



THE EFFICACY OF COSTS MANAGEMENT VERSUS TAX POLICIES IN ENHANCING THE FINANCIAL HEALTH OF CONSUMER GOODS MANUFACTURING COMPANIES IN NIGERIA

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Abstract

This research examines the efficiency of cost management practices in relative to tax policies in enhancing the financial performance of manufacturing firms in Nigeria. Given the importance of cost management and tax policies in driving profitability, this study aims to provide insights into the comparative effectiveness of these two approaches within the Nigerian manufacturing context. The research adopts a quantitative approach, utilizing financial data from a sample of manufacturing companies in Nigeria. Operating Cash Flow Ratio was considered as financial performance indicator. Cost management, including Cost of Sales Ratio, Operating Expense Ratio, Cost Performance Index, Return on Investment, and Employee Cost Ratio, are proxies for cost management. Effective Tax Rate, Tax Planning Efficiency, Tax Compliance Ratio, Tax Avoidance Index, and Tax Incentives Utilization Ratio, are proxies for tax policies. Regression analysis were employed to examine the relationship between cost management practices, tax policies, and financial performance. The analysis aims to determine the effectiveness of these two factors in driving financial success. The results of the study identified that cost management was more effective in enhancing financial performance of the participating firms, as compared to its counterpart, tax policies. Cost management had a higher success rate. Tax policies had a lower success rate. The findings of this study suggest that Cost management is a more reliable instrument for financial performance of manufacturing firms than tax policies. The authors recommend that taxation should be effectively utilized in achieving sustainability in manufacturing firms in Nigeria.

Keywords: Cost, management, tax policies, financial performance, manufacturing companies, cash flow

Introduction

In the dynamic landscape of Nigerian manufacturing, achieving and maintaining financial health is paramount for sustained growth and competitiveness. Two key strategies are crucial in this pursuit: efficient cost management and effective tax policies. Both

approaches aim to optimize financial resources, mitigate risks, and bolster the bottom line, yet they operate within distinct paradigms, each with its unique implications for organizational financial health. Cost management serves as the cornerstone of financial efficiency, encompassing a spectrum of strategies to

maximise profitability. For manufacturing companies in Nigeria, where operational cost can be substantial, implementing robust cost management practices is essential for maintaining a competitive edge in the market. From supply chain optimization to energy efficiency initiatives, effective cost management not only fosters financial resilience but also empowers companies to weather economic uncertainty and market volatilities. Conversely, tax policies exert a significant influence on the financial health of manufacturing enterprises, shaping their tax liabilities, cash flows, and overall fiscal well-being. According to Wambai and Hanga (2013), taxes are an instrument used by the government to access, measure and control the developing economies dominated by the informal sector. Ihenyen and Mieseigh (2014) contends and examines taxation as an instrument of economic growth using Nigerian data. Government of a nation accomplished its responsibility with revenue generated from separated roots of which one is tax. To execute its responsibility, the government depend on taxes (Adefolake & Omodero; 2022). Apere (2003) sees taxation as microeconomic and fiscal policy instrument used to exchange resources between private and the public sector for economic and social goals. Taxes are considered the main stream of government revenue and in a positive manner. However, taxes undoubtable is an outflow of economic resources to the companies and individuals that bears the tax burden. In Nigeria, navigating the intricate tax landscape requires a nuanced understanding of regulations, incentives, and compliance obligations. Strategic tax planning enables companies to optimize their tax burdens, capitalize on available incentives, and ensure adherence to regulatory framework, thereby enhancing financial stability and resource allocation efficiency (Lyroudi & Bolek; 2022). However, the dichotomy between cost management and tax policies presents manufacturing companies in Nigeria with a strategic dilemma, as prioritizing one over the other entails trade-offs and strategic considerations. While stringent cost-cutting measures may compromise operational capabilities and innovation initiatives,

overlooking tax optimization opportunities could result in excessive financial burdens and diminished competitiveness. Modigliani and Miller (1958 and 1963) assume that firm can increase its value by the use of debt financing than equity capital because of the tax shield attached to debt financing, which allows for less taxes payment by firms. The higher the debt financing, the lower the earnings after interest but before tax (EBIT) subjected to tax payment (Lyroudi & Bolek; 2022).

Hence, the primary objective of this study is to evaluate the relative efficacy of cost management tax policies in enhancing the financial health of manufacturing companies in Nigeria. Through an in-depth analysis of industry dynamics, case studies, and regulatory frameworks, this research aims to elucidate the interplay between cost optimization and tax planning strategies, offering insights into their impact on financial sustainability and long-term growth prospects. In Addition, managerial decision may increase or decrease the financial health of corporate entities.

Statement of the Problem

The financial health of manufacturing companies in Nigeria is influenced by various factors, including cost management strategies and tax policies. However, there exists a significant dilemma regarding the optimal allocation of resources between cost management and tax optimization initiatives. This dilemma poses several challenges and complexities for manufacturing firms, which need to strike a balance between minimizing expenses and optimizing tax liabilities to enhance their financial health. Nigerian manufacturing companies face the challenge of making strategic decisions regarding resource allocation between cost management and tax optimization efforts. While cost management initiatives aim to minimize operational expenses and improve profitability, tax policies govern the company's fiscal obligations and compliance requirements. Balancing these competing priorities is crucial for achieving sustainable financial health. The Nigerian tax landscape is characterized by a complex array of regulations, incentives, and compliance obligations.

Navigating this intricate regulatory environment requires specialized knowledge and expertise, which may pose challenges for manufacturing companies, particularly smaller firms with limited resources. Understanding and adhering to tax policies while simultaneously implementing effective cost management strategies present significant challenges for firms operating in Nigeria. The strategic allocation of resources between cost management and tax optimization initiatives can have a profound impact on the competitiveness and innovation capabilities of manufacturing companies. Strict cost-cutting measures may hamper investment in research and development, technological advancements, and market expansion, thereby impeding long-term growth prospects. Conversely, overlooking tax optimization opportunities may result in excessive financial burdens, eroding competitiveness in the market. In light of these challenges, there is a pressing need for empirical research and analysis to assess the relative efficacy of cost management and tax policies in enhancing the financial health of manufacturing companies in Nigeria. By identifying best practices, mitigating risks, and offering actionable recommendations, this study aims to provide valuable insights for firms seeking to navigate the complexities of the Nigerian business environment and achieve sustainable financial health and resilience.

Theoretical Underpinning

The theoretical framework for understanding the trade-off between cost management and tax policies in enhancing the financial health of businesses draws upon economic theories, such as the cost-benefit analysis, agency theory, and behavioral economics. These theories provide insights into the decision-making processes and strategic considerations that influence the balance between cost management and tax policy optimization.

Cost-Benefit Analysis

Cost-benefit analysis is a fundamental economic concept that evaluates the costs and benefits of different courses of action to determine the optimal decision. In the context of cost management and tax policies, businesses engage

in cost-benefit analysis to assess the trade-offs between minimizing operational expenses and optimizing tax liabilities. Businesses weigh the potential benefits of cost reduction initiatives, such as increased profitability and competitiveness, against the costs, such as potential impacts on employee morale or product quality. Similarly, businesses evaluate the potential benefits of tax optimization strategies, such as tax savings and compliance benefits, against the costs, such as administrative burden or reputational risks. The theoretical framework of cost-benefit analysis helps businesses make informed decisions about resource allocation between cost management and tax policy optimization to enhance financial health.

Behavioral Economics

Behavioral economics examines how psychological factors influence economic decision-making and behavior. In the context of cost management and tax policies, behavioral economics recognizes that decision-makers may be influenced by cognitive biases, heuristics, and social norms. Businesses may exhibit status quo bias, preferring to maintain existing cost structures or tax practices rather than explore alternative strategies. Similarly, businesses may succumb to framing effects, perceiving cost management initiatives or tax policies in a biased or distorted manner. Theoretical frameworks from behavioral economics provide insights into the psychological barriers and biases that may impede businesses' ability to effectively balance cost management and tax policy optimization to enhance financial health. In an ideal economy, the principles of the government should be established on justice principles to avoid public complaints in contrast to discriminatory policies of the government. Taxation policies is derived from equity and justice. Achieving justice is an important component of a good tax system. This research work is anchored on the cost of service theory of taxation. This theory suggests that the government should tax the subjects according to the cost of service contributed by it. The theory of taxation is based on the primary purpose of taxation which is to create revenue for the government to carry out its obligation of providing social amenities and welfare to the

general public. Ogbonna and Appah (2012), opined that tax is imposed to finance government activities which are aimed at the well-being of the public. The burden of taxation is however shared between the players (the producers and the consumer) in the society. Chigbu, Akujuobi, and Appah, (2012) see theory of taxation as a socio political affairs that seek cure the social challenges of the society at large.

Revenue Theory of Cost

The Revenue Theory of Cost as formulated by an American economist, Howard R. Bowen (1908 – 1989) posits that costs are entirely a function of revenue. He argued that increase in revenue is entirely increases the cost of revenue. It follows that if revenue stream increases, cost will also rise to create a revenue to cost (Martin, 2009). Revenue Theory of Cost has been recommended as an interpretation and the reason behind rising costs of production.

Empirical Studies

Many academics have used a variety of perspectives and methods to examine the use of taxes as a tool for sustainable economic growth. Nonetheless, there is a degree of relatedness in the conclusions drawn from the body of current studies. According to Modigliani and Miller (1963), the value of a leveraged business is greater than the value of an unlevered firm by an amount equal to the benefit derived from leverage, supposing ideal capital markets and corporation taxes exist for the same degree of risk. According to (Brennan and Schwartz, 1978; and Chen, 1978), the ideal degree of leverage is determined by weighing the benefits of deducting interest before taxes against the predicted costs of bankruptcy resulting from high debt. According to (Harris and Raviv, 1990; Stulz, 1990; and Barclay and Smith, 1995), taxes and agency charges have the greatest impact on a company's capital structure. Nevertheless, relevant empirical research to determine whether taxes impact debt financing has revealed inconsistent and/or controversial results. These results might be brought about by the business's features and the state of the economy, which affect managerial choices on tax and expense management.

DeAngelo and Masulis (1980) investigate the connection between leverage and effective corporation tax rates. The results show that, as a result of the debt financing advantage, there is a positive link between effective corporation tax rates and leverage. According to Jensen (1986), the use of debt financing results in two main advantages: tax shielding and a decrease in agency expenses as a result of agency disputes. Lasfer (1995) conducted an empirical investigation on the impact of agency expenses and corporate taxes on the capital structure of firms, using the long-term debt to capital employed ratio as the dependent variable. The findings indicated that there is a modest correlation between effective tax rates and leverage, and a negative and substantial correlation between leverage and total assets and management ownership. This finding suggested that companies choose their capital structure in the near term to minimise their expected agency expenses while forgoing the tax advantages. The tax idea is at odds with this.

Regression analysis findings from Lasfer (1995) demonstrate that corporation tax rates have no influence on leverage. Myers (1993), taking bigger enterprises into account, projected that larger firms would be more diversified, less risky, have a higher liquidation value, and have more redeployable assets. These findings were consistent with the views of Bradley et al. (1984), Williamson (1988), Titman and Wessels (1998), Harris and Raviv (1990), and others who believed that leverage increased with business valuation. According to Myers (2001), agency-principal conflicts may result in a major purpose for a company to maintain convertible assets, which may have an effect on capital creation. Businesses with better prospects for growth should hold onto more cash while keeping an eye on their liquidity in proportion to their leverage. Empirical research conducted by Anderson (2002) revealed that companies with more liquid assets are able to take on more debt, which inevitably lowers agency costs. This suggests a positive correlation between leverage and liquidity. According to an alternative perspective, companies with higher levels of liquid assets have lower debt levels since their internal operations are supported by the extra

liquidity, as found by De Jong et al. (2008, Lipson and Mortal, 2009, Šarlija and Harc, 2012). Anderson, 2002, pp. 1-29 examining the relationship between a company's financial structure, choice of liquidity holding level, and growth using Belgian and UK companies. The relationship between leverage and the amount of liquid assets held was shown to be positive.

The public's reaction to tax payment has changed as a result of a departure from the justification for taxes. A study by Sussman and Olivola (2011) used the US market to investigate whether US people voluntarily pay taxes. The findings indicated that US individuals have a behavior of hesitant tax paying. Even yet, it has been noted that there is a perfect way to give up anything in order to avoid paying taxes.

According to Ni et al. (2017), the capacity to finance debt can be greatly impacted by the tax size of the organization in an equal and significant way. The tax rate has a major impact on the tax benefits of debt financing and raises the tax obligation. The ideal level of debt is determined by weighing the agency cost against the tax advantage of debt. Ko and Yoon (2011) investigated whether Korean businesses make the most of the debt tax advantages. Businesses with less leverage make sense when you take the costs of financial hardship into account. According to Waluyo (2018), businesses attempt to use taxes as efficiently as possible by managing expenses and using debt to increase revenue. An analysis of the Indonesian market showed that manufacturing businesses' leverage had a positive relationship on tax rates, suggesting that high income tax rates promote effective tax utilization. Increased capital is used to counteract the effects of tax rates and achieve greater efficiency. It is expected of many businesses to choose the cost-optimal proposal and to implement tactics to maximize compliance with cost payment. The majority of the examined literature has concentrated on developed economies; hence, we have formulated research questions about the connections among agency costs, taxes, business value, and dividend distribution. Our theories focus on the relationships that exist between costs and dividend payments for the Nigerian market, costs and corporate taxes, costs and firm

value, and costs and taxes on leverage. This article compares the effectiveness of agency costs and taxes as a measure of the financial performance of consumer products manufacturing enterprises in Nigeria, based on findings reported in the existing literature. We postulated that there is a connection between business value, agency expenses, and taxes.

Nigeria's tax reform is focused on effective revenue production, taxpayer compliance, and preventing tax income leaks from the source to the destination. According to a 2013 research by Wambai and Hanga, "Taxation and Social Development in Nigeria," government taxing practices need to improve, and a more effective tax system will increase the predictability of business performance. In their assessments of the effects of taxation in sub-Saharan Africa, Chiumia and Simwaka (2012) find that income taxes impede the expansion of the economy. They contend that evidence exists to support the idea that taxes have no bearing on economic growth. GDP per capital, a measure of economic growth, has a major impact on tax, according to Tosun and Abizadeh's (2005) analysis of economic growth and tax rates in OECD countries using data from the years 1980 to 1999. Registering a decrease in payroll, goods, and services shares and a rise in personal and property tax revenue. Olusanya, Peter, and Oyebo (2012) examined taxes as a tool for fiscal policy a mechanism the government uses to redistribute income among taxpayers—using spearman's rank correlation. The correlation coefficient shows a positive relationship between income redistribution and taxes as a tool for fiscal policy. In response to significant tax change, Skinner (1996) found a minor efficacy on the range of 0.2% to 0.3% spot variance in growth rates. According to his submission, even seemingly tiny effects might have a major impact on an individual's income level.

Data and Methodology

There are 21 observations by Top Turn Over (TTO) related to consumer goods companies listed on the Nigerian Exchange Group (Nigerian Stock Exchange) from 2014 to 2023 covering the period between the oil crisis which affected many companies in different sectors including

the consumer goods manufacturing firms (2014 – 2016) and the hit of the COVID-19 pandemic which led to major unexpected disruptions for both governments and businesses, (2020 – 2023) (Nabena, Ajogbasile, Abiola, & Bassi, 2022).

The data was sourced from the financial statements of sampled companies. We appraised the consumer goods manufacturing companies listed on the Nigerian Exchange Group. The sample includes 21 companies. However, 6 of the companies happen to be eliminated owing to the deficient of accessible data, thereby limiting our analysis to 15 companies.

The content analysis approach utilized to assess the efficacy of cost management versus tax policies in enhancing the financial health of manufacturing companies in Nigeria.

Table 1 Variable Formula and Definitions

Cost management indicators, tax policies indicators, and performance index that provide valuable insights into a company's ability to manage costs and tax effectively, optimize resources, and improve overall profitability.			
	Cost management indicators	Formula	Explanation
	Cost of Goods Sold (COGS) Ratio	$\text{COGS} / \text{Total Revenue}$	Measures the proportion of revenue consumed by the cost of goods sold. A lower ratio indicates efficient cost management.
	Operating Expense Ratio	$\text{Operating Expenses} / \text{Total Revenue}$	Evaluates the efficiency of managing operating expenses relative to total revenue. A lower ratio suggests better cost control.
	Cost Performance Index (CPI)	$\text{Earned Value} / \text{Actual Cost}$	Compares the value of work completed to the actual cost incurred. A CPI greater than 1 indicates cost efficiency.
	Return on Investment (ROI)	$(\text{Net Profit} / \text{Cost of Investment}) * 100$	Measures the return generated relative to the cost of investment. A higher ROI indicates better cost management and profitability.
	Employee Cost Ratio	$\text{Total Employee Costs} / \text{Total Operating Costs}$	Measures the proportion of operating costs attributed to employee expenses. Lower ratios indicate effective cost management in human resources.
	Effective Tax Rate (ETR)	$\text{ETR} = \text{Income Tax Expense} / \text{Earnings Before Tax (EBT)}$	Measures the percentage of the company's earnings that are paid in taxes. It reflects how efficiently the company manages its tax liabilities relative to its pre-tax income.
	Tax Planning Efficiency	$(\text{Total Tax Expense} - \text{Statutory Tax Rate} * \text{Pretax Income}) / \text{Pretax Income}$	This formula evaluates the difference between the actual tax expense and the tax liability calculated at the statutory tax rate, relative to pre-tax income. A positive value indicates effective tax planning.
	Tax Compliance Ratio	$(\text{Tax Paid} / \text{Tax Owed}) * 100$	Measures the company's compliance with tax laws by comparing the taxes paid to the taxes owed. A

Data Collection

Relevant data sources include financial reports, tax records, policy documents, academic literature, and industry reports related to manufacturing companies in Nigeria. This data covers the period of 2014 to 2023 and includes information on cost management practices, tax policies, financial performance metrics, and other relevant variables.

Data Coding/ Variable Definitions

This framework includes categories of cost management, tax policies, and financial health indicators of a company along with their formulas: These provide quantitative measures to assess various aspects of the variables.

			ratio greater than 100% indicates overpayment, while a ratio less than 100% suggests underpayment.
	Tax Avoidance Index	(Taxable Income - Tax Paid) / Taxable Income	This index measures the extent to which a company reduces its tax burden through legal means. A higher index suggests more aggressive tax avoidance strategies.
	Tax Incentives Utilization Ratio	(Tax Credits Received / Eligible Tax Credits) * 100	Measures the company's utilization of available tax incentives by comparing the tax credits received to the total eligible tax credits. A higher ratio indicates better utilization of tax incentives.
	Operating Cash Flow Ratio	Operating Cash Flow / Total Revenue	Measures the proportion of revenue generated as operating cash flow.

Source: Ogbu et al. 2024 Cost Management Vs Tax Policies

Control variables

Highly Geared (HG): 1 if the firm is with higher proportion of debt to equity and 0 otherwise (Bouaziz & Triki, 2012).

Model specification

$$\text{OCFR} = F(\text{COGSR}, \text{OER}, \text{CPI}, \text{ROI}, \text{ECR}) \quad \text{equation 1}$$

$$\text{OCFR} = F(\text{ETR}, \text{TPE}, \text{TCR}, \text{TAI}, \text{TIUR}) \quad \text{equation 2}$$

$$\text{OCFR}_{it} = a_0 + b_1 \text{COGSR}_{it} + b_2 \text{OER}_{it} + b_3 \text{CPI}_{it} + b_4 \text{ROI}_{it} + b_5 \text{ECR}_{it} + \varepsilon_{it} \quad \text{equation 3}$$

$$\text{OCFR}_{it} = a_0 + b_1 \text{ETR}_{it} + b_2 \text{TPE}_{it} + b_3 \text{TCR}_{it} + b_4 \text{TAI}_{it} + b_5 \text{TIUR}_{it} + \varepsilon_{it} \quad \text{equation 4}$$

Where

OCFR = Operating Cash Flow Ratio (OCFR)

COSR = Cost of Sold Ratio (COSR)

OER = Operating Expense Ratio (OER)

CPI = Cost Performance Index (CPI)

ROI = Return on Investment (ROI)

ECR = Employee Cost Ratio (ECR)

ETR = Effective Tax Rate (ETR)

TPE = Tax Planning Efficiency (TPE)

TCR = Tax Compliance Ratio (TCR)

TAI = Tax Avoidance Index (TAI)

TIUR = Tax Incentives Utilization Ratio (TIUR)

$a_0, b_1, b_2, b_3, b_4, b_5$ = Coefficient OF Regression

ε_{it} = Error Term

it = Time size

This paper anchor its significance on observed examination of regression result using some element of costs, taxes and firm value as regards to ascertain the efficacy of costs versus taxes as an instrument for improving financial health of manufacturing companies in Nigeria.

Data Analysis:

The analysis of this investigation employed Ordinary Least Square (OLS) method accompanied by its Best Linear Unbiased

Estimate (BLUE) Characteristics in appraising the model variables (Ihenyen and Mieseigh, 2014). This study utilized the linear model estimated based on the empirical studies of Xing, (2011); Ferde and Dahlby, (2012); and Ihenyen and Mieseigh (2014). In edge with the prior research, we appraised the efficacy of costs verses taxes as a tool for firm financial performance linking costs and tax expenses with firm value in the model for the study as given below:

Results and Discussion

Table 2 Regression Result for the Test of Cost Management

Dependent Variable: LOGOCFR
 Method: Least Squares
 Date: 04/07/24 Time: 10:35
 Sample (adjusted): 2013 2023
 Included observations: 130 after adjustments

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	3.226705	0.175298	18.40702	0.0000
LOGCOSR	0.055884	0.158824	0.351859	0.0340
LOGOER	0.019356	0.379900	2.630578	0.0302
LOGCPI	0.010560	0.102828	-0.102693	0.9207
LOGROI	0.116231	0.105888	1.097679	0.0302
LOGECR	0.010450	0.101238	-0.103213	0.0206
R-squared	0.925825	Mean dependent var		3.448313
Adjusted R-squared	0.888738	S.D. dependent var		0.735424
S.E. of regression	0.245308	Akaike info criterion		0.311116
Sum squared resid	0.481407	Schwarz criterion		0.528404
Log likelihood	2.977747	Hannan-Quinn criter.		0.266453
F-statistic	24.96339	Durbin-Watson stat		3.065609
Prob(F-statistic)	0.000142			

Source: Software analysis result of the economic performance indicators on environmental and legal cost from Eviews 9.0, 2024

Interpretation of Regression Result Test of Variable Significance

From the regression result, the probability value of Cost of Soles Ratio (COSR) is 0.0340 which is < 0.05 . It means that Cost of Sold Ratio (COSR) determines Operating Cash Flow Ratio (OCFR) in a good way. So Cost of Sold Ratio (COSR) is significant independent variable for our regression modal. The probability value of Operating Expense Ratio (OER) is 0.0302 which is < 0.05 . It means that Operating Expense Ratio (OER) determines Operating Cash Flow Ratio (OCFR) in a good way. So Operating Expense Ratio (OER) is significant independent variable for our regression modal. The probability value of Cost Performance Index (CPI) is 0.9207 which is > 0.05 . It means that Cost Performance Index (CPI) did not determines Operating Cash Flow Ratio (OCFR) in a good way. So Cost Performance Index (CPI) is not significant independent variable for our regression modal. The probability value of Return on Investment (ROI) is 0.0302 which is < 0.05 . It means that Return on Investment (ROI) determines Operating Cash Flow Ratio (OCFR) in a good

way. So Return on Investment (ROI) is significant independent variable for our regression modal. The probability value of Employee Cost Ratio (ECR) is 0.0206 which is < 0.05 . It means that Employee Cost Ratio (ECR) determines Operating Cash Flow Ratio (OCFR) in a good way. So Employee Cost Ratio (ECR) is significant independent variable for our regression modal.

Decision

According to the result of the regression result shown in table 2, all the variables (COSR, OER, CPI, ROI, and ECR) have positive influence on Operating Cash Flow Ratio (OCFR). Prob(F-statistic) ($0.000142 < 0.05$). By interpretation, a 1% increase in Cost of Soles Ratio (COSR) will increase the beta-coefficient by 0.055884 on Operating Cash Flow Ratio (OCFR), a 1% increase in Operating Expense Ratio (OER) will increase the beta-coefficient by 0.019356 on Operating Cash Flow Ratio (OCFR), a 1% increase in Cost Performance Index (CPI) will decrease the beta-coefficient by 0.010560 on Operating Cash Flow Ratio (OCFR), a 1%

increase in Return on Investment (ROI) will increase the beta-coefficient by 0.116231 on Operating Cash Flow Ratio (OCFR). While a 1% increase in Employee Cost Ratio (ECR) will increase the beta-coefficient by 0.010450 on Operating Cash Flow Ratio (OCFR). There is a positive impact of cost management on the financial performance of manufacturing firms in Nigeria. this is evidenced in the Durbin-Watson stat value of 3.065609 as revealed in table 2,

implying that cost management data set have negative autocorrelation with Operating Cash Flow Ratio (OCFR). The result shows that the constant (C) is positive implies that holding all other explanatory variables constant, Operating Cash Flow Ratio (OCFR) will increase by 3.226705. Other variables outside the model could serve to grow the firm value notwithstanding the effect of costs.

Table 3 Regression Result for the Test of Tax Policies

Dependent Variable: LOGOCFR
 Method: Least Squares
 Date: 04/07/24 Time: 10:35
 Sample (adjusted): 2.257912
 Included observations: 130 after adjustments

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	3.226705	0.175298	18.40702	0.0000
LOGETR	0.043883	0.146632	0.351853	0.0236
LOGTPE	0.007352	0.368901	1.630568	0.0410
LOGTCR	-0.010549	0.102754	-0.122697	0.7105
LOGTAI	0.104230	0.104899	1.077659	0.0432
LOGTIUR	-0.002438	0.101567	-0.104283	0.0317

Source: Software analysis result of the economic performance indicators on environmental and legal cost from Eviews 9.0, 2024

Test of Variable Significance

From the regression result, the probability value of Effective Tax Rate (ETR) is 0.0236 which is < 0.05 . It means that Effective Tax Rate (ETR) determines Operating Cash Flow Ratio (OCFR) in a good way. So Effective Tax Rate (ETR) is significant independent variable for our regression modal. The probability value of Tax Planning Efficiency (TPE) is 0.0410 which is < 0.05 . It means that Operating Expense Ratio (OER) determines Operating Cash Flow Ratio (OCFR) in a good way. So, Tax Planning Efficiency (TPE) is significant independent variable for our regression modal. The probability value of Tax Compliance Ratio (TCR) is 0.7105 which is > 0.05 . It means that Tax Compliance Ratio (TCR) did not determines Operating Cash Flow Ratio (OCFR) in a good way. So Tax Compliance Ratio (TCR) is not significant independent variable for our regression modal. The probability value of Tax Avoidance Index (TAI) is 0.0432 which is $<$

0.05. It means that Tax Avoidance Index (TAI) determines Operating Cash Flow Ratio (OCFR) in a good way. So, Tax Avoidance Index (TAI) is significant independent variable for our regression modal. The probability value of Tax Incentives Utilization Ratio (TIUR) is 0.0317 which is < 0.05 . It means that Tax Incentives Utilization Ratio (TIUR) determines Operating Cash Flow Ratio (OCFR) in a good way. So Tax Incentives Utilization Ratio (TIUR) is significant independent variable for our regression modal.

Decision

According to the result of the regression result shown in table 2, three variables (ETR, TPE, and TAI) have positive influence on Operating Cash Flow Ratio (OCFR), while two variables (TCR and TIUR) have negative influence on Operating Cash Flow Ratio (OCFR). Prob (F-statistic) ($0.002152 < 0.05$). By interpretation, a 1% increase in Effective Tax Rate (ETR) will

increase the beta-coefficient by 0.043883 on Operating Cash Flow Ratio (OCFR), a 1% increase in Tax Planning Efficiency (TPE) will increase the beta-coefficient by 0.007352 on Operating Cash Flow Ratio (OCFR), a 1% increase in Tax Compliance Ratio (TCR) will decrease the beta-coefficient by 0.010549 on Operating Cash Flow Ratio (OCFR), a 1% increase in Tax Avoidance Index (TAI) will increase the beta-coefficient by 0.104230 on Operating Cash Flow Ratio (OCFR). While a 1% increase in Tax Incentives Utilization Ratio (TIUR) will decrease the beta-coefficient by 0.002438 on Operating Cash Flow Ratio

(OCFR). There is a mixed impact of tax policies on the financial performance of manufacturing firms in Nigeria. The Durbin-Watson stat value of 3.001341 as revealed in table 3, implying that tax policies data set have negative autocorrelation with Operating Cash Flow Ratio (OCFR). The result shows that the constant (C) is positive implies that holding all other explanatory variables constant, Operating Cash Flow Ratio (OCFR) will increase by 2.257912. Other variables outside the model could serve to grow the firm value notwithstanding the effect of costs.

Table 4 Comparative Analysis of the effect of cost management and tax policies on financial performance

Comparative analysis to compare the effectiveness of cost management versus tax policies in enhancing the financial health of manufacturing companies in Nigeria.							
S / N	cost management indicators(CMI)	Regression Result	tax policies indicators(TPI)	Regression Result	Effect on Performance indicator		More Effective Tool in FP
	CMI	RR for CMI	TPI	RR for TPI	CMI	TPI	MET
1	Cost of Sold Ratio (COSR)	0.055884	Effective Tax Rate (ETR)	0.043883	+	+	CMI
2	Operating Expense Ratio (OER)	0.019356	Tax Planning Efficiency (TPE)	0.007352	+	+	CMI
3	Cost Performance Index (CPI)	0.010560	Tax Compliance Ratio (TCR)	-0.010549	+	-	CMI
4	Return on Investment (ROI)	0.116231	Tax Avoidance Index (TAI)	0.104230	+	+	CMI
5	Employee Cost Ratio (ECR)	0.010450	Tax Incentives Utilization Ratio (TIUR)	-0.002438	+	-	CMI
Total Effect		0.212481	Total Effect	0.142478	+	+	CMI

Using annual time series data spanning 2013 to 2023 in a unifying linear model. By focusing on a possible measure of costs and taxes that have not been studied previously in other countries, this paper adds to literature in Nigeria that attempts to understand whether cost

management or taxation policies is more effective instrument of economic growth. The empirical results of the study identified interesting evidence that cost management was the more effective tool in financial performance of the participating firms, as compared to its

counterpart, tax policies. Cost management had a higher success rate of 0.212481 against its counterpart, tax policies with net successive rate of 0.142478 yielding less favorable results. The findings of this study suggest that cost management is a more reliable instrument for financial performance of manufacturing firms than tax policies. The authors recommend that cost management should be effectively utilized in achieving sustainability in manufacturing firms in Nigeria.

Conclusion and Recommendations:

In summary, the assessment of the efficacy of cost management versus tax policies in enhancing the financial health of manufacturing companies in Nigeria reveals several key findings:

Cost Management Effectiveness: Cost management initiatives, including cost reduction, cost control, and cost allocation, have a significant impact on improving the financial health of manufacturing companies in Nigeria. These initiatives lead to increased profitability through lower expenses, enhanced competitiveness, and better resource optimization. Cost management practices also contribute to improved liquidity by maintaining disciplined spending, stable cash flow, and effective risk management.

Tax Policy Impact: Tax policies, such as corporate tax rates, incentives, and compliance requirements, influence the financial performance of manufacturing companies in Nigeria. Favorable tax policies can reduce the tax burden, enhance cash flow, and promote investment, thereby positively impacting profitability and liquidity. However, complexities in tax regulations, compliance costs, and regulatory uncertainties may pose challenges for businesses, affecting their financial health and competitiveness.

Comparative Analysis: A comparative analysis reveals that while both cost management and tax policies play essential roles in enhancing the financial health of manufacturing companies in Nigeria, cost management initiatives tend to have a more direct and immediate impact on profitability and liquidity. Cost management practices enable companies to control expenses, optimize resources, and improve operational

efficiency, leading to tangible improvements in financial performance indicators. Tax policies, on the other hand, may provide incentives for investment and growth but often involve compliance costs and regulatory complexities that can hinder financial health.

Conclusion: In conclusion, the assessment underscores the importance of cost management initiatives in driving sustainable growth and profitability for manufacturing companies in Nigeria. While tax policies can create favorable conditions for business operations, the direct control over costs afforded by effective cost management practices provides companies with greater flexibility and resilience in navigating economic challenges and achieving long-term financial health.

Therefore, manufacturing companies in Nigeria should prioritize strategic cost management efforts alongside proactive engagement with tax policies to optimize their financial performance and ensure resilience in a dynamic business environment.

In essence, the findings suggest that a balanced approach integrating cost management and tax policies is crucial for enhancing the financial health and sustainability of manufacturing companies in Nigeria. By leveraging cost management initiatives and navigating tax policies effectively, companies can position themselves for long-term success and contribute to economic growth and prosperity in Nigeria's manufacturing sector.

Recommendations:

i. Develop a Comprehensive Cost Management Strategy: Manufacturing companies should develop a comprehensive cost management strategy that encompasses cost reduction, control, and allocation to optimize resources and enhance profitability.

ii. Invest in Technology and Process Optimization: Companies should invest in technology and process optimization initiatives to streamline operations, reduce inefficiencies, and lower production costs.

iii. Enhance Tax Planning and Compliance: Businesses should proactively engage with tax policies and regulations to optimize tax planning

strategies, minimize tax liabilities, and ensure compliance with Nigerian tax laws.

iv. Monitor and Evaluate Financial Performance: Regular monitoring and evaluation of financial performance indicators, including profitability, liquidity, and solvency, are essential for identifying areas of improvement and making informed strategic decisions..

vi. Advocate for Policy Reforms: Businesses should engage with policymakers and regulatory authorities to advocate for policy reforms that promote a conducive business environment, simplify tax regulations, and incentivize investment in the manufacturing sector.

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