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Corporate Expenditure and Return on Capital Employed of Manufacturing Firms in Nigeria

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Abstract

Research Objective: This study examined the effect of corporate expenditure on return on capital employed (ROCE) of manufacturing firms in Nigeria, focusing on advertising costs, audit fees, and employee costs.

Methodology: The study adopted an ex-post facto research design, covering a period of 10 years (2012-2021). Secondary data were extracted from the annual reports and accounts of sampled firms, and hypotheses were tested using the Ordinary Least Square regression technique.

Findings: The results revealed that advertising costs and audit fees have a negative and significant effect on ROCE, while employee costs have a negative but insignificant effect on ROCE of manufacturing firms in Nigeria.

Conclusion: Corporate expenditures, particularly advertising costs and audit fees, have a negative and significant effect on the return on capital employed in manufacturing firms in Nigeria.

Recommendations: It is recommended that manufacturing firms in Nigeria should focus on maximizing the effectiveness of their advertising expenditures by using passive media and creating persuasive content to ensure maximum returns. Additionally, cost management strategies should be employed to reduce administrative overheads like audit fees, ensuring that these fees translate into high-quality audit reports free of misstatements.

Key words: *Advertising Costs, Audit Fees, Employee Cost, Return On Capital Employed, Manufacturing Firms.*

1. INTRODUCTION

1.1 Background of the Study

The main goal or objective of any business organization according to Lucey (1993) is to make and maximize profit, while other secondary objectives include growing concern, growth, corporate social responsibility benefits to employees and so on. Though other objectives are

also considered very important as listed above, profit maximization is usually the ultimate because it maximizes the shareholders' wealth which is the ultimate aim of investing in a business. To remain in business, a company must be able to generate enough revenue to cover its operating costs while also making enough profit to compensate its capital providers (Okwo, Ugwunta, & Agu, 2012). People will naturally prefer to invest in a highly profitable business (Charles, 1998). Therefore, in the long run, only the profit maximizers survive in the business environment. However, for adequate profit to be recorded from a business there is a need for adequate control of its expenditure. Robert (2007) stated that a company with an adequate cost structure possess a higher chance of attaining its profit target.

Brag (2020) opines that corporate expenditure consists of the costs incurred to run the administrative side of a business. These costs include accounting, human resources, legal, marketing, and sales functions. The researcher further submits that corporate expenditure always increases the breakeven point of a business, so it is good practice to maintain tight control and management over these costs. Zengin and Ada (2010) opine that the most important managerial tools are cost management strategies. Cost management strategies according to Kumar and Shafabi (2011) are considered critical factors to increase revenue for the success of manufacturing companies.

Manufacturing has generally been described and accepted as a catalyst for economic growth and development all over the world. In the words of Sola, Obamuyi, Adekunjo and Ogunleye (2013) the manufacturing sector provides a medium to produce goods and services, facilitate good jobs, and also earn the economic agents' handsome rewards. Afolabi and Laseinde, (2019) submit that while the manufacturing sector contribution to GDP in most countries that were at the same level some few years back, ranges from 28% to 34% (Malaysia and Indonesia 28%, Thailand 34%, China 30%, Brazil 35%) but Nigeria's contribution is just 20%. Similarly, statistics showed that the capacity utilization of the manufacturing sector has over time been sluggish and very low compared to other strong economies of the world. For instance, the capacity utilization of Nigeria's manufacturing sector in 1990 was 40% and stood at 53.9% in 2008. By 2009, the manufacturing sector capacity utilization was 55.88% and further rose to 60.50% in 2015 (Chete, Adeoti, Adeyinka & Ogundele, 2014). The capacity utilization in the sector for 2018 and 2020 is 55%, and 43.8% respectively. The trend analysis above showed that even though the manufacturing capacity utilization was on the increase from 1990 to 2015, however this sector's growth during this period remains infinitesimal. However, the study focuses majorly on ascertaining the effect of corporate expenditure on the return on capital employed of manufacturing firms in Nigeria. The problem of making huge corporate recurrent expenses with insignificant profits and huge losses necessitated the study.

1.2 Statement of the Problem

Manufacturing firms worldwide, including those in Nigeria, face challenges in achieving profitability and growth despite incurring significant recurrent expenditures. These expenses cover various aspects such as rent, advertising, property acquisition, equipment purchases, financial services, labor costs, and material procurement. Indirect labor costs also contribute to overhead expenses. However, several manufacturing companies, such as Seven-Up Bottling Company and Lafarge Africa Plc, have reported substantial losses in recent years. This raises concerns about the effectiveness of these expenditures in enhancing profitability.

This study aims to support managers in the Nigerian manufacturing sector by analyzing the impact of selected corporate expenditures on return on capital employed. By investigating whether these recurrent expenses have a positive or negative influence on profitability, the research aims to provide valuable insights for companies to avoid corporate losses and promote sustainable growth..

1.3 Objectives of the Study

The primary objective of the study is to ascertain the effect of corporate expenditure on the return on capital employed of manufacturing firms in Nigeria. The specific objectives are to:

i. Ascertain the effect of advertising costs on return on capital employed of manufacturing firms in Nigeria.

ii. Determine the effect of audit fees on return on capital employed of manufacturing firms in Nigeria.

iii. Evaluate the effect of employee cost on return on capital employed by manufacturing firms in Nigeria.

2. REVIEW OF RELATED LITERATURE

2.1.1 Corporate Expenditure

Yeboah (2016) opines that corporate expenditure refers to an ongoing expense of operating a business. Oyerogba, Ezekiel and Olaleye (2014) state that corporate expenditure is still vital to business operations as they provide critical support for the business to carry out profit-making activities. For example, overhead costs such as the rent for a factory allow workers to manufacture products which can then be sold for a profit. Such expenses are incurred for output generally and not for a particular work order. Corporate expenditure is those expenses on goods and services which do not result in the creation or acquisition of fixed assets (new or second-hand). It consists mainly of expenditure on wages, salaries and supplements, purchases of goods and services and consumption of fixed capital (depreciation).

2.1.2 Advertising Cost

Fill (1999) submits that advertising shows how marketers can employ advertising, PR, and sales promotion. Advertising is a paid, non-personal communication through various media

by corporate firms, non-profit organizations, and individuals who are in some way recognised in the advertising message and who want to enlighten or persuade a specific audience. Morden (1991) posits that advertising raises potential customers' awareness and knowledge of a product or service. Kotler (1988) opines that one of the four primary tools corporations use to direct persuasive messages to target consumers and the broader public is advertising, which "consists of non-personal forms of communication provided through paid media under clear sponsorship."

Advertising costs. Advertising cost is a financial accounting category that covers expenses for promoting industry, business, brand, product name, or specific commodities or services to increase services. Print, web, radio, and direct mail advertising cost money. Rasmussen (2013) defines advertising cost as the percentage of the marketing budget allocated to advertising over a specific period.

2.1.3 Audit Fees

AbbasZadeh (2017) states audit fees represent auditing costs. Abnormal audit fees may indicate better audit quality, not economic bonding. Substandard audit expenses can lower quality. Wang and Chui (2014) argue manufacturers will pay more for quality audits in a competitive market to improve profit. Audit quality and a competitive market promote shareholder and investor happiness, which boosts earnings, say, researchers. Porter (1991) observed that in a competitive market, companies raise audit quality to appear innovative. Auditing improves shareholder satisfaction and profits in competitive markets (Samuel & Schwartz, 2019).

2.1.4 Employee Cost

Salaries are regular payments by an employer to an employee for employment that is expressed either monthly or annually. It is an indisputable fact that the productivity of an organization depends upon the satisfaction level of its workforce. Good remuneration, therefore, has been found over the years to be one of the policies the organization can adopt to increase their employees' performance and satisfaction. Kline and Hsieh (2007) opine that salary is an important determinant factor that influences the output of employees as well as the decision to leave or stay in the organization.

Olatunji and Sarat (2014) define salary and wage administration as the process of compensating an organization’s employees following accepted policies and procedures. An important component of a successful organization’s salary and wage administration policy is monitoring and evaluating all employees’ compensation to ensure that they are being paid appropriately, both concerning others in the same organization and to the marketplace as a whole. Salary and wage administration is often an integral function of the organization’s human resources department, but in general, the larger the organization, the more likely it is that it will be handled by a separate department.

2.1.5 Return on Capital Employed (ROCE)

Return on Capital Employed (ROCE) is a profitability ratio that helps determine the profit that a company earns for the capital it employs. ROCE is measured by expressing Net Operating Profit after Taxes as a percentage of the total long-term capital employed. In other words, ROCE can be defined as a rate of return earned by the business as a whole. Like return on equity (ROE), which calculates the percentage return of equity shareholders, ROCE calculates the percentage return of all the capital providers together. If a business is financed completely by equity, ROE and ROCE will be the same. It is a useful metric for comparing profitability across companies based on the amount of capital they use (Ivanceikh and Glueck, 1989). The ROCE trend over the years is also an important indicator of performance. In general, investors tend to favor companies with stable and rising ROCE numbers over companies where ROCE is volatile and bounces around from one year to the next.

The formula to calculate the return on capital employed is:

2.2 Conceptual Framework

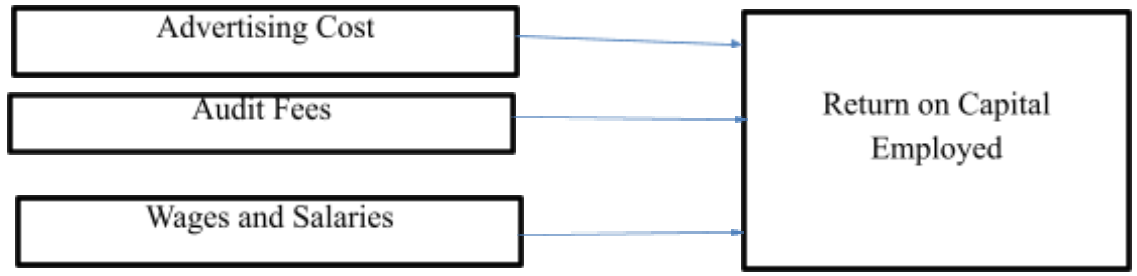

Figure 2.2: Contextual Framework of the Study

Source: Author's Compilation, 2024

2.2 Theoretical Reviews

The study was underpinned by the following theories: The Risk Theory of Profit by Fredrick B. Hawley (1893) and The Dynamic Theory of Profit by Prof. J.B. Clark (1900).

2.2.1 Risk Theory of Profit

F.B. Hawley proposed Hawley's Risk Theory of Profit, which held that individuals with the ability to take risks in dynamic production have a solid claim on the reward known as profit. Simply put, profit is the societal cost of taking on company risk. Profit, he believes, is the reward for taking risks in business. The most crucial job of an entrepreneur is meant to be risk-taking. Every manufacturing conducted in anticipation of demand carries some level of risk. Obsolescence of a product, non-availability of critical supplies, abrupt drop in costs, the introduction of a superior substitute by a rival, and risk due to war, fire, or any other natural tragedy are all examples of business risks.

Hawley's risk theory of profit assumes that a businessman would anticipate appropriate pay above the actuarial value, i.e., a premium on calculable risk, for taking the risk. Every entrepreneur aspires to earn more than the management's salary for bearing the business risk. The key reason for Hawley's belief that profit should be preserved above and beyond actuarial risk is that risk is irritating; it causes trouble, anxiety, and disutilities among businessmen of all kinds. Assuming risk allows the entrepreneur to claim a reward over the actuarial business risk.

2.2.2 The Dynamic Theory of Profit

The dynamic theory of profit was proposed by J.B. Clark in 1900. To him, the difference between the price and the cost of the commodity's output is a reward. Profit is the result of progressive reform in a well-organized society. Progressive change is only feasible in a complicated state. Clark divides economic society into organized and unstructured societies. Organized society is further divided into static and dynamic states. Only in a dynamic state does benefit occur.

The five generic changes, such as population size, technical knowledge, capital, the method firms are generated, the size of the industry, and people's wants, do not occur in a static state; everything stagnates and no change occurs. There is no time factor, therefore there is no uncertainty. The same economic characteristics are repeated year after year.

As a result, the entrepreneur faces no risk. The product's price would be the same as the manufacturing cost. As a result, profit does not exist. For his labor, the businessman will be paid a salary and interest on his capital. If the price of the commodity was higher than the cost of production, competition would drive the price down to the cost of production, eliminating profit. Because of the presence of perfect competition, the price becomes equal to the cost of production, removing the supernormal benefit. "Because expenses and selling prices are always equal, there can be no profit beyond pay for the everyday task of supervision," writes Knight.

The study was founded on the Risk Theory of Profit since the corporate recurrent expenditure is, to some extent, a risk that manufacturing organizations take to profit and develop. They are not promised returns, thus there is a significant risk.

2.3 Empirical Reviews

Amina, et al. (2015) investigate the impact of advertising on the profitability of commercial banks for 2008- 2012, in the presence of control variables: Credit risk, Operating Efficiency, total advances to total deposits, total loans to total assets and Size (total assets) ratio. Bank’s profitability is measured in terms of return on equity (ROE). The data has been obtained from the publications of the State Bank of Pakistan (SBP) and commercial banks. The regression results confirm the positive and significant effects of advertising expenditure on ROE for private sector banks than public sector banks.

Abdullahi (2015) studied the effect of advertising on the sales revenue and profitability of selected food and beverage firms in Nigeria. This study was based on secondary data collected on the Nigerian Stock Exchange from 2000 to 2012. Correlational and Ordinary Least Square regression analysis study designs were adopted for the study. This study found that advertising is one of the most important mediums of communication influencing companies' performance in more than one way.

Ghorbani, et al. (2016) examined the effects of advertising on the profitability of industries in Iran (A case study of Cosmetics and Hygiene Products Stores). The study was carried out using the Autoregressive Distributed Lag model to analyze the effects of advertising intensity on profitability in cosmetics and hygiene products stores. The data was based on seasonal figures of 1375- 1386(Hijri) and the results showed a significant positive relationship between the intensity of advertising and the profitability of the mentioned businesses. The same relationship was also present between the concentration ratio and profitability.

Azizi and Moghadasi (2016) investigated the effect of advertising intensity on performance in the automotive and food industries. Their sample consisted of the annual data of 25 firms (17 foods and 8 automotive industries) in the Tehran stock market which were extracted from financial statements. Using regression techniques, the combined results of the study confirm that advertising intensity has a significant positive effect on the performance and profitability of the sampled firms, with automotive firms enjoying a more positive effect compared to food industries.

Onwuka and Onwuchekwa (2018) aimed at establishing the influence of compensation policy on employee commitment of selected pharmaceutical companies in Anambra state. Primary data was collected using a self-administered questionnaire and the data was analyzed by use of Pearson product correlation. The data was presented using a simple percentage table. Generally, the study found that pay for performance policy was popular compensation. It was also established that the compensation policy influences employee commitment owing to the level of the relationship established between the variables and this led to enhanced performance, trust in management and strong relationship in the organization.

Odusanya, et al. (2018) (2018) examined the determinants of firm profitability for 114 firms listed on the Nigerian Stock Exchange (NSE) from 1998 to 2012, using the system Generalized Method of Moments (GMM). The results show that lagged profitability exerts a significant positive effect on contemporaneous firm profitability. However, short-term leverage, inflation rate, interest rate and financial risk have significant negative effects on firm profitability.

Manukaji, et al. (2019) examined the effect of human resources development on the performance of quoted companies in Nigeria. The study adopted an ex post facto research design. A total of five companies quoted on the Nigerian Stock Exchange were examined

using their 2014 to 2018 annual reports and accounts. Data were sourced on employee remuneration, training and development cost, size of the employee, and return on assets as a proxy for performance. The data generated were analyzed using descriptive statistics, correlation tests and ordinary least square estimation techniques. The study found that employee remuneration and training and development cost have a significant effect on the performance of quoted companies in Nigeria. The size of employees was found to have an insignificant effect on the performance of quoted companies in Nigeria.

Khudhair, et al. (2020) examined the relationship between compensation strategy and employee performance among academic staff in Iraqi universities. The study made use of secondary data from previous studies in this area. Regression techniques were used for data analysis. The result revealed that a strong connection exists between the compensation strategy and the performance of the employee. The result revealed that compensation strategy leads to an increment in employee performance in Iraqi universities.

Hakim (2020) determined the effect of compensation, career development, work environment and job satisfaction on organizational commitment. The study was conducted at PT Jakarta Tourisindo. The study sample was 86 people. The sampling technique uses random sampling and data analysis techniques to use path analysis. The results showed that compensation, career development, work environment and job satisfaction had a positive and significant effect on organizational commitment.

Monametsia and Agasha (2020) examined the impact of audit quality on the firm performance of listed companies in Botswana, and Uganda. The study sampled domestically listed financial and non-financial companies on the stock exchanges of Botswana and Uganda for the five years 2014-2018. Using auditor size and audit fees as proxies for audit quality and return on assets, and Tobin's Q as measures of firm performance, the relationship between the variables was determined through regression analysis. Results of the study show that audit quality is a negative but non-significant predictor of a firm performance for financial performance.

Ugwu, et al. (2020) examined the impact of audit quality on the financial performance of Deposit Money Banks in Nigeria. Secondary data were used, which were extracted from the financial statements of the listed DMBs from 2011-2017. The study employed correlation and ex-post facto research designs and multiple regressions were used for data analysis. The study revealed a significant and positive relationship between audit firm size and ROA, a negative and significant relationship between joint audit and ROA and a negative and insignificant relationship between audit fee and ROA.

Basa, et al. (2022) determined the effect of turnover intention, locus of control, audit fees, and work motivation on the quality of auditor performance at the Medan City Public Accounting Firm in 2021. The data used is sourced from quantitative data in the form of questionnaires.

Using the Simple Random Sampling technique, a sample of 50 auditors was drawn from five Medan City KAPs. The results showed that locus of control, audit fees, and work motivation had a positive and significant effect on the quality of auditor performance at KAP Medan City.

Ezekwesili and Kolawole (2022) determined the effects of auditor modification choices on the corporate performance of quoted companies in Nigeria from 2012-2020. Ex Post Facto research design was adopted for the study. The population of the study comprised eleven quoted health companies in Nigeria. The study employed descriptive statistics to analyze the data and Regression analysis was used to test the statistically significant effect of the variables via E-view 9.0 statistical software. The study found that audit firms have a positive effect on companies' performance of health companies in Nigeria, but this effect is not significant at 5%, while audit fees show a negative effect on companies' performance though it was significant.

Syder and Big-Alabo (2022) examined the effect of independent auditing services on the corporate financial performance of quoted insurance firms in Nigeria. An ex-post facto research design was employed for the study. Secondary data was obtained from the annual reports of a cross-section of the quoted insurance firms. A linear regression model was adopted with the aid of a statistical package for social sciences (SPSS) to analyze the data. The two hypotheses tested indicated that auditing fees were positively and significantly related to the Return on Assets (ROA) and Profit after tax (PAT) of insurance firms quoted in Nigeria.

2.5 Gap in Empirical Review

From the foregoing empirical literature, it was evident that work has been done in bits on advertising, audit fees and employee compensation packages. However, none of these works determined the impact of the collective effect of these corporate recurrent expenditures on the return on capital employed of firms in Nigeria's manufacturing sector. This created a knowledge gap which these studies filled by aiming to ascertain the effect of corporate expenditure on return on capital employed of manufacturing firms in Nigeria from 2012 to 2021. The period of the above studies in table 2.4.1 also made this study the most current within its scope.

3. METHODOLOGY

The study utilized an ex-post facto research design, allowing for future replication by researchers aiming to validate the findings. It focused on the manufacturing sector in Nigeria, using secondary data from the annual reports of sampled firms. The population comprised all 42 manufacturing firms listed on the Nigerian Stock Exchange, with a sample size of 10 prominent consumer goods firms, including Guinness Nigeria Plc, Nigeria Breweries Plc, and Nestle Nigeria Plc. These firms were chosen for their significance in the consumer goods

sector and the availability of reliable financial data, offering a comprehensive view of corporate expenditure impacts on performance within the sector.

Model Specification

The model for the study was adopted in line with Inyiama and Ezeugwu (2016) as follows:

$ROCE = \beta_0 + \beta_1 AC + \beta_2 AF + \beta_3 ECOST + \varepsilon$ - - - - (Equation 1)

Where:

ROCE	-	Return on capital employed
AC	-	Advertising Costs
AF	-	Audit Fees
ECOST	-	Employee Cost
βo	-	Constant Term
β_1	-	Coefficient of advertising cost
β_2	-	Coefficient of audit fees
β_3	-	Coefficient of interest expense
ε	-	Error Term

4. DATA ANALYSIS AND DISCUSSION

Table 4.2.1: Panel Data Descriptive Statistic for the Variables under Study

	LOG(ROCE)	LOG(AC)	LOG(AF)	LOG(ECOST)
Mean	15.94018	15.07287	10.34162	16.18961
Median	16.23042	15.41194	10.32184	16.06968
Maximum	17.63724	17.17759	11.38653	17.56267
Minimum	11.49207	10.09254	9.664723	15.04026
Std. Dev.	1.410264	1.963003	0.342566	0.708550
Skewness	0.770751	0.947250	1.955762	1.366586
Kurtosis	2.377324	2.564024	8.656790	3.756965
Jarque-Bera	5.758231	7.873348	98.54022	16.42159
Probability	0.056184	0.079513	0.000000	0.000272
Sum	733.2482	753.6434	517.0811	793.2909
Sum Sq. Dev.	89.49806	188.8156	5.750216	24.09805

Observations	50	50	50	50

Source: Author's Computation from Eviews 10.0 Statistical Software

The normality of the distribution of the data series is shown by the coefficients of Skewness, Kurtosis, and Jarque-Bera Probability. From Table 4.2.1, the probability of the Jarque-Bera Statistics for Return on capital employed and Advertising Cost have insignificant p-values as follows Return on capital employed (0.056184) and Advertising Cost (0.079513). The insignificant p-values depict that the variables are normally distributed. This was further confirmed by the skewness coefficients which are not greater than one with the following outcomes Return on capital employed (0.770751) and Advertising Cost (0.947250). The kurtosis coefficient provides a second level of confirmation that Return on capital employed and Advertising Cost are normally distributed with the following less than three coefficients Return on capital employed (2.377324) and Advertising Cost (2.564024). However, Audit Fees and Employee Cost are abnormally distributed judging by the significance of Jarque-Bera Probability, the skewness coefficient that is greater than one, and the kurtosis coefficient that is greater than three.

TABLE 4.2.2: Pooled Data Multiple Regression

Dependent Variable: LOG(ROCE)

Variable	Coefficient	Std. Error	t-Statistic	Prob.
LOG(AC)	-0.635626	0.197385	-3.220238	0.0025
LOG(AF)	-208.9972	98.70439	-2.117405	0.0403
LOG(ECOST)	-0.040031	0.195470	-0.204792	0.8387
C	26905544	4040205.	6.659451	0.0000

Effects Specification

Cross-section fixed (dummy variables)

R-squared	0.815225	Mean dependent var	13904479
Adjusted R-squared	0.783678	S.D. dependent var	14397739
S.E. of regression	6696454.	Akaike info criterion	34.42034
Sum squared resid	1.848915	Schwarz criterion	34.72921
Log likelihood	-835.2983	Hannan-Quinn criter.	34.53752
F-statistic	25.84160	Durbin-Watson stat	2.870112
Prob(F-statistic)	0.000000		

Source: *Author's Computation from Eviews 10.0 Statistical Software*

Table 4.2.2 reveals that Advertising Costs have a significant (p-value 0.0025) but a negative effect (Coefficient -0.635626) on Return on capital employed. Audit Fee was found to have a significant (p-value 0.3162) but negative (Coefficient -208.9972) effect on Return on capital employed. On Employee Cost and Return on capital employed, it was revealed that Employee costs have a negative (Coefficient -0.040031) and insignificant effect (p-value 0.8387) on Return on capital employed. The adjusted R-squared (R^2) indicated that about 78% of the changes in Return on capital employed are accounted for by the explanatory variables (Advertising Cost, Audit Fees, and Employee Cost). The remaining 22% could be explained by other factors capable of influencing Return on capital employed in the industry and other remote factors captured by the error term. The probability of the F-statistic (0.000000) is significant which shows the statistical fitness of the multiple regression model and the results, by extension. There is an absence of serial autocorrelation in the panel data extracted from annual reports and accounts of the sampled manufacturing firms as suggested by Durbin-Watson stat of 2.870112.

4.3 TEST OF HYPOTHESES

The three testable hypotheses formulated in section one to ascertain the effect of corporate expenditure on return on capital employed of manufacturing firms in Nigeria were subjected to empirical testing drawing from the results of the inferential statistical analyses.

Statement of Decision Criteria

According to Gujarati and Porter (2009), the decision rule involves accepting the alternative hypothesis (H_1) if the sign of the coefficient for Return on Capital Employed (ROCE) is either positive or negative, the modulus of the t-Statistic > 2.0 and the P-value of the t-Statistic < 0.05. Otherwise, accept H_0 and reject H_1.

Presentation of Test Results

Table 4.2.2 Panel Least Squares regression analysis result is used to test the above-stated hypothesis.

4.3.1 Hypothesis One: Advertising cost does not significantly affect return on capital employed of manufacturing firms in Nigeria.

Decision: From the panel regression analysis, the P-value of 0.0025 is less than the 0.05 A-value. Therefore, the null hypothesis is rejected and the alternate hypothesis is accepted. This implies that advertising cost has a significant effect on return on capital employed by manufacturing firms in Nigeria.

4.3.2 Hypothesis Two: Audit fee does not significantly affect return on capital employed of manufacturing firms in Nigeria.

Decision: From the panel regression analysis, the P-value of 0.0403 is less than the 0.05 A-value. Therefore, the null hypothesis is rejected and the alternate hypothesis is accepted. This implies that the audit fee has a significant effect on the return on capital employed of manufacturing firms in Nigeria.

4.3.3 Hypothesis Three: Employee cost does not significantly affect return on capital employed of manufacturing firms in Nigeria.

Decision: From the panel regression analysis, the P-value of 0.8387 is greater than the 0.05 A-value. Therefore, the null hypothesis is accepted and the alternate hypothesis is rejected. This implies that employee cost has an insignificant effect on return on capital employed of manufacturing firms in Nigeria.

4.4 DISCUSSION OF FINDINGS

Hypotheses One: The test of hypothesis one from the result of the panel multiple regression reveals that advertising cost has a negative and significant effect on return on capital employed of manufacturing firms in Nigeria. This implies that as manufacturing firms spend more on adverts and sales promotion, they experience a significant decrease in return on capital employed. The negative effect of advertising can be a result of advertising failures caused by factors not limited to improper use of passive media, lack of creativity and persuasiveness in the advertisement, and so on. This is in tandem with the findings of Amina, Muhammad, and Sohaib (2015) and Abdullahi and Dauda (2015), who found a significant relationship between advertising cost and profitability.

Hypotheses two: The test of hypothesis two revealed that audit fee has a significant negative effect on return on capital employed of manufacturing firms in Nigeria. The finding implies that as manufacturing companies' audit fees are increasing, the return on capital employed in the industry is reducing significantly. This can be a consequence of poor audit quality. Sun and Sherwood (2017) report that increases in audit fees paid by public companies do not

necessarily produce better audit quality. The researchers went further to argue that an increase in audit price is a consequence of an increase in demand for the audit firm which does not correspond with the increase in experienced auditors. Low audit quality according to Whited (2014) can be detrimental to a firm's profitability. This is in tandem with the findings of Monametsia and Agasha (2020). The researchers found a significant negative relationship between audit fees and profitability. The finding contradicts the significant positive result found by Syder and Big-Alabo (2022).

Hypotheses three: In the test of hypothesis three, employee cost has a negative and insignificant effect on return on capital employed of manufacturing firms in Nigeria. This implies that as personnel cost of manufacturing firms is increasing, there is an insignificant decrease in return on capital employed. The result can be a result of non-productivity and low performance of employees in this sector, which can be traced down to poor management, substandard supervision, lack of motivation, and so on. The finding contradicts the findings of Manukaji, Osisioma, and Okoye (2019). The researchers found a significant positive relationship between employee cost and performance.

5. CONCLUSION AND RECOMMENDATIONS

5.1 Conclusion

The study examined the effect of corporate expenditure on return on capital employed of manufacturing firms in Nigeria. From the data collected and scientifically analyzed, advertising costs and audit fees have a negative and significant effect on return on capital employed. However, employee cost has a negative but insignificant effect on return on capital employed by manufacturing firms in Nigeria. The adjusted R-squared (R^2) indicated that about 78% of the changes in Return on capital employed are accounted for by the explanatory variables (Advertising Cost, Audit Fees, and Employee Cost). Hence the study concludes that corporate expenditures have a negative and significant effect on return on capital employed.

5.2 Recommendations

The following recommendations were made based on the findings and conclusion:

1. Manufacturing firms in Nigeria should strive to avert their advertising failures. They should ensure that the huge cost of advertising yields maximum results. This they can do by making proper use of passive media and by creating creative and persuasive ad content. They can also ensure that the targeted niche is adequately informed. There should be a proper advertising mechanism that will foster the reputation of the company as well as the products.
2. Cost management strategies that focus on the reduction of administrative overhead (such as audit fees) should be embarked upon by the manufacturing firms if their profit maximization and wealth creation objectives are met. They should ensure that their audit fees are translated to a quality audit report that is lacking in misstatements.

3. Manufacturing firms should set performance targets for their employees and conduct employee performance appraisals regularly to ensure that the huge employee cost yields positive results. They can also engage in staff training and workshops from time to time to get the best from the employees.

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