SAINT MARY's UNIVERSITY

SCHOOL OF GRADUATE STUDIES

ASSESSMENT OF COST MANAGEMENT PRACTICES OF FLORICULTURE COMPANIES: A CASE OF MARANQUE PLANTS PLC

BY:

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DECEMBER 2019

ADDIS ABABA

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DECLARATION

I, the undersigned, declare that this thesis is my original work, prepared under the guidance of Mohammed Seid (Assistant Professor). 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’s University, Addis Ababa, Ethiopia, December 2019

ENDORSEMENT

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

Mohammed Seid (Assistant Professor)

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Advisor Signature

Saint Mary's University, Addis Ababa, Ethiopia, December 2019

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LIST OF ACRONYMS

ANOVA	Analysis of Variance
ACCA	Association of Certified Chartered Accountants
DER	Depreciation-Expense Ratio
IER	Interest-Expense Ratio
NBE	National Bank of Ethiopia
NIR	Net Income Ratio
OER	Operating Expense Ratio
PLC	Private Limited Company
SPSS	Statistical Package for Social Sciences

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ABSTRACT

Agribusiness companies in Ethiopia are constantly facing rising production and operating costs. Subsequently, these companies are being challenged and forced to adopt effective cost control and cost reduction strategies. This study is conducted to assess cost management practices of floriculture companies in Ethiopia with a case study of Maranque Plants PLC. The research attempted to provide answers to key questions on cost performance, cost structure, financial efficiency, cost constraints, cost management practice, and techniques of cost reduction and control. The study employed a case study method and a descriptive research approach. Both primary and secondary data are used. The company's cost structure shows that direct costs of operation constituted about 58% of the total operating costs. While, the remaining 42% is composed of indirect costs. Over the study period, indirect costs more than tripled with an annual average growth rate of 218 %. In addition, results of key operating efficiency ratios indicated that the company is not in a good track. For instance, the operating expense ratio stood more than 80% throughout the study period. This result is above the maximum threshold level and implies that the company is vulnerable to withstand market fluctuations or financial downturns. Furthermore, the company follows traditional costing techniques. Annual budget is formulated with limited participation of important business units. Some of the major constraints of cost management practices in the company are found to be absence of procurement policy, failure to consistently follow appropriate manpower plans and materials requirement plans, lack of proper tracking and monitoring of costs with budgetary targets on periodic basis. The study concluded that absence of effective cost control measures has severely constrained the company's financial performance. Eventually, the study identified actionable recommendations to enhance the cost management practice in the company. These include designing a procurement policy, setting up rigorous internal control system, employee involvement in the budget formulation and monitoring process, and introducing companywide continuous cost reduction programs.

Key Words: cost management, cost reduction, cost control, cost structure, operating costs, efficiency.

CHAPTER ONE

1. INTRODUCTION

1.1 Background of the Study

The floriculture industry is one of the recent agribusiness export discoveries and fastest growing sectors in the Ethiopian economy. The floriculture production sector has tremendous contribution to the country's export sector as a key source of export in addition to the traditional agricultural exports such as of coffee, oilseeds, pulses, hides and skins, etc. The sector has shown dramatic expansion since its introduction in 2000/01. There were only five floriculture farms in the country in 2002. However, by 2018, this number risen to more than a hundred, according to the report of the Ethiopian Horticulture Producers and Exporters Association. In addition, report of the National Bank of Ethiopia (NBE 2018) indicated that the sectors' export earnings grew from merely 1.5 million US dollars in year 2002 to 229 million US dollars by the end of 2018.

Maranque Plants PLC is one of the pioneer foreign investments to start floriculture business in Ethiopia. The company is a Dutch owned private company and started flower propagation operations in 2004 in Arisi zone in Oromia Region. The company produces high quality chrysanthemum and ornamental flower cuttings for export to the Netherlands and other European countries. Maranque Plants PLC is a medium-sized profit-oriented private commercial flower company that employs 300 workers, mainly women.

Similar to Marnaque PLC, the major objective of profit-oriented companies is to generate maximum profit, but these production firms are often times faced with rising production and operation costs. Due to this, most Ethiopian agribusiness companies are being challenged and forced to adopt effective cost control and cost reduction strategies. Hence, cost management has become increasingly crucial for the survival of companies.

According to Innes et'al 2000, companies should manage three related basic operational issues such as product cost, quality, and performance for survival. Thus, cost management has become a substantial existence for many business organizations including agribusinesses and horticulture farms. Currently, the market leaders are even following cost reduction as a strategic imperative. Caroline (2014) also pointed 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 cost structure to manage costs effectively.

Andinet (2010) argued that one of the many challenges in Ethiopian private businesses today is managing costs. Though cutting cost is the simplest way to improve the bottom line, it needs to be carefully managed. Reducing certain costs may be advantageous, but indiscriminate cost cutting can lead to poor performance and reduced morale. Systematic cost management and control will ensure competitiveness in the long run. Andinet (2010) stressed the need to follow a systematic and structured approach. He further indicated that companies should invest their time in understanding all business costs and provide concerted efforts with a dynamic structure to control, reduce, and eliminate costs. Likewise, the Andinet (2010) stated that the most common problem in Ethiopian agribusiness firms is the excess of input and resource costs.

Therefore, it is highly imperative to examine the status of cost management practices of floriculture companies in Ethiopia and provide evidences to support the sustainable revenue generation and growth of the sector in terms of economic contribution to the country.

1.2 Statement of the Problem

Agribusiness firms in Ethiopia are constantly facing rising production and operation costs. Consequently, most horticulture producing companies are being challenged and forced to adopt effective cost control and cost reduction strategies. Andinet (2010) stated the main problem of Ethiopian horticulture companies is weak cost management system. The companies' major concern is only labor cost and they ignore other direct and indirect costs. However, indirect cost management has become ever more crucial for the survival of companies. It is the control of costs through the formal process of budget development, monitoring, and adjustment to achieve the maximum amount of work at a specified level of quality where unknowns and uncertainty may cause costs to increase beyond acceptable levels (Reizaian 2011).

Alvarado (2013) argued that cost control, through its various functions, can lead to business sustainability by reducing waste, motivating employees, and unifying company efforts to achieve desired goals. The flower farming sector plays in an important role in the economy of Ethiopia. The sector is one of the major source of export earnings and employment opportunities. The flower sector contributes about 229 million us dollars in export revenue for and creates employment for more than 139,000 citizens (Betelhem 2009), in which about 75 % of the workers are women. Hence, ensuring effective cost management practices in the sector is highly imperative in order to sustain the business and its contribution to the economy.

Various studies were conducted on cost management practices in many countries. Some of the major studies in this regard are drawn up as follows. Management practices to reduce and control of costs in agribusiness (Alvarado 2013). Also, Mohamed (2010) conducted cost-benefit analysis of an agricultural project. This project analyzed farm machinery size and cost management system in the rain fed sector of Gedarif area, in Sudan. The effect of cost control and cost reduction techniques in organizational performance (Akeem 2017). Furthermore, Worship financial cost-management benefit analysis on the implementation of a small ostrich farming. (Murat and Yusuf, 2009) assessed reduction costs and cost management practices of Turkish manufacturing companies. Last but not least, Kalayu (2000) evaluated cost reduction in the commercial operations of the Ethiopian Shipping Lines. The author used a secondary data collected from the operational report of the company. He found that the company’s financial position was severely constrained due to absence of efficient cost management practices.

However, no studies have so far been carried out to investigate cost management practices in the Ethiopian horticulture industry in general and flower farms in particular. Previous studies focused on status of women employment in flower farms in Ethiopia. Among these studies, Betelhem (2009) analyzed the Opportunities, Challenges and Position of Female Flower Farm Workers. The researcher found that most female farm workers in the selected farms are in the low paid position and lack opportunities such as education, access to information and incentives. The author also revealed that the farm workers have challenges such as job insecurity and lack of training. They are also working in the low paid position. Thus, to my best knowledge, little empirical findings exist on cost management practices of floriculture firms on Ethiopian context and these practices are not widely examined. The study examines cost management practices that would help the floriculture farm mangers to reduce and control production costs. Therefore, in light of the above theoretical and empirical evidences, this study examines the cost management practices of floriculture companies in Ethiopia with a case study of Maranque Plants PLC. Particularly, the study assesses cost performance trends, cost structure, financial efficiency, and major constraints of cost management in the company. In addition, the study investigates how top management of the company implements cost management tools /techniques that would help to reduce and control production and operational costs in the company.

1.3 Research Questions

In order to achieve the intended objectives, the study attempted to address the following research questions:

- What is the cost performance trend of Maranque Plants PLC?
- What does the cost structure of the company look like?
- How does the cost management performance of the company influence its financial efficiency?
- What are the major constraints of cost management practice in the company?
- What are the techniques of cost reduction and controlling practices currently implemented in the company?

1.4 Objectives of the Study

1.4.1 General objective

The general objective of the study is to assess the cost management practices of floriculture companies in Ethiopia through a case study of Maranque Plants PLC. Besides the above general objective, the study also aims at addressing some specific objectives.

1.4.2 Specific objective

The specific objectives of the proposed study are:

- To analyze the performance and structure of costs of the company;
- To evaluate operational efficiency of the company by measuring key financial efficiency ratios;
- To explore the major constraints of cost management practices in the company; and
- To examine the major techniques of cost reduction and controlling practice.

1.5 Significance of the Study

This study examines application of cost management practices in reducing and controlling production costs of floriculture companies. The findings of the study have paramount importance to the company to identify cost management gaps, best cost reduction and control techniques, and set a benchmark on an efficient and effective cost management practice for the flower farming industry.

This study in general contributes to add new insights to the existing knowledge of cost management applications through a case study of a foreign owned private commercial flower propagating company. In particular, the study provides insights on status of cost management practice, constraints and operational efficiency in the floriculture sector. In addition, it provides additional input to top management and policy makers by analyzing the constraints and adopting the study findings to achieve effective cost management practices. Furthermore, the outcomes of this study serves as a reference and basis for further research on the subject.

1.6 Delimitation/Scope of the Study

This study focuses on examining cost management practices in reducing and controlling costs of floriculture companies using a case study of Maranque Plants PLC. Therefore, the study focuses on one case only, although the case study could have a widely varying extension but is still limited to one private commercial flower producing company. However, the overall purpose of this study is to provide a picture of the common approach followed in cost management that could potentially be applied for all similar cases. The study collected and analyzed qualitative data from executives and staff of finance and production departments excluding observations of employees at lower level. In addition, the analysis broadly relied on secondary data for the period covering from 2009 to 2018.

1.7 Limitation of the Study

The research was conducted based on one case study (.i.e., Maranque Plants PLC). The company is among the top cut flower exporting companies in Ethiopia. As much as possible, ten years data obtained from audited financial reports was carefully analyzed and primary data was collected using unstructured interviews. However, the researcher face limitation there are little empirical review on the cost management practice on the floriculture company. Another limitation of the study is that the analysis is done mostly relying on secondary data. The research is also limited that the results of the study may not be representative enough to draw similar conclusions for other flower farms operating in Ethiopia. Therefore, the study suggests that other similar studies should be conducted to set benchmarks on operational efficiency and draw conclusive remarks for the flower farming industry.

1.8 Organization of the Paper

The study is organized into five major chapters. The first chapter deals with an introductory section and it consists of a background of the study, statement of the problem, objective of the study, research questions, scope and limitation of the study, significance of the study, and organizations of the paper. Then, chapter two provides a review of theoretical and empirical literatures. This section presents an overview of the theories relevant to the study and empirical literatures previously done on similar subject focusing on the context of the horticulture sector in developing countries. Chapter three discusses the research methodology, its design, research approach and techniques, and data collection methods. Chapter four deliberates empirical analysis and findings. Finally, chapter five provides summary, conclusions and recommendations based on the findings of the study.

CHAPTER TWO

2. LITERATURE REVIEW

This chapter presents a review of related literatures on the study. Both theoretical and empirical works related to cost management practices is widely presented and discussed. It further discusses cost elements, cost control tools, cost control and management support relation. The review consists of two major parts; the first part reviews theoretical literatures on the subject. The second part deals with the review of relevant empirical studies, the conceptual framework of the study and the research gap.

2.1 Theoretical Review

Cost management practices are concerned with the analysis and the information used in order to assist managers in decision-making and managerial control. It is not an end in itself, but a means to support an organization in achieving its goals (Guilding et al., 2000). Cost management practice has a board focus in accounting system. It is not only concerned with the factors that force costs, such as cycle time, quality, and process efficiency. Thus, cost management requires a deep thoughtful of a firm's cost structure. Managers must be able to determine the long- and short-run costs and processes as well as the costs of goods, services, customers, suppliers.

Drury (2005) defines cost as expenses, which have been great in earning revenue. The term "variable" and fixed cost known as indirect and direct expenses have been usually used in the management accounting to describe how costs react to changes in activity level.

2.1.1 Cost Definition

Cost can be defined as the expenditure (actual or notional) incurred on or attributable to a given thing. It can also be described as the resources that have been sacrificed or must be sacrificed to attain a particular objective. In other words, cost is the amount of resources used for something that must be measured in terms of money. For example, cost of preparing one cup of tea is the amount incurred on the elements like material, labor and other expenses; similarly, cost of offering any services like banking is the amount of expenditure for offering that service. Thus, cost of production or cost of service can be calculated by ascertaining the resources used for the production or services.

2.1.2 Cost Management

Tanaka et al. (1993: 13) have said that for cost management to work, managers need to comprehend the concepts of cost, have basic knowledge of the factors that affect and drive costs and understand how their decisions change costs. Understanding these basic principles help initiating and making decisions, which will improve the performance of the cost effectiveness of an organization. Other implemented principles that successful cost management requires are continuous and integrated activity throughout the entire product and service life cycles of an organization and cost management policy integrated into the organization. These principles can result in growth, stability and strength to an organization.

Cost management can also be seen as a management philosophy; continuous cost control and reduction accompanied with careful consideration of customer needs adds up to a holistic management approach. Cost management influences all levels of the organization, implementing constant cost-awareness and consciousness to these levels. (Innes & Mitchell 1993; Horngren et al. 2006: 4.)

2.1.3 Cost Elements

There are three broad elements of costs. The substance from which the product is made is known as material. It can be direct as well as indirect. Direct material cost refers to those materials that become a major part of the finished product and can be easily traceable to the units. Direct materials cost include all materials specifically purchased for a particular job/process, Primary packing materials and Material passing from one process to another. Indirect material cost are all material which is used for purposes ancillary to production and which can be conveniently assigned to specific physical units is termed as indirect materials cost.

2.1.4 Direct Material Cost

Direct 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.

2.1.5 Labor Cost

Labor cost is a significant element of cost especially in an organization using more manual operations. It is the cost of human endeavor in the product and requires coordinated efforts for its control. The management objective of keeping labor cost as low as possible is achieved by balancing productivity with wages. Low wages do not necessarily mean low labor cost. Low labor cost is possible by giving substantial increase in wages against corresponding increase in productivity. The gain is reflected both in labor cost as well as in overheads expense per unit, since overheads are distributed over larger volume. Again, the productivity of labor is quite flexible. Given right type of motivation and incentive, it can reach amazing scale. It does not have any limitation like machines. Labor cost is a vital factor not only affecting the cost of production but also industrial relations of the organization. No organization can expect to attract and attain qualified and motivated employees unless it pays them fair remuneration. Employee remuneration therefore influences vitally the growth and profitability of the company. For employees remuneration is more than a means of satisfying their physical needs. Wages and salaries have significant influence on our distribution of income, Consumption savings employment and prices.

2.1.6 Direct Labor Cost

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. The wages paid to skilled and unskilled workers can be allocated specifically to the particular product or the process as the case may be. Direct labor cost is that portion of wages or salaries which can be identified with and charged to a single costing unit. It can be easily identified with and charged to a single costing unit, as there is a direct relationship with the product/process. Direct labor cost can be easily calculated and is quite significant in amount.

2.1.7 Indirect Labor Cost

Indirect labor cost refers to labor expended that does not alter the construction, conformation, composition or condition of the product, but which contributes generally to such work and to the completion of the product and its progressive movement and handling up to the point of dispatch. In other words, labor employed for carrying out tasks incidental to goods produced or services provided is regarded as indirect labor. Wages or salaries paid to supervisors, inspectors, clerks, storekeepers, managers, accountants, salespersons, directors, etc., are examples of indirect labor cost.

These costs are not easily identifiable with particular units of cost. Indirect labor cost can be classified as that expended in production departments and that in service departments. (Bulk of the labor cost in a production department will be direct). The classification should enable control over such costs and codification of indirect labor accounts

2.1.8 Manufacturing Overhead Costs

Cost 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, 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.

2.1.1.1 Costing Methods and Techniques

It is necessary to understand the difference between the costing methods and techniques. Costing methods are those, which help a firm to compute the cost of production or services offered by it. On the other hand, costing techniques are those, which help a firm to present the data in a particular manner to facilitate the decision making as well as cost control and cost reduction. Costing methods and techniques are explained below.

2.1.1.2 Methods of Costing

Job Costing: This costing method is used in firms that work on the basis of job work. There are some manufacturing units which undertake job work and are called as job order units. Each job may be different from the other one. Production is only on specific order and there is no pre demand production. Because of this situation, it is necessary to compute the cost of each job and hence job-costing system is used.

Batch Costing: This method of costing is used in those firms where production is made on continuous basis. Each unit coming out is uniform in all respects and production is made prior to the demand, i.e. in anticipation of demand. One batch of production consists of the units produced from the time machinery is set to the time when it will be shut down for maintenance. For example, if production commences on 1st January 2007 and the machine is shut down for maintenance on 1st April 2007, the number of units produced in this period will be the size of one batch. The total cost incurred during this period will be divided by the number of units produced and unit cost will be worked out. Firms producing consumer goods like television, air-conditioners, washing machines etc. use batch costing.

Process Costing: Some of the products like sugar, chemicals etc. involve continuous production process and hence process costing method is used to work out the cost of production. In process costing, cost per process is worked out and per unit cost is worked out by dividing the total cost by the number of units. Industries like sugar, edible oil, chemicals are examples of continuous production process and use process costing.

Operating Costing: This type of costing method is used in service sector to work out the cost of services offered to the consumers. For example, operating costing method is used in hospitals, power generating units, transportation sector etc. A cost sheet is prepared to compute the total cost and it is divided by cost units for working out the per unit cost.

Contract Costing: This method of costing is used in construction industry to work out the cost of contract undertaken. For example, cost of constructing a bridge, commercial complex, residential complex, highways etc.is worked out by use of this method of costing. Contract costing is actually similar to job costing, the only difference being that in contract costing, one construction job may take several months or even years before they are complete while in job costing, each job may be of a short duration. In contract costing, as each contract may take a long period for completion, the question of computing of profit is to be solved with the help of a well defined and accepted method.

2.1.1.3 Cost Control Technique

2.1.1.3.1 Budgetary Control

Akeem (2017) put forward that budgetary control is pertained with the effective use of resources to attain a previously determined objectives. It is a system through which budgets are employed as a way of planning and regulating costs. Budgeting is established as to what is to be accomplished and how it is going to be reached, whereas control assures that the objectives are realized and current results do not vary from the planned.

According to Joseph (2014)), control is a system of management control in which actual results for a period are compared with budget for that period. Budgetary control system is more concerned with the regulation of costs which involve budget preparation, departmental co-ordination and setting out clearly responsibilities and working towards the results to attain maximum profitability.

Chartered Institute of Management Accountants (2009) as cited by Joseph (2014) defined budgetary control as the establishment of budgets relating to the responsibilities of executives, to the requirements of a policy and the continuous comparison of actual with the budgeted. Results cited by Owusu (2016) revealed that budgets might be prepared to make decision-making, planning, performance evaluation and control.

2.1.1.3.2 Significance of Budgets and Budgetary Control

According to Joseph (2014) findings from the research on, an assessment of the Budget and Budgetary Control in enhancing financial performance of an organization: the case of Tanesco concluded that the budget and budgetary control has positive impact to the effectiveness of organization performance. To effectively enhance performance budgetary control needs to be done from the beginning of the budget process, until to the end of the budget implementation. (

Siyanbola and Raji (2013) in their study of the impact of cost control on profitability of manufacturing industries, concluded that budget and budgetary control help to ensure an effective cost control. Cost expended are compared with planned cost and variance analysis is done to investigate the causes (Siyanbola and Raji, 2013).Also, Owusu (2016) suggested that, through the use of flexible budgets, differences in cost behavior and pattern in respect of changes in volumes is accounted for when comparing the actual results with the budgeted. The use of Zero based Budgeting makes it easier to identify and eliminate inefficiencies, obsolete and unnecessary expenditures.

However, despite the numerous benefits of budgets to organizations, Owusu (2016) argued that budgeting is a complex process and business especially smaller enterprise, during the preparation process budgets require more time and other resources. Also, Budgets may be set at a level that is low, that is, if the budget is too easy to achieve it will not benefit the organization and may lead to lower levels of output and higher costs. They should be set at realistic levels, which make the best use of the resources available (Owusu, 2016). ACCA (2013) put forward some criticism of budgeting and among them was how budgets protect rather than reducing costs. They remark that once the budget is authorized, a manger can spend that amount of resource without further authorization, a „use it or lose it" mentality often develops such that managers will incur cost unnecessarily. The expectation is that managers will not be permitted to carry forward any unused resource into the budget for next period (ACCA, 2013).

2.1.1.3.3 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 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. Drury (2012) also noted that in the application of standard costing system, the managers of responsibility centers who are accountable for the operations trace out the standard costs for the actual output for a specific period. 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.

2.1.1.3.4 Target Costing

According to Idowu (2014), a target cost is a product cost estimate derived by subtracting a desired profit margin from a competitive market price. Target costing is a cost management tool aimed at reducing the overall cost of a product over its entire life cycle, with the help of the production, engineering, research and development, marketing and accounting department. Management require this pricing technique to meet both the demand of customers as well as company profit goals.

According to ACCA (2013), various techniques can be employed to reduce the target cost gap and these include reducing the number of components, using cheaper staff and using standard components wherever possible. Also an organization can have new, more efficient technology, training staff in more efficient techniques, cutting out non-value-added activities and using different materials.

Idowu (2014) findings from the research on impact of target costing on competitive advantage in manufacturing Industry, revealed the relationship between target costing and cost advantage as positive. Target costing control technique enhances cost and quality advantage in a competitive manufacturing industry. It encourages participation of all firms‟ function, examination designs, which enable management of cost before they incur, are done rather than afterward because majority of production costs occur at the design stage.

However, Idowu (2014) argued that although target costing has a straight forward logic, application of it in practice is difficult, particularly when the culture of a firm has previously been embracing a cost-plus approach to pricing. Also, a considerably longer period might be taken during the development process as the design team carry out a number of design iterations before it can formulate a sufficiently low-cost product that meets the target cost and margin criteria.

2.1.1.4 The Effects of Weak Cost Control Techniques

In the organizations, if cost control techniques are not effectively implemented they are higher chances that they will weaken the organization by decreasing its operational performance. In most cases failure to implement cost control effectively will lead to increased wastages, repair and maintenance cost and increase in labor cost. Increase in cost without a proportional increase in labor will automatically reduce operational performance. (Oyewo, 2013)

2.1.1.5 Wastages

Akenbor and Agwor (2015) stated that when there is poor cost control, it also means there is inadequate supervision of workers hence employees can use the resources of the organization anyhow they like without anyone monitoring them and this obviously results in wastages of resources. Waste is realized when a comparison is made between the quantities used to manufacture the products and the quantity obtained that is the final product that have been manufactured. Waste can be identified differently ,that is normal waste and abnormal waste therefore normal waste is that which is estimated and budgeted for before production take place and abnormal waste is that which exceeds the normal loss causing an increase in costs as it may be due to negligence of employees.

Olalekan and Tajudeen (2015) assert that wastages may result from poor cost control in that, the firm may buy materials more than what is necessary for production and those resources will not be utilized. Spoilage produces goods that cannot be sold at a normal price due to damage, spoilage is also classified as normal and abnormal. Normal spoilage is the one that is estimated and anticipated and abnormal exceed the normal and investigations needs to take place if there are persistent occurrences of abnormal losses. However abnormal wastage and spoilage is an indication that cost control techniques are weak as the costs will decrease operational performance.

2.1.1.6 Repair and Maintenance Cost

Evans (2014) suggested that repairs and maintenance cost are incurred to bring the asset in the condition it use to be before and keep it running like it used to. Repair and maintenance cost can be routine and are already anticipated for but some are not. Those not estimated for can be because of lack of supervision, negligence by employees, lack of training and high stockholding levels.

Increase in repair and maintenance costs is an indication that they are weak cost control techniques as there is need for a planned maintenance.

However, Anjum (2015) argued that they some factors that causes increase in repairs and maintains costs, which are not attributed to weaknesses in cost control techniques and they couldn't be controlled by the management. Other factors include unexpected damages reports of machinery equipment during the production process, economic fluctuations of spare parts prices and service costs prices.

2.1.1.7 High Labor Costs

Labor cost are classified as one of long-term controllable costs of an organization because they are caused (increased and decreased) by the organization. Most organizations uses strategic cost control techniques to reduce labor costs as part of their competitive strategy. The strategies involves the integration of modern technology and the human resources management to provide coordinated, broad based and long-term approaches to reduce labor cost.

Young and Shields (2016) revealed that some increases in labor costs in most organizations are as a result of poor cost management, in some cases it shows that cost control techniques implemented by management will have loopholes. Target set should commensurate with management labor budget otherwise significant labor variance will arise. Increase in labor cost can result from management trying to supplement labor variance due to inefficient management contracts ,instead hired labor may be used which will result in the accrual of additional labor overheads that lead to over expenditure on the labor budget which will in turn decrease operational performance.

2.1.1.8 Decrease in Operational Performance

Akenbor and Agwor (2015) said that the more a firm is careless with cost control techniques or methods, the more it is inefficient in the use of its resources thus dragging the performance of the organization. Also (Evans 2014) noted that when there is poor cost control, it also means there is inadequate supervision of workers. Hence employees can use the resources of the organization anyhow they like without anyone monitoring them and this obviously reduces the performance. Operational performance include the aligning of different strategic business units of the organization and their activities to make sure that they are contributing to the achievement of organizational goal and thus, decrease in operational performance can be as a result of cost control.

Abdul and Isiaka (2015), weak cost control techniques have effects on the performance of a business as it affects its profitability. Profits go a long way to determine what constitutes the financial position of a firm. Thus cost control techniques must be effective so that costs will not be allowed to exceed tolerable levels, otherwise profitability would be affected and where profitability is affected, expansion and operational performance also becomes difficult. (A. On the contrary, cost control has no effect the performance of companies because there are some other external factors that affect the business which are inflation and government regulations.

2.1.1.9 Cost Allocation

Cost allocation is a reference to assigning costs to a cost object. Cost-allocation bases tries to answer a simple question: How should an organization allocate costs to operate, for example metal cutting machines, collected in a single cost pool among different products? One option would be to allocate the costs on the basis of the number of machine –hours used to produce the different products. The cost-allocation base links in a systematic way an indirect cost or group of indirect costs .A cost-allocation base can be nonfinancial (such as the number of machine-hours), or financial (such as direct labor costs). Cost -allocation bases are the link that an organization uses to connect the overhead costs to the cost object (for example products and services). Organizations tend to use the cost driver of indirect costs as the cost allocation base. This is because cause-and-effect link between changes in the level of the cost driver and the changes in the indirect costs. (Horngren et al. 2006: 98;).

2.1.1.10 Using Cost Accounting in the Farming Process

The farming process has many costs involved. There are some constant expenses that are considered to be direct costs. It is determined that these costs will be present as long as the farming process is in occurrence. The process itself also creates indirect costs. In order to properly account for these costs, an accounting system must be used.

Some of the farming process will incur the same costs, and other processes will incur process-specific costs. Iowa State University Extension and Outreach has a valuable spreadsheet that calculates the costs incurred all the way through the net proceeds for individual farms. The spreadsheet is formatted for others to edit and personalize for their own inputs and costs. The costs throughout the farming process are included within this spreadsheet (Duffy, 2012).

2.1.1.11 Cost Control

Akeem (2017) defined cost control as a process of establishing a standard and maintaining the performance according to the standard. Thus, cost control is significant to an organization as it regulate and reduce unwanted expenses. It is more concerned with an element of marginal costs that involves the determination of unit cost and measurement, cost are kept within acceptable limits.

Adeleke (2014) said that cost control is important as it is the prominent supporter of every business entity and therefore it acts as the bottom line for every company. For an entity to be profitable, management must have a clear and thorough understanding of all the factors that drive and affects the profit. Costs is one of the factors that is very crucial.

In addition, Oyerogba et al (2014) as cited by Abdul and Isiaka (2015) pronounced that, for any business to record adequate profit, there is need for proper control of costs because a company with a sound and adequate cost structure has a brighter chance of achieving its profit target. Thus, cost control is important to an organization as it regulate and reduce unwanted expenses. Cost control work should enhance the efficiency of management and if necessary, should result in action being taken to reduce the cost for profit purposes and to prevent fraud and efficiency.

According to Akeem (2017), benefits which result from cost control are: a simple control can be expressed over all operation from the purchases of goods to account for sales, cost control results in an efficient utilization of material and labor and cost control makes policy decisions by management very easy. It ensures adequate production and prevent over stocking of material. Maria (2009) agreed that in many organizations, cost control is essential in Labor, materials, sales and overheads.

2.1.1.12 Cost Control System

Kinney and Raiborn (2011) defined a cost control system as set of formal and informal tools and methods designed to manage and regulate organizational costs. Cost control relies heavily on the existence of a sound and effective cost control system and cost reduction also operates effectively where there is an efficient cost control system .

Cost control system provides information for planning and control from the point activities are being planned until after they are performed. It mainly focuses on information found within the organization and contains the detector, assessor, effector, and network components. Control system is part of management cycle which starts with planning as operational targets and objectives are established without which control cannot be achieved. The planning phase launches performance goals that become the inputs to the control phase as shown in the diagram below thus setting up an effective Cost Control System (Kinney and Raiborn (2011).

According to Kinney and Raiborn (2011), a sound control system is formed on the back of strong cost consciousness. Cost consciousness is a companywide employee attitude toward topics essential for a specific stage of cost control and these include understanding cost changes, cost containment, cost avoidance, and cost reduction .Cost control involves a companywide involvement, as managers alone cannot control costs .

2.1.1.13 Controllable and None Controllable Costs

In cost accounting, cost control and cost reduction are extremely important. In fact, in the competitive environment, cost control and reduction are the key words. Hence, it is essential to identify the controllable and uncontrollable costs. Controllable costs are those which can be controlled or influenced by a conscious management action. For example, costs like telephone, printing stationery etc. can be controlled while costs like salaries etc. cannot be controlled at least in the short run. Generally, direct costs are controllable while uncontrollable costs are beyond the control of an individual in a given period.

2.1.1.14 Cost Reduction

A systematic process used by companies to reduce their cost without having negative impact on quality product or service. 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.

According to Kinney and Raiborn (2011), cost reduction is closely related to cost avoidance. The intent of cost avoidance and cost reduction is to lower total costs. Cost reduction can be implemented at the designed stage to ensure that high costs are not carried through the life cycle of the product. The process of costs reduction is then extended to the production level as new opportunities to reduce costs arise. The elimination of wastes and nonvalue adding activities during production aids to costs reduction.

2.1.1.15 Cost Control and Cost Reduction

Akeem (2017) defined cost reduction as a planned positive approach aimed to reduce expenditure and it is a reduction in unit cost of goods or services without impairing suitability for the use intended. Cost control is a process of establishing a standard and maintaining the performance according to the standard .

According to Akeem (2017), Cost reduction and Cost control are important to an organization as they help to regulate and reduce unwanted expenses. The main aim of cost control is cost reduction thus cost control and cost reduction work together. Cost reduction's aim is to see whether there is any possibility of bringing about savings in the costs incurred. He farther suggested that

Organization that effectively uses cost control and cost reduction, increases the chances of selling its products at a lower rate than its competitors, without changing its product's quality. Cost control and cost reduction are of significance to an organization as they help to regulate and reduce unwanted expenses.

2.1.1.16 Management Support in Cost Control

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.

2.1.1.17 Employees Involvement in Cost Reduction

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).

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.

2.1.1.18 Relationship of Cost, Revenue and Profitability

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

Adeniji (2011) conclude that total variable costs are linear and the unit variable cost is fixed, remain fixed costs 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, 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.

2.2 Review of Empirical Literature

Various research studies were carried out on cost management practice. However, Adeleke (2014) studied on the Cost management techniques and performance of Nigerian banks as cited by Abdul and Isiaka (2015). The findings concluded that the relationship between cost control techniques and profitability were not statistically significant. Secondary data was used and data were analyzed with the use of descriptive statistics.

Oyerogba et al (2014) on their study on the relationship between cost management practices and performance in the manufacturing organizations, findings from the study concluded that there is positive relationship between cost management and the overall performance of a company. The study was conducted in Nigeria and secondary data used and analyzed with statistic and Pearson Regression Analysis. Also, Oyadonghan and Ramond (2014) study on the effect of quality cost management on firm's profitability concluded that there is positive effect between profitability and quality cost management. A survey design was used to gather data from hospitality industry in Nigeria and the correlation analysis was used to analyze the data.

Siyanbola and Raji (2013) on their study of the impact of cost control on manufacturing industries profitability. Findings from their research showed that cost control has a significant and positive impact on profitability of manufacturing companies in Nigeria. In their research budget was considered as the basic tool for achieving effective cost control and their study was conducted in West Africa, on West African Portland Cement Company (WAPCO) and made use of Pearson correlation for data analysis. Secondary data was used and analyze the data.

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.

In addition to the above ,Akeem (2017) study on the effect of cost control and cost reduction techniques in organizational performance, findings revealed that there is a direct relationship between cost control, reduction and profit. Thus, the study concluded that for an organization to ensure more profit growth, there is need to control and reduce cost to an acceptable limit. A descriptive survey research was adopted. Questionnaires were used as research instruments. Also, Abdul and Isiaka (2015) study on the relationship between cost management and profitability, a study of selected manufacturing firms concluded that the relationship between cost management and profitability is statistically significant. Questionnaires were randomly distributed to manufacturing companies in Nigeria and data collected were analyzed using descriptive and non-parametric statistics.

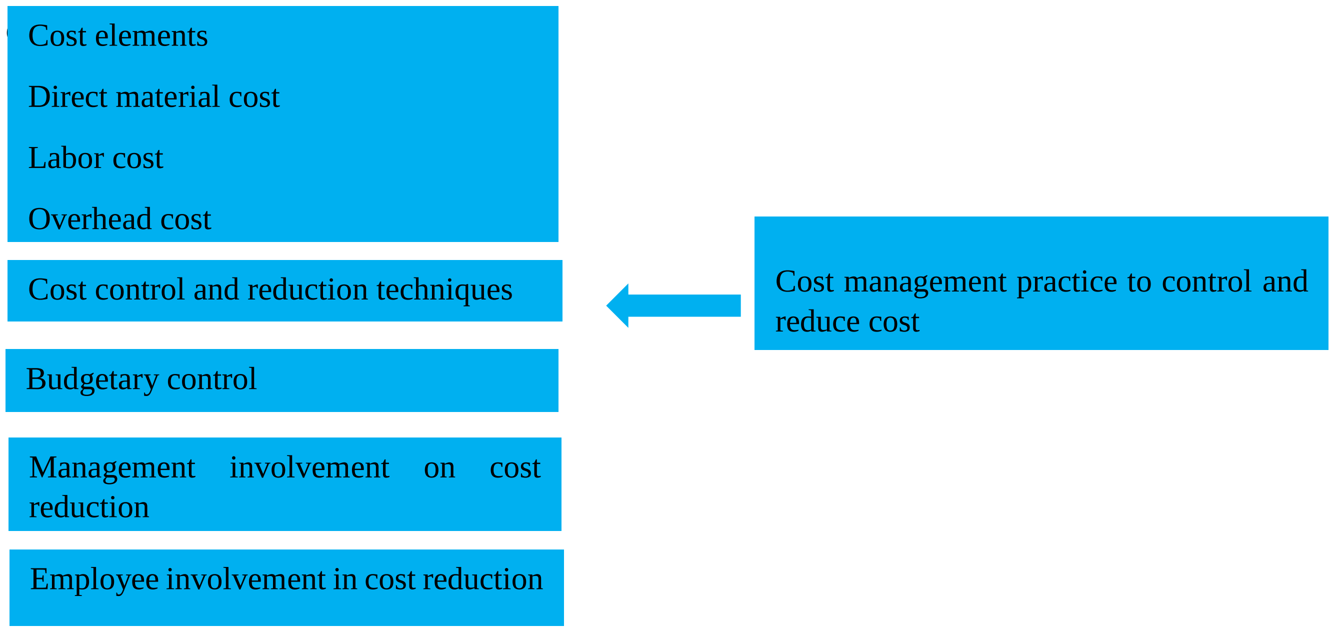
Adebayo et al. (2014) examined the impact of budgetary control on cost control, profitability of manufacturing companies, the causes for deviations and how these variances are reported as a means of control in budgeting and also examined whether the manufacturing companies can reduce cost as well as 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.

2.2.1 Literature Summary and Research Gap

The purpose of this chapter is to bring together as one piece of information other scholarly material concerning cost management practice and firms profitability as well as the optimal cost reduction strategy for the manufacturing companies. The researcher looked at the objective of cost control, the requirements needed to ensure an effective cost control system, examined cost control techniques that are involved in the cost control process and the effects of implementing weak cost control techniques. The next chapter presents research methodology.

2.2.2 Conceptual frame work

From the theoretical and empirical literature reviews, the following conceptual framework of the study is developed by the researcher. A conceptual framework for the present study shows the relationship of cost Management practice for reducing and controlling floriculture company has been depicted in Figure below. top management support, workers involvement, managerial cost control and cost reduction tools and techniques and Using Cost Accounting in the Farming Process are considered.



Source: Developed by the Researcher

Figure 2-1: Cost Reduction and Cost Control Framework

CHAPTER THREE

3. RESEARCH METHODOLOGY

3.1 Introduction

This chapter explains how the study was carried out, designed and implemented to answer the research questions and achieve the research objective. The specific purpose of this chapter shows how to examine the qualitative effect of cost management practice of floriculture companies taking a case study of Maranque Plants plc. The research methodology is chosen based on general and specific objective of the study.

3.2 Research Design

Research design as a conceptual structure within which a research is conducted and it is a plan which starts with formulation of definite and unambiguous research objectives, organized methods of data collection and a clear choice of the population and samples to be studied. Almaki (2016) described research design as a process that helps in planning the how, when and where of information collection and analysis. This study follows a case study research design and some elaborations about the case study research is discussed below.

Case study research is conducted to explore and understand multifaceted issues. As cited by Zainal (2007), a case study employs both quantitative and qualitative data and helps explain both the process and outcome of a phenomenon through complete observation, reconstruction and analysis of the cases under investigation.

Case study method enables a researcher to closely examine the data within a specific context. In most cases, a case study method selects a small geographical area or a very limited number of individuals as the subjects of study. Zainal (2007).

There are three major categories of case studies. These include exploratory, descriptive, and explanatory case studies. Exploratory case studies try to explore any situation in the data that serves as an area of interest to the researcher. Descriptive case studies set to describe the natural phenomena, which occur within the data in question. Explanatory case studies examine the data closely both at a surface and deep level in order to explain the phenomena in the data (Zainal 2007).

Though case studies have numerous benefits, "in that they present data of real-life situations and they provide better insights into the detailed behaviors of the subjects of interest, they are also criticized for their inability to generalize their results."

This study adopted descriptive research design, which uses descriptive case study to present answers to a series of questions based on theoretical constructs. The objective of this study is to examine and evaluate the application of cost management practices in reducing and controlling costs of floriculture companies on the case of Maranque Plants plc. Thus, descriptive case study is 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). So the data collected from primary sources are unstructured interview with key informants such as Finance, Production and Procurement Heads of the company and secondary data sources are review of internal documents mostly audited financial reports.

3.3 Research Approach

Descriptive research design involves both quantitative and qualitative data. As noted in Creswell (2007, p.13) in terms of investigative study there are three common approaches to business and social research namely, quantitative, qualitative and mixed methods approach. Quantitative research is a means for testing objective theories by examining the relationship among variables On the other hand, qualitative research approach is a means for exploring and understanding the meaning individuals or groups ascribe to a social or human problem with intent of developing a theory or pattern inductively. Finally, mixed methods approach is an approach in which the researchers emphasize the research problem and use all approaches available to understand the problem. Therefore, to answer the research questions, the researcher employed a mixed research approach by using qualitative data obtained from unstructured interview and time series secondary data.

3.4 Data collection Method

In order to assess cost management practices of Maranque Plants PLC, the necessary data for the study is collected using both primary and secondary sources. The sources of data for the proposed study are mainly from secondary sources. Secondary data were collected from audited financial statements i.e., form 2009-2018, review of different journals and documents. To support and validate the result of the study, primary data is gathered by conducting interviews that includes the possibility of collecting detailed information using unstructured interview with key informants such as Finance, Production and Human Resources Department Heads of the company.

3.5 Data Collection Procedure

In this study, data is collected from audited financial reports, review of other internal documents, and interviews. Secondary data is collected from audited financial report of Maranque Plants plc for the period covering 2009-2018. Primary data is also gathered using unstructured interviews with key informants such as Finance, Production and Human Resources Department Heads of the company. The interviews were conducted with three management members of the company to gather information that needs in-depth understanding of the issues raised in the research questions. The interview is also used to gather additional information about cost reduction and control practices in the company.

3.6 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 secondary date were collected from audited financial report on the year 2009- 2018. So that researcher fully review the audited financial report , and to validate the instruments the researcher has ruled out whether there were ambiguous, confusing and poorly organized interview 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 interview Questions 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. The researcher attempted to ensure the reliability of this study by applying consistent methods on data collection and analysis and reducing researcher's bias that might create discrepancy in the findings.

3.7 Ethical Considerations

Research ethics are specifically interested in the analysis of ethical issues that are raised when people are involved as participants in research study. Research ethics have three main objectives: to protect human participants, ensure that research is conducted in a way that serves interest of individuals, groups and the society as a whole, and examine specific research activities and projects for their ethical soundness. It tries to look at issues such as the management of risk, protection of confidentiality and the process of informed consent (Walton, 2013). The researcher confidentially maintained sensitive internal reports of the company and carefully reported responses from selected respondents at management level. The researcher was free from any personal assessments and he remained honest to responses of the respondents.

3.8 Data Analysis

Data analysis is the process of resolving data into its components to disclose its characteristic elements and structure for accuracy (Mugenda, 2003). Research requires collecting and then analyzing that data. According to Cresswell (2013), this provides a standardized way of making sense of the data. Data analysis is concerned with analyzing and interpreting the collected data.

The data for the research is collected and analyzed by employing both qualitative and quantitative data analysis methods. The qualitative data analysis conducted using a case study method and descriptive analysis. Data is collected in the form of qualitative and quantitative data. This data is analyzed for its content in order to clarify and describe the application of cost control and reduction practices. The analysis of the study is carried out using a trend analysis, key efficiency ratios and tubular and graphical illustrations.

CHAPTER FOUR

4. RESULTS AND DISCUSSION

This chapter presents the results and analysis of data conducted in this study. A brief discussion of the company's overall business activities, financial practices and its accounting policy is presented. Subsequently, cost performance trends, cost structure and financial efficiency of the company are analyzed and discussed with a particular scrutiny on data obtained from audited financial reports, internal documents and interview responses. This section also provides a working definition and formulae of key financial efficiency ratios analyzed and discussed in the study.

4.1 Financial Practice of the Company

Maranque Plants Plc is a private limited company established in January 2004, with a registered capital of Birr one million (Birr 1, 000,000.00). The capital was increased to Birr 11,000,000.00 in 2005. Then after, the share capital was further raised to Birr 70,000,000.00. The company is engaged in the following farm business activities:

- Propagation, production, operation of plugs, plants, cuttings, seeds and vegetable plants;
- Flower farming and production business including the operation of flower nurseries, export and the wholesale trade of flowers;
- Engage in horticultural farms and agricultural sectors, agro-industries, production of agricultural inputs, and related activities;
- Production of paper boxes, packing materials and other accessory materials used for the mainstream productions; and
- Carrying out all other related and legally permitted activities that can enhance the achievement of the company's objectives.

4.2 The Company's Accounting Polices

Fixed Assets

Fixed assets are stated at historical cost less accumulated depreciation. Depreciation is calculated on the opening balance of the net book value of each category, plus costs of assets acquired, less proceeds from disposal of assets, if any, in the respective category of assets at the following rates per annum, except for buildings which are depreciated on a straight line basis.

Table 1: Rate of Depreciations

Items	Depreciation Rate
Buildings	5%
Motor vehicles, furniture and fixtures, tools, plant and machinery and all others	20%
Computers and software	25%

Source: Audited Financial Report, Maranque Plc

Leasehold Land

The Company entered into a leasehold agreement with the Oromia Industry and Urban Development Office. For the lease of 30 hectares and an additional 40 hectares of arable land at Arsi Zone , Jeju District for a period of 30 years starting from the dates of the agreements, March 2004 and June 2007, respectively, for an annual rental fee of Birr 135 per hectare. The cost of leasehold land is amortized over the lease period.

Deferred Charges: deferred expenditures are amortized at 10% per annum.

Work-in-Process / Future crop: unharvested cuttings in the field at the year-end are computed by taking the last three months average sales amounts to arrive at the cost of unharvested cuttings at the year-end, estimated at one-month sales.

Stocks: stocks of raw materials are valued at average purchase cost.

Exchange Rates: All receipts on account of export sales and payments for purchases in foreign exchange are converted at the applicable rates on the date of the invoice.

4.3 Trends and Structure of Costs of the Company

Maranque PLC is one of the pioneers of foreign direct investment in floriculture business in Ethiopia. Currently, the company is one of the major flower producers and exporters in the country. The audited financial report of the company reveals that Maranque Plants PLC recorded a total revenue of Birr 172 million for the year ended June 30, 2018. Out of this total revenue, the company earned Birr 33 million from gain on foreign exchange fluctuations. The total operating costs for the same period amounted to Birr 154 million. In addition, the company earned a net profit of Birr 9.8 million (after profit tax and legal reserve) during the reporting period.

A further scrutiny on the cost structure of the company shows that direct costs of operation constitute about 58 percent of the total costs. While, the remaining 42 percent is composed of indirect costs. The official financial data indicated that about 90 million birr was incurred as direct costs during the 2018 fiscal year. In the year 2009, the total direct cost was nearly 36 million Birr, which grew up by 150 percent over the past ten years. The table below presents the annual trend of direct costs during the study period (2009-2018).

Table 2: Annual Trend of Direct Cost Elements (in'000 Birr)

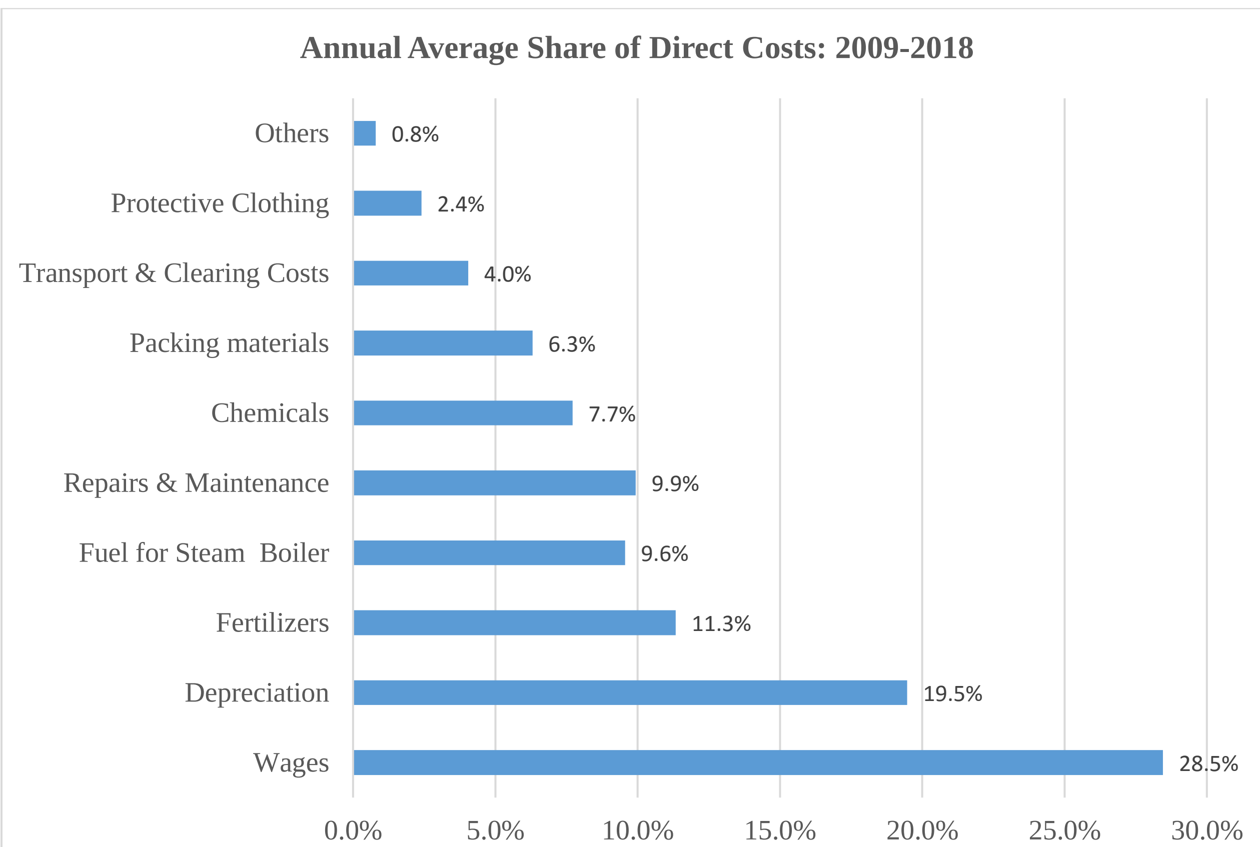
Direct Costs	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**
Wages	6,844	8,288	10,158	13,078	17,238	21,238	24,411	26,225	27,876	36,749
Repairs and maintenance	4,161	2,099	4,909	4,205	3,783	7,692	8,651	10,641	7,729	11,929
Chemicals	2,800	2,720	3,267	4,067	4,366	5,096	5,189	5,811	6,692	9,657
Fuel for steam boiler	996	4,197	3,966	4,477	5,165	9,816	8,941	7,175	9,758	9,090
Depreciation	11,044	9,962	9,392	12,181	12,110	12,370	13,386	12,591	10,596	8,773
Fertilizers	6,242	3,780	5,848	6,866	8,455	8,861	7,942	6,677	7,220	5,852
Packing materials	2,295	1,517	2,755	3,453	3,783	3,880	4,849	7,322	5,852	5,395
Protective clothing	565	666	714	1,625	2,327	2,470	954	1,795	2,293	2,255
Electricity	695	649	1,870	940	1,156	980	874	929	998	1,341
Transport and clearing costs	1,388	1,054	2,932	1,945	2,327	5,419	4,511	3,397	2,219	-
Others	235	1,045	544	47	65	90	52	245	67	982
Less: Transfer to work in process	(1,278)	(1,156)	(439)	(1,727)	(788)	148	(289)	(418)	(885)	(2,164)
Total	**35,988**	**34,821**	**45,916**	**51,158**	**59,987**	**78,060**	**79,472**	**82,390**	**80,415**	**89,860**

Source: Audited Financial Reports (2009-2018) of Maranque Plants PLC

Among the direct costs, fuel, protective clothing, repairs and maintenance, and wages unveiled the highest annual growth over the study period in percentage terms. However, in absolute terms, wages, fuel, repairs and maintenance and chemicals expenses showed the highest increase over the same period. On average, total direct costs surged up by Birr 5.98 million year-on-year from 2009-2018.

As Figure 1 below portrays, the largest proportions of direct cost is incurred for wages, depreciation, fertilizers, fuel, and repairs and maintenances expenses. These five cost elements combined constitute more than three-fourth of the total direct cost of operation. In particular, wages and depreciation expenses comprised approximately 29 percent and 20 percent, respectively, of the total direct costs of operation over the past one decade. Details of the annual proportions of direct costs elements is depicted on the chart below.

Figure 1: Annual Average Share of Direct Costs: 2009-2018



Source: Own graph, (2009-2018) data from Audited Financial Reports of the Company

A further assessment of the cost structure of the company divulges the performance of indirect costs of operation. During the study period, indirect costs have more than tripled with an average growth rate of 218 percent year-on-year. The actual indirect costs increased from Birr 20 million during financial year 2009 to Birr 65 million in year 2018. In comparison to the performance of directs costs, the company's indirect costs have grown faster than direct costs. The underlying reasons for this fast growth momentum is the rising costs of freight operation to ship fresh cut flowers to export markets, mainly to the Netherlands. Another reason is due to increasing costs of food raw material supplies for the company's canteen located at its farm. The company provides fresh meals freely to its entire farm staff. The company has 1,378 employees. From this, 509 are contract daily workers and the company pays large amount of money for salary and wage per annum. Table 3 presents the trend of annual indirect costs.

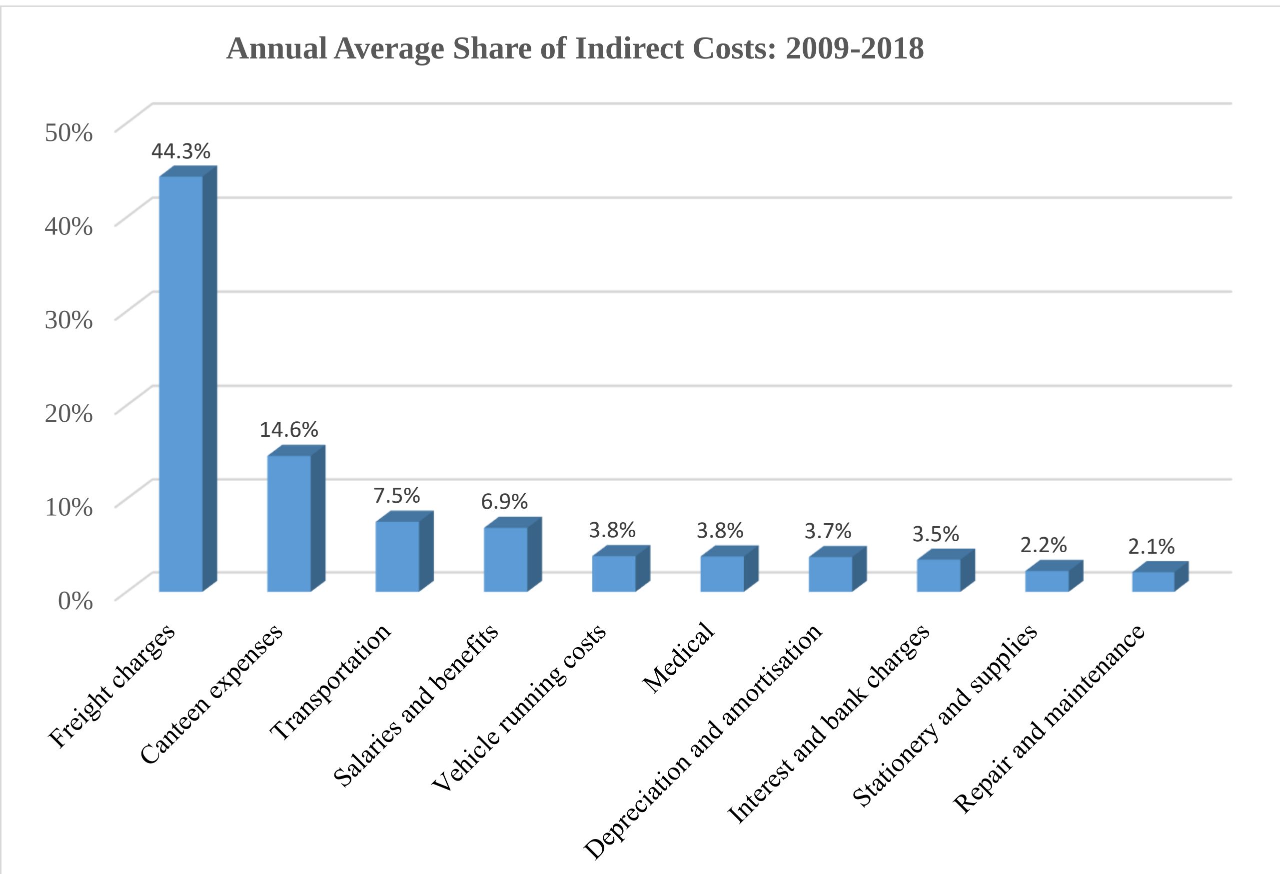
Table 3: Annual Trend of Indirect Cost Elements (in '000 Birr)

Indirect Costs	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**
Freight Charges	9,374	11,529	13,317	15,651	17,462	19,184	20,626	23,154	25,030	27,244
Canteen Expenses	2,967	3,235	3,827	4,872	5,600	6,493	7,487	7,782	9,297	10,433
Salaries and benefits	1,530	1,720	1,998	2,082	2,670	3,407	3,242	2,824	4,138	5,033
Medical	540	709	652	939	1,105	1,819	1,432	2,807	3,087	4,621
Transportation	1,720	2,250	3,531	4,684	4,978	2,129	2,041	1,980	1,944	2,021
Vehicle Running Costs	-	-	-	-	-	3,898	3,478	4,494	5,301	3,262
Repair and maintenance	187	117	240	185	653	1,872	1,387	1,880	1,889	1,886
Depreciation and Amortization	1,149	1,353	1,405	1,327	1,490	1,707	202	1,848	1,907	1,870
Office rent	96	37	43	39	212	444	732	575	1,194	1,658
Stationery and supplies	650	849	891	1,002	939	939	425	573	720	1,369
Others	2,087	2,416	3,521	3,494	4,143	4,596	4,634	4,871	5,924	5,176
Total	**20,299**	**24,214**	**29,425**	**34,274**	**39,252**	**46,488**	**45,685**	**52,787**	**60,431**	**64,571**

Source: Audited Financial Reports (2009-2018), Maranque PLC

Figure 2 below illustrates the annual average share of indirect costs by major cost elements. Accordingly, freight charges, canteen expenses, transportation, salaries and benefits, and vehicle running costs are the major indirect cost components. These major cost elements together constituted about 77 percent of the total indirect costs of operations. As a flower exporting company, Maraqnue Plants Plc uses the Ethiopian Airlines Cargo service to ship fresh cut flowers to the European market. Thus, the company annually incurs significant freight charges, which is about 44 percent of the total indirect costs. In addition, canteen and transportation expenses accounted for about 15% and 8% of the total indirect costs, respectively. Please refer chart below for details.

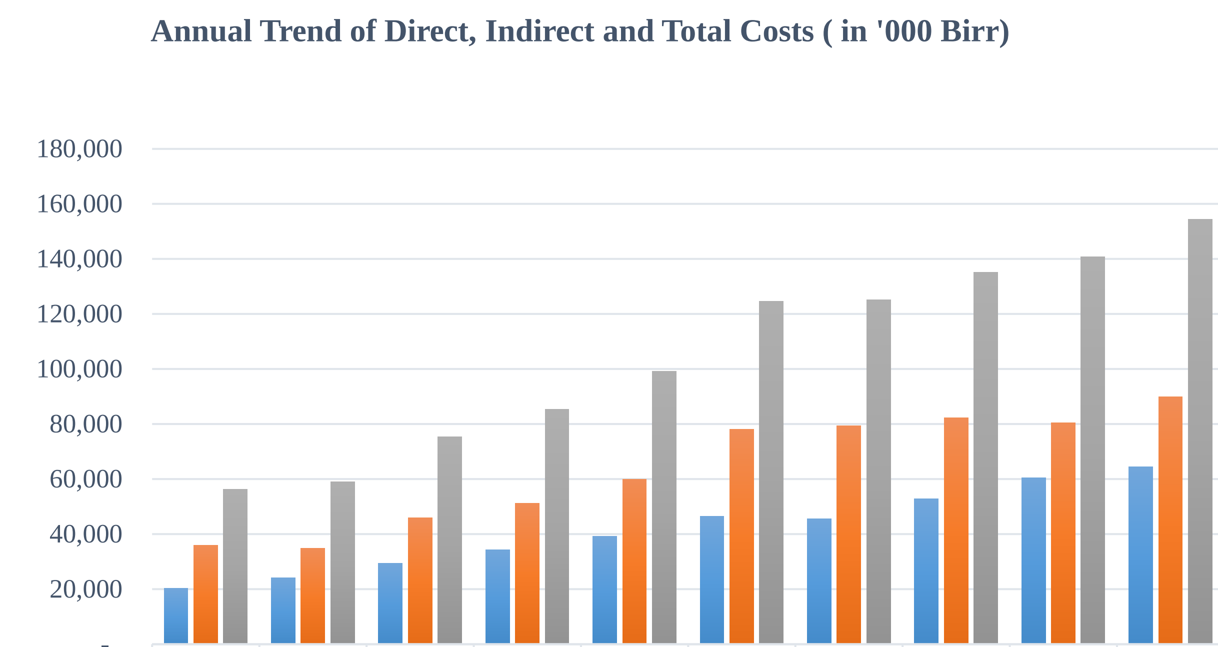
Figure 2: Annual Average Share of Indirect Costs: 2009-2018



Source: Own graph, (2009-2018) data from Audited Financial Reports of the Company

The following bar graph summarizes the annual trends and performance of direct cost, indirect cost, and the total operating costs of the company. From the graph, we can observe that total operating costs have increased from Birr 56.2 million to Birr 154.4 million by the end of 2018. Similarly, direct costs and indirect costs risen to Birr 89.9 million and 64.6 million, respectively, from the levels recorded ten years ago.

Figure 3: Annual Trend of Operating Costs: 2009-2018



	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Indirect Cost	20,299	24,214	29,425	34,274	39,252	46,488	45,685	52,787	60,431	64,571
Direct Cost	35,988	34,821	45,916	51,158	59,987	78,060	79,472	82,390	80,415	89,860
Total Operating Cost	56,287	59,035	75,341	85,432	99,240	124,547	125,156	135,177	140,846	154,431

Source: Own graph, (2009-2018) data from Audited Financial Reports of the Company

On the other hand, the annual average percentage growth reveals that direct costs have been increasing year-to-year by 12 percent during the study period. Moreover, indirect costs and direct costs respectively, revealed 14 percent and 11 percent growth rates per annum over the last ten years. The rising costs of freight charges, wages, depreciation, and fertilizer costs have influenced the overall widening of the company’s total operating costs during the period under study.

4.4 Measuring Financial Efficiency of the Company

As we know, financial ratios and indicators have a paramount significance to help evaluate the overall financial health of a company. By assessing the financial efficiency, this study tried to determine how Maranque Plants PLC is managing its operational costs and generate revenue. This would assist the management of the company to determine how the different aspects of its business operations such as production, finance, marketing, etc., influence the gross income. The results and implications will generally have importance to the agribusiness sector or farm businesses in Ethiopia. Hence, the subsequent section provides a summary of key financial efficiency ratios applied to farm businesses to the likes of Maranque Plants PLC.

Based on actual data from the audited financial reports of the company, computations of key efficiency ratios is carried-out, and their implications is analyzed and discussed. The following efficiency ratios and their working definitions plus formulae are adopted from Michigan State University Extension.

Table 4: Key Financial Efficiency Ratios and Acceptable Standards

Efficiency Ratios	Recommended Standards		
	Vulnerable	Caution	Strong
Operating-Expense Ratio	> 80%	60 to 80%	< 60%
Depreciation- Expense Ratio	> 15%	5 to 15%	< 5%
Interest-Expense Ratio	>10%	5 to 10%	< 5%
Net Income Ratio	< 10%	20 to 10%	> 20%

Source: Michigan State University Extension/Financial Ratios

Operating Expense Ratio (OER): this ratio measures how much income from the business is being used to cover expenses. It is computed by dividing all operating expenses by operating income. Depreciation and interest charges are deducted from operating expenses. This measures the efficiency of the company by showing how many cents of direct expenses are required to generate a dollar of sales revenue. The lower the percentages, the better position a farm or business is. A number less than 60 percent means the business or farm is on strong position while anything higher than 80 percent means the farm or business is going to be more easily vulnerable to changes in markets.

- *Operating-Expense Ratio = (Total operating expense not including interest & depreciation) / Gross Income*

Depreciation-Expense Ratio (DER): this helps to assess how quickly does a business or farm go through its capital assets. The ratio suggests the amount of income that is required to maintain the capital being used by the business or farm. The lower the percentages the better. A business or farm should be no higher than 5 percent to be considered strong. Any percentage higher than 15 percent means that the business or farm may be wearing out its capital too quickly.

- *Depreciation-Expense Ratio = Depreciation / Gross Income*

Interest-Expense Ratio (IER): determines how much of a business or farms' gross income is being spent to pay interest on borrowed money. The lower the percentages the better. A business or farm should be no higher than 5 percent to be considered strong. A ratio higher than 10 percent indicates that the business or farm is spending too much of its gross income paying interest on borrowed money.

- *Interest-Expense Ratio = Interest Expense / Gross Income*

Net Income Ratio: this ratio is useful to know the status of a business or farm's profit when compared to its gross income. The ratio provides the percentage of income left following the payment of all expenses, with the exception of unpaid labor and management. The higher the percentages, the better. A business or farm should be no lower than 20 percent to be considered strong. Any percentage less than 10 percent may indicate that the business or farm is spending too much of its gross income on its expenses or not recovering enough income through production and marketing of its product or service.

- *Net Income ratio = Net Farm Income / gross income*

The above four major efficiency ratios when added up, they should equal 100 percent as they all indicate value of the farm production.

Table 5: Key Financial Efficiency Ratios of Maranque Plants PLC (Annual Average)

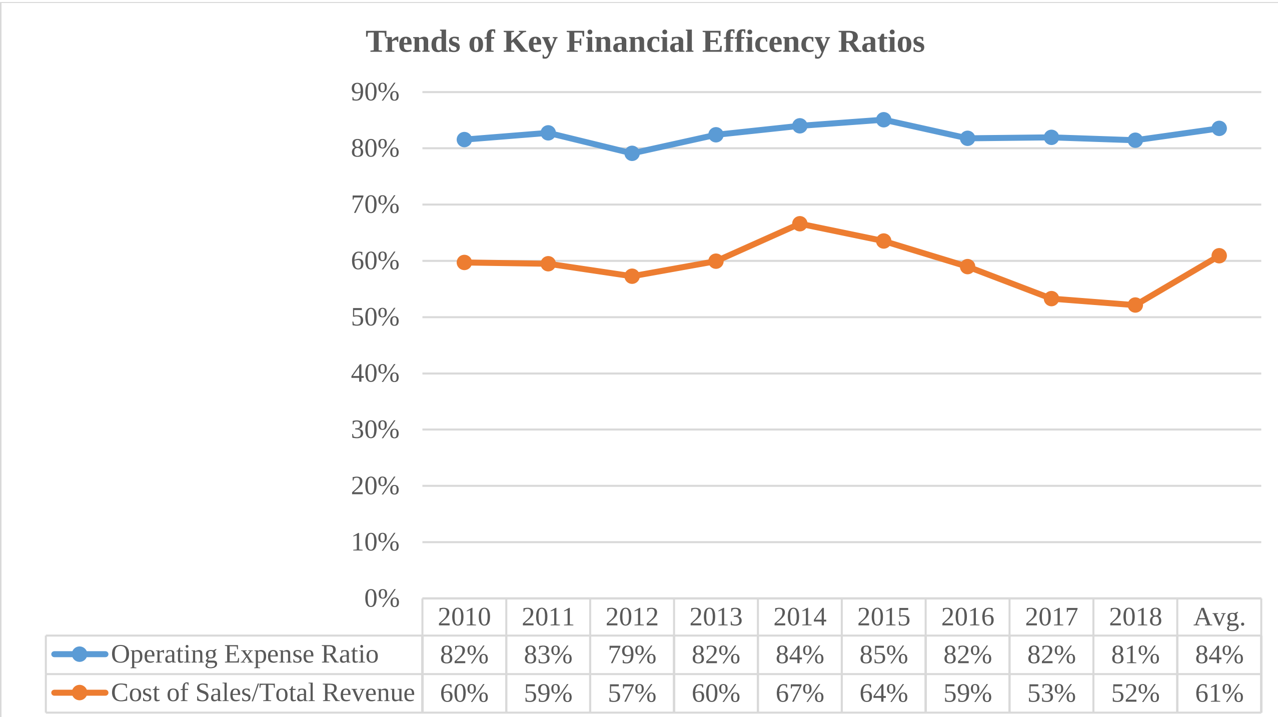
Efficiency Ratios	**2010-2012**	**2013-2015**	**2016-2018**
Operating-Expense Ratio	80.3%	83.8%	81.7%
Depreciation-Expense Ratio	14.2%	11.1%	7.0%
Interest-Expense Ratio	0.9%	1.9%	1.7%
Net Income Ratio	4.6%	3.2%	9.6%
Total	**100.0%**	**100.0%**	**100.0%**

Source: Author's calculation using data from Audited Financial Report of the Company

The results of the efficiency ratios above indicate that Maranque Plants PLC is not in a good status in terms of attaining a sound financial health. The yearly average operating expense ratio, which stood more than 80 percent, reveals that the company is at vulnerable stage to withstand market downturns or fluctuations. This signals that its ooperating expenses seize the biggest share of the gross farm returns. Similarly, the company is at vulnerable status in terms of net farm income ratio, which is markedly lower than 10 percent for the past ten years Moreover, the outcome of the depreciation expense ratio, which ranged between 5 to 15 percent, shows the company is even under caution. Lastly, the interest-expense ratio during the study period is found to be at commendable status with strong threshold levels.

Further analysis on cost of sales to total revenue ratio unveils that Maranque Plants PLC achieved a yearly average ratio of 61% during the study period. This cost of goods sold ratio implies that more than half of the company's income is spent on direct costs in order to generate sales revenue. The ratio has been consistently declining since the last three years. However, the financial report reveals that the decrease in cost of sales was not supported by increase in net sales revenue. Because, net sales also showed decreasing trend in the past three years. In general, a good performance record will have increasing trends of net sales and decreasing trends of cost of good sales at the same time. This would mean that a company is able to manage its costs related to selling its products while attaining growth in sales revenue. Figure 4 below depicts the trends of operating expense ratio and cost of goods sold ratio.

Figure 4: Trends of Key Financial Efficiency Ratios: 2010-2018



	2010	2011	2012	2013	2014	2015	2016	2017	2018	Avg.
Operating Expense Ratio	82%	83%	79%	82%	84%	85%	82%	82%	81%	84%
Cost of Sales/Total Revenue	60%	59%	57%	60%	67%	64%	59%	53%	52%	61%

Source: Author's calculation, data from Audited Financial Report (2009-2018) of the Company

4.5 The Major Techniques of Cost Reduction and Control Practice

In this section, the researcher attempted to assess the types of cost control and reduction techniques applied in the company. The researcher used both interview, appraisal of audited financial reports and analyzed pertinent internal documents. Interviews were conducted with finance and production department managers. According to the informants, the company uses budgetary cost control and quality control technique but standard costing and target costing is not applicable. 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 becoming competitive in the market. In addition, standard costing is more useful for managerial planning and decision-making. When management develops appropriate cost standards and succeeds in controlling production costs, future actual costs should be close to the standard. As a result, management can use standard costs in preparing budgets that are more accurate and in estimating costs. Hence, a standard cost system can be valuable for top management in planning and decision-making.

Budgetary Cost Control

According to the responses obtained from interview, the company uses budgetary control technique. The purpose of budgetary control is to help managers plan and control the use of resources in systematic and reasonable manner to ensure that to achieve financial objectives that is profit maximization, used as planning and controlling tools for efficiently use of resource. According to the responses obtained from interview, cost estimation is done during the company budget formulation process. The company prepares its budget annually and review the budget on quarterly basis.

The company budgetary cost control is to estimate the cost of sales and general and administration expenses for the coming fiscal year and add all expense. Then, estimate of sales is done by calculating harvested cuttings per meter square and taking in to account exchange rate gain or loss. If the exchange rate shows increase, it is considered as exchange rate gain or reported as other income. If the exchange rate decreases, it is considered as exchange rate loss. Then after, estimate of cost of sales, general expense and total sales is carried out. Cost and budget review is conducted quarterly to realize any problem in the process of implementation as well as any deviation from the targets set. Reviewing cost control and reduction tools and techniques is helpful in order to correct any deviation that could happen.

According to respondents from finance department, preparation of budget and cost estimation is conducted with the participation of the company's top management team. So, in Maranque Plants plc, preparing cost budget is considered as the responsibility of the top management. This is in contrary to the reviewed literature that argued employee involvement in budgetary preparation leads to minimize role vagueness, and this has a relation with higher performance.

The company uses traditional costing; because it helps to determine what cutting or plants offer the best profit ratios for the organization. Outsiders prefer to use the traditional costing system. The reports generated by this calculation are often easier to read and understand because it puts everything into a Euro and cents category. Especially for foreign investors, the traditional costing system makes it possible to understand some of the basics of a company's financial picture. There are no long calculations or forms required to determine the average overhead rate under the traditional costing system. All you must do is calculate the amount of time it takes to produce a specific product or provide a unique service. Then you take the average rate of labor or machine use costs per hour, multiplying it by the length of time necessary to create saleable goods and services. The other reason is by using the traditional costing method, a finance department able to update that process to keep details reasonably accurate without increasing labor costs to reach that number.

4.6 Major Constraints of Cost Reduction and Control

According to the responses obtained from interview, the main constraints in cost reduction and control in the company is cited as weak purchasing process. It further stated there is no procurement policy and a dedicated purchasing department in the company that primarily manages procurement of goods and services. Rather, the finance department of the company carries-out general oversight on procurement activities without upholding due purchasing procedures. In most cases, the company conducts bulk material purchases without maintaining an up-to-date price list for purchase items and without having a permanent suppliers/vendors list for its local purchases. All local materials are purchased from different vendors, with a significant occurrence of materials and resources wastage. However, on foreign purchases, it is relatively organized when the company undertakes purchasing of products/services. In addition, it was revealed that there is no wastage when undertaking foreign procurements as opposed to local purchases.

According to the responses obtained from interview, another constraint of cost reduction and control in Maranque Plants PLC is found out to be weak resources planning, cost estimation and budgetary controls. The company does not consistently follow appropriate manpower plans and materials requirement plans during each fiscal years. This phemennon has adversely affected the direct cost of operations to be considerably elevated. Particularly, this is clearly reflected in the tremendous amount of direct and indirect labor costs. As the previous analysis on the trend and performance of the company's operational costs revealed, wages, repair and maintenance, chemical inputs and fertilizer costs have been growing year-on-year. The elevated amount of these costs is largely due to absence of effective cost control techniques. For instance, the company hires many farm workers without properly assessing its human resources requirement needs and plans at the beginning of a budget year. Additionally, there is high labor turnover due to inefficient management of labor contracts. This often results in substantial variance and accrual of additional labor overheads that lead to over expenditure on the labor budget, which will in turn decrease operational performance.

Likewise, the weak resources planning and budgetary control system in the company has resulted in an enormous amount of repair and maintenance costs over the past several years. As highlighted in the cost performance trend, the company incurred about 12 million Birr for repairs and maintenances for the year ended June 30, 2018. This figure amounts nearly 10 percent of the total direct cost of operation and mainly includes expenses for purchasing of spare parts and services to tractors, machinery, harvesting materials, and others equipment. Over the last ten years, actual expense incurred for repairs and maintenances shows significant variation (38%) against the budget set for the period. The company does not have periodic repair and maintenance schedules. In addition, it does not properly track actual costs with budgetary targets and does not effectively monitor these costs on periodic basis.

Oyewo (2013) stated that failure to implement cost control effectively will lead to increased wastages, repair and maintenance cost and increase in labor cost. Increase in costs without a proportional increase in labor productivity will automatically reduce operational performance.

Evans (2014) suggested that repairs and maintenance cost are incurred to bring the asset in the condition it use to be before and keep it running like it used to. Repair and maintenance cost can be routine and are already anticipated for but some are not. Those not estimated for can be because of lack of supervision, negligence by employees, lack of training and high stockholding levels. Increase in repair and maintenance costs is an indication that there are weak cost control techniques as there is need for a planned maintenance.

CHAPTER FIVE

5. SUMMARY, CONCLUSION AND RECOMMANDATION

5.1 Summary and Findings

This study was aimed at assessing cost management practices of a floriculture company in reducing and controlling operating costs. Maranque Plants Plc, a leading floriculture company, has been a case study where the status of the company's cost management practices is analyzed, and a supporting evidence is provided for further reference and study on the subject. The specific objectives of the study include: analyzing the trend, cost performance, and structure of costs of the company; appraising operational efficiency of the company by measuring key financial efficiency ratios; exploring the major constraints of cost management practices in the company; examining the major techniques of cost reduction and controlling practice; and eventually suggesting actionable recommendations on best practices of cost management based on the findings of the study.

The study attempted to investigate cost management practices of Maranque Plants PLC by employing a descriptive research approach. The study utilized both primary and secondary data. The data analysis was conducted mainly using secondary data collected from annual audited financial reports for the period covering from 2009-2018. In addition, interviews were held with the company's Finance, Human Resources and Production Department Managers.

With regard to the trend, performance, and structure of costs of the company, a detailed analysis is carried-out by segregating the direct and indirect cost elements over the past ten years. The actual cost performances are discussed and cost trends are presented in tabular and graphical illustrations. The direct costs of operation constituted about 58% of the total operating costs of the company. While, the remaining 42% is composed of indirect costs. The official financial data indicated that about 36 million Birr was incurred for direct costs during the 2009 fiscal year. However, by the end of 2018, these direct costs increased to 90 million, which grew up by 150% over the past ten years. The yearly-average cost performance trend over the last ten years indicated that the largest proportions of direct cost was incurred for wages (29.3%), depreciation (19.5%), and fertilizers (11.3%) expenses. The next highest amount of direct cost was incurred for fuel

(9.9%), repairs and maintenances (9.6%) expenses. In sum, these five cost elements combined constitute more than three-fourth of the total direct costs of operation.

A further assessment of the cost structure of the company divulges that the performance of indirect costs of operation tremendously increased during the study period. Over these periods, indirect costs more than tripled with an annual average growth rate of 218 %. The actual indirect costs increased from Birr 20 million in financial year 2009 to Birr 65 million in year 2018. The yearly average share of major indirect costs comprise freight charges (44.3%), canteen expenses (14.6%), transportation (7.5%), salaries and benefits (6.9%), and vehicle running costs (3.8%). These major cost components together constituted about 77% of the total indirect costs of operations. In comparison to performance of directs costs, the company's indirect costs grew faster than those of direct costs. The underlying reasons for this fast growth momentum is the rising costs of freight operation to ship fresh cut flowers to export markets, mainly to the Netherlands. Another reason is due to increasing costs of food raw material supplies for the company's canteen, which provides fresh meals freely to its entire farm staff.

The results of key efficiency ratios indicated that Maranque Plants PLC generally is not in a good financial status as evaluated in terms of key operational efficiency measurements. The operating expense ratio, which shows how much income from the business is being used to cover expenses, stood more than 80% throughout the study period. This result implies that the company is at vulnerable point to withstand market fluctuations or financial downturns. Similarly, the company is at vulnerable position when we see its net farm income ratio. This ratio reveals the proportion of income left for the company following the payment of all expenses. Accordingly, the net farm income ratio is markedly lower than 10% for the past ten years. This could signify that the flower farm is spending too much of its gross income on its expenses or not generating sufficient income from production and sale of company products. Moreover, the outcome of the depreciation expense ratio ranged between 5% to 15%, and this shows the company is under caution. Lastly, the interest-expense ratio during the study period is found to be at commendable position with strong threshold levels through the study period.

Regarding the major constraints of cost management practices in the company, the study found out the following major constraints at Maranque Plants PLC. The first constraint is found out to be weak purchasing management process. Particularly, procurement of products and services in the local market comes with added costs and materials wastage. This is mainly due to lack of appropriate procurement policy, failure to maintain a database of vendors or suppliers, and up-dated price list of procurement items.

According to the responses obtained from interview, another major constraint observed is that the company does not consistently follow appropriate manpower plans and materials requirement plans during each fiscal years. For instance, the company hires many farm workers without assessing its human resources requirement needs and without ascertaining this with the manpower plan set at the beginning of a budget year.

As to the company's cost control practices, the study found out that Maranque Plants Plc is ineffective towards management of operating costs. This could be explained by the fact that the company incurred an enormous amount of repair and maintenance costs over the past several years with significant deviation from the annual budgets. For instance, the company spent about Birr 12 million for repairs and maintenances for the year ended June 30, 2018. This figure accounts for nearly 10% of the total direct cost of operation and mainly includes expenses for purchasing of spare parts and services to tractors, machinery, harvesting materials, and others equipment. Over the last ten years, actual expense incurred for repairs and maintenances shows significant variation (38%) against the budget set for the period. This weak performance is due to absence of periodic repair and maintenance schedules. In addition, the company lacks proper tracking and monitoring of costs with budgetary targets on periodic basis. Consequently, this ineffective costs management practice (i.e., wastage, lack of cost reduction and weak control) has affected the operational performance and financial efficiency of the company.

Last but not least, the study tried to examine the major techniques and practices of cost reduction and control in the company. Maranque Plants Plc use traditional costing techniques and prepares annual budget with limited the participation of the management team. The company conducts cost and budget review on quarterly basis. During the quarterly period, the company reviews any problem faced in the operational period and identifies deviations from the targets set. Besides, the study noted that except some budgetary controls, the company does not implement different cost reduction initiatives to manage operational costs effectively.

5.2 Conclusion

In due consideration of the results, discussions and major findings, the study provides the following conclusions:

- Main constraints in cost reduction and control in the company is cited as weak purchasing process Absence of appropriate procurement policy in the company has contributed to inefficient management of local procurements. This has paved a way for the company to become inattentive to maintain suppliers' list and updated price list for major purchase items. This has resulted in materials and resources wastage affecting the operational efficiency of the company.

- Other constraints in cost reduction and control in the company is the company's weak budgetary control and inefficient resource planning has contributed to ineffective management of operating costs. This is mostly reflected in the sizeable amount of direct and indirect labor costs. In addition, this weak cost management practice could be possibly explained by the fact that the company incurred an enormous amount of wages and repair and maintenance costs over the past several years with significant deviations from the annual budgets. In a nuts shell, the elevated amount of the company's operating costs is largely due to absence of effective cost control measures.

- The top management of the company mainly handles the budget formulation and cost estimation process. This does not involve lower management team from important business units in the company including production, human resources, marketing and finance. Lack of involvement of relevant business units in the budget setting process has created employees to assume less responsibility to execute the company's budget and manage costs.

- Cost structure of the company divulges that the performance of indirect costs of operation tremendously increased during the study period. Over these periods, indirect costs more than tripled with an annual average growth rate of. In comparison to performance of directs costs, the company's indirect costs grew faster than those of direct costs.

- The company uses budgetary control technique. The purpose of budgetary control is to help managers plan and control the use of resources in systematic and reasonable manner to ensure that to achieve financial objectives that is profit maximization, used as planning and controlling tools for efficiently use of resource.

- The company's operating costs such as wages, fertilizers, fuels, maintenance and repairs cost have dramatically increased. This is partly due to rise in input prices and partly owing to absence of companywide cost reduction initiatives and strategies to effectively manage and reduce its operating costs. Particularly, less emphasis has been given to the management of indirect costs. Throughout the study period, the company's indirect costs have tripled and grown much faster than direct costs.

- Based on the results of key efficiency ratios, the overall financial efficiency of the company is not in the right pathway and this has significantly affected the financial performance of the company. This is further observed in the weak operating-expense ratio and net farm income ratio, as both figures show the company is under vulnerable position. This means that the company is highly exposed to input and output market fluctuations such as volatility of fertilizer and fuel prices among others. Furthermore, earnings from gains in foreign exchange fluctuations has been the major driver and positive contributor to its net income performance over the past ten years.

5.3 Recommendation

- The study found out that absence of procurement policy have brought in weak purchasing management and resulted in materials and resources wastage impacting the operational efficiency of the company. Therefore, the research highly recommends that Maranque Plants PLC should design and implement a sound procurement or purchasing policy. The policy should incorporate well-defined, transparent and clear rules for conducting procurements of products and services. This would have tremendous benefits to the company to keep costs within the acceptable levels and effectively manage materials and other resources. Besides, the company should maintain a list of suppliers and an up-to-date price list of purchase items.

- In order to address the existing gaps in cost management, in the meantime, the company has to establish a rigorous internal control system capable of tracking the company's activities and including procurements. For purchasing activities, this may include authorization of expenses or activities always before they are incurred. Moreover, purchase order approvals should be always sought before conducting the purchase of goods and services.

- As to the absence of employee involvement in the budget setting process, the company should redefine its budget formulation and control practice. Firstly, there has to be an active involvement of the management team from relevant department such as human resources, production and finance in the budgeting preparation process to clearly execute the budget and effectively control costs. This practice could help the company to provide direction for implementation, efficiently execute the budget and manage costs. Secondly, the budgetary review process has to include reviewing of periodic performance starting from every two weeks and on monthly basis. This is in addition to the quarterly performance progress review that is currently in place in the company. By reviewing actual cost against the budget every two weeks to evaluate whether the actual costs are on track for planning period. This allows the company for well-timed corrections to the budget.

- The study has concluded that absence of companywide cost reduction initiatives and strategies has played a key role for the dramatic rise of controllable costs. Aside from the budgetary control tools, the company has to implement various cost control and reduction initiatives and strategies. A realizable standard cost control should be implemented in its business units specifically in the production and marketing departments. The study also suggests that continuous cost reduction programs need to be implemented companywide. These programs could include eliminating waste and duplication; adopting benchmarking practice, encouraging bulk purchases; and introducing technology in key areas of operations.

- Most importantly, the study has revealed that he overall financial efficiency of the company is not in the right track and this has significantly affected the financial performance of the company. To enhance its financial efficiency, Maranque Plants PLC has to put in place relevant financial metrics or key performance indicators to track its performance with regard to profit, cost ratios, cash flows, product quality etc. The company should follow an incremental approach to enhance operational efficiency so that it can attain cost reductions, generate more revenue and enhance its exports. For instance, Maranque Plants PLC can outsource some of its human resources requirements to other private companies. Similarly, it is commendable to operate farm machinery and equipment through lease financing arrangements rather than self-owning these farm properties. In doing so, the company can have a good control over its operating expenses and can improve its net farm income.

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Appendix I

Interview Questions

To examine cost management practice of cost reduction and cost control tools and techniques and constraints of cost management the researcher conduct interview with finance, production and human resource management heads. The questions raised during the interview were:-

1. 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?
2. What type of costing method used in your company? Traditional costing or market based costing /target costing/?
3. Is the budget preparation process participatory?
4. Which type of cost reduction and cost control tools and techniques applied in the company? Why?
5. What are the major constraint of cost management practice?
6. How frequently management review cost control, reduction, and techniques in order to correct any deviation.
7. Does Management exercises cost reduction and control tools and techniques in managerial decision-making?
8. Is cost control and reduction used as a measure in facilitating corporate profitability and performance of this organization?
9. In your opinion, what do you think are requirements needed to ensure an effective cost control system?
10. Does your company carry out educational awareness on cost control issues?
11. Is every employee involved in suggesting cost control initiatives within the departments?

12. Does your organization implement cost control techniques such as budgeting and budgetary control, standard costing and variance analysis?
13. In your own opinion, what are the effects of implementing weak cost control techniques?
14. Which other actions are being taken within your organization to control or reduce costs?