Assessing the effect of costing on financial performance of businesses in Baidoa, Somalia

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Abstract

Improved financial performance by businesses plays a crucial role in their survival. In the long-run, this contributes to a country's economic growth which aligns with the UN sustainable development goals. This study sought to establish the effect of costing on financial performance of businesses in Baidoa in Somalia. Descriptive, correlational and cross-sectional designs were applied. using a questionnaire data was collected from a sample of 104 respondents working at Caafi Water Supply Company in Baidoa Somalia. Results revealed a positive coefficient correlation (R = .607) between costing and financial performance; this indicated a moderate relationship between the study variables. An R-Square of .369 indicated that 36.9 of the changes in financial performance was accounted for by costing which implied that the remaining 65.1% was accounted for by other factors that were not studied by this current study. It is evident that effective costing systems play a crucial role in enhancing the company's financial health. These results suggest that investing in improved costing practices can yield substantial benefits for financial performance of businesses. This study recommends that, businesses should implement Active Based Costing (ABC) to ensure more accurate allocation of indirect costs to services and products. Also, businesses should establish strict policy framework for cost management to ensure that cost control is effectively enforced, allowing for better financial performance through improved decision-making and resource allocation.

Keywords: Costing, Financial Performance of Businesses

Introduction

The purpose of costing in ensuring a better financial position of an organization cannot be underestimated as it plays a crucial role in the survival and growth of businesses. It is every organizations dream to have a health financial position which can be achieved through proper costing and management. If costing is effectively managed, it can substantially contribute to the performance of an organization. Strategic cost management plays a crucial role in improving financial performance of organizations (Feinberg & Zanardi, 2022).

Maximization of profits and cost reduction are every business's ultimate goal as this can be achieved through proper costing which may lead to maximization of the shareholders wealth (Christian, 2019). Cost is defined as all those resources that have been committed and sacrificed to achieve certain goals, this may involve buying of goods and services involved in the production of goods and services.

On the other hand, costing is the method and process of ascertaining the costs (Ayorinde, 2021). In other words, costing may refer to mechanisms used to assign costs to an any component of an enterprise. It is fundamentally instrumental in establishing cost for the clients, channels of distribution, the required manpower, the required goods, lines of production, processes and the company at large.

According to Rozlan and Hashim, (2018), costing is classified as either activity-based costing or inter-organizational costing. However, as a result of the changes in the business environment, there has emerged total quality management, activity-based costing and just in time (JIT) as the major tools of costing withing organizations. Other popular methods of costing include fixed and variable costs and factory overhead (Abdel-Kader and Luther, 2006). Costing is an important activity since it helps in ensuring a fair monitoring relating to costing and budgeting to minimize errors while computing the profits of a company, which if it is not properly calculated can lead to a business to close down. (Ayorinde, 2021; Gyamera et al., 2023)

According, several a lot of research studies have been conducted on costing and financial performance of businesses particularly in manufacturing and product business sectors. Costing is a significant predictor of performance for businesses. A corresponding unit increase in costing usually will have an impact on financial performance if other factors are constant and the reverse is always true (Adu-Gyamfi, et al., 2020). Costing systems like activity based result are crucial in ensuring good performance by enterprises, in that regard, they it is paramount for companies to improve their performance, strategies and policies that are properly alligned with costing systems (Elhamma 2018).

Product cost management by companies through activity-based costing in developing countries like Nigeria, Ghana, Kenya among many other countries leads to a reduction in the costs which makes it a better costing technique for cost reduction (Emengini, 2020). According to a previous study by Oluwagbemiga et al., (2014), it was also revealed that among manufacturing firms a positive correlation exists between cost management and financial performance. This finding suggests that cost management practices are play an central part in enhancing financial performance of manufacturing businesses. This implies that proper management of costs organizations will be in a good position minimize costs which subsequently leads to an improvement in profitability and a competitive advantage over other companies. This stresses the importance of costing and its management towards success among businesses.

Methodology

Research Design

Quantitative research designs were adopted in collecting and analyzing the data. Specifically, survey, cross-sectional, descriptive and correlational designs were employed in this study. Survey was used to collect data from a large population where a sample was used to represent the entire process. The study used a cross-sectional because in a way by collecting the data at one point in time. Descriptive designs were adopted in the analysis specifically by describing the level of costing and financial performance respectively. Correlational designs were employed in establishing the correlation and regression analyses. The choice for quantitative designs was based on its ability to give objective, replicable and measurable results.

Target population and sample size

The study target population was 140 staff members of Caafi Water Supply Company in Baidoa Somalia. These included executive management, senior management, accountants, financial managers and operating managers of Caafi Water Supply Company in Baidoa Somalia. These are 140 individuals in total. Using Krejcie & Morgan (1970) table for determining sample size, the study arrived 104 as its sample size. However, only 92 were able to return the questionnaires in a manner that would allow analysis.

Data Collection Instruments

Data collection tool also referred to as data collection instrument has been defined as a device used by a researcher to gather and collect data from the respondents ((Bryman, 2022). A study's title, problem statement, characteristics of the subjects, objectives and the data to be collected play a crucial role in determining which instrument is to be adopted (Kothari C., 2024). For this study, a research questionnaire was used to collect data. The study specifically used a structured questionnaire in order to be able to easily collect, quantify and analyze the data as supported by Amin (2005). Additionally, the use of a structured questionnaire has more advantages among them time saving, confidentiality, access to the study respondents, ease of access to complicated data and reduction of bias (Cooper & Schindler, 2014).

Data Analysis

As earlier stated, the data was collected using a structured questionnaire, the data collected was coded and entered Statistical Package for Social Science (SPSS). Data was quantitatively analyzed using statistics like the descriptive statistics among them mean, frequencies and standard deviation. For the study to be able to achieve its objective of establishing the effect, correlational and simple linear regression analysis were used respectively to assess how combined costing constructs as indicated by the descriptive statistics affects financial performance of Caafi Water Supply Company in Baidoa Somalia. Pearson linear coefficient correlation analysis was specifically employed to ascertain how the variables were related with one another and the strengths of the relationship between variables before a regression could be subsequently conducted.

Results

Results of descriptive statistics

Costing and financial performance of Caafi Water Supply Company in Baidoa, Somalia was established using data that was collected using a structured-on questionnaire using five questions, to which the respondents were requested to indicate their level of agreement or disagreement. The combination of descriptive statistics- entailed the analysis of the statements by determining their respective Mean and standard deviation along with their interpretations. The quantitative findings from the respondents are presented in the table below;

Table 1: Descriptive statistics of costing

Costing	Mean	Std. Deviation	Interpretation
All Caafi Company costs of production are recorded in the books.	3.3781	1.43747	Fair
Detailed operational planning, including production schedules and resource utilization, is essential for accurately estimating and controlling costs.	3.4229	1.39473	Good
Costing is done after adequate scanning of the external business environment	3.4328	1.41659	Good
Adequate measures are put in place to keep the costs at a minimum	3.4129	1.36881	Good
An analysis is always carried out to compare actual costs with budgeted costs	3.4080	1.42223	Good
Average mean	**3.41216**	**1.407966**	

Source: Primary Data, 2024

The descriptive statistics of costing of Caafi Water Supply Company revealed a generally positive picture, with an average mean score of 3.41216 (SD 1.407966), indicating a "Fair" level of implementation. While respondents acknowledge that "All Caafi Company costs of production are recorded in the books" (Mean 3.3781, SD 1.43747, "Fair"), they strongly agree that "Detailed operational planning, including production schedules and resource utilization, is essential for accurately estimating and controlling costs" (Mean 3.4229, SD 1.39473, "Good"). This suggests a focus on planning and cost control.

Furthermore, respondents indicated that, "Costing is done after adequate scanning of the external business environment" (Mean 3.4328, SD 1.41659, "Good") and that "Adequate measures are put in place to keep the costs at a minimum" (Mean 3.4129, SD 1.36881, "Good"), highlighting a proactive approach to cost management. The high agreement on "An analysis is always carried out to compare actual costs with budgeted costs" (Mean 3.4080, SD 1.42223, "Good") suggests a commitment to evaluating and improving cost efficiency. The relatively high standard deviations across the measures suggest some variation in opinions and practices regarding costing, which could be further explored to identify areas for improvement.

Overall, these findings indicate that Caafi Water Supply Company has implemented a relatively robust costing system, with a strong emphasis on planning, control, and analysis, which likely contributes positively to their financial performance.

Results of Pearson's linear correlation

The Pearson correlation was used to a certain the nature of the relationship, whether positively significant or negative relationship. For the study to be able to do regression analysis as a standard on PLCC was conducted /done to establish whether costing and financial performance on related results on presentable table

Table 2: Pearson's linear correlation on costing and financial performance of Caafi Water Supply Company in Baidoa, Somalia.

Study Variables		Costing	Financial Performance
Costing	Pearson Correlation	1	.607*
	Sig. (2-tailed)		.000
	N	92	92
Financial Performance	Pearson Correlation	.607*	1
	Sig. (2-tailed)	.000	
	N	92	92
*. Correlation is significant at the 0.05 level (2-tailed).			

Source: Primary Data, 2024

The findings in Table 2 above show a moderate positive relationship between Costing and Financial Performance at Caafi Water Supply Company. The Pearson correlation coefficient of .607 is statistically significant at the 0.05 level (2-tailed), based on a sample size of 92 respondents. A moderate positive correlation implies that if there is an effective increase in costing practices, there will be a corresponding improvement in financial performance as per this study's findings. These findings are in agreement with the view which states that better costing practices play an important role towards improving a company's financial performance. This implies that a company's investment in costing practices will consequently lead to a significant change in a company's financial health and performance. The correlation between costing practices is robust and suggests a direct link between proper costing prices and better financial performance at Caafi water supply company in Somalia.

Result of Linear Regression Analysis for Costing and Financial Performance

Table 3: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.607[a]	.369	.357	.49975
a. Predictors: (Constant), Costing				

Source: Primary Data, 2024

In the model summary table above, the results further support a moderate and positive relationship between costing practices and financial performance of Caafi Water Supply company with R = .607. According to the model summary, costing accounts for 36.9% variance in financial performance (R Square = .369) at Caafi Water Supply Company. This shows that costing is a significant factor that influences financial performance of the company. Findings from this study underscore the role played by costing in financial performance of a company. By explaining 36.9% of financial performance, it indicates that 64.1% change in financial performance at Caafi Water Supply company is explained by other factors that were not considered in this particular study. Nonetheless, costing play a crucial role to ensure a healthy financial position especially for a production company like Caafi Water Supply company.

Table 4: Analysis of Variance (ANOVA)

Model	Sum of Squares		Df	Mean Square	F	Sig.
1	Regression	8.168	1	8.168	32.706	.000[b]
	Residual	13.986	90	.250		
	Total	22.154	11			
a. Dependent Variable: Financial performance						
b. Predictors: (Constant) Costing						

Source: Primary Data, 2024

Results in the ANOVA table also confirm a significant correlation between costing practice and financial performance at Caafi Water Supply Company. An F-Statistic of 32.706 and Sig. = .000 indicate a high level of significance, which means that in a model where there is costing as a predictor of financial performance, the relationship is statistically significant. This affirms that when there is an improvement or any change in financial performance, it is usually random but rather caused by costing practices of the company. These results further underscore the role played by costing practices toward financial performance at Caafi Water Supply Company.

Table 5: Coefficients

Coefficients[a]			
Unstandardized Coefficients	Standardized Coefficients	T	Sig.

B	Std. Error	Beta		
(Constant) 2.993	.340		8.810	.000
Costing .093	.089	.607	2.101	.000
a. Dependent Variable: Financial Performance				

Unstandardized Coefficients: The unstandardized coefficient for costing is 0.093, indicating that for every one-unit increase in costing practices, financial performance is expected to increase by 0.93 units, holding all else constant. Standard Error: The standard error for the costing coefficient is 0.607, providing an estimate of the variability of the coefficient. Standardized Coefficient (Beta): The standardized coefficient is 0.607, suggesting that costing has a significant effect size on financial performance. t-statistic: The t-value for costing is 2.101, indicating that the coefficient is significantly different from zero. Significance (Sig.): The p-value for the costing coefficient is 0.000, confirming its statistical significance.

The coefficients indicate that costing is a significant predictor of financial performance. A positive coefficient value proposes and suggests to have better financial health at Caafi Water Supply Company, efforts have to be directed on improving the company's costing practices.

Discussion

This study discovered a moderate positive relationship between costing and financial performance of Caafi Water Supply Company in Somalia. The Pearson Linear coefficient correlation was 0.607. these findings on correlation indicate that costing is closely related to the financial performance of the company in a way that, if there is a slight change in costing practices, there will be a corresponding change in the financial performance of Caafi Water Supply company. This relationship is further supported by regression results where it was revealed that costing accounts for 36.9% of the variance in financial performance at Caafi Water Supply company. To further affirm all the above results, a Beta value of .93 was obtained, this implied that for every unit increase in costing, it would lead to a 0.93 improvement in financial performance at Caafi Water Supply Company. All these findings suggest a crucial role played by costing practices when it comes to financial performance of an organization. These finding support several other studies that stress the role of costing to enhance a company's financial position.

According to Drury (2018), costing plays a crucial role in providing core insights during decision making which subsequently influences the financial outcomes of the company. Similarly, proper costing is essential as it allows the company to accurately manage their financial and other resources which is crucial for-profit optimization of a company (Noreen and Soderstrom, 2020). Further in agreement with this study's findings, it was discovered that companies that were using advance techniques of costing were likely to perform better financially because of their capacity to assess their costs accurately and be able to set prices for their goods that were competitive in the market (Khan and Jain, 2019). All these previous finding support the findings of this study at Caafi Water Supply Company where costing was found to have a moderate relationship towards financial position and a significant account for changes in performance by 36.9% that was accounted for by costing.

Nonetheless, a few studies present a different view regarding the extent to which costing influences financial performance of a company. It is contended that as much as costing is very important, it is not the only factor that influences financial performance of a company. It is argued that other factors like market conditions, management styles, and many others also play a fundamental role towards shaping a company's financial performance (Horngren et al., 2019). Similarly, Bhimani et al. (2020) emphasizes that over concentration and emphasis may limit a company's thinking to the short-run. This may potentially make the company to neglect its long-term investment decisions which are crucial for a company's sustainability. Though these studies emphasize the role of other factors that are crucial in determining a company's financial performance, they still highlight the crucial role played by costing towards a company's financial position which also is in agreement with this study's findings.

Conclusion

According to this study's finding, the study highlighted the important role played by better costing practices to shape the financial position of Caafi Water Supply Company. A moderate positive relationship a 36.9% in financial performance accounted for by costing indicates that there exists a crucial and strong connection between costing and financial performance by Caafi Water Supply Company. This suggests that enhancement of costing practices through effective cost management directly influences and enhances the financial performance of the company.

Results from this study align with previous research studies which also emphasized the role played by costing in financial positioning of a company. They underscore the role played by costing towards a company's informed decision making, pricing strategies, resource allocation, profitability and general financial sustainability.

Nonetheless, it is important to recognize that though costing is a key driver for a company's financial performance, it is also crucial to acknowledge the role played by other factors like inflation, management styles, forces of demand and supply among many other. It is fair to conclude that costing is crucial for a company's financial position, but costing does not operate in isolation in the company's financial performance.

Overall, this study significantly makes a contribution to the body of knowledge with empirical findings supporting need for better costing practices to improve a company's financial performance despite the holistic approach that takes into consideration other business strategies that contribute to its financial performance.

Recommendations

Based on this study's findings and conclusions, the research proposes the following recommendations to improve and enhance financial performance by Caafi

Water Supply company and other related businesses: -

The company should strengthen its costing strategies by implementing advanced costing strategies like Activity Based Costing (ABC) and target costing which are crucial techniques in enhancing a company's optimization of the resources and their allocation. This will potentially contribute will contribute in the company's financial decision which subsequently determines the company's financial performance.

Further, this study recommends that the company should invest more in technologies for cost management. This may involve technologies like Enterprise Resource Planning (ERP) systems and other costing software to enhance efficiency and minimize errors in financial reporting which is crucial for a company's financial performance.

The research also recommends a holistic approach to improve its financial performance. Whereas costing plays an important role towards financial performance of a company, it is key that the company also considers other factors like leadership styles, market conditions and long-term investments to have a secure and better financial performance.

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