

Strategic Cost Management as a recession survival tool in the Nigerian Manufacturing and Financial Service Industries

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Abstract

The financial crisis in 2008 caused business priorities to shift from growth and leveraging up profits to issues of survival until the good times return. There was an understandable emphasis on costs; cost management was therefore seen as one of the best ways to maintain profits in the face of softening sales and shrinking margins. The objectives of the research were to determine whether Strategic Cost Management (SCM) techniques are practically used by Nigerian companies and the extent of their utilization- particularly in the Nigerian manufacturing and financial services industries, identify the factors influencing the adoption of strategic cost management and investigate whether strategic cost management can be used as competitive strategy for survival in recessionary times. Collected data were subjected to statistical procedures using the Mann-Whitney test. The research found out that although Nigerian companies are receptive to the philosophies of SCM, there are challenges inhibiting their adoption and implementation in the Nigerian environment. Manufacturing concerns also utilize the SCM tools more than the Financial Service companies. Nigerian companies were encouraged to embrace strategic cost management tools and the Nigerian government implored to formulate policies that create enabling environment to facilitate the adoption of SCM.

Keywords: Strategic Cost Management, Recessionary Times, Financial Markets, Survival, Nigerian Companies.

1. Background

1.1 Introduction

In the second half of 2008, the world experienced financial and economic storm. Its effects are still being felt. Starting with the US sub-prime mortgage crisis, a serious infection took hold of financial markets across the globe: equity and real property value slumped; banks and other intermediaries turned to governments to ante up much-needed liquidity and take toxic debt off their hands, bonds and other debt markets effectively closed down and banks begun to turn off the credit tap. Inevitably, these events had a rapid and dramatic effect on the “real economy” of the world. Despite serious efforts at stimulus on the part of many governments, consumer demand eased, output slowed or even fell, commodity prices dropped phenomenally, global trade flat-lined and jobs disappeared (Olokoyo and Ogunnaike 2012).

Business priorities shifted from growth and leveraging up profits to issues of survival and preserving core assets and competencies until the good times return. There was an understandable emphasis on costs-cost management was therefore seen as one of the best ways to maintain profits in the face of softening sales and shrinking margins.

Although the economic crisis has created enormous challenges for companies, as the economic times demanded that companies make the right management decisions if they were to survive, opportunities were also emerging-companies were under increasing pressure to scrutinize all parts of the business processes to identify new areas of efficiency (Osunkeye, 2008). Strategic cost management therefore became a tool to look unto as a competitive tool for business survival in the recessionary times (Berliner, 1998).

The objectives of the research are to determine whether strategic cost management techniques are practically used by Nigerian companies and the extent of their utilization particularly in the Nigerian manufacturing and financial services industries respectively, identify the factors influencing the adoption of strategic cost management and investigate whether strategic cost management can be used as competitive strategy for survival in recessionary times

1.2 Research Hypothesis

The under stated hypothesis has been formulated and will be tested for the the purpose of this study

Hypothesis 1

H₀: There is no significant difference in the Strategic Cost Management technique adopted by the manufacturing and Financial Service industry.

H₁: There is significant difference in the Strategic Cost Management technique adopted by the manufacturing and Financial Service industry.

Hypothesis 2

H₀: The factors influencing the adoption of Strategic Cost Management techniques do not significantly differ between the manufacturing and Financial Service Industry.

H₁: The factors influencing the adoption of Strategic Cost Management techniques significantly differ between the manufacturing and Financial Service Industry.

2. Material and methods

2.1 Literature Review

Overview of Strategic Cost Management

Strategic cost management requires looking at today's leading organizations who are venturing in this area. Strategic cost management can be defined as scrutinizing every process within an organization, knocking down departmental barriers, understanding suppliers' business, and helping improve their processes

As prices fall, companies cut wages and jobs, leaving people with less money to feed back into the economy. Deflation is far harder than inflation to control, occurs faster and leaves more havoc in its wake. Along with inflation, we get a contradicting economy. As a consequence, commercial activity will decline, resulting in lower sales and profits .Many businesses will post losses and many will fail. Deflation requires a different strategy from inflation. Financial managers will have to build deflation into their budgets and business plans, adjusting their plans accordingly.

The on-going recession has caused competition to become ferocious. Some companies are taking certain steps such as taking an axe to costs, cutting excess capacity, laying off workers and shifting production offshore. Cost management is one of the key strategies that business concerns can use to stern the tide of the global financial crisis.

In the light of the foregoing economic problems, strategic Cost Management such as Benchmarking, Balanced score card, Total Quality Management, Business Process Review, Target Costing and supply chain management are became highly desirable and are utilized by leading global companies, hence the need for strategic cost management.

Traditional Management accounting is based on comparing actual results against pre-set standard (typically budget), identifying and analysing variances and taking remedial action to ensure that future outcomes confirm with budgeted outcomes. Traditional Management accounting has certain limitations such as: existing activities are not reviewed and also, they are based on cost containment rather than cost reduction. Strategic management is focuses on cost reduction and continuous improvement (Kaplan and Cooper, 1998).

Strategic cost management (SCM) has become an essential area nowadays. While formulating the strategy for the accomplishment of organizational overall objectives, different cost driver should be clearly identified. Identification of key cost drivers helps companies to focus on key activities that will constitute almost 90% of the total costs (Davig *et al*, 2004). In view of this, the importance of strategic cost management should not be underestimated. This implies that organization should be installing appropriate framework of strategic cost management to reduce its costs in key areas on which the success of organization is heavily dependent.

The key to strategic cost management lies in all business processes and activities throughout the value chain. The work of reducing cost that derives from a specific business process or activity seldom leads only to increased cost efficiency. It also feeds through to increased throughput and client value in terms of such things as improved quality and service. In other cases, a strategic cost management approach could lead to a changed operating model, launch of new business areas or new services and products.

Areas of application of Strategic Cost Management

There are three basic business areas where strategic cost management can be applied and are as follows (Davig *et al*, 2004);

Strategy:

A strategy in general terms refers to a plan of action that will shape the direction of organization's success. Companies of late have realized the importance of clear articulation of strategy and its effective implementation. Before formulating any strategy, the management should think about the business model whether it is still relevant or need to be changed? Or whether the objectives of the business are going to be accomplished through laid out strategy.

Operations:

By setting the priorities according to its significance we can operate the tasks effectively and efficiently.

Organization:

Company should time and again check whether it is allocating its limited resources in the businesses which generate more value for the entire organization. Resources as such are the limiting factors for any organization and that's why the company should be focus on the structure of the business and it should decide well in advance whether it should own all resources or not?

Another perspective to view the areas of application of strategic Cost Management is through the functional areas such as follows (Berliner, 1998; Gregory, 2010):

Core Functions:

Core functions elaborate on the nature of the business. It answers the very obvious question what type of business are we in? At this stage the company has to clearly identify its courses of actions with respect to strategy planning, research and development, and product development.

Customer Delivery Function:

This step emphasizes more on value addition with various activities such as marketing, sales, manufacturing, quality assurance and control, sourcing, procurement and logistics, engineering and maintenance, customer service and technical support, etc. Excellence in those activities can create a sort of competitive advantage for the company if it could harness its resources intelligently than its competitors.

Support Functions:

As the name suggests, to support the core activities of business some secondary activities are to be carried out which includes IT, Finance and Accounting, HR management General administration. These activities will facilitate the performance of the core activities in a way that goals of the business can be accomplished successfully without wasting limited resources. They will also help in synchronizing the different tasks which are to be carried out simultaneously.

Factors influencing adoption of Strategic Cost Management Techniques

Each individual organization needs to review her various circumstances, peculiarities and strategies to identify enablers for strategic Cost Management. The review of previous work in connection with the research however reveals that the following factors generally influence the adoption of SMA (Berliner, 1998; Davig *et al* 2004; Brignall, 2002, Cua *et al* 2001):

Top management support and sponsorship – Top management must support the cost management strategy. However, to get this support, top management must understand the value of supply chain management to the bottom line. If management seems reluctant to recognize this from internal efforts alone, cooperative efforts with suppliers and/or customers may help to convince them. Cost of implementation and maintenance – The cost management tool require investment in change over and maintenance. Staff training also comes to play in the implementation process Perceived Feasibility of implementation – Management and employees of the organization must be convinced that the project is feasible in terms of cost, time, functionality, resource-availability and value the cost management strategy will ultimately add.

Data availability and Information systems - To capture spending by commodity or service, supplier, and geographical area. Information can be used to: identify opportunities for synergy with other supply chain members in areas such as leveraging spend, pooling knowledge, acquiring/providing/sharing technology, identify areas where transfer of best practices will reduce costs, optimize location and use of resources, such as inventories, in the supply chain, and help to identify total cost drivers

Willingness to embrace change – This is vital to the success of any cost management effort because of the varied departments and functions that are affected and need to be involved to implement cost management initiatives. All parties either affected by the costs in question or involved in generating those costs need to be involved in the applicable cost management teams .They must be willing to embrace change.

Compliance with global best practice – The science of management accounting keeps evolving as competition, business environment and strategy changes. To keep abreast with global best practice in management accounting is also a strong consideration for the adoption and implementation of strategic cost management.

2.2. Research Methodology

Primary data was used for analysis and was collected using a questionnaire.

The population of the study is the Nigeria publicly quoted beverages, conglomerates & holding, Food, Manufacturing & industrial subsectors Manufacturing companies and the Bank Financial Service companies respectively.

Using the Nigerian Stock Exchange (NSE) listing as at April 2013 as basis to quantify the study population, the population comprises of 40 manufacturing companies in the beverages, conglomerates & holding, Food, Manufacturing & industrial subsectors and 24 publicly quoted bank Financial Service companies.

26 manufacturing companies cutting across the four subsectors and 14 Financial Service companies (Banks) were selected as samples.7 copies of the research instrument were administered to each of the 26 manufacturing companies & the 14 Banks making a total of 280 copies of questionnaire. It was however 212 copies that were found usable after retrieval as captured in the table below:

Table 2.2.1 Distribution of research instrument in Nigerian companies

		Frequency	Valid Percent	Cumulative Percent
Valid	Manufacturing	138	65.0	65.0
	Financial Service	74	35.0	100.0
	Total	212	100.0	

The research instrument was designed on a 4-point likert scale of Strongly agree, Agree, Disagree & Strongly Disagree continuum. For statements which measured the extent of SCM tool adoption, responses were also framed and calibrated on a 4-point likert scale of Very High, High, Low & Very Low where respondent indicated intensity of the use of the respective SCM technique. In codifying and assigning numerical values to responses, values were assigned as follows:

Table 2.2.2 Codification of response

Response	Assigned Code
Strongly Agree/Very High,	4
Agree /High	3
Disagree /Low	2
Strongly Disagree/Very Low	1

The judgmental sampling method was used due to the technicality of the subject matter. Samples were selected such that it is only Accountants and Finance Experts knowledgeable about accounting and finance functions and who had requisite experience, as it relates to cost management, were selected and questionnaire administered, as the items of the research instrument required technical competence.

The Qualifications and Years of Experience of respondents, captured by the research instrument, are presented:

Table 2.2.3 Educational Qualification

		Frequency	Valid Percent	Cumulative Percent
Valid	B.Sc	21	9.9	9.9
	MBA/M.Sc	30	14.2	24.1
	B.Sc/MBA/M.SC plus ACA/ACCA/ACMA	161	75.9	100.0
Total		212	100.0	

Table 2.2.4 Years of Work Experience

		Frequency	Valid Percent	Cumulative Percent
Valid	0-3 years	9	4.2	4.2
	3-5 years	21	9.9	14.1
	5-10 years	96	45.3	59.4
	10-15 years	60	28.3	87.7
	above 15 years	26	12.3	100.0
	Total	212	100.0	

Source- Constructed from Field Survey data

Over 75% of respondents have academic and professional accounting and finance qualifications. Others have academic qualifications (table 2.2.3). This implies that respondents have requisite technical knowledge to provide answers to items in the research instrument, thereby enhancing the quality of data. In addition to possessing technical qualifications, table 2.2.4 contains the work experience of respondents. Over 95% have minimum of 3years work experience. Combining the respondents' qualifications with their work experience shows that they possess technical competence in the research subject matter, data provided by them can therefore be viewed as reliable as they have requisite skills

3. Results

The items in the questionnaire were designed such that they elicited data required to meet the research objective, answer the research questions and test the formulated hypothesis. The variables were also tested for normality using the Kolmogorov-Smirnov(K-S) Test .The results of the Univariate statistics (Mean and Standard Deviation) and the K-S test are captured in Table 3.1

Table 3.1 Statistical Analysis

One-Sample Kolmogorov-Smirnov Test								
	N	Normal Parameters ^{a,b}		Most Extreme Differences			Kolmogorov-Smirnov Z	Asymp. Sig. (2-tailed)
		Mean	Std. Deviation	Absolute	Positive	Negative		
Survival of business in recession is dependent on managing cost strategically	212	3.38	.490	.400	.400	-.279	3.095	.000
Comparing business process with best practices helps improve business performance	212	3.42	.530	.351	.351	-.298	2.717	.000
Strategic Cost Management techniques can be practically applied to Nigerian companies	212	2.98	.770	.309	.258	-.309	2.391	.000
Strategic cost management can be applied to any organization, whatever the nature of business and transaction dynamics	212	3.38	.490	.400	.400	-.279	3.095	.000
Strategic Cost Management helps business to identify and develop core competences	212	3.37	.486	.408	.408	-.270	3.161	.000
Strategic Cost Management helps in supply chain management	212	3.12	.691	.316	.300	-.316	2.450	.000
There are challenges inhibiting the adoption and implementation of Strategic Cost Management in Nigeria	212	3.37	.486	.408	.408	-.270	3.161	.000
Nigerian companies are receptive to the philosophies and strategies emanating from strategic cost management	212	2.93	.800	.283	.233	-.283	2.194	.000
Business Performance indicators can be utilized as danger triggers for organizations not running competitively	212	3.40	.494	.391	.391	-.288	3.028	.000
There are benefits that accrue to organizations managing cost strategically	212	3.52	.504	.348	.331	-.348	2.695	.000
Economic recession has more negative impact on business concerns than positive impacts	212	3.25	.654	.299	.299	-.268	2.315	.000
Strategic Cost Management techniques enhance business performance improvement	212	3.38	.490	.400	.400	-.279	3.095	.000
Cost of implementation and maintenance as determining factor in the adoption of strategic cost management	212	3.35	.481	.417	.417	-.262	3.227	.000
Need to keep competitive position as a factor determining the adoption of strategic cost management	212	2.93	.710	.321	.279	-.321	2.484	.000
Willingness to embrace change as a factor determining the adoption	212	3.05	.594	.334	.334	-.316	2.583	.000

of strategic cost management practices								
Feasibility of implementation as a factor determining the adoption of strategic cost management	212	3.12	.613	.342	.342	-.325	2.650	.000
Compliance with global best practice as a factor determining the adoption of strategic cost management	212	3.23	.533	.386	.386	-.281	2.990	.000
Rate of adoption of TQM as a strategic cost management tool	212	3.17	.376	.505	.505	-.329	3.909	.000
Rate of adoption of Benchmarking as a strategic cost management tool	212	3.15	.481	.422	.422	-.328	3.272	.000
Rate of adoption of outsourcing as a strategic management accounting tool	212	3.02	.469	.398	.398	-.386	3.079	.000
Rate of adoption of target costing as a strategic cost management tool	212	3.22	.490	.421	.421	-.296	3.259	.000
Rate of adoption of Balanced score card as a strategic cost management tool	212	2.88	.555	.400	.333	-.400	3.098	.000
Rate of adoption of Continuous Improvement as strategic cost management tool	212	3.03	.520	.376	.376	-.358	2.909	.000
Rate of adoption of Business Process Review as a strategic cost management tool	212	2.98	.537	.396	.371	-.396	3.065	.000
a. Test distribution is Normal.								
b. Calculated from data.								

A Kolmogorov-Smirnov test with $p > .05$ tells us that distribution of the sample is not significantly different from a normal distribution, but if however, the result is opposite i. e. $p < .05$, that means the distribution is non-normal.

Since the distribution is not normal, we therefore proceed to test the hypothesis using the Mann-Whitney test; non-parametric statistics. The Mann-Whitney test was utilized because the test evaluates whether the mean on a test variable differ significantly between two groups (Manufacturing and Financial Service respectively) when the distribution is not normal (Green and Salkind, 2008).

Hypothesis 1

H_0 : There is no significant difference in the Strategic Cost Management technique adopted by the manufacturing and Financial Service industry

H_1 : There is a significant difference in the Strategic Cost Management technique adopted by the manufacturing and Financial Service industry

Table 3.2 Mann-Whitney Test for Hypothesis 1

Ranks				
	Industry	N	Mean Rank	Sum of Ranks
Strategic Management Tools	Manufacturing	138	34.29	1234.50
	Financial Service	74	24.81	595.50
	Total	212		

Test Statistics^a	
	Strategic Management Tools
Mann-Whitney U	295.500
Wilcoxon W	595.500
Z	-2.147
Asymp. Sig. (2-tailed)	.032
a. Grouping Variable: Industry	

Decision:

Since Sig (0.32) < 0.05, we reject H_0 and accept the H_1 which states that there is a significant difference in the Strategic Cost Management technique adopted by the manufacturing and Financial Service industry

Hypothesis 2

H_0 : The factors influencing the adoption of Strategic Cost Management techniques do not significantly differ between the manufacturing and Financial Service Industry.

H_1 : The factors influencing the adoption of Strategic Cost Management techniques significantly differ between the manufacturing and Financial Service Industry

Table 3.3 Mann-Whitney Test for Hypothesis 2

Ranks				
	Industry	N	Mean Rank	Sum of Ranks
Factors influencing the adoption of Strategic Cost Management	Manufacturing	138	29.96	1078.50
	Financial Service	74	31.31	751.50
	Total	212		

Test Statistics^a	
	Factors influencing the adoption of Strategic Cost Management
Mann-Whitney U	412.500
Wilcoxon W	1078.500
Z	-.302
Asymp. Sig. (2-tailed)	.762
a. Grouping Variable: Industry	

Decision: Since sig > 0.05, we reject the H_1 and accept the H_0 that the factors influencing the adoption of Strategic Cost Management techniques do not significantly differ between the manufacturing and Financial Service Industry in Nigeria.

4.0 Discussion of Findings

Table 3.1 contains the responses to the items in the research instrument. Most of the respondents agree that survival of businesses in recessionary times is dependent on managing cost strategically (mean=3.38). SCM can therefore be used as a survival strategy in recessionary times. SCM can also be practically applied to Nigerian companies (mean=2.98) as it is applied in other countries as documented in previous studies (Berliner, 1998; Cua et al, 2001; Davig, 2004; Gregory, 2010)

SCM helps companies to identify and develop core competences (mean=3.37) which a company may not have ordinarily considered developing but for the need to remain competitive. The research discovered that though Nigerian companies are receptive to the philosophies, strategies and practices emanating from SCM (mean=2.93), there are challenges inhibiting the adoption and implementation of SCM in the Nigerian environment (mean=3.37) such as the cost of implementation and maintenance, perceived feasibility of adoption and the willingness of Nigerian companies to embrace change.

The factors influencing the adoption of SCM in Nigeria include cost (mean=3.35), the necessity to maintain competitive position (2.93), perceived feasibility of the adoption and application in the Nigerian environment (3.12), as well as the need to comply with emerging trends and global best practice in the science of management accounting (3.23). Of all the factor determinants of SCM adoption, the cost of implementation and maintenance compliance with global best practice is the strongest consideration (with the highest mean score of 3.35).

As to the SCM tool utilized by Nigerian Manufacturing and Financial Service industries, they include Total Quality Management (mean=3.17), Benchmarking (3.15), outsourcing (mean=3.02), Target costing (mean=3.22), Balanced scorecard (mean=2.88), Continuous improvement (mean=3.03) and Business Process Review (2.98) but the degree to which they are utilized varies considerably between the two industries. Of all the SCM techniques, target costing has the highest degree of utilization, with a mean score of 3.22.

The SCM tools are utilized to a greater extent in the Manufacturing industry than in the Financial Service Industry. In Table 3.2, the mean rank score of the manufacturing industry as per the application of SCM tools is 34.29, while that of the Financial service industry is 24.81. The rejection of the null hypothesis and the acceptance of the alternate hypothesis that there is a significant difference in the Strategic Cost Management technique adopted by the manufacturing and Financial Service industry also supports this view. Companies operating in the manufacturing industry in Nigeria are at greater liberty to implement SCM because they face stiffer competition within and outside the country, of which products are competitively priced unlike the Banking Financial Service industries where products prices (cost of providing financial services) are regulated to a great extent by the Central Bank of Nigeria (CBN)-the government supervisory bank regulating banks in Nigeria. Notwithstanding the CBN regulation of Nigerian banks, tariffs, Banks can still adopt and implement the SCM tools to drive down cost, provide value-adding services to customers and enhance their competitive positions within the CBN price tariffs, since the profit made by them is a function of the extent to which they can reduce cost. The banking industry is also competitive as there are currently 24 banks providing similar/the same services. Strategic cost management is therefore also a critical success factor in the industry.

Another reason that could be adduced in support of the acceptance of the alternative hypothesis per the higher adoption rate of SCM in the manufacturing industry is the tangibility of products. The financial service industry renders services which do not possess physical substance as they are intangible. Most of the SCM techniques are typically and conventionally discussed and applied in the context of products having physical existence. Service industries producing non-tangible goods will have to adapt the SCM concepts and techniques to suit their peculiarities and circumstances.

It has been identified from a critique of literatures in SCM that different factors such as cost, perceived feasibility, willingness to embrace change, compliance with global best practice and the need to maintain competitive position come to play in deciding what SCM tool to adopt and the extent of adoption. We observed that the decisions of Nigerian companies to adopt SCM are also influenced by these variables: these factors however do not significantly differ between the manufacturing and financial service industries.

5. Conclusion and recommendations

The study investigated how SCM can be used as a competitive tool for business survival in recessionary times in the Manufacturing and financial service industries. Despite the negative effects that the global melt down imposed on companies globally, the effects are not entirely negative. The recession has forced companies to look inward to craft cost management strategies that will ensure their survival and continued relevance in the business environment. It has also forced them to adopt and adapt existing SCM techniques, which they would not have ordinarily accepted and implemented, but for the stiff competition imposed by recession.

This research also discovered that SCM techniques are feasible, applicable and implementable in the Nigerian environment: they however have a higher degree of application in the Nigerian manufacturing industry than in the Financial service industry because of (i) the predominant application of SCM to manufacturing concerns and, (ii) product tangibility of the two industries.

On the basis of the findings of this research, we therefore suggest the following:

- In discussing the development, adoption and implementation of SCM techniques in management accounting science, such discussions should be done in the context of both goods and services. The preponderance of discussion in the context of goods predominantly discourages SCM applications to non-tangible goods, thereby weakening its perceived feasibility in the context of service rendition. More researches in SCM should be done in other industries apart from manufacturing industries in order to demonstrate that management accounting practices can be applied with resounding success in any industry and country.
- Nigerian companies should embrace strategic cost management tools by switching from traditional accounting practice to modern/strategic cost accounting to survive in the on-going recession, as this is one of the key secrets to survive and remain competitive. This will also put the Nigerian companies at advantage to compete with their contemporaries in the other parts of the world who currently deploy strategic cost management techniques. Customers will favour an organization that is able to keep cost down without compromising quality-strategic cost management tools provide this
- The Nigerian government should formulate policies that create enabling environment to promote higher adoption of SCM. Of all the factors influencing the adoption of SCM in Nigeria, cost of implementation and maintenance is the strongest. To successfully adopted and implement SCM and reap the corresponding benefits, the environment must be enabling. Developed countries adopting the SCM techniques to a greater extent have environmental enablers unlike in emerging economies.

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