THE IMPACT OF COST CONTROL STRATEGIES ON THE PERFORMANCE OF YOUTH OWNED SMALL AND MEDIUM ENTERPRISES IN ETHIOPIA: A LITERATURE REVIEW

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Abstract

Small and medium enterprises (SMEs) play a pivotal role in fostering employment opportunities and driving economic growth. Acknowledged as effective generators of employment, catalysts for the emergence of larger enterprises, and fundamental agents of national economic advancement. SMEs operate within a contemporary, dynamic, and fiercely competitive business landscape. In response, firms are compelled to devise strategic frameworks aimed at delineating sought-after competitive advantages in the market. Central to this endeavour are cost control strategies, as the optimization of expenditures directly impacts profitability. This study conducts an extensive literature review on the efficacy of cost control strategies on the performance of youth-owned SMEs in Ethiopia. It seeks to elucidate key cost control strategies, challenges inherent in their implementation within SMEs, the influence of financial literacy on SME performance, and the implications of cost control measures on SMEs performance. Ultimately, it recommends prioritizing policy interventions geared towards enhancing financial literacy among youth and providing support mechanisms for the implementation of cost control strategies within SMEs in Ethiopia.

Keywords: *cost control, small and medium enterprises, youth, Ethiopia*
JEL: *M21, L25, L26*

Introduction

For young people living in poverty and disadvantaged situations, employment is the main route for moving out of poverty and having upward social mobility (Tam, Asamoah and Chan, 2021). In this regard any policy makers around the world have embraced small and medium enterprise policy as a viable means of generating employment and economic growth. These enterprises are increasingly acknowledged for their pivotal role in the economic advancement of many nations. Specifically, they are recognized as effective generators of employment, catalysts for large-scale enterprise formation, and vital drivers of national economic growth (Luther Ntim, 2014). SMEs are essential to achieving 88% of SDG 9 targets, which place a strong emphasis on sustainable industry and resilient infrastructure along with innovation (Endris and Kassegn, 2022). Therefore, developing countries must enact reforms to improve the business climate and financial integration, mobilize domestic resources to strengthen their social protection systems, and make wise investments to support the expansion of small enterprises (International Labour Organization., 2022).

To effectively realize the desired objectives, small and medium enterprises must enact cost control strategies, pivotal for the sustainable expansion and viability of youth-led small businesses. According to Porter (2009), operational focus should prioritize distinct capabilities that confer competitive advantages, often termed competitive priorities. Among these priorities, cost emerges as pivotal, significantly impacting profitability and competitiveness. Cost analysis and management have the potential to confer a competitive advantage, elucidating the strategic benefits derived from these practices in optimizing operational performance and market positioning (Zander, 2006).

Competitive advantage is achieved when a firm excels in areas that rival firms cannot replicate or possesses assets that competitors covet (David, 2011). This involves the creation of superior customer value at equal or lower costs compared to competitors. Accordingly, businesses continuously engage in efforts to reduce costs to maintain their competitive edge. Higher productivity rates compared to competitors confer a distinct cost advantage upon organizations (Stevenson, 2015). In any organizational setting, the goal remains profitability. Various strategies can be employed to maximize profits, with cost reduction being a prominent approach. For instance, optimizing operational efficiency can enable companies to maintain the same selling price per unit while reducing costs, thereby enhancing profit margins (Anil Kumar and Suresh, 2008).

Despite the extensive research conducted on the various factors affecting the performance of small and medium enterprises (SMEs), the specific impact of cost control has not received sufficient attention. Much of the current literature tends to focus on external factors such as access to finance, market conditions, regulatory frameworks, and managerial skills. Nevertheleless, internal operational practices, especially cost control mechanisms, are still relatively underexamined, even though they are crucial for ensuring financial efficiency and long-term sustainability. This study aims to address this gap by investigating the essential role that effective cost control plays in improving the performance and overall sustainability of SMEs in Ethiopia. Considering the resource-limited context of many SMEs in developing countries, the capacity to manage costs effectively can greatly affect profitability, competitiveness, and survival rates. By emphasizing cost control as a strategic management tool, this research intends to offer practical insights and policy recommendations that can enhance the strength and resilience of the SME sector in Ethiopia.

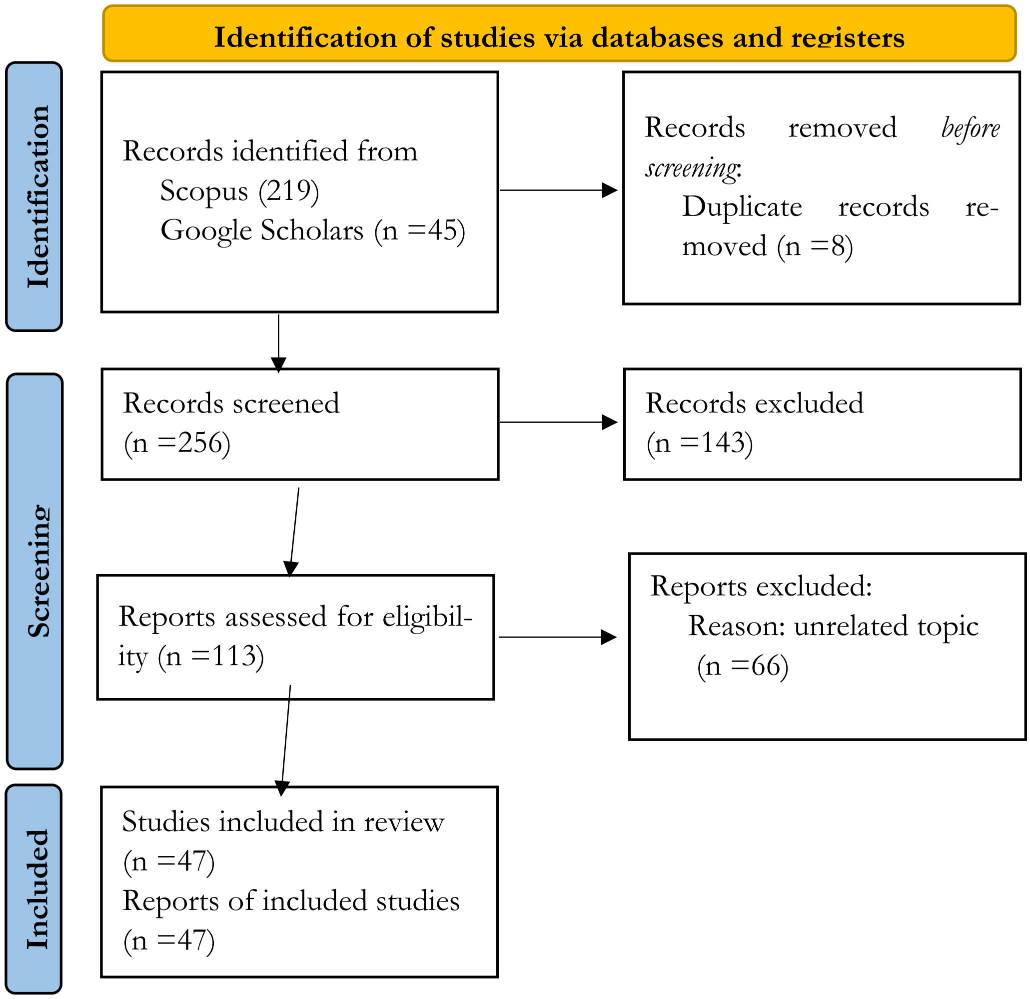
Research Methodology

The selection process adhered to the guidelines outlined in the PRISMA statement (Page et al., 2021). A total of 264 documents (219 documents from Scopus database and 45 records from Google Scholars) identified using a key word ("cost control" OR "cost reduction") AND ("youth-owned" OR "young entrepreneurs" OR "small and medium enterprises" OR SMEs OR "small businesses") AND ("business performance" OR "enterprise performance") AND (Ethiopia OR "developing countries") that are published from 2000-2025. After removing duplicated documents and missing metadata, we have approved 47 documents for this review. Figure 1 presents the selection process using Preferred Reporting Items for Systematic Reviews and Meta-Analyses (PRISMA).

This strategy was applied across two major academic databases: Scopus and Google Scholar. The initial search yielded a total of 264 documents, with 219 records retrieved from the Scopus database and an additional 45 records obtained through Google Scholar. Following this, a thorough screening process was conducted to remove duplicates and eliminate records with incomplete or missing metadata, which could compromise the quality and reliability of the review.

After applying these exclusion criteria, a final total of 47 documents were deemed eligible and included in this review. These documents met all inclusion requirements, including relevance to the research topic, methodological quality, and the availability of complete bibliographic information. The step-by-step selection and screening process is illustrated in Figure 1, following the PRISMA flow diagram format.

Figure 1: Systematic Process for Selection of Documents from the Databases



Literature Review

Resource based view

This study adopts the Resource-Based View (RBV) as its theoretical framework. The RBV posits that organizations are composed of a unique set of internal resources and capabilities, which serve as the foundation for developing strategies that can lead to sustained competitive advantage. According to this view, a firm's ability to achieve above-average returns is primarily determined by internal factors rather than external conditions (David, 2011). Resources both tangible and intangible that are valuable, rare, inimitable, and non-substitutable (VRIN) form the core of strategic success. These resources enable firms to implement strategies more effectively than competitors. The RBV emphasizes the importance of acquiring, developing, and utilizing these unique capabilities to strengthen firm performance. In this context, the implementation of cost control strategies can be seen as a way of leveraging internal financial, operational, and managerial resources to optimize efficiency and improve performance. By developing internal systems such as sound accounting practices, budgetary controls, and efficient operational processes, SMEs can create sustainable advantages that are difficult for competitors to replicate.

Cost control

A primary focus for any company revolves around minimizing costs, as reductions directly enhance profits. Nonetheless, cost-cutting endeavours must be executed judiciously to avoid adverse effects on customer loyalty or hinderance of the organization's long-term objectives (Bragg, 2010). Cost control plays a pivotal role in financial management, exerting significant influence on enterprise development and business operations. Its effectiveness is decisive in the financial management of small and medium-sized enterprises (Sun, 2020). Thus, implementing a cost control system has the potential to enhance the operational efficiency of SMEs, thereby contributing to improvements in their business processes (Benjaoran, 2009).

Cost control strategies

The literature identifies several cost-controlling strategies commonly employed by SMEs, including activity-based costing, total quality management, lean manufacturing, inventory management, and budgetary control. According to Bragg (2010), cost reduction strategies encompasses areas such as selling and marketing, product and production analysis, payroll and procurement cost minimization, and inventory management optimization. Implementation of these strategies empowers SMEs to enhance efficiency and competitiveness.

Activity based costing is essential for SMEs to stay competitive in the market. Activity-based costing and management (ABC/M) is essential to improve product quality and operational effectiveness, which increases SMEs' competitiveness in the market (Gunasekaran, Marri and Grieve, 1999). The fundamental premise of the Activity-Based Costing (ABC) methodology resides in the delineation that products themselves do not directly deplete company resources. Rather, it is the activities inherent within the organizational framework that consummate resources and thereby engender overhead costs (Mijoč, Pekanov Starčević and Mijoč, 2014).

Total Quality Management (TQM) is an approach that aims to promote continuous improvement in all areas of the organization, which will ultimately promote long-term success. The performance results of small and medium-sized businesses are greatly impacted by this strategy (Ahmad et al., 2017). As per Herzallah et al. (2014), Total Quality Management (TQM) practices exhibit an indirect, positive, and statistically significant correlation with financial performance, mediated through competitive strategies. Additionally, there exists a direct, positive, and statistically significant association between competitive strategies and financial performance. Moreover, TQM demonstrates a notable influence on the export performance of SMEs. Enterprises implementing TQM at a higher level tend to achieve greater success in international markets and attain superior export performance, as noted by Imran et al. (2018).

Small and medium-sized manufacturing enterprises (SMEs) anchor their operational strategy on two core principles: waste elimination and customer value optimization in the contemporary global arena. Consequently, they employ the lean manufacturing concept to bolster quality, delivery, and cost performance, thereby advancing competitive efficiency and facilitating enduring economic sustainability (Al-Hyari, 2020). There are several advantages to implementing lean manufacturing in any kind of firm, including lower waste and more operating efficiency (Almanei, Salonitis and Xu, 2017). The lean methodology is the best way to give SMEs the flexibility they need to overcome difficult situations (Mahadevan and Chejarla, 2023).

Inventory management (IM), which includes policy creation, procedural execution, and decision-making to continuously maintain ideal stock levels in warehouses, is essential to organizational inventory control. IM, which forms the foundation of the supply chain, is essential for boosting small and medium-sized businesses' (SMEs') competitive edge (Panigrahi, Shrivastava and Kapur, 2024). It is well acknowledged that one of the skills that managers of any firm should possess is effective inventory management (Ogbo and Ukpere, 2014). Costs associated with procurement and inventory management must be taken into account because they have a big impact on the company's overall profitability (Muchaendepi *et al.*, 2019).

For every company to be healthy, careful planning is essential. Financial catastrophe may result from a lack of formal or informal planning. Regardless of the size of their company, managers need to be aware of their resource capabilities and have a plan that outlines how to use them. Planning and control are greatly aided by budgeting. Budgets can be utilized for control as well. The process of control involves establishing benchmarks, getting input on actual performance, and implementing corrective measures whenever real performance materially differs from intended performance. Budgets, thus, can be used to compare projected and actual results and, if needed, to reorient activities (Hansen, 2009). A budget is a quantitative and financial statement that is created before a specific policy period and is intended to be followed to achieve a specific goal. AlKhajeh & Abdelhakeem Khalid (2018), assert that budgeting significantly affects how well South African SMEs function. Al Mahroqi & Matriano, (2021) found a positive correlation between budgetary control and the financial performance of the companies in Oman.

Micro, Small and Medium Enterprises in Ethiopia

The Federal Democratic Republic of Ethiopia (FDRE), situated in the Horn of Africa, shares borders with Eritrea to the north, Sudan to the northwest, South Sudan to the west, Kenya to the southwest, Djibouti to the east, and Somalia to the southeast. Ethiopia holds historical significance as one of the world's oldest nations and a critical site for human evolutionary studies (Mohajan, 2013). As part of the unemployment reduction effort, the Ethiopian government has implemented strategic policies to promote the development of micro, small, and medium enterprises (MSMEs). These policies are meant to spur economic growth and bring about structural transformation by harnessing the potential of both agriculture and industry. The following outlines these strategies:

Strategy 1: Micro and Small Enterprises Development Strategy of Ethiopia (1997–2010)
This strategy operates under the Agricultural Development-Led Industrialization (ADLI) framework. ADLI focuses on achieving initial industrialization through robust agricultural growth and fostering strong linkages between the agriculture and industrial sectors.

Strategy 2: Micro and Small Enterprises Development Strategy, Provision Framework, and Methods of Implementation (2011–2015). Building on the outcomes of ADLI, this strategy emphasizes enhancing the productivity and competitiveness of MSMEs. It envisions full industrialization of agriculture, driving economic transformation.

Strategy 3: Industrial Development Strategic Plan (2015–2025)
The third phase is to make Ethiopia a middle-income economy by 2025, given the success of the earlier strategies. This strategy concentrates on the growth and development of MSMEs as the cornerstone of industrialization (Oshora *et al.*, 2021).

The definition of Micro, Small and Medium enterprises defined by different researchers and organization. In Ethiopian context the classification is based on asset owned (capital) and number of employees, see table 1.

Table 1: Definition of Micro, Small, and Medium Enterprises in Ethiopia

No	Enterprises	Sector	Employees	Capital
1.	Micro	Service	≤ 5	< 2,000 EUR
		Industry	≤ 5	< 4000 EUR
2.	Small	Service	6-30	20001-20000 EUR
		Industry	6-30	40001-60,000 EUR
3.	Medium	Service	31-100	
		Industry	31-100	20,0001-300,000 EUR

Source: Definition of MSE in Ethiopia (Small and Growing Businesses in Ethiopia, 2017)

Micro, small and medium-sized enterprises play a significant role in local, regional, and national GDPs as well as crucial policies meant to end poverty in Ethiopia. They are also the nation's main source of income and jobs (Siraj and Hágen, 2023). Many researchers investigated the factors affecting the performances of micro and small enterprises in Ethiopia. According to Abate & Sheferaw (2023), the performance of micro, small and medium enterprises (MSMEs) is impacted by a number of factors, including lack of experience and education, access to raw materials, training, and financing. Similarly to this Gebreeyesus et al. (2018) looked in to the key characteristics of micro, and small manufacturing enterprises, the finding shows that the biggest barriers to the growth of these business were inadequate work space, limited credit availability, and a lack of electric power.

According to Alene (2020), a number of important factors, including educational attainment, prior entrepreneurial experience, access to business training, financing, and information, government assistance, land ownership, and taxes, have an impact on how well entrepreneurs perform in micro and small businesses in Ethiopia. Cherkos et al. (2018) investigation revealed that the most important elements influencing the performance of micro and small businesses in the Amhara region were inadequate infrastructure, lack of entrepreneurial experience, lack of workspace, and managerial issues. In a similar vein, the main obstacles to MSE expansion in Ethiopia's Siltie zone include lack of access to capital, infrastructure, government policy, workspace, management ability, incentive, market connection (Ferejo et al., 2022). According to Kagnew Abebaw (2018) research, the performance of small and medium-sized businesses is significantly positively correlated with entrepreneurship, labor skills, infrastructure, financing, and leadership abilities. The impact of internal business characteristics on Ethiopian small and medium business perspectives was investigated by Engidaw (2021) The results showed that workplace-related and management factors were important determinants of small business performance. Despite their importance limited attention has been given to how implementing effective cost control measures affect the performance of small and medium enterprises.

Challenges of Implementing Cost Controlling in SMEs

Numerous researchers have identified various challenges associated with implementing cost control strategies in small and medium enterprises (SMEs). According to Costa et al. (2022), about 60% of MSE do not use any type of cost control in Brazil. Similarly, the owners of SMEs in Malaysia still lack cost management skills, which has hindered them in competing globally (Hussin, Alias and Ismail, 2013). lack of accounting knowledge, lack of ICT usage, lack of proper record keeping, and limited financial resources were the critical problems affecting small and medium enterprises regarding the implementation of cost controlling (Mohd Sallem et al., 2017).

Table 2: Challenges of Implementing Cost Controlling in Ethiopian SMEs

Author/s/	Challenges	Description
Dinka (2019); Kahsay (2019); Zelie, Alebachew and Alem (2020)	Knowledge & Skills Gap	– Lack of accounting knowledge Inadequate financial analysis skills – Limited training and education among SME owners and staff
Temtime & Solomon (2002)	Management Limitation	– Overemphasis on short-term profitability – Lack of formal business strategies and vision – Misunderstanding of cost controlling techniques
Herano (2023)	Access to Finance	– Stringent collateral requirements for loans – High interest rates – Complex and time-consuming loan procedures
Digital Ethiopia 2025 (2019); Tamene and Ashenafi (2022)	Infrastructural Barriers	– Poor internet connectivity and low digital literacy – High cost of internet services – Unreliable electricity supply – Inadequate transport and ICT infrastructure
Kahsay (2019)	Resource Constraints	– Limited financial and technological resources

Source: compiled by Authors based on the literature

Cost Control and Performance of Small and Medium Enterprises

Financial cost control is indispensable for small and medium-sized enterprises (SMEs) must to trim expenses and thrive in today's fiercely competitive market (Yu, 2024). Small and medium-sized businesses have strengthened their competitive advantage by maximizing labor utilization, reducing raw material consumption, and improving the effectiveness of goods production processes. These initiatives have facilitated companies in attaining increased levels of output while also reducing running expenses, strengthening their position in the market (Di, 2020). Cost control systems have an impact on small and medium scale enterprises performance therefore crucial for the implementation of the systems for effective performance. Kipkenei et al. (2022), examined the impact of cost control systems on the performance of medium-scale enterprises in Kericho Town in Kenya. The results suggest that enhanced utilization of costing systems correlates positively with improved performance of medium-scale enterprises.

The influence of cost management on the operational outcomes of manufacturing and construction firms has been investigated by various researchers. For instance, Oluwagbemiga et al. (2014), identified a statistically significant positive correlation between cost management practices and firm performance specifically within the manufacturing sector of Nigeria. Likewise, Maiga et al. (2014), observed that manufacturing organization can achieve optimal financial performance by integrating activity-based cost control systems with information technology. Robinson (2023) evaluated cost management strategies and their impact on the profitability of Quoted Cement Manufacturing Firms in Nigeria. The findings suggest that target costing, lifecycle costing, throughput costing, and activity-based costing collectively exhibit a positive correlation with the return on equity of quoted cement manufacturing companies. According to Cooray et al. (2018), cost controlling had a significant impact on construction projects delivery in Sri Lanka. Atnafu & Balda (2018), assert that improved profitability and competitive advantage can result from effective inventory management practices. There is a significant correlation between increased profitability in the SME sector and more financial literacy among SME owners and managers (Yakob *et al.*, 2021)

Financial Literacy and SMEs

Improving financial literacy among SME owners/managers is positively correlated with enhanced profitability within the SME sector. To prepare young people for the financial obligations that come with entering the workforce, financial education is crucial (International Labour Office, 2017). Educational attainment serves as a significant determinant influencing financial literacy levels (Hakim, Oktavianti and Gunarta, 2018). Eniola & Entebang (2017) conducted a study on the relationship between SME managers' financial literacy and firm performance in Nigeria. The results indicate a comprehensive impact of the business owner-manager's financial knowledge, financial awareness, and financial attitude on leveraging financial literacy to enhance firm performance. Kimunduu et al. (2016) investigated the impact of financial literacy on the financial performance of SMEs in Kenya. The findings indicated that elevated levels of financial literacy among SME owners correlated positively with enhanced financial performance of the SMEs. Entrepreneurs are tasked not only with efficiently acquiring, allocating, and distributing resources but also with comprehending essential business operations such as accounting, costing, and budgeting. Entrepreneurs who possess financial literacy tend to sustain their businesses successfully, irrespective of prevailing economic conditions (Noordin, Othman and Kassim, 2018). Yakob et al. (2021) found that financial literacy exerts a positive and significant influence on the performance of SMEs. Managers or owners equipped with financial literacy skills demonstrate a comprehension of key financial concepts pertinent to business, such as debt management, savings, insurance, and investment, thereby contributing to the enhanced performance of their businesses.

Discussion

Implementing cost control strategies is a crucial aspect of achieving sustainable competitiveness, particularly for youth-owned small and medium enterprises (SMEs) operating in increasingly dynamic and globalized market environments. By maintaining a cost structure that is leaner than that of competitors, these enterprises can offer goods and services at more competitive prices without compromising their profit margins. This approach aligns with the broader framework of cost-based competitive strategy, which emphasizes operational efficiency and strategic expenditure management as key levers for success. The successful adoption of cost control mechanisms enables SMEs to optimize resource utilization, reduce operational waste, and ensure that financial resources are allocated efficiently. For instance, activity-based costing helps firms pinpoint specific cost drivers, thereby enhancing the accuracy of cost allocation and enabling more informed managerial decision-making. Likewise, modern inventory management systems allow businesses to maintain optimal stock levels, thereby reducing holding costs and avoiding issues such as overproduction or stock-outs. Total Quality Management (TQM), when implemented effectively, supports continuous process improvement and product quality, while minimizing waste and rework costs. Budgetary control, on the other hand, plays a fundamental role in financial planning, allowing businesses to monitor and adjust their expenditures in accordance with their strategic goals. Lean manufacturing practices also contribute to operational excellence by systematically eliminating non-value-adding activities across the production cycle.

Despite the evident benefits of these cost-controlling techniques, the practical implementation of such strategies remains challenging for many youth-owned SMEs in developing countries like Ethiopia. Several structural and contextual barriers hinder the effective deployment of cost control mechanisms in these settings. Limited financial literacy among entrepreneurs is a key challenge, as it constrains their ability to interpret financial data, prepare budgets, and make evidence-based decisions. Many young business owners lack formal training in accounting and financial management, which significantly undermines their capacity to implement cost control practices in a consistent and strategic manner. In addition to knowledge gaps, access to information and communication technology (ICT) remains inadequate in many parts of Ethiopia. The digital divide continues to impede SMEs' ability to adopt modern accounting software, inventory systems, and data management tools that are essential for effective cost control. Poor internet penetration, unreliable electricity, and high connectivity costs further exacerbate this challenge, especially in rural and semi-urban areas where many youth-owned SMEs operate.

Moreover, weak record-keeping practices are widespread among Ethiopian SMEs, partly due to a lack of awareness of their importance and partly due to the absence of appropriate tools and training. Without proper documentation of financial transactions, it becomes nearly impossible to track expenditure, evaluate performance, or identify cost-saving opportunities. Access to capital is another critical constraint. Most youth-owned SMEs in Ethiopia operate with limited financial resources, which restricts their ability to invest in cost control systems, hire qualified financial personnel, or acquire modern technology. The financial ecosystem in Ethiopia often presents additional obstacles, including stringent collateral requirements, high interest rates, and cumbersome loan application procedures, which disproportionately affect small businesses and new entrants.

The cumulative impact of these challenges is that many youth-owned SMEs in Ethiopia remain unable to implement the very strategies that could enhance their efficiency and long-term sustainability. This underscores the urgent need for capacity-building initiatives that target young entrepreneurs, equipping them with the financial and managerial skills necessary to navigate cost management effectively. Simultaneously, there is a need for policy interventions aimed at improving access to ICT infrastructure and affordable finance for SMEs. Creating a supportive institutional environment through tax incentives, subsidies for digital tools, training programs, and simplified loan processes could significantly enhance the capacity of youth-owned SMEs to implement cost control strategies effectively.

Conclusions and Implications

Cost control is very critical to the survival and profitability of SMEs, especially the youth-owned enterprises operating in highly competitive and resource-constrained environments. Effective cost management strategies for SMEs include activity-based costing, inventory management, TQM, budgetary control, and lean manufacturing, which help them optimize their operations and improve their financial performance. Cost control strategies directly influence profitability, resource optimization and sustainability of small and medium enterprises. Establishing a robust cost management system holds the potential to substantially enhance SMEs' operational efficiency, resulting in tangible improvements in their business processes. Various cost control methodologies are underscored in the literature, including activity-based costing, inventory management, total quality management, budgetary control, and lean manufacturing. Each of these approaches provides a structured way of managing expenses while boosting profitability and operational effectiveness. However, achieving cost efficiency requires overcoming several barriers, including limited financial literacy, lack of access to credit, inadequate technology adoption, and insufficient funding. Solving these problems requires concerted efforts from both the public and private sectors. Policymakers and educational institutions should focus on financial literacy programs that will provide young entrepreneurs with the basic skills in cost management.

To overcome access to finance related challenges, it is essential for the government and financial institutions to take proactive measures. These may include easing collateral requirements, simplifying loan application procedures, and offering credit at more affordable interest rates. Such reforms would enhance the financial inclusion of youth entrepreneurs and contribute to the long-term sustainability and performance of their businesses. To address challenges related to infrastructure, the government must prioritize infrastructure development. This includes investing in the expansion and modernization of digital infrastructure to improve internet access and affordability, enhancing the reliability and coverage of the national power grid, and upgrading road networks to support business logistics. By tackling these issues, Ethiopia can create a more conducive environment for the implementation of cost control strategies, ultimately supporting the growth and sustainability of SMEs enterprises and ultimately reduce youth unemployment. Resource constraints can also be mitigated by strengthening the SME support frameworks with access to affordable financing coupled with business advisory services. Besides, embracing digital transformation in financial management enhances data accuracy, smooths operations, and improves cost control. This research contributes to the existing literature by exploring the role of cost control strategies in enhancing the performance of small and medium enterprises (SMEs) within the Ethiopian context.

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