Impact of Cost Control Mechanism on Financial Performance

Bhuwan Raj Joshi
Lecturer, Durgalaxmi Multiple Campus, FWU, Nepal
Email: joshi.bhuwan2014@gmail.com
DOI: https://doi.org/10.3126/jdl.v3i1.73844

Abstract

The study aimed to establish the effect of cost control mechanisms on the financial performance of organizations, with a specific focus on the Agriculture Development Bank Limited (ADBL) of Nepal. Cost control, a critical aspect of financial management, is essential for maintaining operational efficiency and maximizing profitability. The research examines key cost control practices, including budgeting, and Delegation of authority to determine their influence on financial outcomes. Using a descriptive and correlational research design, data were collected through a structured survey questionnaire and financial reports of Agriculture Development Bank Limited. 54 questionnaires were emailed to the assistant, officers, and manager-level employees of 8 branches of the Kailali district. 48 valid responses were collected and analyzed through SPSS. The findings reveal a significant positive relationship between effective cost-control mechanisms and financial performance metrics such as return on assets and return on equity. The study underscores the importance of implementing robust cost control practices to enhance the financial stability and competitive advantage of ADBL. These insights provide valuable guidance for policymakers, financial managers, and stakeholders in optimizing cost management strategies to drive sustainable growth in the bank.

***Keywords**:* cost control, financial performance, budgeting, delegation of authority, return on assets, return on equity

Introduction

Background of the Study

The banking sector plays a key role in a country's economy by taking unused money and using it to support businesses, which boosts economic activities. The success of banks is closely connected to the economy's performance. In Nepal, commercial banks are a major part of the banking system and financial market, playing a big role in the country's economic growth.

The financial well-being of a bank is driven by a combination of factors within its control and those beyond its direct influence. Internal factors, like how the bank runs its operations, are specific to each bank and affect its financial results. External factors, like the state of the economy, are outside the bank's control. So, a bank's performance is shaped by both its own actions and the economic conditions around it.

The financial success of organizations in the finance industry depends a lot on how well they control costs. Research shows that using cost-cutting methods can greatly reduce expenses over time and boost profits and financial stability (Murugan & Ramprathap, 2022). To improve financial performance, it’s important to align financial management systems with cost-saving strategies, especially in service-based businesses (Soesetio, 2023).

Effective financial management, including budgeting and delegation of authority, is crucial for organizational performance and growth. Budget control tools and techniques are closely linked to financial performance, improving liquidity, profitability, and solvency, as demonstrated in state-owned enterprises (Habineza & Cortez, 2023). In commercial banks, efficient budgeting ensures resource allocation and cost management, while delegation of authority enhances accountability and decision-making, collectively boosting financial performance (Mligo & Maseko, 2022). Delegating authority also improves job satisfaction and performance quality (Tomizh, 2022) and positively impacts quantitative measures like loan generation, though it may reduce decision quality (Senyuta, 2013). Moreover, interdependence and information asymmetry between central and unit management influence decision-making and performance in financial institutions, highlighting the need for a balanced approach (Nuryawani, 2021).

A comprehensive approach to cost control, encompassing cost reduction strategies, financial management practices, and robust cost control mechanisms, plays a critical role in enhancing financial performance. Numerous studies have explored the relationship between cost control systems and financial performance in organizations worldwide. However, there is limited research specifically focused on the impact of cost control practices within Nepalese banking institutions.

This study aims to address this research gap by analyzing how cost control measures influence the performance and profitability of banks in Nepal. It will examine key cost management strategies, evaluate their implementation, and assess their effectiveness in optimizing financial outcomes in the Agriculture Development Bank Limited of Nepal.

Statement of Problem

Cost control systems are essential for organizational performance, especially in the corporate sector, where effective budgeting and delegation of authority are critical tools for monitoring performance and gaining a competitive advantage. Businesses, including financial organizations, prioritize cost control to minimize waste across operations, ensuring profitability and sustainability (Siyanbola & Raji, 2013). However, information on cost control tools in commercial banks is often fragmented, making the link between these systems and financial performance unclear (Kipkenei et al., 2022). Agriculture Development Bank Limited in Nepal faces challenges in implementing effective cost control practices, impacting financial performance indicators such as return on assets and return on equity. This study investigates the relationship between cost control mechanisms specifically budgeting and delegation of authority and the financial performance of the bank, aiming to address inefficiencies and support the sustainable growth of Agriculture Development Bank Limited of Nepal.

Therefore this study seeks to address three research questions:

(i) How does the budgeting process affect the financial performance of Agriculture Development Bank Limited?

(ii) In what ways does the delegation of authority impact the financial performance of Agriculture Development Bank Limited?

(iii) What is the relationship between cost control practices and the financial performance of Agriculture Development Bank Limited?

Objectives of the Study

The aims of this study are:

(i) To examine current practices of cost control mechanisms (budgeting, and delegation of authority) on Agriculture Development Bank Limited.
(ii) To analyze the relationship between cost control mechanisms (budgeting and delegation of authority) with the financial performance (ROA, and ROE) of the Agriculture Development Bank Limited.

Research Hypothesis

Based on given in the theoretical framework model, the following hypotheses were developed for testing.

H_1: There is significant relationship between budgeting and financial performance of Agriculture Development Bank Limited.
H_2: There is significant relationship between delegation of authority and financial performance of Agriculture Development Bank Limited.
H_3: Cost control practices are significantly related to the financial performance of Agriculture Development Bank Limited.

Literature Review

The study "Cost Control and Accountability for Effective Budget Implementation" by Obara (2014), published in the Research Journal of Finance and Accounting, emphasizes the importance of cost control techniques for overseeing, evaluating, and improving company areas like departments, divisions, or products. It underscores the need for ongoing cost control to identify potential issues and prevent crises. Additionally, it ensures consistent output quality and quantity while providing managers with objective performance data for employees. Management monitors performance against budgets and implements corrective actions when deviations occur, ensuring effective budget implementation through cost control.

Bett and Memba (2017) reviewed the article "Effects of Internal Control on the Financial Performance of Processing Firms in Kenya: A Case of Menengai Company" to improve operational efficiency and effectiveness. The study aimed to understand how internal control systems affect the financial performance of Menengai Oil Company in Kenya. It focused on how information systems, risk assessment, and the control environment influence the company's financial results. The findings showed that the company's financial performance is strongly affected by the control environment, risk assessment, and information systems.

Researchers (Namu et al., 2014) examined the impact of cost-saving measures in tea factories in Embu, Kenya. Using surveys, they gathered data from 18 supervisors, 40 workers, and 225 tea farmers. Analysis showed the widespread use of cost-saving techniques, with strategies like staff training, technology upgrades, and energy efficiency being widely implemented. Statistical analysis confirmed a significant improvement in factory performance after the adoption of cost-reduction measures in 2006.

Oyedokun et al. (2019) conducted a study to explore how cost management practices affect profitability in Nigerian manufacturing companies. They focused on companies in the consumer products sector that are listed on the Nigerian Stock Exchange (NSE). The researchers selected a sample of five companies from a group of 23 businesses that met certain criteria. They used data from financial reports for the years 2005 to 2017. The analysis showed that the cost of raw materials negatively impacted profits before taxes for Nigerian manufacturers. The study also found that good cost-management practices can help improve profitability.

Lawal (2017) studied how cost control and cost reduction affected how well organizations performed. The researcher looked at how budgeting helps cut costs and control costs. The study found that having strict controls on costs can make organizations perform better. Researcher says that all businesses need to have a plan for cutting costs, and he suggests that they regularly check their costs to find areas where they can cut back. The study found that businesses need to keep their costs under control and cut them as much as possible to make more money and provide high-quality products and services.

Fapohunda (2020) investigated the use of cost control measures on organizational performance in small and medium-sized manufacturing enterprises in the Western Cape because a lack of control measures could negatively affect business development. This was accomplished by recognizing the types of cost control used in organizational performance, investigating the purposes of cost control methods employed by small and medium-sized enterprises (SMEs), analyzing the contests of cost control concerning organizational performance, and exploring the cost control procedures accepted by small and medium-sized industrial firms. Additionally, the necessities for ensuring an operative cost-control system were established. The findings revealed that the majority of respondents acknowledged the implementation of various cost control measures as a means to enhance organizational performance in SMEs.

Omboga et al. (2016) investigated the fact that financial control plays a pivotal role in driving positive performance within the industry. They emphasized that this can be realized through operative cost control, cash dispensation, and budgeting. However, they suggested further research to explore the impact of human behavior on implementing financial control mechanisms.

Akeem (2017) highlighted the relevance of cost management to the success of the company by analyzing the effects of cost control and cost reduction on organizational performance. The study identified cost overheads as an effective tool for controlling and reducing expenses. A descriptive research approach was adopted, utilizing questionnaires as the primary data collection method. Regression analysis was employed to test the hypothesis. The findings revealed that cost containment positively influences organizational performance.

Schubert and Kirsten (2021) examined the effect of budgeting control on the financial performance of SMEs in Germany using the quantitative technique and surveys technique where both questionnaires and the interview guide. The study revealed that budgetary control facilitates the interpretation of budgets and performance metrics as effective communication tools while encouraging proactive thinking beyond traditional budgeting. Additionally, it was found that budgetary control optimizes management time through the application of the management-by-exception principle. The findings indicated a significant and positive relationship between budgetary control and financial performance.

Matsoso et al. (2021) studied the impact of budgeting and budgetary controls on small and medium-sized enterprises (SMEs) in South Africa. They found that having good budgetary controls is linked to better financial performance in SMEs. This means that if a budget is well-prepared and well-controlled, it is likely to have a positive effect on the financial performance of a business.

Similarly, Imo and Des-Wosu (2018) looked at how budgetary control affects the return on assets and net profit of government-owned companies in Nigeria. They used a survey and statistical tools (like Pearson's correlation and SPSS) to analyze the data. Their study found a strong positive relationship between budgetary control and financial performance, especially in terms of net profit and returns on assets. Based on this, they concluded that preparing a good budget plays a key role in improving a company's financial performance and that budgetary control can be a useful tool for measuring and improving performance.

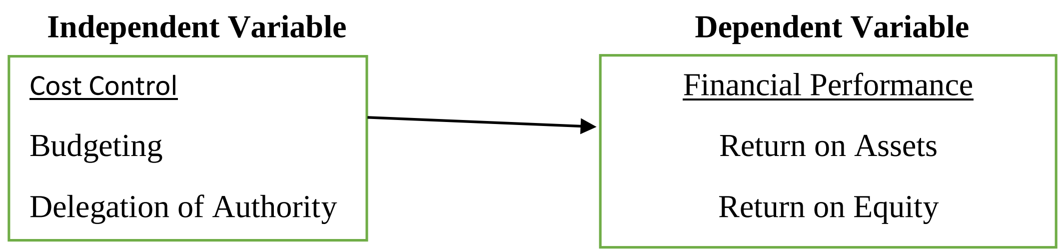
Literature on the impact of cost control mechanisms on financial performance has yielded mixed findings. The majority of these studies were carried out on the manufacturing companies of foreign countries. There is no more research has been conducted in Nepal on the banking sector. Some studies have been conducted on the overall performance of the Nepalese banking industry, which can provide some insights into the topic. However, these studies did not specifically focus on the role of cost control on financial performance. Therefore, there is a gap in research that specifically addresses the impact of cost control on the financial performance of Nepalese commercial banks.

Conceptual Framework

A conceptual framework outlines the anticipated relationship between independent and dependent variables. It establishes the key objectives of the research process and provides a structured guide for researchers to align their efforts, enabling them to draw cohesive and logical conclusions.

Figure 1

Conceptual Framework



Defining the Variables

Defining the variables in research involves specifying what each variable represents, how it will be measured, and its role within the study. This step is crucial for ensuring that the research is systematic, replicable, and interpretable. The following are the independent and dependent variables used in this research.

Independent Variable

Budgeting: Budgeting is the process of creating a plan to spend money for an organization. This budgeting process helps in planning for future expenses and revenues and ensures that resources are allocated efficiently. This can be measured through the precision and adherence to budget plans, variance analysis, and the frequency of budget reviews and updates.

Delegation of Authority: The process by which managers transfer some of their decision-making power and responsibilities to subordinates is delegation of authority. It involves empowering employees to make decisions and take action within certain boundaries. This can be measured through the extent of authority granted at different levels of the organization, the clarity of delegated roles and responsibilities, and the frequency and scope of delegated decision-making tasks.

Dependent Variable

Return on Assets (ROA): Return on Assets is a key financial ratio that measures a company's profitability to its total assets. It indicates how efficiently a company utilizes its assets to generate profit. ROA is calculated as Net Income divided by Total Assets. It is expressed as a percentage.

Return on Equity (ROE): Return on Equity is a financial ratio that evaluates a company's profitability to the shareholders' equity. It indicates how effectively a company uses the equity invested by its shareholders to generate profits. ROE is calculated as Net Income divided by Shareholders' Equity, expressed as a percentage.

Methodology

Research methodology is an instrument to find accurate, reliable, valid, and suitable results. To achieve the stated objectives of the study, the relevant methodologies were employed.

Research Design

The study adopted a descriptive survey research design because it aims to investigate and clarify the current state of Cost Control and how it impacts the financial performance of Agriculture Development Bank Limited (ADBL). A descriptive study involves the collection and analysis of data to provide an accurate depiction of the current status or characteristics of the subjects being studied. Descriptive survey research identifies and presents the relationship between the independent variable and dependent variable based on the perspectives and opinions of the survey respondents. In this study, correlational research design was also used to measure the relationship between cost control and financial performance.

Population and Sample

This study is based on two major key article papers similar to the researcher's study. "Financial Control and Organizational Performance: A Case of Rwanda Broadcasting Agency (RBA)" by Speciose and Rusibana (2020) and "Financial Control Practices and Accountability in the Public Sector in Nigeria" by Olaoye et. al. (2021). This study was carried out in Kailali District. Data are collected from the Agriculture Development Bank Limited (ADBL). The population of this study is 54 employees working in the eight branches of the Agriculture Development Bank Kailali district. According to Wallen (2004), the purposive sampling technique enables the researcher to choose the respondents based on a purpose and the respondents who are participating in the study for a particular reason. Out of 54 distributed questionnaires 48 valid responses have been received as a sample which are representative part of a population based on the Taro Yamane formula (1973). Thus, it ensured that the sample was representative by giving every responder an equal chance to participate in the study. Assistant, officer, and manager-level employees are the units of analysis to draw evidence on how cost control extents for instance budgeting, and delegation of authority enhance the financial performance of the banks.

Data Collection and Analysis

This study's primary research tool was a self-administered questionnaire. Because respondents do not take more time to respond. Additionally, it is less expensive and one of the finest instruments for avoiding interviewer bias. In order to provide thoughtful comments, respondents have more time (Kothari, 2004). The data is collected through a five-point Likert scale (1. Strongly disagree, 2. Disagree, 3. Neutral, 4. Agree, 5. Strongly agree.) structured questionnaires were distributed to the employees of Agriculture Development Bank Limited. Additionally, the secondary data were collected from published financial reports which are uploaded to the Bank's website for analyses of return on assets and return on equity by the Agriculture Development Bank Limited and relevant literature.

The data collected from the questionnaires were analyzed using the Statistical Package for the Social Sciences (SPSS). Statistical tools such as mean, standard deviation, correlation, and regression analysis were employed to examine current practices and assess the relationship between cost control and financial performance. The validity of the original data has been examined using Cronbach's alpha to assess reliability. Previous surveys, questionnaires, and their results have also been consulted for data validity in publications on related subjects.

Analysis and Major Findings

Reliability Test

To determine whether the items of each dimension are internally consistent and they can be used to evaluate the same construct and perceived organizational performances, this study conducted the Cronbach's Alpha test of reliability. Nunnally (1978) recommended that Cronbach's alpha value be 0.7 or above.

Table 1

Cronbach's Alpha Coefficients

Variables	No of items	Cronbach's Alpha
Budgeting	5	0.752
Delegation of Authority (DA)	5	0.763
Financial Performance (FP)	5	0.781
Overall	3	0.864

The Table 1 provides Cronbach's Alpha coefficients for different variables in the study. Cronbach's Alpha is a measure of internal consistency or reliability of a scale or set of items. It lists the variables included in the study. These variables are Budgeting, Delegation of authority (DA), and Financial Performance (FP). No of items indicates the number of items or questions that make up each variable. In this case, each variable consists of 5 items, meaning there are 5 questions or measures used to assess each construct.

The Cronbach's Alpha coefficient for Budgeting is 0.752, indicating a moderate level of internal consistency among the 5 items measuring budgeting. Delegation of authority (DA) is 0.763, indicating a good level of internal consistency among the 5 items measuring delegation of authority. Financial Performance is 0.781, indicating a moderate level of internal consistency among the 5 items measuring financial performance. The overall Cronbach's Alpha coefficient is 0.864, which suggests a high level of internal consistency among the items in the overall scale, considering all variables combined.

Cronbach's Alpha coefficients in this table indicate that the scales used to measure the variables have satisfactory levels of internal consistency, indicating that the items within each variable reliably measure the intended constructs.

Cost Control Practice

Cost control procedures improve operational effectiveness and efficiency, which enhances the accuracy of internal and external financial reporting and aids in legal and regulatory compliance (Wachira et al., 2014).

Hayles (2015) investigated that strong financial controls and precise accounting records are crucial for reducing organizational financial risks. These measures ensure that financial data is used securely within the organization, protecting its assets, and preventing or quickly detecting fraudulent activities.

Walters and Dunn (2014) examined the rules and practices that guarantee that management directives are carried out. Cost control systems that are in place to ensure adherence to the set policies and procedures help these tasks. The systems are essential for protecting resources and assets, keeping accurate accounting records, and generating accurate financial and management data. To ensure compliance with the budget, budget items, expenditure plans, and financing programs within the banking industry, financial control techniques pertain to managing the revenue, expenditure, assets, and liabilities of financial institutions.

Table 2

Cost Control Practices in Agriculture Development Bank Limited.

		Budgeting	DA	FP
N	Valid	48	48	48
	Missing	0	0	0
Mean		4.1158	3.9421	3.9632
Std. Deviation		.51282	.59893	.50050

Source: Primary Data (2024)

Table 2 the statistical output shows the descriptive statistics for two variables: Budgeting, and Delegation of authority (DA). The "N Valid" column shows that there are 48 valid observations for two variables, indicating that there are no missing values in the dataset. The "Mean" column shows the average score for each variable. The mean score for budgeting is 4.1158, and for delegation of authority (DA) is 3.9421. This indicates that the average level of budgeting is slightly higher than the average level of delegation of authority in the sample.

The "Std. Deviation" column shows the amount of variation or dispersion in the data. The standard deviation for budgeting is 0.51282, and for delegation of authority (DA) is 0.59893. This indicates that there is some variability in the data, but the standard deviations are relatively small, suggesting that the sample is relatively homogeneous in terms of the levels of budgeting, and delegation of authority.

Budgeting and delegation of authority procedures were frequently employed, according to the study that looked at the cost control practices of Agriculture Development Bank Limited. The banks carefully tracked their financial performance to the annual budgets they set. The bank employed financial measures to track its financial performance and produced financial reports that conformed to accounting standards and regulatory regulations. The banks also employed a variety of cost-control strategies, including cost analysis, cost-reduction goals, and cost-cutting initiatives. The investigation also discovered that the banks have internal audit divisions to check on policy and procedure adherence and pinpoint areas for development.

Relationship Between Cost Control Mechanisms With the Financial Performance of the Agriculture Development Bank Limited

Budgeting on Financial Performance in Agriculture Development Bank Limited.

The respondents were requested to indicate their responses to the statement regarding the involvement of budgeting in financial performance which is used for measurement on a 1-5 Likert scale (1- Strangely disagree, 2-Disagree, 3- Neutral, 4- Agree, 5- Strongly agree).

Table 3

Budgeting on Financial Performance in Agriculture Development Bank Limited.

Statement regarding budgeting	1	2	3	4	5
Budgets exist in the organization.	0	0	3(6.25%)	6(12.50%)	39(81.25%)
Budgeting procedures are followed.	0	1(2.08%)	3(6.25%)	27(56.25%)	17(35.42%)

Appropriate budgeting saves costs.	0	1(2.08%)	2(4.17%)	9(18.75%)	36(75%)
Budgeting provides cash expenditure tracking.	0	2(4.17%)	5(10.42%)	26(54.17%)	15(31.25%)
Budgeting reduces operation costs.	0	1(2.08%)	2(4.17%)	34(70.83%)	11(22.92%)

Source: Primary Data (2024)

The Table 3 provides insights into employees' perceptions of budgeting and its impact on financial performance at the Agriculture Development Bank Limited. A significant majority of respondents believe that budgets exist within the organization, with 93.75% (12.50%+81.25%) agreeing and strongly agreeing, indicating a strong recognition of formal budgeting practices. Similarly, 91.67% (56.25%+35.42%) agree and strongly agree that budgeting procedures are followed, demonstrating confidence in the adherence to established budgeting processes.

Regarding the effectiveness of budgeting, 93.75% (18.75%+75%) of respondents believe that appropriate budgeting saves costs, highlighting the perceived financial benefits of effective budget management. Furthermore, 85.42% (54.17%+31.25%) agree and strongly agree that budgeting provides cash expenditure tracking, emphasizing the importance of budgeting in monitoring financial flows.

A substantial majority of 93.75% (70.83%+22.92%) agree and strongly agree that budgeting reduces operational costs, underscoring the role of budgeting in enhancing operational efficiency. The responses reflect a strong consensus on the positive impact of budgeting on the organization's financial performance, with employees acknowledging its importance in cost-saving, expenditure tracking, and operational efficiency.

Delegation of Authority on Financial Performance in Agriculture Development Bank Limited

The respondents were requested to indicate their responses to the statement regarding the involvement of delegation of authority in financial performance which is used for measurement on a 1-5 Likert scale (1- Strangely disagree, 2-Disagree, 3-Neutral, 4- Agree, 5- Strongly agree).

Table 4

Delegation of Authority on Financial Performance in Agriculture Development Bank Limited.

Statement regarding delegation of authority (DA)	1	2	3	4	5
DA allows for more efficient cost management	0	2(4.17%)	3(6.25%)	31(64.58%)	12(25%)
Delegating authority makes more accountable for controlling cost	0	2(4.17%)	4(8.33%)	29(60.42%)	13(27.08%)
Delegated authority helps in effectively managing and reducing operational expenses.	0	3(.25%)	4(8.33%)	27(56.25%)	14(29.17%)
DA makes decisions related to cost control and improving cost-effectiveness.	0	2(4.17%)	5(10.42%)	23(47.92%)	18(37.5%)
DA includes sufficient mechanisms of cost control.	0	3(6.25%)	3(6.25%)	32(66.67%)	10(20.83%)

Source: Primary Data (2024)

The results in the Table 4 reveal employees' perceptions of delegation of authority (DA) and its impact on cost management at the Agriculture Development Bank Limited. The data shows a strong belief in the efficiency benefits of delegation of authority (DA), with 89.58% (64.58%+25%) of respondents agreeing and strongly agreeing that delegation of authority (DA) allows for more efficient cost management. This indicates a recognition of delegation of authority (DA) as a crucial mechanism for enhancing cost efficiency.

Similarly, 87.50% (60.42%+27.08%) agree and strongly agree that delegating authority makes individuals more accountable for controlling costs. This suggests that delegation of authority (DA) fosters a sense of responsibility among employees regarding cost management. Furthermore, 85.42% (56.25%+29.17%) of respondents believe that delegated authority helps manage and reduce operational expenses, highlighting the perceived effectiveness of delegation of authority (DA) in cost control.

Regarding decision-making, 85.42% (47.92%+37.50%) agree and strongly agree that delegation of authority (DA) aids in making decisions related to cost control and improving cost-effectiveness, underscoring the role of delegation of authority (DA) in strategic financial decision-making. Finally, 87.50% (66.67%+20.83%) of respondents agree and strongly agree that delegation of authority (DA) includes sufficient mechanisms for cost control, indicating confidence in the adequacy of delegation of authority (DA) structures to manage costs effectively.

The responses reflect a strong consensus on the positive impact of delegation of authority on cost management, accountability, operational efficiency, and decision-making within the organization. Employees perceive delegation of authority (DA) as a vital tool for achieving cost control and improving cost-effectiveness.

Table 5

Correlation Analysis Between Cost Control and Financial Performance in Agriculture Development Bank Limited

		Budgeting	DA	ROA	ROE
Budgeting	Pearson Correlation	1	.568**	.619**	.645**
	Sig. (2-tailed)		.000	.000	.000
	N	48	48	48	48
DA	Pearson Correlation	.568**	1	.433**	.656**
	Sig. (2-tailed)	.000		.006	.000
	N	48	48	48	48
ROA	Pearson Correlation	.619**	.433**	1	.858**
	Sig. (2-tailed)	.000	.006		.000
	N	48	48	48	48
ROE	Pearson Correlation	.645**	.656**	.858**	1

Sig. (2-tailed)	.000	.000	.000	
N	48	48	48	48

** Correlation is significant at the 0.01 level (2-tailed).

Source: Primary Data, (2024)

The results in Table 5 indicate that there is an association between budgeting and delegation of authority (p = .568 and sig =.000), among budgeting and Return on assets (ROA) (p =.619 and sig =.000), among budgeting and Return on equity (ROE) (p = .645 and sig = .000), among delegation of authority (DA) and return on assets (ROA) (p = .433 and sig = .000), among delegation of authority (DA) and return on equity (ROE) (p = .656 and sig = .000), among return on asset and return on equity (p = .858 and sig = .000). Thus, suggests that there is a positive significant association among forecasters of cost control and financial performance of Agriculture Development Bank Limited.

Table 6

Relationship Between Cost Control Variables and Financial Performance of Agriculture Development Bank Limited.

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.932[a]	.863	.836	.19681

a. Predictors: (Constant), Budgeting, D A

Table 6 presents the findings of a regression study that looks at the relationship between the Agriculture Development Bank's financial performance and cost control variables. Let's dissect the model synopsis:

The degree and direction of the linear relationship between the predictors (cost control variables) and the financial performance are measured by the multiple correlation coefficient (R). The cost control variables and financial performance in this instance have a high positive association, as indicated by the R-value of 0.932.

The percentage of the organizational performance variance that can be accounted for by the cost control variables is known as the coefficient of determination (R Square). The cost control variables in this model can account for about 86.3% of the variance in financial performance, according to the model's R Square value of 0.863.

The number of predictors and sample size are taken into account when calculating the modified R Square. It offers a more cautious estimate of the percentage of variance that can be accounted for by the predictors. Taking into account the number of predictors and the sample size, the model's modified R Square value of 0.836 means that the cost control variables account for about 83.6% of the variance in financial performance.

The average difference between the actual financial performance numbers and the values projected by the model is measured by the standard error of the estimate. This result of 0.19681 indicates that, on average, there is a 0.19681 unit discrepancy between the expected and actual values.

A constant term (intercept) is also included in the model to account for the baseline level of organizational performance. The predictors in this model include the cost control variables, which are represented as budgeting and delegation of authority (DA).

Table 7

Coefficients of Cost Control and Return on Asset

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.168	.317		.547	.586
	Budgeting	.013	.087	.009	.101	.000
	DA	.358	.069	.348	4.403	.000

a. Dependent Variable: Return on Asset.

Source: Primary Data (2024)

According to Table 7's findings, cost control predictors show positive coefficients that further contribute to Agriculture Development Bank Limited's improving return on assets. Since all of the computed p-values are less than 0.01 apiece, the regression analysis shows that cost control and return on assets have a positive, significant relationship. The regression model $Y=\beta0+\beta1x1+\beta2x2+\beta3x3+\beta$ is thus provided by the coefficient. Consequently, the model is $Y=.168+.013x1+.358x2$, and this regression equation shows that the predictors of cost control and Agriculture Development Bank Limited's return on assets are positively significant.

Table 8

Coefficients of Cost Control and Return on Equity

	Model	Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	t	Sig.
1	(Constant)	.119	.399		.532	.654
	Budgeting	.023	.089	.008	.213	.000
	DA	.431	.067	.352	5.312	.000

a. Dependent Variable: Return on Equity.

Source: Primary Data (2024)

The findings in Table 8 show that cost control predictors have positive coefficients that strengthen the favorable impact on Agriculture Development Bank Limited's return on equity progress. Since all of the computed p-values are less than 0.01 apiece, the regression analysis shows that cost control and return on equity have a positive, significant relationship. The regression model $Y=\beta 0+\beta 1x1+\beta 2x2+\beta 3x3+\beta$ is thus provided by the coefficient. As a result, the model is $Y=.119+.023x1+.431x2$, and this regression equation shows that the predictors of cost control and Agriculture Development Bank Limited's return on equity are positively significant.

Discussion

The presented discussion focuses on several aspects related to cost control and its impact on the financial performance of Agriculture Development Bank Limited. It begins by discussing the reliability test conducted using Cronbach's Alpha coefficients to measure the internal consistency of the variables included in the study. The recommended threshold for Cronbach's Alpha is 0.7 or above, and the results show that all variables, including Budgeting, Delegation of Authority (DA), and Financial Performance (FP), have satisfactory levels of internal consistency.

The majority of studies conducted in the field of cost control and financial effectiveness in public institutions have shown a positive significant relationship between financial control and return on investment with a calculated significance value of 0.006, which is less than the 0.01 level of significance and a p-value of .804 (Speciose & Rusibana, 2020). The results of the study by Ibrahim and Mustapha (2019) on Financial

Control Mechanisms on Profitability Performance showed that financial control has a significant relationship with organizational performance based on return on assets with a calculated significance value of 0.028, which is less than 0.05 with a p-value of .762 in public institutions.

The results of this study on the relationship between cost control and organizational performance also revealed a significant relationship between budgeting and delegation of authority (p=.568 and sig = .000), among budgeting and Return on assets (ROA) (p = .619 and sig = .000), among budgeting and return on equity (ROE) (p = .645 and sig = .000), among delegation of authority (DA) and return on assets (ROA) (p = .433 and sig = .000), among delegation of authority (DA) and return on equity (ROE) (p = .656 and sig = .000), among return on asset and return on equity (p = .858 and sig = .000). This suggests that to enhance financial performance in ADBL, financial management should be improved by assuring budgeting, and delegation of authority. According to the research findings, there is a significant link between cost control and financial performance, suggesting that cost control is necessary to boost financial performance. Therefore, to improve financial performance, Agriculture Development Bank Limited should implement regular budgeting.

Moving on to cost control practices, the discussion highlights the importance of effective cost controls and accurate accounting records in minimizing financial risks, ensuring internal use of financial information, safeguarding assets, and identifying fraud. Cost control activities encompass the rules and practices that guarantee the implementation of management directives, including adherence to set policies and procedures. These activities are crucial for protecting resources, maintaining accurate accounting records, and generating reliable financial and management data.

The subsequent section presents the descriptive statistics for the variables related to financial control practices in Agriculture Development Bank Limited, namely Budgeting and Delegation of Authority (DA). The statistics include the number of valid observations, mean scores, and standard deviations. The results indicate that the average levels of budgeting and financial reporting are slightly higher than the average level of delegation of authority in the sample. Additionally, the standard deviations suggest relatively small variability in the data, indicating homogeneity among the respondents regarding the levels of cost control practices.

The discussion then delves into the specific impact of budgeting and delegation of authority on financial performance in Agriculture Development Bank Limited. Tables 3, and 4 present the responses from the respondents, measured using a Likert scale, regarding the involvement of each cost control aspect in financial performance. The results demonstrate agreement among the respondents on the positive influence of budgeting and delegation of authority on financial performance. The majority of respondents agreed that these cost control practices support achieving financial goals, effectively monitor and control expenses, provide accurate financial information, align with business strategy, and promote transparency and accountability in decision-making processes.

Table 5 presents the correlation analysis between the cost control variables (Budgeting and DA) and two measures of financial performance (ROA and ROE) in Agriculture Development Bank Limited. The results show significant positive correlations between budgeting, delegation of authority, and both measures of financial performance. This indicates that these cost control variables have a significant impact on the bank's financial performance, as measured by ROA and ROE.

The discussion emphasizes the importance of cost control practices in Agriculture Development Bank Limited and their influence on financial performance. The study provides evidence of the internal consistency of the variables, demonstrates agreement among respondents regarding the positive impact of cost control practices on financial performance, and reveals significant correlations between cost control variables and measures of financial performance. These findings support the notion that effective cost control contributes to improved financial performance in the bank.

Conclusion

A reliability test using Cronbach's Alpha showed that the variables in the study were internally consistent. The Alpha values for Budgeting and Delegation of Authority (DA) and Financial Performance (FP) were higher than 0.7, meaning that the questions measuring each variable consistently captured what they were meant to measure.

Agriculture Development Bank Limited implemented cost-control practices that reduced financial hazards. These measures included monitoring budgets, measuring financial results, and applying cost-control methods. The bank established internal audit divisions to ensure compliance with policies and procedures, enabling accurate accounting records, asset protection, and fraud prevention.

Effective cost control measures, including delegation of authority and budgeting, are vital for banks to enhance their financial performance. From the findings of this research, it was evident that cost control has a positive impact on financial performance. To make it a success, there is a need for organizations to apply cost control and cost reduction schemes in their operation and employees should be carried along and they must be motivated to achieve the desired goals and objectives. These findings can guide bank management in strengthening cost controls and achieving their performance objectives.

Implication

The impact of cost control mechanisms on the financial performance of a commercial bank is multifaceted, significantly influencing profitability, efficiency, and overall stability. By implementing effective cost control strategies, banks can reduce their operating expenses, which directly enhances their profit margins and allows for more competitive pricing of financial products. This reduction in costs also enables better management of the bank's liquidity and risk, ensuring financial stability even during economic downturns. Additionally, cost savings can be reinvested into technological advancements and customer service improvements, which enhance customer satisfaction and loyalty. However, it's crucial for banks to balance these measures with careful management of employee morale and productivity, as aggressive cost-cutting can sometimes lead to workforce reductions and lower morale. Finally, effective cost-control mechanisms are essential for maintaining the financial health, competitiveness, and growth potential of commercial banks, fostering investor confidence, and ensuring regulatory compliance.

The strong correlation between the variables—cost control and the financial performance of the participating firms—indicates that the study should be expanded beyond manufacturing firms to include other economic sectors in order to significantly impact the country's economic development and growth.

Suggestions for the Future Research

Future researchers can expand the scope of this study by exploring the impact of cost control mechanisms in industries beyond banking, such as manufacturing, healthcare, and service sectors. This would provide a broader understanding of the relationship between cost control practices and financial performance across diverse economic contexts. Additionally, incorporating variables like risk management, cash flow management, or investment decision-making could yield deeper insights into how financial controls collectively impact organizational performance. Conducting longitudinal studies could further enhance understanding by examining the long-term effects and sustainability of cost control practices, particularly during economic fluctuations. Researchers might also consider cross-regional or cross-cultural analyses to identify variations in the effectiveness of cost control mechanisms under different contextual settings. Exploring employee perspectives on motivation and participation in cost control initiatives can provide actionable insights into balancing efficiency with employee satisfaction. Moreover, future studies could examine the role of digital tools and technologies, such as AI and financial analytics platforms, in enhancing cost control practices and financial performance.

Broader performance metrics, including customer satisfaction, operational efficiency, and corporate social responsibility, could also be integrated to evaluate the holistic impact of cost control measures on organizational outcomes. Investigating the influence of regulatory compliance on cost control practices would be valuable, especially in understanding how legal frameworks affect financial performance. Behavioral insights, such as how management and employees respond to cost control initiatives, could also be explored to determine the role of leadership styles, organizational culture, and communication. Comparative studies between public and private sector banks, or between large and small banks, could reveal whether size and ownership structure affect the efficacy of cost control mechanisms. Employing advanced statistical techniques, such as structural equation modeling (SEM) or machine learning, could allow for more complex analyses and predictions. Finally, focusing on emerging economies could shed light on how cost control mechanisms influence financial performance in contexts where banks face unique challenges and opportunities. These directions would enrich the literature and provide practical insights for improving cost control practices and financial performance in various organizational settings.

References

Akeem, L. B. (2017). Effect of cost control and cost reduction techniques in organizational performance. *International Business and Management, 14* (3), 19-26.

Bett, J., & Memba, F. (2017). Effects of internal control on the financial performance of processing firms in Kenya: A case of menengai company. *International Journal of Recent Research in Commerce Economics and Management, 4(1)*, 105-115.

Fapohunda, R. T. (2020). *The usage of cost control measures to improve organizational performance of small and medium-sized enterprises in Western Cape, South Africa*. (Doctoral dissertation, Cape Peninsula University of Technology).

Habineza, E. & Cortez, R. (2023). The effect of budget control on financial performance among state-owned enterprises: Towards enhancing a budget management control policy. *International Multidisciplinary Research Journal,* https//doi.org/ 10.54476/155664

Ibrahim, A. U., & Mustapha, A. M. (2019). Impact of financial control mechanisms on profitability performance: A case of manufacturing firms in Nigeria. *International Journal of Managerial Studies and Research (IJMSR), 7*(3), 1-10.

Imo, O.T., & Des-Wosu, C. (2018). An assessment of the effect of budgetary control on return on assets and net profit of government-owned companies in rivers state. *International Journal of Academic Research in Accounting, Finance and Management Sciences, 8 (3*), 277-286.

Kothari, C.R. (2004) *Research methodology: Methods and techniques.* 2nd Edition, New Age International Publishers.

Lawal, B. A. (2017). Effect of cost control and cost reduction techniques in organizational performance. *International Business and Management, 14*(3), 19-26. https//doi.org/10.3968/9686

Matsoso, M. L., Nyathi, M., & Nakpodia, F., (2021). An assessment of budgeting and budgetary controls among small and medium-sized enterprises: evidence from a developing economy. *Journal of Accounting in Emerging Economies, 10,* 1108/JAEE-04-2020-0082.

Mligo H.E. & Maseko F.E., (2022). The effects of the budgetary process on the financial performance of commercial banks in Tanzania: A case of CRDB, NMB AND NBC, *European Journal of Accounting, Auditing and Finance Research, 10*(11), 69-86.

Murugan S. A. & Ramprathap K., (2022). Cost reduction techniques and its impact of financial performance. *Indian Scientific Journal of Research in Engineering and Management,* https//doi.org/10.55041/ijsrem14253

Namu, N. N., Kaimba, G. K., Muriithi, D. K., & Nkari, I. M. (2014). Impact of cost reduction strategies on performance of tea factori es in embu county, Kenya. *European Journal of Business and Social Sciences*, *3*(9), 26-48.

Nunnally, J. C., (1978). *Psychometric theory* (2nd ed.). McGraw-Hill.

Nuryawani, T. P., (2021). The impact evaluation of the authority delegation from the district mayor to the Department of Investment and One-stop Service (OSS) on economic performance in Indonesia. *The Indonesian Journal of Development Planning, V*(1), 144-159 https//doi.org/10.36574/jpp.v5i1.179

Obara, L., (2014). Cost control and accountability for effective budget implementation. *Research Journal of Finance and Accounting, 5,* 199-202.

Olaoye, S. A., Ogbebor, P. I., & Elelu, F. S. (2021). Financial control practices and accountability in the public sector in Nigeria. *Journal of Economics, Finance, and Management Studies, 4,* https//doi.org/10.47191/jefms/v4-i7-08.

Omboga J. K. & Okibo W. B., (2016). Effects of financial planning practices on the growth of small manufacturing firms in Kishii County, Kenya. *International Journal of Economics, Commerce and Management, iv(4).*

Oyedokun, G. E., Tomomewo, A., & Ajao, O. S., (2019). Cost control and profitability of selected manufacturing companies in Nigeria. *Journal of Accounting and Strategic Finance, 2,* 14-33. https//doi.org/10.33005/jasf.v2i1.31.

Schubert, H., & Kirsten, S., M. (2021). Effect of budgeting control on the financial performance of SMEs in Germany. *Journal of Finance and Accounting, 5(3*), 1-9

Senyuta, O., (2013). Delegation and performance. *SSRN Electronic Journal. 10.*2139/ssrn.2358526.

Siyanbola, T.T. & Raji, G.M., (2013). The impact of cost control on manufacturing industries' profitability. *International Journal of Management and Social Science Res, 2*, 2319-4421.

Soesetio, Y., (2023). Good corporate governance mechanisms and financial performance in controlling financial distress. *International Journal of Business and Social Science,* https//doi.org/10.54099/aijbs.v3i1.542

Speciose, M. & Rusibana, C. (2022). *Financial control and organizational performance.* (Doctoral dissertation, Mount Kenya University Rwanda).

Tomizh, H. M., Saadon, M., Nordin, A., & Almahasneh, Y., (2022). The mediating effect of job satisfaction on the relationship between the delegation of authority and the performance of employees. *Corporate Governance and Organizational Behavior Review, 6.* 100-109. https//doi.org/10.22495/cgobrv6i4p9.

Wachira, J. M., Mshenga P. M., & Saidi, M., (2014). Comparison of the profitability of small-scale greenhouse and open-field tomato production systems in Nakuru-North District, Kenya. *Asian Journal of Agricultural Sciences, 6,* 54-61. https//doi.org/10.19026/ajas.6.5303.

To Cite this Article [APA Style, 7th Edition]:

Joshi, B. R. (2024). Impact of cost control mechanism on financial performance. *Journal of Durgalaxmi, 3*(1), 19–43. https://doi.org/10.3126/jdl.v3i1.73844