gender** | Male | 22 | 73.3 |
| | Female | 8 | 26.7 |
| **Age** | Below 25 | 1 | 3.3 |
| | 25-35 | 22 | 73.3 |
| | 35-50 | 5 | 16.7 |
| | Above 50 | 2 | 6.7 |
| **Level of Education** | Degree | 19 | 63.3 |
| | Masters | 11 | 36.7 |
| **Organizational Hierarchy** | Management | 6 | 20 |
| | Finance | 14 | 46.7 |
| | Manufacturing | 10 | 33.3 |

Source: case study outcomes and own computations

Regarding educational level 63.3% of the respondents were degree holder in different professions and 36.7% of the respondents were post graduates. As one can see from the results the educational level of all respondents are above first degree level. This shows that they can understand the subject matter and are capable to contribute important information for the case under study. In addition to this, respondents respond effectively to the questionnaire provided. This support the study done by Sitty (2001). He stated that educational level of employees determines capability in their day to day activities.

Organizational Hierarchy of respondents indicates that 20% management team, 46.7% finance and 33.3% production department. It shows that the study focused on respondents, which are responsible to regulate cost reduction and control tools and techniques.

### 4.2.2 Top Management Support

The study is intended to evaluate the top management support of cost management practice in reducing and controlling manufacturing costs at BGI. Top management support involves establishing standards, budget preparation, applying cost control tools and techniques in the company, measuring performance against the set standards and correcting deviations from standards and plans. Amoako and Acquaah (2008) stated that, for cost control systems to be successful, it must be initiated and supported by management. If a management has a positive attitude towards setting standards, budgeting and provides direction for implementation and control, a company will be able to implement its plans efficiently.

The analysis and interpretation data started from management support and its leadership commitment in cost management practice of cost control and cost reduction. To assess the top management support of cost management practice for reducing and controlling costs in BGI Ethiopia PLC, different questions were asked for management members. To answer these questions evidence from questionnaires responses and an interview with the management team were employed. Additional information was collected through observation of relevant documents (budget plan, variance analysis and reports) to support the results.

According to the responses obtained from interview, cost control starts by establishing manufacturing cost standards. Based on these standards cost budgets are prepared. To answer the question “how standards are set?” interviews conducted with the management and documents were observed. From the interview response obtained was that standard cost for existing products is calculated every month for each single product. The basis of these standard costs are previous month actual costs. The top management of the company establishes standards, prepare budgets, evaluate deviations and measure performances. The finance manager and other department representatives are responsible persons who prepare standard costs. During the interview, the researcher recognized that respondents understanding about standard cost is similar. Respondents refer to standard cost is a pre-set value of full cost of the product. During document observation, the researcher tried to examine finance manual and guideline which shows how standard unit product cost set. The researcher found that the new standards are set based on standard unit product cost. This was done by examining the previous month purchase price and actual material usage. When the new products introduced in the operation, a new standard cost is calculated on this particular product based on the actual purchase price of materials. However, for labor and overhead costs, old products standard costs are used. According to respondents’ response standard cost is set regularly in this similar fashion.

Budget is an important aspect of cost control in any organization. To answer the question, who involved in cost budget preparation? interviews were conducted with finance and production managers. According to respondents’ responses, in the cost budget preparation only department managers participate but not all employees. In BGI, preparing cost budget is considered as the responsibility of the managers. This situation is against the views of Jackson and Schuler (1985), who find out all employee involvement in budgetary preparation leads to minimize role vagueness, and this has a relation with higher performance

To answer the question how cost budget is prepared, the respondents response revealed that before cost budget preparation, standard cost data about each cost elements are collected from company’s accounting information system. Based on collected cost data standard cost is set and manufacturing cost budget prepared. In setting standards and preparing budget BGI used historical data. The two approaches used to set standard costs are past historical data approaches and engineering studies. The historical method is widely used in practice but the demerit is that past efficiency may include (Durary, 2012). On the other hand, in engineering method each operation studied thoroughly based on careful specification of material, labor and overhead costs. According to the result, BGI set standards for each unit manufacturing cost. This supported by CIMA (2005) which stated that in standard cost setting, most effective control is achieved by identifying standards for quantities of material, labor and overhead rather than the overall manufacturing cost. To answer the question which type of product costing system applied in the company, interview results revealed that BGI uses traditional costing method. As stated in the literature the two product costing systems are traditional costing system and market-based costing system. Traditional costing system starts from the accumulated actual product cost but market based starts from market price of the product. BGI uses traditional costing system to set the price because it starts from actual product costs. Market based costing system avoids non-value added costs from the production line. It is cost reduction tool and cost reduction method depends on the type of product and processes of manufacturing.

In general, according to the results the researcher founds that, there is a top management support at BGI in reducing and controlling manufacturing costs. Top management of the company set standards for each cost elements, prepare cost budgets, apply various types of cost reduction and control tools and techniques and measures performances. In order to set standard costs, BGI applied historical data method. Standard costs are stated for each unit of manufacturing costs. In setting standards and for budget preparation employees do not participate. For pricing its products, BGI uses traditional costing method.

To communicate managerial decision measures reviewing standards and budgets cost is important. Respondents are enquired how frequently management review standard costs and budget costs.

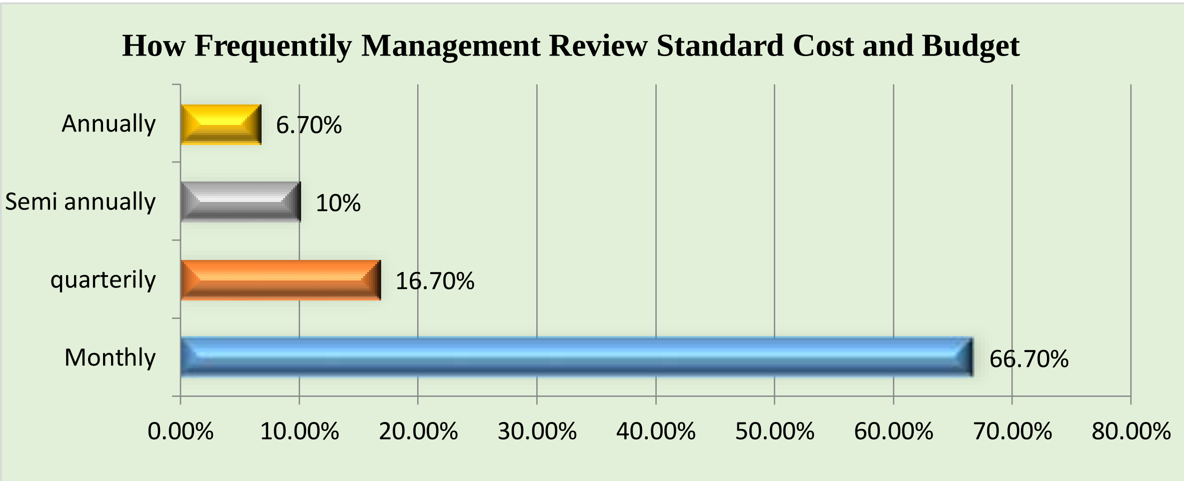



Figure 4-1: Standard Cost and Budget Management Review Frequency
Source: case study outcomes

The respondents reply revealed that 66.7% monthly, 16.7% quarterly, 10% semi-annually and 6.7% annually. Respondents answers are summarized in the figure above (Figure 4-1) to show standard cost and budget costs frequency of management review in the company.

The study results indicated that standard costs and budget review is conducted monthly to realize any problem on the process and implementation as well as any deviation from the targets set. Regularly reviewing cost control and reduction tools and techniques is helpful in order to correct any deviation happened (Bedilu, 2006). One can infer from this study that the company management thoughtfulness to regular monthly standard cost and budget review and to communicate management decision making.

### 4.2.3 Cost Management Practices of Cost Control & Cost Reduction

Under this section to evaluate which type of cost control and reduction tools and techniques are applied in the company? the researcher used both interview and questioners. Dichotomies questionnaire was employed. According to the results, interview and questionnaire responses are the same. From the interview conducted with the management team, the researcher obtained that the company applies standard cost control, budgetary cost control and quality cost control as a cost control tool but target costing is not applicable.

Table 4 3 Cost Control and Cost Reduction Tools and Techniques

| Cost Control and Cost Reduction Tools and Techniques in company: | | Responses (N=30) | | | | |
|---|---|---|---|---|---|---|
| | | Yes | | No | | Total |
| | | Frequency | Percentage | Frequency | Percentage | |
| Standard costing | | 28 | 93.3% | 2 | 6.7% | 30 |
| Budgetary control | | 25 | 83.3% | 5 | 16.7% | 30 |
| Quality control | | 26 | 86.7% | 4 | 13.3% | 30 |
| Target costing | | 1 | 3.3% | 29 | 96.7% | 30 |

Source: case study outcomes and own computations

From the questionnaire, respondents' responses show that out of 30 respondents 93.3% of them said that standard costing is used as a cost control tool and the rest, 6.7%, answered negatively. As result under table 4-3 shows, the majority of the respondents agree with standard cost control is a cost control tool for the company. The question regarding to whether budgetary cost control is applicable in the company or not, 83.3% of respondents replied "Yes", on the contrary 16.7% of respondents replied "No". This means the majority of respondents agreed with budgetary cost control is used as a cost control and reduction tool. Regarding to quality control, 86.7% respondents replied "Yes" and 13.3% of the respondents replied "No". This result shows that the majority of respondents believe in quality control as a cost control and reduction tool. Regarding to target costing 3.3% of respondents replied "Yes" and 96.7% of respondents replied "No". From this one can infer that target costing is not applied as cost control and reduction tool in BGI Ethiopia PLC. According to Imeokparia and Adebisi (2014) target costing is a fundamental cost management technique which reduces cost based on the difference between the selling price and targeted profit margin of a product for the purpose of becoming competitive in the market. In general, the result revealed that standard cost control, budgetary control and quality cost control are cost control and cost reduction tools and techniques which are applied in BGI whereas target costing is not applicable.

Table 4 4: Benefits of Cost Management Practice

| Cost Management Practices: | Respondents Response in Percentage | | | | | Descriptive Statistics | |
|---|---|---|---|---|---|---|---|
| | Strongly Disagree | Disagree | Neutral | Agree | Strongly Agree | Mean | Standard deviation |
| Enhances company's profitability. | - | 10 | 13.3 | 63.3 | 13.3 | 3.8000 | 0.80516 |
| Is useful for managerial decision-making. | - | - | 16.7 | 56.7 | 26.7 | 4.1000 | 0.66176 |
| Is used to measure performance. | - | 6.7 | 26.7 | 40 | 26.7 | 3.8667 | 0.89955 |
| Has significance influence on profit margin | - | 10 | 10 | 60 | 20 | 3.9000 | 0.84486 |
| The company has utilized cost reduction and control tools and techniques policy to attain its maximal target. | - | 10 | 16.7 | 50 | 23.3 | 3.8667 | 0.89955 |
| Control and reduces cost without affecting the quality of products. | - | - | 30 | 66.7 | 3.3 | 3.7333 | 0.52083 |
| **Grand Mean** | | | | | | **3.8778** | **0.7719** |

Source: Researcher computation based case study questionnire result

Cost management practices are concerned with the analysis and the information used in order to assist managers in decision making and managerial control. To assess the benefits of cost management practices of cost control and reduction in BGI Ethiopia PLC, different questions were given for 32 respondents and the responses of 30 respondents are summarized in table 4-4 with respect to each cost management practices issues. As indicated in table 4-4 the mean value 3.8778 of the response computed based on Likert scale indicated the agreement of respondents on benefit of cost management practices.

When respondents asked whether cost management practices enhances company's profitability or not, they replied 10% disagree, 13.3% neutral, 63.3% agree and 13.3% strongly agree. Producing a mean of 3.8000and standard deviation of 0.80516. The standard deviation of the respondents revealed that there is less variability on the responses. The respondents' responses indicated that more than 76% of respondents agreed with cost management practices enhances company's profitability. The mean results also indicated that the existence of relationship between cost management practice and profitability. This situation supports the studies conducted by Oyadonghan and Ramond (2014) who stated that there is a positive relationship between cost management and profitability. Siyanbola and Raji (2013) founds that cost control has a positive effect on business profitability. However, this is contrary with the views provided Adelek (2014) who discovered that there is no relation between cost management and companies' profitability. Therefore, the relationship between cost management practice and firms' profitability is still a debatable issue and there is no consensus among researchers.

When respondents asked whether cost management practice is useful for managerial decision making or not, they replied 16.7% neutral, 56.7% agree and 26.56 % strongly agree producing a high mean value of 4.1000 with a standard deviation of 0.6617. The highest mean implied that majority of respondents agreed cost management practices can help managers for decision making process. The variability of respondents' response is shown by the standard deviation and it implies that respondents have less variability in their response.

Similarly, more than 66% (40% agree and 26.7% strongly agree) of respondents or mean value 3.8667 indicates that majority of the respondents agreed on cost management practices help to measure performance. The rest 6.7% of respondents replied disagreed and 26.7% neutral. The standard deviation 0.89955shows respondents' response variability. About whether cost management practice has an influence on profit margin or not, respondents replied 10% disagree, 10% neutral, 80% agree (60% agree and 20% strongly agree). Respondents were assuring their agreement on the mean value of 3.9000 that cost management practices has an influence on profit margin. The standard deviation 0.84486 shows respondents' response variability.

When respondents asked whether cost management practice is helpful to attain maximum target or not, the respondents replied 10% disagree, 16.7 % neutral, 50 % agree and 23.3% strongly agree producing a mean of 3.8667 shows extent of agreement with a standard deviation of .8995 which shows respondents response variability. The majority, about 73% of respondents' response indicates that there is strong believe on that cost management practices can help managers to attain the company's set target.

For the question that whether cost management practice reduce costs without affecting quality or not, respondents replied 30% neutral, 66.7% agree, and 3.3% strongly agree producing a mean of 3.7333 with a standard deviation of 0.52083 which indicated less variability of their responses. The majority of respondents' response mean value of 3.7333 indicated that cost management practices can reduces costs without affecting the quality of the products.

To sum up, as the study result reveals even though the relationship between cost management practice and firms' profitability is still a debatable issue as different researchers' arguments stated above under this section, applying cost management practices in manufacturing companies have benefits for managerial decision making process, to achieve managerial intended performance target and measure performances, to reduce product cost without affecting the quality. The study also indicated that cost management practice influence on the profit margin of the company.

### 4.2.4 Cost Control and Cost Reduction Tools and Techniques

There are different types of cost control and reduction tools and techniques such as budgetary cost control, standard cost control, quality cost control and target costing control. To answer the question what are the benefits derived from the implementation of cost control and cost reduction tools and techniques, questionnaires are used. To see this question from different angle, the researcher further asked respondents different budgetary cost control, standard cost control and quality cost control questions.

#### 4.2.4.1 Budgetary Cost

The purpose of budgetary control is to help managers plan and control the use of resources in systematic and reasonable manner to ensure that they achieve their financial objectives, that is profit maximization. Budgetary control is a system whereby the budgets are used as a tool for planning and controlling. The efficient use of resource to accomplish formerly set objectives contained with plan is called budgetary control (Lucy,1996 as cited in Akeem, 2014).As indicated in table 4-5 the mean value of the response computed based on Likert scale indicated the strong agreement of respondents on existence and practice of each element of benefit of budgetary control. The overall mean of benefit of budgetary control indicated at high mean value of 4.0083 implied overall respondents' agreement on the benefit of budgetary control on cost control and reduction of manufacturing costs.

When respondents asked whether the company has a good budgeting process that can effectively control costs or not, they replied 60% agree and 40% strongly agree. They had a mean response of 4.4000 indicates strong agreement on the issue and standard deviation of 0.49827which showed the variability of responses were very less. The respondents' responses indicated about 100% of respondents agree that the company's budgeting process can effectively control costs of the company. As respondents' response revealed budgetary control can effectively control and reduces costs. This is supported study conducted by Olalekani and Tajudeen (2015) that stated budgetary control is an effective cost control tool.

When respondents asked whether the company's budgeting process helps to enhance profitability or not, they replied13.3% disagree, 3.3% neutral,76.7% agree and 6.7% strongly agree producing a mean of 3.7667and standard deviation of 0.77385. This indicates 83.4% of respondents agree with the company's budgeting process helps to enhance profitability. One can conclude from these responses that respondents agree with company's budgeting process helps to enhance profitability.

About whether budgetary control system serves as a tool to estimate costs or not, they replied 6.7% disagree, 16.7% neutral, 50% agree and 26.7% strongly agree producing a mean of 3.9667 with a standard deviation of 0.85029. This showed that more than 76% of respondents agreed on the issue. The mean value also showed the extent of their agreement. From this one can infer that budgetary control system serves as a tool to estimate costs.

About whether budgetary control used as effective cost control and reduction tool to measure performance or not, respondents replied 6.7% disagree, 20% of neutral, 56.7% agree and 16.7 % strongly agree producing a mean of 3.8333 and standard deviation 0.79148. The mean shows the extent of respondents' agreement with budgetary control as an effective cost control and reduction tool to measure performance and the standard deviation shows less variability in their response.

When respondents were asked whether budgetary control helps to motivate employees and to enhance productivity or not, they replied 13.3% neutral, 63.3% agree and 23.3% strongly agree producing mean 4.1000 and standard deviation 0.60743. More than 86% of respondents agree that budgetary control helps to motivate employees and to enhance productivity. The mean value also indicates the variability of agreement on that budgetary control helps to motivate employees and to enhance productivity. Respondents' responses are less variable and this shown by the standard deviation value. About whether budgetary cost control serves to establish manufacturing cost budget in each operation of responsibility center or not, respondents replied 13.3% disagree, 13.3% neutral, 43.3%agree and 30% strongly agree producing a mean 3.9000 and a standard deviation 0.99481. As the result showed about 73.3% of respondents agree that budgetary cost control serves to establish manufacturing cost budget in each operation of the company.

When respondents asked whether management of the company communicates budget in decision-making or not, respondents replied 10.0 % neutral, 70% agree and 20% strongly agree producing a mean 4.1000 with a standard deviation of 0.54772. About 90% of respondents agree on the issue. Therefore, from this one can conclude that management of the company communicates budget in decision-making.

When respondents asked whether budgetary cost control is helpful to creates cost control awareness among department representatives or not, they replied 16.7% neutral, 66.7% agree, and 16.7%strongly agree producing a mean 4.0000 with a standard deviation of 0.58722. According to the respondents' answer more that 83% of respondents agree that all department representatives participates in the company budget preparation.

To sum up, regarding the benefit of budgetary cost control, most of the respondents agreed with budgetary control can effectively control costs, measures performance, enhance profitability, used as a tool to estimate costs and helps for decision making even if some of them refrain from giving opinion. This situation supported by Adebayo et al. (2014) who discovered that budgetary control contributes to the profitability of a firm and can reduce costs. They also discovered that budgetary control help manufacturing companies can reduce costs and maintain high quality products.

Table 4 5: Budgetary Cost as a Cost Control and Cost Reduction Tool and Techniques

| Benefits of Budgetary Cost Control is: | Respondents Response in Percentage | | | | | Mean | Standard Deviation |
|---|---|---|---|---|---|---|---|
| | Strongly Disagree | Disagree | Neutral | Agree | Strongly Agree | | |
| Effectively control costs. | - | - | - | 60 | 40 | 4.4000 | 0.49827 |
| Helpful to enhance profitability. | - | 13.3 | 3.3 | 76.7 | 6.7 | 3.7667 | 0.77385 |
| Serves as a tool to estimate costs. | - | 6.7 | 16.7 | 50 | 26.7 | 3.9667 | 0.85029 |
| Serves to measure performance | - | 6.7 | 20 | 56.7 | 16.7 | 3.8333 | 0.79148 |
| Motivate employees and enhance productivity. | - | - | 13.3 | 63.3 | 23.3 | 4.1000 | 0.60743 |
| Useful to establish manufacturing cost budget | - | 13.3 | 13.3 | 43.3 | 30 | 3.9000 | 0.99481 |
| To communicates budget in decision-making. | - | - | 10 | 70 | 20 | 4.1000 | 0.54772 |
| Helpful to creates cost control awareness among department representatives | - | - | 16.7 | 66.7 | 16.7 | 4.0000 | 0.58722 |
| Grand Mean | | | | | | 4.0083 | 0.7063 |

Source: Researcher computation based case study questionnires result

#### 4.2.4.2 Standard Costing

Currently standard costing used by manufacturing companies throughout the world. Research conducted by Ask and Ax (1997, as cited in Moran and Izah, 2012) revealed that about 73 percent of companies in the manufacturing industry operated standard costing system. As indicated in table 4-6 the mean value of the response computed based on Likert scale indicated the agreement of respondents on benefit of standard costing to reduce and control manufacturing costs. The overall mean of benefit of budgetary control indicated at mean value of 3.9500 implied overall respondents' agreement on the benefit of standard costing system.

When respondents asked whether company's departmental representatives participate in setting standard costs of products or not, they replied 10% disagree, 3.3%neutral, 76.7% agree and 10% strongly agree producing a mean of 3.8667 with a standard deviation of 0.73030. The majority of the respondents, 86.7%, the respondents' response less variability indicate that department representatives participate in setting standard costs of products.

About company uses standard costing for establishing yardstick in exercising control, they replied 13.3% disagree,66.7% agree and 20% strongly agree producing a mean of 3.9333 with a standard deviation of 0.86834. This indicates that 86.7% respondents agree with standard costing usefulness for establishing yardstick in exercising control. The mean value also indicates that the usefulness of standard costing in establishing yardstick to exercise control.

Respondents asked whether standard costing facilitates in setting budgets or not, their replied that 6.7% disagree, 20% neutral, 36.7% agree and 36.7% strongly agree, producing a mean of 4.0333 this indicated that strong agreement and standard deviation 0.92786 which showed less variability of responses. The result indicates that more than 77% of the respondents are agree on that standard costing can facilitate in setting budget. This is the same with the interview results.

Respondents are enquired whether standard costing is useful in evaluating managerial performance or not. Their attitude was 3.3% strongly disagree, 6.7% disagree, 80% of respondents agree and 10% strongly agree producing a mean statistical mean 3.8667 and standard deviation of 0.81931. More than 90% of respondents agree that standard costing is useful in evaluating managerial performance. This response easily reveals the importance of standard costing in evaluating managerial performance

When respondents asked whether standard cost of the company is helpful in decision making to forecast the future cost or not, they replied 6.7% neutral,76.7% agree and 16.7% strongly agree producing a mean of 4.1000 with a standard deviation of 0.48066 which shows less variability in their responses. The mean value indicates there is strong agreement on that standard costing of the company is useful in decision making to forecast the future cost. As standard deviation value indicates there is less variability in respondents' response.

About whether standard costing facilitates delegation of authority and fixation of responsibility or not, respondents replied 6.7% disagree, 3.3% neutral, 83.3% agree and 6.7% strongly agree with producing a mean of 3.9000 and standard deviation of 0.60743. The majority of the respondents 90% (83.3% agree and 6.7% strongly agree) agree on standard costing facilitates delegation of authority and fixation of responsibility in the company.

In general, the responses of BGI employees indicated that standard cost is useful in setting product cost, establish yardstick to exercise control and measure performance, in setting budget and for managerial decision as supported by CIMA (2005) that states the main uses of standard costing are for performance measurement, control and creation of selling price.

Table 4 6: StandardCosting as a Cost Control and Cost Reduction Tool and Techniques

| Standard Costing: | Respondents' Response in Percent | | | | | Descriptive Statistical | |
|---|---|---|---|---|---|---|---|
| | Strongly Disagree | Disagree | Neutral | Agree | Strongly Agree | Mean | Standard deviation |
| Allows departmental representatives participate in setting standard costs. | - | 10 | 3.3 | 76.7 | 10 | 3.8667 | 0.73030 |
| Is useful for establishing yardstick in exercising control. | - | 13.3 | - | 66.7 | 20 | 3.9333 | 0.86834 |
| Facilitates in setting budgets. | - | 6.7 | 20 | 36.7 | 36.7 | 4.0333 | 0.92786 |
| Useful to evaluate managerial performance | 3.3 | 6.7 | - | 80 | 10 | 3.8667 | 0.81931 |
| Helpful to forecast future cost. | - | - | 6.7 | 76.7 | 16.7 | 4.1000 | 0.48066 |
| Facilitates delegate authority and to fix responsibility | - | 6.7 | 3.3 | 83.3 | 6.7 | 3.9000 | 0.60743 |
| **Grand Mean** | | | | | | **3.9500** | **0.7389** |

Source: Researcher computation based on case study result

### 4.2.4.3 Quality Control

Quality control reduces the cost of inspection, decreases defects, increases productivity and enhance market share. It is known that defects, wastages and inspection costs has an effect on the cost of manufacturing cost elements. Defect products, wastage and inspection cost increases product cost, material cost and labor cost respectively. Stan and Klein (2012) stated that quality measures and reduces quality related costs. The result of the survey indicated in the table 4-7 shows that the degree of agreement ranged from 1 to 5 by respondents on benefit of quality control. The result implied respondents view regarding the provided assessment questions of benefit of quality control in reducing and controlling manufacturing costs. The overall mean of benefit of quality control indicated at mean value of 4.1041 implied overall respondents' agreement on the benefit of quality cost control.

When respondents asked whether the company quality control method is effective to decrease defect products or not, they replied 3.3% disagree, 23.3% neutral, 43.3% agree and 30% strongly agree producing a mean of 4.0000 with a standard deviation of 0.83045. The respondents' response revealed that majority enquired believe in that quality control method is effective to decrease defect products.

Respondents were asked whether the company quality control increase productivity or not, they replied 16.7% neutral, 53.3% agree and 30% of respondents strongly agree producing a mean of 4.1333 with a standard deviation of 0.68145. This indicates about 83% of respondents agree that the company quality control increase productivity. From this one can conclude that quality control increase productivity.

In analyzing whether quality cost control method enables to reduce the cost of inspection or not, respondents replied3.3% disagree, 13.3% neutral, 63.3% agree, 20% strongly agree producing a mean of 4.0000 with a standard deviation of 0.69481. This shows that more than 76% of respondents agree with quality cost control method enables to reduce the cost of inspection. From this one can determine that quality control increase productivity.

Respondents were asked whether the quality control methods enable to reduce rejection costs or not employees of the company replied 6.7% neutral, 46.7% agree 46.7 % strongly agree producing a mean of 4.4000 with a standard deviation of 0.62146. As the respondents answer shows more than 93% agree with the issue. One can infer from this that quality control methods enables the company to reduce rejection costs.

Respondents were asked whether material quality cost control system of the company used as a cost control tool for decreasing material cost by avoiding wastages or not, they replied 6.7% disagree, 16.7% neutral, 36.7% agree and 40% strongly agree producing a mean of 4.100 with a standard deviation of 0.92289. More than 76% of respondents agree with material quality control system used as a cost control tool for decreasing material cost by avoiding wastages. From this one can conclude that material quality control system is used as a cost control tool.

About whether material quality control techniques of the company used as a cost control tool for avoiding scrapes or not, respondents replied 6.7% disagree, 13.3% neutral, 40% agree and 40% strongly agree producing a mean of 4.1333 with a standard deviation of 0.8995. As the result shows about 80% of respondents agreed with material quality control techniques of the company used as a cost control tool by avoiding scrapes.

When respondents asked whether the company's quality control enables to produce quality products or not, they replied 10% disagree, 16.7% neutral, 40% agree and 33.3% strongly agree producing a mean of 3.9667 with a standard deviation of 0.96431. About 73% of respondents agree on the issue. Therefore, from this one can conclude that quality control enables to produce quality products.

About whether the company's quality control enables to enhance the market share of the company or not, respondents replied 6.7% disagree, 16.7% neutral, 36.7% agree and 40% strongly agree that producing a mean of 4.1000 with a standard deviation of 0.92289. This shows respondents believe in that the company's quality control enhance the market share of the company.

Table 4 7:Quality Control as Cost Control and Cost Reduction Tool and Technique

| Benefits of Quality Cost Control: | Respondents' Response in Percent | | | | | Descriptive Statistic | |
|---|---|---|---|---|---|---|---|
| | Strongly Disagree | Disagree | Neutral | Agree | Strongly Agree | Mean | Standard deviation |
| Decrease defect products. | - | 3.3 | 23.3 | 43.3 | 30.0 | 4.0000 | 0.83045 |
| Increase productivity. | - | - | 16.7 | 53.3 | 30.0 | 4.1333 | 0.68145 |
| Reduce inspection cost. | - | 3.3 | 13.3 | 63.3 | 20.0 | 4.0000 | 0.69481 |
| Reduce input-output rejection cost. | - | - | 6.7 | 46.7 | 46.7 | 4.4000 | 0.62146 |
| Decrease material cost by avoiding wastage. | - | 6.7 | 16.7 | 36.7 | 40.0 | 4.1000 | 0.92289 |
| Avoid scrapes and decrease manufacturing cost. | - | 6.7 | 13.3 | 40.0 | 40.0 | 4.1333 | 0.89955 |
| Produce quality products. | - | 10 | 16.7 | 40 | 33.3 | 3.9667 | 0.96431 |
| Enhance market share . | - | 6.7 | 16.7 | 36.7 | 40.0 | 4.1000 | 0.92289 |
| **Grand Mean** | | | | | | **4.1041** | **0.8172** |

Source: Researcher computation based on case study result

In general, the result of the study reveals that majority of respondents agree with quality control enhance productivity, enhance market share, effective means to decrease defect products, enable to reduce the cost of inspection, to produce quality products and to decrease rejection cost. This situation is supported by Alem (2009) who discovered that quality control is a technique for detecting, recording, and taking measures to eradicate quality problems. Respondents responses also show the benefit of material quality control to decreases material cost by avoiding wastage. From this one can conclude that quality control benefit as cost control and cost reduction tool and technique.

### 4.2.5 Employee Involvement in Cost Control and Reduction

Employee involvement refers to using maximum efforts of all the employees of the company for optimal usage of resources to reduce costs and maximize profit. The empowerment of individuals' employee and teams is essential to generate motivation for work. To examine the benefits of employees' involvement in cost control and cost reduction of manufacturing cost the researcher questioned 32respondents through questionnaires and collected the following response. The result of the survey indicated in the table 4-8 shows that the degree of agreement ranged from 1 to 5 by respondents on benefit of employee involvement in cost reduction and control. The overall the grand mean value of 3.8851 with the standard deviation 0.7159 implied the employees' involvement in reducing and controlling manufacturing cost activities as implied in each of the nine estimated questions.

Table 4 8: Employees Involvement in Cost Control and Cost Reduction

| Employee Involvement as Cost Control and Cost Reduction Tool and Technique | Respondents' Response in Percent | | | | | Descriptive Statistics | |
|---|---|---|---|---|---|---|---|
| | Strongly Disagree | Disagree | Neutral | Agree | Strongly Agree | Mean | Standard deviation |
| Employees participates in budget preparation and standard setting. | 16.7 | 50 | 33.3 | - | - | 2.1667 | 0.69893 |
| Training enhances skill and increase productivity. | - | 10.0 | 16.7 | 46.7 | 26.7 | 3.9000 | 0.92289 |
| Trained employees reducing labor cost of the company. | - | 3.3 | 23.3 | 36.7 | 36.7 | 4.0667 | 0.86834 |
| Trained labor assists to enhance product quality. | - | 10.0 | 13.3 | 60.0 | 16.7 | 3.8333 | 0.83391 |
| Trained labor assists to reduce material wastage and reduces material cost. | - | - | 6.7 | 83.3 | 10.0 | 4.0333 | 0.41384 |
| Skilled labor produces quality products and decreased inspection cost. | - | - | 6.7 | 60.0 | 33.3 | 4.2667 | 0.58329 |
| Incentives motivate employees , enhance staff morale and increase productivity. | - | - | 10.0 | 56.7 | 33.3 | 4.2333 | 0.62606 |
| Job rotation is helpful to train easily and motivate employees | - | - | 13.3 | 46.7 | 40.0 | 4.2667 | 0.69149 |
| Job rotation enhance employee morale and increase productivity | - | - | 23.3 | 33.3 | 43.3 | 4.2000 | 0.80516 |
| **Grand Mean** | | | | | | **3.8851** | **0.7159** |

Source: Researcher computation based on case study result

When respondents asked whether employees participate in budget preparation and standard setting or not, they replied16.7% strongly disagree, 50%disagree, 33.3% neutral producing a mean of 2.1667 with a standard deviation of 0.69893. From the total 66.7% disagree with employee participate in budget preparation. This indicates that employees did not participates in BGI budget preparation and standard cost setting.

When respondents asked whether training upgrade and enhances employees' skill to increase productivity or not, they replied 10% disagree,16.7% neutral, 46.7% agree and 26.7% strongly agree producing a mean of 3.9000 with a standard deviation of 0.92289. The mean result showed that the extent of agreement. About73% of respondents agree with training upgrade and enhances employees' skill. From this result it is possible to imply that training upgrades and enhances employees' skill to increase productivity.

In analyzing whether trained employees are helpful in reducing labor cost of the company or not, the majority of respondents(73.4%) replied that trained employees can reduce labor cost is helpful. To the contrary 3.3% of respondents disagree and 23.3% of respondents neither agree nor disagree producing a mean of 4.0667 with a standard deviation of 0.86834. From this one can infer that trained employees are helpful in reducing labor cost of the company.

Respondents were asked whether trained labor assists to enhance the product quality or not, they replied 10% disagree, 13.3% neutral, 60% agree and 16.7% strongly agree producing a mean of 3.8333 with a standard deviation of 0.83391. As the result shows about 76.7% of respondents agree with training labor assist the company to enhance product quality.

When respondents asked whether trained labor assists to reduce material wastage or not, respondents replied 6.7% neutral, 83.3% agree and 10% strongly agree producing a mean of 4.0333 and with an of standard deviation of 0.41384. As the result shows about 94% of respondents agree with trained labor assists to reduce material wastage and reduces material cost. As the result reveals, one can conclude that training employees reduces material wastage and material cost.

When respondents asked whether skilled labor produces quality products this in turn decreases inspection cost or not, respondents replied 6.7% neutral, 60% agree and 33.3% strongly agree producing a mean of 4.2667 with a standard deviation of 0.5832. As result shows about 94% of respondents agree with skilled labor produces quality products and decreased inspection cost.

Incentives is useful to motivate employees, to enhance staff morale and to increase productivity. When respondents were asked whether incentives are useful or not, they replied 10%neutral, 56.7% agree and 33.3% strongly agree producing a mean of 4.2333 with a standard deviation of 0.62606. As the result shows about 76.7% of respondents agree with incentives is useful to motivate employees, to enhance staff morale and increase productivity.

Respondents were asked whether job rotation is helpful to train easily and motivate employees or not, respondents replied13.3% neutral, 46.7% agree and 40% strongly agree creating a mean of 4.2667with a standard deviation of 0.69149. The mean result shows strong believe in the issue and the standard deviation shows the variability. This result shows that about 86.7% of respondents agree with job rotation is helpful to train employees easily and motivate employees.

About whether job rotation enhance employee morale and increase productivity or not, respondents were questioned and replied 23.3% neutral, 33.3% agree and 43% strongly agree producing a mean of 4.2000 with a standard deviation of 0.80516. As the result shows, one can conclude that job rotation enhance employee morale and increase productivity.

In general, majority of respondents agree with employee involvement is helpful in controlling and reducing of manufacturing costs. Besides respondents believe in incentives, motivation, training, job rotation enhances employee morale and increase productivity. This situation supported by Huang and Zhang (2013) who stated empowerment, motivation and training are techniques that used to enhance workers' motivation and increase productivity. Motivation is said to be an assured shot to improve productivity and a motivated employee is guaranteed to be an asset to the company. According to the respondents' response result, skilled employees can have a potential to improve productivity. This is supported with the study conducted by Myronenko (2012) states that upgrading the skill of employees improve productivity. Therefore, employee involvement is one mechanism of reducing costs and enhancing productivity of manufacturing companies. However, employees but top management and departmental managers do not participate in budget preparation and standard setting. The situation is in contrary with the study done by Brownell and Mclnnes (1986) stated that budgetary participation affects performance directly and negatively. This notion may of hamper BGI's cost control and cost reduction manufacturing cost.

### 4.2.6 Responsibility Accounting in Cost Control and Reduction

According to Fowzia (2011) responsibility accounting is a controlling tool by which costs are traced to responsible manager and it considered as a supplementary cost control device. To answer the question "How responsibility accounting system help manufacturing companies in cost control and cost reduction?", 32 questioners were distributed and 30 of them collected. In addition to this financial records and reports were observed. The result of the survey indicated in the table 4-9 shows that the degree of agreement ranged from 1 to 5 by respondents on usefulness of responsibility accounting in manufacturing companies. The grand mean value 4.0047 implied respondents' agreement on several expected questions, therefore BGI in general is good in usefulness of responsibility accounting for budget preparation, budgetary control, cost control, delegation of authority and helpful in measuring performance.

Respondents were asked whether the accounting system of the company clearly defines the responsibilities and obligations of each department in order to measure their performance or not, they replied3.3% disagree, 16.7% neutral, 50% agree and 30% strongly agree producing a mean of 4.0667 with a standard deviation of 0.78492. As the result shows about80% of respondents agree on the issue. From this one can infer that the accounting system of the company clearly defines the responsibilities and obligations of each department in order to measure their performance.

When respondents asked whether responsibility accounting is helpful to regularly report variances of budget and actual cost to measure management performance as a control device or not, they replied23.3%neutral, 46.7% agree 30% strongly agree producing a mean of 4.0667and standard deviation 0.73968. As the result shows about 77% of respondents agree with responsibility accounting is helpful to regularly report variances of budget and actual cost to measure management performance as a control device.

Respondents were asked whether responsibility accounting used as a control device or not, respondents replied 23.30% neutral, 60% agree and 16.7% strongly agree producing a mean 3.9333and standard deviation 0.63968. As the result shows about 76% of respondents agree with responsibility accounting used as a control device.

When respondents asked whether information released from accounting system helps managers to know the company's goals achievement or not, they replied 30% neutral, 50% agree and 20% strongly agree producing a mean 3.9000and standard deviation 0.71197. As the result shows about 70% of respondents agree with information released from accounting department of the organization help managers to know whether the organization goals achieved or not. Study conducted by Sarkar and Yeshmen (2005) revealed that responsibility accounting is considered as an important control system and represents a source of information that facilitates decision making process in short and long ranges.

Respondents were asked whether responsibility accounting helps managers to measure each responsibility center performance or not. They replied 6.7% disagree, 26.7% neutral, 46.7% agree and 20% strongly agree producing a mean of 3.8000 with a standard deviation 0.84690. As the result shows about 66% of respondents agree with responsibility accounting helps managers to measure each center performance. This situation supported research conducted by Malodia (2011) who stated that responsibility accounting is a tool for evaluation and helps in measuring divisions performance.

When respondents asked whether the accounting record of the company holds detailed report that shows actual cost incurred in each departments to assist mangers for the preparation of department budget or not, they replied 26.7% neutral, 36.7% agree and 36.7% strongly agree producing a mean of 4.1000 and a standard deviation 0.80301. As the result shows about 72% of respondents agreed with responsibility accounting helps mangers for the preparation of department budget.

Table 4 9: Responsibility Accounting in Cost Control and Cost Reduction

| Benefit of Responsibility Accounting: | Respondents Response in Percentage | | | | | Descriptive Statistics | |
|---|---|---|---|---|---|---|---|
| | Strongly | Disagree | Neutral | Agree | Strongly Agree | Mean | Standard deviation |
| Clearly defines the responsibilities and obligations of departments' performance. | | 3.3 | 16.7 | 50.0 | 30.0 | 4.0667 | 0.78492 |
| It is helpful to measure management performance. | - | - | 23.3 | 46.7 | 30.0 | 4.0667 | 0.73968 |
| It is used as a control device | - | - | 23.3 | 60.0 | 16.7 | 3.9333 | 0.63968 |
| Help managers to know whether the company goals achieved or not. | - | - | 30.0 | 50.0 | 20.0 | 3.9000 | 0.71197 |
| It measures each responsibility center performance. | - | 6.7 | 26.7 | 46.7 | 20.0 | 3.8000 | 0.84690 |
| It assists mangers for the preparation of department budget. | - | - | 26.7 | 36.7 | 36.7 | 4.1000 | 0.80301 |
| It helps for budget control purpose. | - | - | 13.3 | 56.7 | 30.0 | 4.1667 | 0.64772 |
| **Grand Mean** | | | | | | **4.0047** | **0.7391** |

Source: Researcher computation based on case study result

Respondents were asked whether responsibility accounting helps for budgetary control purpose by giving budgeted and actual cost information or not, they replied13.3% neutral, 56.7% agree and 30% strongly agree producing a mean 4.1667with a standard deviation of 0.64772. As the result shows about 86.7% of respondents agree with responsibility accounting helps for budgetary control purpose by giving budgeted and actual cost information.

In general, the respondents' response on the usefulness of responsibility of accounting system revealed that BGI has a well-defined responsibility accounting and it is useful for budget preparation, budgetary control, cost control, delegation of authority and helpful in measuring performance. This is in line with the study conducted by Hanini (2013) who showed the importance of and the significant relationship between implementing responsibility accounting, the company's profitability and operational efficiency.

# CHAPTER FIVE

# 5 SUMMARY, CONCLUSION AND RECOMMANDATION

## 5.1 Summary and Findings

This study was aimed at examining the application of cost management practices in reducing and controlling manufacturing costs. The specific objectives of the study include examining how top managers support in the application of cost management practices to improve the performance of their company; ascertaining the cost control and cost reduction tools and techniques can help the company in cost saving and profit maximization; identifying different cost management tools and techniques that help to control and reduce cost to the lowest minimum; examining how frequently management reviews standard cost and budget to communicate control measures in decision making; assessing the benefit of cost management practices in manufacturing companies; evaluating the benefits associated with the application of cost control and reduction tools and techniques in the manufacturing process; evaluating the importance of employees involvement in the processes of cost control and cost reduction; and assessing the benefit of responsibility accounting in cost budgeting, cost reduction and cost controlling. The study was conducted by using both primary and secondary data. The primary data for this study were collected through questionnaire, interview with top management and department managers. Secondary data were collected from documents and reports. The study conducted based on 32 employees who are member of management team, finance staff and production department staff.

From ascertaining the importance of cost control and reduction tools and techniques, research result indicated that cost control tools and techniques can increase productivity, reduce cost, improve quality, and enhance market share. The study further indicated that cost control has a great help to the management of manufacturing firms towards the attainment of its objectives profit maximization. From assessing which type of cost control tool and techniques applied, the result indicated that BGI has well defined standard cost control, budgetary cost control and quality cost control implementation to reduce and control costs and for performance evaluation purpose. However, BGI doesn’t apply target costing in its cost control and reduction schemes.

From examining how frequently standard cost and budget reviewed to communicate control measures in decision making, it was founding that BGI reviews standard costs and budget monthly to realize any problem on the process and implementation as well as any deviation from the set targets. Reviewing regularly cost control tools and techniques is helpful in order to correct any deviation happened.

From examining the benefit of cost management practice in manufacturing companies, the research study discovered that BGI's cost management practices are helpful for managerial decision making process, helped to achieve the intended target by enhancing profitability and measuring performances. The study results also indicated that cost management practice has an influence on the profit margin of the company. It further indicated that cost management practices are important for managing product costs. Product costs can be effectively managed and reduced without affecting the quality of the product.

For examining how top managers support in the application of cost management practices to improve the performance of their company, various research questions employed and the result indicated that there is a top management support at BGI to reduce and control manufacturing costs. According to the research results top management of BGI set standards for each cost elements, prepare cost budgets, apply various types of cost reduction and control tools and techniques and measures performances. However, in order to set standard costs BGI uses past historical data approach. The disadvantage of this approach is that past efficiency may include in current standard costs. The research also indicated that standard costs set for each unit manufacturing costs by taking actual material, labor and overhead costs of previous month instead of engineering studies for each items. According to research results, standard costs and cost budget are prepared by top management and department representatives. However, employees do not participate in budget preparation. Budgetary control has a direct effect on performance, but budgetary participation affects performance directly and negatively. About product costing system the study result indicated that BGI applies traditional costing method. However, this method starts from actual product cost. Traditional costing method did not allow the company to see the market and it reduce competiveness.

In evaluating the benefit drive from the application of cost reduction and control tools and techniques, the research study indicated that BGI budgetary cost control can effectively control costs, measures performance, enhance profitability, used as a tool to estimate costs and helps for decision making. The result also indicated that the standard cost control of BGI helps for setting product costs, to establish yardstick for exercise control and measure performance, serves as a bases for setting budgets and for managerial decision. It is known that budget and standards in itself will not help for any purpose in cost control unless it embarked on budgetary control and standard costing control which are the monitory aspects of standards and budgets. According to the study result, quality cost control is the other technique which in BGI applies. BGI uses quality cost control as a cost control technique to prevent defect products, to reduce wastage of materials and reduce inspection costs. The research also indicated that the company doesn't apply target costing in its cost control and reduction schemes. However, target costing system avoids non-value added costs from production line and enhance market share. Target costing is a cost reduction tool to minimalize cost and maximize profit.

From assessing the usefulness of employee's involvement in reducing and controlling costs, the study result indicated that motivation, incentives and job rotation can enhance the productivity of employees, decreases wastage, enhance quality and reduce labor costs. Job rotation increases employees' skill and enhance productivity. The result also indicated that training is useful to upgrade employees' skill. It further indicated that skilled employees can have a potential to improve productivity. Therefore, this study showed that employee involvement is one mechanism of reducing costs and enhancing productivity of manufacturing companies.

As to evaluating the usefulness of responsibility accounting in cost controlling and reducing manufacturing costs, the study result indicated that responsibility accounting is useful for budget preparation, budgetary control, cost control, delegation of authority and for measuring performance.

## 5.2 Conclusion

The purpose of this research is examining the application of cost management in reducing and controlling manufacturing costs. In manufacturing companies, the major cost elements are direct material cost, direct labor cost, manufacturing overhead costs which are grouped under manufacturing costs. Controlling and reducing manufacturing costs can be seen from the view point of material utilization, labor utilization, wastage elimination and supervision of costs incurred in the course of production. All these help to enhance the earnings of business entity.

Cost management practices of reducing and controlling manufacturing costs require top management support, employees' involvement, responsibility accounting and different cost control tools and techniques. Without top management support cost management practices cannot be set up. Manufacturing company managers regularly establish cost standards, prepare cost budget, review budgets and standards, evaluate deviations and measure performances.

Since the ultimate goal of a company is making profit, cost management practices enable to achieve the target. Manufacturing companies may prefer and use tools and techniques like value analysis and value engineering, quality control, budgetary control, standard costing system and target costing for the purpose of cost reduction and control.

Employee involvement is helpful in reducing and controlling costs of the company. Motivation, incentives and job rotation can enhance the productivity of employees and reduces manufacturing labor costs.

Responsibility accounting is important cost information center which help for setting standards, preparing budget, measuring performances and to assist managers for managerial control and decision making. Hence, responsibility accounting is a prerequisite for ensuring effective cost control and reduction in actual data collection from responsibility centers, analysis of cost data, budgetary control and supervision. However, according to the result BGI using traditional criterion in responsibility accounting system.

With the use of cost control and reduction measures such as standard cost control, budgetary control, responsibility accounting, employee involvement the company has been able to control and reduce costs, enhance profitability and measure performance. Cost management practices provide information, which aids the management of the firm in making decisions concerning business operations.

## 5.3 Recommendation

- The main factor of decreasing the competitive of Ethiopian manufacturing industries is their manufacturing cost management system. BGI as a manufacturing firm its cost management system should be designed to help the company's operation and strategy and should provide reliable targets for managerial attention;

- Without any active support of top management of a company cost management practice cannot be successful set-up. BGI Brewery PLC top managements should support and sustain their leadership commitment to control and reduce manufacturing cost and take an active role in all cost management activities;

- The common challenge that hamper manufacturing industry's profitability is input cost increase. Effective material utilization, wastage elimination, elimination of idle time, efficient utilization of labor in the production process, skilled manpower, training, introduction of incentives schemes that favor high productivity, eliminating non-value added activities will help to reduce costs and enhance profitability. Therefore, the study recommends BGI's top management to watch regularly its cost management system to control and reduce manufacturing cost elements to become profitable;

- The brewery industry is led by fixed unit selling price. As result, BGI Brewery PLC is price taker in the market. As result, top management of BGI should give better emphasis for effective cost management practice to become profitable and competitive in the market;

- The company currently set standards based on historical method. In setting product cost standards, manufacturing companies must apply engineering method rather than historical methods. Because in engineering method each operation is studied thoroughly based on careful specification of material, labor and overhead costs. Therefore, BGI should set its standard costs based on engineering method;

- Setting standard cost and cost budget in BGI is limited to top management and departmental managers. However, all employees should participate and be aware of how much and why standards cost, cost budget, and its objective. These are the key performance indicators to know each employees' role and measure their contributions against the result achieved;

- Employees are the most important asset in any organization. No matter how educated and experienced, employees need a continuous training for operational improvement in some specific issues they are working around. Hence, BGI should consider a continuous employees training to efficiently utilize and increase their knowledge, performance and to become competitive in brewery market;

- BGI uses traditional cost system, but traditional cost systems may provide information that is distorted, too exaggerated, and too late to be used in reducing cost or providing productivity and market projection. Target costing system provides accurate and recent market information in order to manage costs relative to the prices the market allows and to achieve sufficient margin over its costs. Therefore, to overcome the problems arising because of implementing traditional costing system, BGI should use target costing techniques as a means to reduce its product cost and become competitive in the industry;

- Responsibility accounting is a management control system based on the principles of delegating and locating responsibility. Manufacturing companies should have responsibility accounting to evaluate the performance of each functional department to assists managers for managerial control and decision making;

- More research studies should be conducted to understand the importance of cost management practice and its effects on manufacturing firms performance.

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# APPENDEX I

## Saint Mary University
## School of Graduate Study
## Fuclty of Business
## Department of Accounting and Finance

### Acknowledgement to the Respondent

Dear Respondents,

Here by, I would like to express my gratitude in advance for the time you share us, your dedicationand genuine cooperation to fill this questionnaire. This questionnaire designed to conduct a research on the topic **COST MANAGEMENT PRACTICE: COST REDUCTION AND CONTROL IN MANUFACTURING COMPANIES** for the partial fulfillment of the requirement of MSc degree in Accounting & Finance. For the successful accomplishment of the study, the response of managers, supervisors and technical staffs of the manufacturing company will have pivotal role by being as valuable input for the study.

I assure you that the information obtained from this questionnaire will kept confidential and will not transferred to other parties for any other purpose. Therefore, you kindly requested genuinely to fill these questionnaires.

Thank you for your cooperation!

Yours Sincerely,

### Cost Reduction and Cost Control Concepts

Cost control and cost reduction is applications of cost reduction and control of undesirable manufacturing expensesto increase profit. There are various reduction and cost control tools and techniques in practice. Some of them are budgetary control,standard costing, target costing, quality cost control, value analysis, value engineering etc. Cost reduction aims at reducing the targeted costs whereas cost control is reducing the actual cost to the targeted amount.

## The Objective of the Study

The general objective of this study is to examine and evaluate the application of cost management practices in cost reduction and cost control of manufacturing company and to improve performance.

**Instructions:**

- Writing your name is unnecessary
- Put "✓"mark to in each box to answer questions

**Part I: Respondent Profile**

| | | | | | |
|---|---|---|---|---|---|
| 1. Respondent Sex | Male☐ | | Female☐ | | |
| 2. Age in Years | Below 25 ☐ | 25-35 ☐ | 35-50☐ | above 50☐ | |
| 3. Educational Level | Diploma☐ | Degree ☐ | Masters ☐ | PhD. ☐ | Other ☐ |
| 4. Organizational Hierarchy | Management☐ | Finance ☐ | Production ☐ | | |
| | Marketing ☐ | Quality Cost Control ☐ | Warehouse ☐ | | |

**Part II: Questions Related with Cost Reduction and Control Practice**

There are various cost management practices incost reduction and control in the manufacturing business operation.To reduce and control costs and enhance the profitability, management uses different cost reduction and control techniques in manufacturing business. Please answer the following question to show your company's cost reduction and control tools andtechniques.

1. Which cost reduction and cost control tools and techniques your company uses in its cost management practice?

| | | |
|---|---|---|
| a. | Standard Cost Control | ☐ |
| b. | Budgetary Control | ☐ |
| c. | Quality Cost Control | ☐ |
| d. | Target costing | ☐ |
| e. | All | ☐ |

If your company uses other cost reduction and control tools and techniques, specify it:

______________________________________________________________________

2. How frequently your companyreview standard costs and budgeted cost in its cost reduction and controlpractice?

| | | |
|---|---|---|
| a. | Monthly | ☐ |
| b. | Quarterly | ☐ |
| c. | Semiannually | ☐ |
| d. | Yearly | ☐ |
| e. | All | ☐ |

3. Who is responsible for setting standards in this organization?

| | | |
|---|---|---|
| a. | Finance department | ☐ |
| b. | Production department | ☐ |
| c. | Personnel and department heads | ☐ |

If any, specify ______________________________________________________________

**Part III: Instruction to Rate Respondents' Approaches to Cost Reduction and Control Practice**

Please rate to show your standing towards cost reduction and Control practices how strongly you agree or disagree with each of the following statements by placing checkmarks (✓) to the respective column as rated Strongly disagree = 1, Disagree = 2, Neutral = 3, Agree= 4, Strongly Agree = 5.

| S/N | Cost Reduction and Control Practice Statements | Possible Answers | | | | |
|---|---|---|---|---|---|---|
| | | **1** | **2** | **3** | **4** | **5** |
| **1.10** | **Cost management practices for reducing and controlling manufacturing costs and improving performance.** | | | | | |
| 1.11 | Cost management practices applied in this company are effective to enhance the profitability of the organization. | | | | | |
| 1.12 | Management exercises cost reduction and control tools and techniques in managerial decision-making. | | | | | |
| 1.13 | The company efficiently uses cost reduction and control techniques to measure performance. | | | | | |
| 1.14 | Cost management practices have a significant influence on the profit margin of the organization. | | | | | |
| 1.15 | The company has utilized cost reduction and control tools and techniques policy to attain its maximal target. | | | | | |
| 1.16 | The cost management practice of cost reduction and control tools and techniques applied in this organizationreducesthe cost of products without affecting the quality of the products. | | | | | |
| **2.00** | **The benefits associated with the application of cost reduction and control tools and techniques.** | | | | | |
| **2.10** | **Budgetary Cost Control** | | | | | |
| 2.11 | The company has a good budgeting process that can effectively control costs. | | | | | |
| 2.12 | The company budgeting process helped to enhance profitability | | | | | |
| 2.13 | In this company, budgetary control system serves as a tool to estimate costs. | | | | | |
| 2.14 | In the organization budgetary control used as effective cost control tool and it served to measure performance | | | | | |
| 2.15 | Budgetary control helps to motivate employees and to enhance productivity. | | | | | |

| S/N | Cost Reduction and Control Practice Statements | Possible Answers | | | | |
|---|---|---|---|---|---|---|
| | | 1 | 2 | 3 | 4 | 5 |
| 2.16 | Budgetary cost control serves to establish manufacturing cost budget in each operation function or departments related to manufacturing operation. | | | | | |
| 2.17 | The management of the company communicates budget in decision-making. | | | | | |
| 2.18 | Helpful to creates cost control awareness among department representatives. | | | | | |
| **2.20** | **Standard Costing** | | | | | |
| 2.21 | All organization department representatives participate in setting standard costs of goods and service. | | | | | |
| 2.22 | The company uses standard costing for establishing yardstick in exercising control. | | | | | |
| 2.23 | Standard costing facilitates in setting budgets. | | | | | |
| 2.24 | Standard costing useful in evaluating managerial performance | | | | | |
| 2.25 | Standard cost of the company is helpful in decision making by providing forecast of future cost. | | | | | |
| 2.26 | Standard costing facilitates delegation of authority and fixation of responsibility | | | | | |
| | | | | | | |
| **2.40** | **Product Quality Control** | | | | | |
| 2.31 | The company quality control method is effective because it enables to decrease defect products and increase productivity. | | | | | |
| 2.32 | The quality control method of the company enables to reduce the cost of inspection. | | | | | |
| 2.33 | The quality control method of the company enables to reduce rejection costs. | | | | | |
| 2.34 | Material quality control system of the company used as a cost control tool for decreasing material cost by avoiding wastages. | | | | | |
| 2.35 | Material quality control techniques of the company used as a cost control tool by avoiding scrapes and therefore manufacturing cost decreased. | | | | | |
| 2.36 | The company’s quality control enables to produce quality products and this enhance the market share of the company | | | | | |
| **3.00** | **Employee Involvement in Cost reduction and Control Practice** | | | | | |
| 3.11 | Employees participates in budget preparation and standard setting. | | | | | |
| 3.12 | Training given by the company to upgrade the skill of the employees enhances employees’ skill and this resulted to increase productivity. | | | | | |
| 3.13 | Trained employees are helpful in reducing labor cost of the company. | | | | | |
| 3.14 | Trained labor assists to enhance the product quality. | | | | | |

| S/N | Cost Reduction and Control Practice Statements | Possible Answers | | | | |
|---|---|---|---|---|---|---|
| | | 1 | 2 | 3 | 4 | 5 |
| 3.15 | Trained labor assists to reduce material wastage and this reduces material cost. | | | | | |
| 3.16 | Skilled labor in the company produces quality products this in turn inspection cost decreased. | | | | | |
| 3.17 | Incentives by the company is useful to motivate employees and enhance staff morale to increase productivity. | | | | | |
| 3.18 | Job rotation in the company is helpful for employees easily train, motivate and enhance productivity | | | | | |
| **4.00** | **The benefit of responsibility accounting in cost budgeting and cost controlling.** | | | | | |
| 4.01 | The accounting system of the company clearly defines the responsibilities and obligations of each department in order to measure their performance. | | | | | |
| 4.02 | The accounting system is helpful to regularly report variances of budget and actual cost to measure management performance as a control device. | | | | | |
| 4.03 | The accounting system is usedas a control device. | | | | | |
| 4.04 | Information released from accountingsystem of the company helps managers to know whether the company goals achieved or not. | | | | | |
| 4.05 | The accounting system of the companycollects and reports both planned and actual information in each responsibility center and this helps managers to measure each center performance | | | | | |
| 4.06 | The accounting records of the company hold detailed report that shows actual cost incurred in each departments, and this assisted mangers for the preparation of department budget. | | | | | |
| 4.07 | Responsibility accounting of the organization helps for budgetary control purpose by giving budgeted and actual cost information. | | | | | |

# APPENDEX II

**INTERVIEW QUESTIONS**

To examine the manufacturing cost management practice of cost reduction and cost control tools and techniques the researcher conducted interviews with top management and division managers. The questions raised during the interview were:-

1 Do you think that cost management help to the management of manufacturing firms' towards the achievement of its ultimate goal-profit maximization?
2 Is cost control and reduction used as a measure in facilitating corporate profitabilityand performance of this organization?
3 Does the company able to measure its performance by the use of cost control techniques such as standard costing, budgetary control, and responsibility accounting
4 How standard costs are set? How do you prepare the budget? Do you think that it only a top management work? Are each department or unit within the firm is responsible to prepare its part of the budget?
5 Does management communicate on budget in making decision?
6 Does cost control and reduction measures efficiently applied in the company?
7 What type of costing method used in your company? Traditional costing or market based costing /target costing/?
8 How do you determine production cost?
9 Is budget preparation participatory?
10 Which type of cost reduction and cost control tools and techniques applied in the company? Why?