COST INFORMATION AND BUSINESS STRATEGY: A SYNERGISTIC APPROACH OF ENSURING VALID BUSINESS DECISION AND GROWTH

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ABSTRACT: *This paper examines cost information and business strategy as a synergistic approach of ensuring valid business decision and growth. This was hinged on the premise that cost accounting information is one of the enduring tools of management for planning, decision making and control. If this information is wrongly applied, it can jeopardize the revenue aspect of the business and by extension the overall performance of the entity. To this end, the ex-post facto and descriptive research designs were adopted to elicit information from respondents. The paper adopted the ordinary least square analytical technique for data analysis. Findings revealed that inadequate cost information, obsolete costing techniques and ineffective corporate governance mechanisms impact on organizational performance. Indeed, it was recommended that corporate entities should place more priority on cost information, modern costing techniques and effective corporate governance to facilitate growth especially in all sectors of human endeavors.*

KEYWORDS: Cost Information, Business Strategy, Corporate Governance, Growth

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INTRODUCTION

Management of an organization requires a wide spectrum of information in order to keep track of the day to day operations of the business. Information requirement cuts across all levels of management. At the upper echelon, management information centers mostly on policy matters that affects the functional and service departments as well as assisting in internal and external relationships. For effective business strategy, cost information ranks among the top in the management information requirements Kaplan & Norton, (2008). This is even more so were man; money and material (3m) are applied in production of goods and services either in the real or service sector of an organization.

In either of these sectors, every concern of managers is about revenues and costs Harper (2008). This means that, whatever their products or service lines are, managers should understand how revenues and costs behave or risk losing control. Managers use cost accounting information to make decisions relating to strategy formulation, research and development, budgeting, production planning and pricing among others Armstrong, (2006). Sometimes, these decisions involve trade -offs and this is where strengths, weaknesses, opportunities and threats (SWOT) analysis usually help management to come to terms with reality of business operation. Management accountants work closely with managers in formulating strategy by providing information that places management competitive advantage most especially in relation to cost, productivity, or efficiency of operation relative to other competitors Atkinson, Kaplan & Young (2004). This more often than not can extend to the ascertainment of the premium prices a company can charge relative to the costs of adding features that make its products or services

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distinctive Brendan, Edvinson & Beding (2000). Strategic cost management describes cost management that specifically focuses on strategic issues Ruzita & Parnell (2008).

It is worthy of note that strategy specifies how an organization matches its own capabilities with the opportunities in the market place to accomplish its objectives. Paley (2004). Succinctly put, strategy describes how an organization should compete and the openings its managers should seek and pursue. Deciding among these strategies is a critical part of what managers do Jackson (2008). There is therefore no gainsaying the fact that strategy defines performance and sound accomplishment holds the key to increase revenue Ukpong (2008). At this juncture, the researcher concludes his discourse by supporting the motion proposed by Robinson (2003) that Cost accounting provides information for management accounting and financial accounting renders stewardship to stakeholders.

Statement of the problem

Cost accounting information is one of the enduring tools of management for planning, decision making and control. Cost accounting is therefore the main source of cost information for management accounting. It enables cost management to be effectively handled by managers. If wrongly applied, it can jeopardize the revenue aspect of the business and by extension the overall performance of the entity. This can be so where the information is untimely, inaccurate or the techniques applied to derive the costs are either inappropriate or obsolete. Where any of these scenarios rear its ugly head, the performance of the entity will be lopsided.

Objectives of the study

The overall objective of the study is to ascertain the assertion that cost information and business strategy impact on organizational performance. The specific intents therefore are:

(a) To examine the extent to which untimely and inaccurate information perverts business strategy

(b) To determine whether inappropriate and obsolete costing techniques distorts performance of a business.

(c) To assess the contribution of corporate governance in providing direction to managers towards efficient management of the organization.

Hypotheses

$H_{o1:}$ There is no significance relationship between asymmetric cost information and business performance.

Ho_2: obsolete costing technique does not affects business performance

H_{o3}: effective corporate governance does not facilitates business strategy and by extension business performance.

Theoretical underpinnings: This paper reasons in consonance with the theory and empirical framework on cost information, strategic development and organizational performance. This becomes necessary to tap from the body of knowledge of corporate governance and organizational performance literature and to assess the contemporary understanding of the concept. This is expected to assist the researchers in identifying the gap in their knowledge and

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understanding which is expected to assist in pinpointing and suggesting appropriate approach to fill the gaps. It is therefore considered that the appropriate theories that underpin the subject matter are as stated below:

Stakeholder theory

One of the original advocates of stakeholder theory, Freeman (2004), identified the emergence of stakeholder groups as important elements to the organization requiring consideration. Freeman further suggests a re-engineering of theoretical perspectives that extends beyond the owner-manager-employee position and recognizes the numerous stakeholder groups.

Freeman (1990) defines stakeholders as "any group or individual who can affect or is affected by the achievement of the organization's objectives". Freeman (1993) as cited in Freeman (1999: 234), suggests that if organizations want to be effective, they will pay attention to all and only those relationships that can affect or be affected by the achievement of the organization's purpose. That is, stakeholder management is fundamentally a pragmatic concept. Regardless of the content of the purpose of the firm, the effective firm will manage the relationships that are important.

Donaldson and Preston (1995) provide a diagrammatical representation of the stakeholder model, which is reproduced in Figure 1. This diagram reflects the number of groups with interests in (or relationships) with the firm.

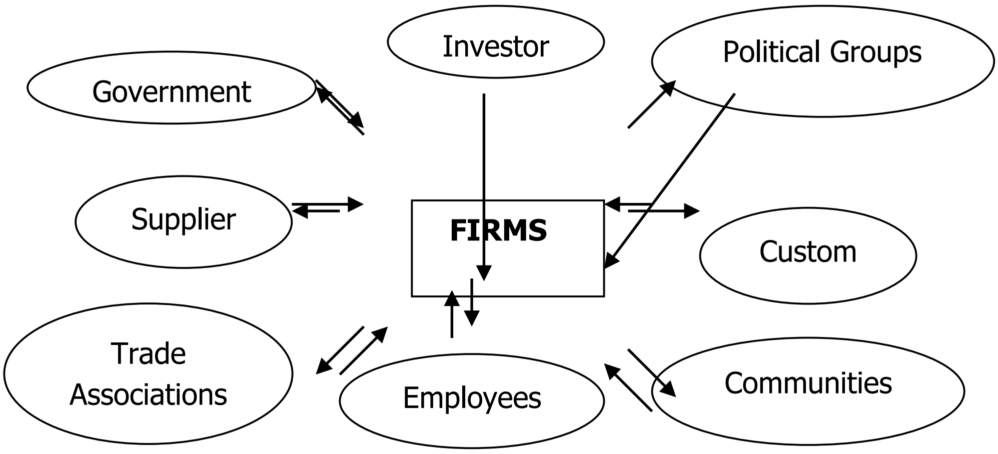

FIG 1: The Stakeholder model

Source: Donaldson and Preston (1995: 69)

They explained that under this model, all persons or groups with legitimate interests participating in an enterprise do so to obtain benefits and that there is no prima facie priority of one set of interests and benefits over another.

Stakeholder theory offers a framework for determining the structure and operation of the firm that is cognizant of the myriad participants who seek multiple and sometimes divergent goals (Donaldson and Preston, 1995).

Stewardship theory

Whereas agency theorists view executives and directors as self-serving and opportunistic, stewardship theorists, reject agency assumptions, suggesting that directors frequently have

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interests that are consistent with those of shareholders suggest an alternative "model of man" where "Organizational role-holders are conceived as being motivated by the need to achieve and gain intrinsic satisfaction through successfully performing inherently challenging work, to exercise responsibility and authority, and thereby gain recognition from peers and bosses". They observed that where managers have served a corporation for a number of years, there is congruency in the merging of individual and the corporation. Equally, managers may carry out their role with full sense of commitments. Donaldson and Preston, (1995) argued that a psychological and situational review of the theory is required to fully understand the premise of stewardship theory. Stewardship theory holds that there is no inherent, general problem of executive motivation Albanese & Harris, (1997). This would suggest that extrinsic incentive contracts are less important where managers gain intrinsic satisfaction from performing their duties.

It is the inability of most managers, with pessimistic outlook and who are risk averse especially in the west/sub-Saharan African economies to apply relevant cost information for decision making and control that become the bane of business performance, King & Levine, (1993).

LITERATURE REVIEW

Under intensive global competitive pressure, business concerns that must stay afloat should apply innovative thinking to management, Jablan, (2008). According to Charantimath (2006), contemporary business managers should examine technology that can lead to improved manufacturing flexibility, product quality and production cost. In today's rapidly changing market place, a company should deliver when required. Mistry, (2005), in his advocacy on profitability through Just In Time (JIT) processes in the supply chain, assert that in today's rapidly changing market place, a company should deliver a product of high quality with elasticity of demand to ensure retaining adequate market share. Comparing the Toyota production system (TPS) that has successfully applied the JIT approach in its manufacturing process, Horngren, Datar and Rajan, (2012), concluded that time based competition is one of the most important recent trends in a business environment. According to them, (JIT) philosophy of manufacturing management has received wide spread attention over the last few decades and still plays a prominent role in the modern manufacturing era. In a paper presentation, beyond the Boundaries: Future Trends in Cost Management," McNair, (2007), stressed that manufacturing is a philosophy of operation management based on planned elimination of all wastes for the purposes of cost reduction, continuous improvement of quality products and customer satisfaction. Concluding his study on the roles played by cost accounting information, Hall, (2008), summarized that when its information plays the role of financial accounting, it measures product costs in compliance with the strict legal and professional regulations, and when cost information is used for internal purposes, it provides the basis for planning, control and decision making. This should be the focus of managers in emerging economies and economies in transition if they should survive in today's volatile economic environment.

Several empirical findings have confirmed that cost information is one of the building blocks upon which business strategy can be developed. According to Aldehyyat andAnchor, (2008) in their advice to entrepreneurs in a workshop, strategic planning does not only predict the future, but it enables an organization to cope effectively with future contingencies; provides an early opportunity to correct inevitable mistakes. Corroborating this assertion, Beaver, (2007) in his findings, adds that cost information helps in making decisions about the right things at the right

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time. Contributing in a seminar organized by Poverty Reduction Agency in Abuja, Nigeria, 2011,Arasa, (2011) a lead discussant warned that untimely application of cost information can jeopardize actions which could have a good intention to galvanize future planning.

RESEARCH METHODOLOGY

The study adopted the ex-post facto and descriptive design. This was preceded by the determination of the population of 92 companies in the real sector of the Nigerian economy extracted from the Stock Exchange Fact Book 2013/2014 edition. To ensure a robust analysis that would result in a valid result and conclusion, the entire population of 92 companies was used for the study. The indicator of growth was the return on capital employed (ROCE), which is the dependent variable. While cost information, business strategy and corporate governance represents the independent variables. The study made use of the Ordinary Least Square (OLS) analytical technique in data analysis. According to Agarwal, (2010), it is worth noting that management performance can be viewed either quantitatively or qualitatively depending on the organization's objective. In this study, performance is proxied by growth which is denoted by wealth creation. This is driven by the predictors of cost information and management strategy.

RESULT AND ANALYSIS

TABLE 4.1: Relationship between return on capital employed, cost information, business strategy and corporate governance

Variable	Estimated coefficient	Std error	t- statistic	Prob.
C	21.10973	18.29905	1.153597	0.2518
CI	2.641951	3.70229	2.713611	0.4774
BS	1.288159	3.60098	3.357812	0.7214
CG	6.082528	3.642433	2.669908	0.0985

Source: Regression result (Appendix 1)

R-square = 0.805878

Adjusted R - Square = 0.750633

Standard error of regression = 7.96531

F – Statistic = 21.079189

Durbin-Watson stat= 2.018305

In the presentation, we regressed cost information, business strategy and corporate governance over return on capital employed. The following facts emerged from the result:

The coefficient of multiple determination (R^2) is 0.805878. This implies that the regressors or explanatory variables accounted for 81 percent approximately of total variation in return on capital employed leaving 19 percent to the error term. Thus, the regression line fit the observation well. In a similar vein, the coefficient of the adjusted R- square is 0.750633 percent which also attest to the fact that the model fit the data well.

We also employed joint or overall test of significance of all parameter estimates using the F-statistic. The test result shows that the observed or calculated F-value of 21.079189 is greater than its critical value of 2.76 at five percent level of significance. Thus, the estimates of the equation are statistically significance at five percent level of significance.

More so, the sign of the regression constant is positive, implying that there is a positive relationship between the constant term and return on capital employed. Thus, if all the explanatory variables are fixed, return on capital employed will accelerate by 21.11 percent approximately. The estimated coefficient for cost information appears with positive sign. The sign conform to apriori economic criteria. Hence, a one percent increase in cost information will accelerate return on capital employed by 2.641951 percent all things being equal. The parameter estimates for business strategy and corporate governance also appear with positive signs. This is consistent with a priori theoretical criteria. Thus, holding all other explanatory variables constant, a one percent change in any of these two variables will affect return on capital employed by 1.288159 and 6.082528 percent respectively.

It is also imperative to test for the statistical reliability of each parameter estimates using the conventional standard error test and student's t-test. From the result, it revealed that the estimates of cost information, business strategy and corporate governance are all statistically reliable at five percent level of significance. Their calculated t-values of 2.713611, 3.357812 and 2.669908 were greater than the table t-value of 1.671 at five percent level.

The test for the existence of autocorrelation was performed using Durbin-Watson statistic. The test result revealed the non-existence of autocorrelation in the model. The D. W value of 2.018305 lies within du and 3-du.

Test of hypotheses

All the hypotheses were tested using the student's t-test.

H_{01}: There is no significance relationship between asymmetric cost information and business performance.

H_{a1}: There is a significance relationship between asymmetric cost information and business performance.

With reference to the result and using the t-statistic to test for the significance of the estimated coefficient, the calculated t-statistic is 2.713611 and the table value is 1.671 at 95 percent confidence interval. Given that the calculated t-statistic is greater than the table value, that is 2.713611 greater than 1.671 with degree of freedom n-2 (i.e. 92-2)= 90 at one tail five percent level of significance, the null hypothesis of no significance is rejected, and the alternative

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accepted. Indeed, it can be concluded that there is a significance relationship between asymmetric cost information and business performance.

H_{02}: Obsolete costing technique does not affect business performance.

H_{a2}: Obsolete costing technique affects business performance.

From the regression result, the estimated coefficient of t-statistic calculated is 3.357812 and the table value is 1.671 at 95 percent confidence interval. From the foregoing, since the calculated t-statistic is greater than the table value, we reject the null hypothesis of no significance and accept the alternative. It is therefore pertinent to say that obsolete costing technique (business strategy) affects business performance.

H_{03}: Effective corporate governance does not facilitates business strategy and by extension business performance.

H_{a3}: Effective corporate governance facilitates business strategy and by extension business performance.

Also with reference to the regression result and using the t-statistic to test for the significance of the estimated coefficient, the calculated t-statistic is 2.669908 and the table value is 1.671 at 95 percent confidence interval. Given the degree of freedom n-2 (i.e.92-2)= 90 and at one tail five percent level of significance, it could be stated categorically that effective corporate governance facilitates business strategy and by extension business performance.

Discussion of findings

The findings of the statistical analysis of the data gathered for the study are discussed as follow:

(a) There is a positive relationship between asymmetric cost information and business performance. That is to say, for effective business strategy to be achievable, management should place priority on cost information. This finding is in line with Beaver (2007), who in his findings adds that cost information helps in making decisions about the right things at the right time.

(b) It was discovered that inappropriate and obsolete costing techniques vehemently affect business performance.

(c) Effective corporate governance enhanced business strategy and invariably facilitates business performance.

(d) Finally, it was revealed that the estimates of cost information, business strategy and corporate governance are statistically reliable. To this end, all the explanatory variables positively affect growth which is proxied by return on capital employed.

CONCLUSION AND RECOMMENDATIONS

Based on our findings, it is explicitly concluded that asymmetric cost information, a proactive business strategy and effective corporate governance are key indicators for performance of a corporate entity.

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It is therefore recommended inter alia that:

(a) The top echelon of corporate organizations should place more emphasis on cost information in order to achieve efficiency.

(b) There should be appropriate and novel costing techniques to enhance business performance.

(c) Effective corporate governance should be a sine qua-non for companies in the real sector of the Nigerian economy.

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APENDIX

Appendix 1: Regression result on the relationship between cost information, business strategy, corporate governance and return on capital employed

Dependent Variable: ROCE
Method: Least Squares
Date: 11/02/15 Time: 13:53
Sample: 1 92
Included observations: 91

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	21.10973	18.29905	1.153597	0.2518
CI	2.641951	3.702229	2.713611	0.4774
BS	1.288159	3.600098	3.357812	0.7214
CG	6.082528	3.642433	2.669908	0.0985

R-squared	0.805878	Mean dependent var	5.892637
Adjusted R-squared	0.750633	S.D. dependent var	28.00220
S.E. of regression	7.96531	Akaike info criterion	9.542767
Sum squared resid	68039.10	Schwarz criterion	9.653135
Log likelihood	30.1959	Hannan-Quinn criter.	9.587294
F-statistic	21.079189	Durbin-Watson stat	2.018305
Prob(Fstatistic)	0.362251		

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