Impact of Administrative Expenses on the Profitability of FMCG Companies. A Case Study of Three Leading FMCG Organizations of Pakistan

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Abstract

The purpose of this study is to investigate the impact of administrative expenses on the profitability in the fmcg companies of Pakistan. Any organization must manage its resources effectively in order to achieve its financial and organizational objectives. Productive resource management is a crucial factor that needs to be given serious attention in this competitive environment where fmcg organizations are going head-to-head to achieve brand loyalty, and to meet targets of organizational growth & profitability. In fmcg organizations, where huge amounts are invested in the advertisement & promotion of products, at the same time non-production expenditure is also important to run the business smoothly. In this article, the subject of how managers support an organization's overall systems and how cost is efficiently managed while taking into account its impact on sales and profit returns has been addressed. Three significant Pakistani FMCG players are the focus of the study. Support has been provided using references and prior studies. Questionnaires were gathered from accountants and an interview was taken to verify the authenticity of the developed hypothesis. This article will assist FMCG companies in managing and lowering administrative expenditures to develop and enjoy the resourceful consequences of intangible assets such as goodwill and leadership. This will be helpful for firms to stay ahead of the competition while keeping a strong check on the aspects of its resource management.

Key Words: Resource management; Administrative costs; Profitability, Staff Costs

1. Introduction

The FMCG sector is one of Pakistan's industries with the fastest growth and biggest investment. The **$152 billion** FMCG market in Pakistan is expected to grow **8.2%** yearly, according to **Haq (2018).** The FMCG industry in Pakistan serves as the conceptual foundation of this study. Customers often make use of these products. Examples include salt, sugar, toothpaste, shampoos, and soaps. In Pakistan, there are many companies with a focus on the quickly changing consumer goods market. The economy of Pakistan is dominated by the FMCG industry, which accounts for **64%** of all exports from that country. The fast-moving consumer products industry in Pakistan is a prosperous one that fosters revenue growth and demonstrates resilience in the face of unpredictable economic situations **(Javed, 2022).** In Pakistan, demand for FMCG products is also rising quickly. These global giants are receiving greater returns and are able to achieve their qualitative organizational objectives in the form of brand leadership, & brand equity. At the same time, they`ve to secure their quantitative organizational objectives as well, typically in the form of securing market share & profitability returns. While they`ve certain techniques to have a strong check on effective resource management, some of the components require utmost importance and attention such as staff costs and technology management costs. There are two different types of expenses in production. Selling costs are expenses incurred during the production of a good, including the cost of labor and raw materials. The second category of expenses is General & Administrative expenditures, which are included in the total cost of operating a business rather than the cost of delivering a particular good or service. These certain types of expensesshape the entire structure of business development aspects, which in turn yield greater results in the shape of intangible assets. Modern Fast-Moving Consumer Goods (FMCG) companies are exposed to cutting-edge technologies designed to boost overall productivity and organizational efficiency. The maintenance and employee acceptance of technologies, whether new or old, depends on the support systems and strategies used by management. Many different types of expenses are incurred by businesses. For this purpose, we`ll analyze3 fmcg global giants, Unilever foods Pakistan limited, National Foods Limited & Nestle Pakistan Limited. Unilever has a strong reputation in the business for job opportunities due toits well-known brand image. After so many years, the company's name still serves as a good introduction. This business is international and operates in several well-known nations that produce goods **(Javed, 2022).** The ability of Unilever foods Pakistan limited to produce creative, distinctive products and its effectiveness in effectively presenting those products to customers through effective marketing campaigns are the main variables determining the company's success **(M.A Zuberi, 2011).** Then comes another important name, Nestle Pakistan. With its headquarters in Vevey, Vaud, Switzerland, Nestlé is a multinational conglomerate firm that processes food and beverages. In terms of revenue and other criteria,it has been the largest publicly traded food company since 2014 **(Rowan, 2015).** Then, wecan look at another big industry name - National Foods. National Foods Limited is active all throughout Pakistan and offers a variety of goods. The company boasts a vibrant atmosphere and many opportunities for growth and promotion **(Javed, 2022).** In this research, emphasisis given on how these FMCG giants are managing their resources effectively. Ten years of data is given as a support to have an understanding about the expenditure. In the annual reports, administrative expenses are recorded as an umbrella term consisting of different components. The importance of spending in the selling expenditure of a commodity isundoubtedly important, but at the same time, understanding administrative costs can improve the ability to support the growth of organizational revenues, whether you work in administration, finance, or management. In my thesis, I primarily focus on the topic of administrative costs. Although this expense may not seem important at first glance, it actuallyforms the backbone of all business activities and is essential for maintaining records. A business or organization's administrative costs are its outlays. Rent, managerial salaries,administrative worker compensation, and benefits are a few examples of these costs. Administrative costs are those incurred to keep a business running but unrelated to the creation of a particular good or service. There are some administrative costs that never vary since they are essential to running a firm. These costs would be necessary regardless of how much is produced or sold. Due to the significant influence these costs have on sales & profitability, the company must boost its expenditure on operating marketing, technology, new infrastructure, and sales promotion. To satisfy the changing needs of consumers, this is essential. Past studies and literature is used as a strong support to map the outcomes of this expenditure. Questionnaires and an interview are used as research instruments which have helped us to analyze the practical implications of administrative expenses.

2. Review of Literature

This section is an exhaustive review of all the prior research on this subject from many publications and books by various authors. Resource management is a crucial factor in any organization so that it can ensure the accomplishment of financial & organizational goals. According to **Jayiddin, Jamil and Roni (2017)**, performance measures are either financial or organizational. Financial performance is defined as maximizing profit on assets and shareholder benefits, which can result in firm effectiveness, while organizational performance refers to individual company management practices that can increase an organization's output. Financial performance, according to **Mohammedi and Malik (2012)**, is a reflection of an organization's assets, the extent of its competitiveness in the same industry, and a full understanding of its cost and profit centers. It is essential to both the shareholder's financial security and the health of the economy as a whole. The idea is viewed as the actual result in tracking measures accomplished as a result of effective and efficient resource management. In this competitive environment, where fmcg organizations are competing neck-to-neck to achieve brand loyalty, to earn maximum revenue for all stakeholders and meet targets of organizational growth, & profitability, investment in business operating expenses is an important factor which needs to be given serious attention to run the business smoothly. At the same time resource management is very important to keep the track of investments & profits, otherwise all your savings could end up without yielding gains. Businesses spend money on a wide range of different expenses. In production, there are two types of expenses. Selling costs - Costs incurred to make a product including the cost of raw materials & labor. And then comes the second type of expenditure - General & Administrative costs - which are included in the overall cost of running a firm rather than the price of providing a specific commodity or service.

Sales:

Sales is the art of creating an idea in another person's head that will motivate them to do a favorable action **(Helmold, 2022)**. Selling is the activity of assisting and/or persuading a potential customer to purchase a good or a service or to act favorably toward an idea that has commercial value to the seller, according to the definition provided by the **American Marketing Association** committee. According to **the Sale of Goods Act, 1979**, it originally refers to the concept where revenue is earned by selling goods & services to consumers, and end-users. It reflects the position of the company in terms of profitability, and revenues.

Selling, General And Administrative Expenses:

In order to understand the role and impact of administrative expenses on sales & revenues, firstly, we must first have to familiarize ourselves with the concept and the breakdown of these expenses. Selling, General and Administrative Expenses, which are a significant non-production cost included in an income statement, are abbreviated as SG&A (also known as SGA, SAG, G&A, or SGNA) in accounting (statement of profit or loss). SGA costs are the total costs of running the business, which are as follows:

Selling Expenses: The total of all direct and indirect selling costs, which includes rent, advertising costs, and labor pay (except those related to manufacturing costs, which are included in the cost of items sold).

General Expenses: Taxes and general running costs unrelated to the other two categories but directly relevant to the general operation of the business.

Administration Expenses: The general administration of the corporation, including executive wages, general support, and all relevant taxes. Due to the fact that they cannot be linked directly to the creation of goods, these costs are sometimes referred to as "business overheads."

Administrative Expenses:

The area of research in my thesis mainly revolves around administrative expenses. Genuinely, if we come to look at this expenditure, it may not look significant, but this holds the entire foundation of business operations without which you cannot keep track.

Administrative expenses are the expenses incurred by a company or organization. These expenses could include, among other things, rent, managerial pay, administrative worker wages, and benefits (**Seetharaman, Pitta, Moorthy, & Saravanan, 2016).** Administrative expenditures are expenses made to maintain a company's operations but which have nothing to do with producing a specific commodity or service. Since they are a vital part of running a business, some administrative costs never change. No matter how much is produced or sold, these expenses would still be required. Other administrative expenditures can vary somewhat. As they have little impact on the items that a firm sells or produces, administrative expenses are frequently the first to be cut from a budget. Given that doing so helps a firm to use leverage more effectively, management is heavily driven to keep administrative costs low in contrast to other expenses. Utilizing the sales-to-administrative expenditure ratio, businesses can ascertain how much of their revenue is going toward covering administrative expenses. An empirical study by **Sidhanta and Chakrabarty (2010)** showed that SG&A costs significantly affect sales revenue and profits. The impact of SG&A spending on potential economic gain was investigated by **Banker et al**. in **2006**. According to them, present SG&A spending will increase future profits.

Profitability:

Profitability analysis is regarded as one of the greatest methods for gauging operational efficiency and the productivity of invested capital **(Tulsian, M., 2014).** Profitability is the ratio of a company's revenue to its outgoing costs. A business's income is determined by how much money it generates through operations and activities. A business determines its expenses by measuring the amount of resources (cash, time, and inventory) depleted during operations. It's critical to assess your profitability because every business wants to be profitable.

Studies have shown the importance of these administrative expenses and their impact as well. Controlling selling, general, and administrative costs is essential for increasing productivity and maintaining competitiveness. The amount of sales revenue increases proportionately with SG&A costs. SG&A costs and material cost impacts will be equivalent in businesses with low sales revenue. In businesses with medium levels of revenue, SG&A costs have a greater impact on operating income than on material costs. SG&A costs have an effect on profits in companies with large sales revenue (**Seetharaman, Pitta, Moorthy, & Saravanan, 2016).** According to sales growth and decline, **Anderson et al. (2007)** explained how SG&A relates to future earnings. They claimed that SG&A costs have a positive relationship with future profitability during periods of revenue decline and a negative relationship with future earnings during periods of revenue growth. According to **Baumgarten et al. (2010)**, in cost-efficient organizations, an increase in the SG&A ratio has a favorable relationship with future profitability. Increasing the SG&A ratio has a detrimental impact on future profitabilityin cost-inefficient businesses. An empirical study by **Sidhanta and Chakrabarty (2010)** showed that SG&A costs significantly affect sales revenue and profits. The impact of SG&A spending on potential economic gain was investigated by **Banker et al**. in **2006**. According tothem, present SG&A spending will increase future profits. **Leveseque et al. (2012)** investigated how rising R&D and SG&A costs fueled business growth. The amount spent on innovation and research will have an impact on the company's expansion. Spending on SG&A expenses boosts brand perception. The company's profitability and growth will increase when R&D and SG&A costs are combined, but managers must strike a balance between the two in order to achieve these goals. According to **Banker et al. (2006)**, investorsdo not necessarily view all SG&A expenses as being incurred during the current quarter. Investors believe that a portion of the firm's SG&A costs will go into boosting its asset base. A role for advertising spending in producing an intangible asset was discovered by **Biddle et al.** in their investigations from **1997**. Sales-related costs, such as those for client development, sales promotion, and distribution channel management, make up a significant portion of SG&A. Studies by **Cleland & Bruno (1996)** demonstrated that spending on customer satisfaction programmes or employee training will produce intangible assets that could be related to future financial performance. For SG&A-cost-efficient enterprises, raising current selling, general, and administrative expenses will increase operating profits in the future. Reducing the future cost of products sold primarily improves operating profits in the future. Future operating profitability improvements will be greater if the companies with dropping sales had effectively managed their SG&A costs (**Seetharaman, Pitta, Moorthy, &Saravanan, 2016).** According to a study by **Brynjolfsson and Hitt from 2000**, various SG&A expenditure components have an effect on a company's performance in the long run. Revenues and expenses are basically proportional to one another, but **Eli et al. (2013)**discovered that temporary items or economic shocks are likely to alter them disproportionally. In the opinion of the experts, a comprehensive strategy should be taken into account for managing the overall SG&A costs. Management has the ability to control SG&A costs through enhancing the business. If the management employs a comprehensive strategy to cost control, around 25–50% of SG&A expenses can be decreased. SG&A costs are inversely proportional to gross margin (gross margin is the amount of money a business has left over after deducting all direct expenses associated with creating or acquiring the products or services it offers) but independent of any driver. The more they have, the more they spend (**Seetharaman, Pitta, Moorthy, & Saravanan, 2016).** According to **Converse's (1955) research** on drug stores, the gross margin climbed as SG&A costs rose. Higher revenue and gross margin were results of increased sales. According to **Stasz's 2003 study**, the approach of an integration strategy can increase gross margin. With the use of new approaches, businesses can boost their profitability and gross margin without having to make significant changes. Sustainability and financial performance have a bad association forcompanies that perform poorly. The sustainability idea of performance has a favorable relationship with financial performance, according to **Vitezic et al (2012)'s research**. To geta competitive edge over other businesses, these enterprises publicly reveal their CSR initiatives. According to the study's findings, businesses with strong financial results and significant scale are more cognizant of their corporate social responsibility. The term "sustainability" has several facets and is commonly used in discussions of the environment. Acompany that is not financially viable will only be able to remain in operation for a short period of time. There won't be any assets left to sell in order to pay the bills once all of its savings have been depleted. This is why managing a business successfully both now and in the future requires strong financial sustainability (**Seetharaman, Pitta, Moorthy, & Saravanan, 2016). Mithas et al., (2012)** emphasized how executive incentives contribute to the long-term success of the company. Long-term value is created for the company via SG&A investments made in the form of equity incentives for the management. But it is difficult to measure SG&A costs as investments because of their nature. **Ou (1990)** investigated the stock return forecasting based on non-earning financial numbers from the present year for future years. The author discovered that non-earnings figures in the financial statements have no bearing on earnings for the current year. But it affects revenue for the following year. In addition to responding to present profits, stock return prediction also reactsto changes in future earnings. The intangible asset produced by current SG&A spending may already be fully valued in stock prices. Bonus and equity payment are affected by executive compensation. This has had a detrimental impact on SG&A costs. However, when SG&A spending has a significantly bigger impact on future earnings, this negative associationreduces (**Seetharaman, Pitta, Moorthy, & Saravanan, 2016).** An important metric for gauging an enterprise's capacity to create value was developed by **Tian et al.** in **2012**. A measure of a company's financial performance known as economic value added (EVA) is based on the residual wealth that is determined by subtracting its cost of capital from its operating profit, adjusted for taxes on a cash basis. EVA is also known as economic profit because it aims to identify a company's genuine economic profit. EVA is a metric used to assess the value a business creates from capital invested in it. Economic Value Added (EVA) put forth a novel idea for business profit that takes into account all aspects of capital application efficiency. **Ong & Chen (2013)** assessed how information technology capabilitiesaffected past, present, and future company performance as well as firm value. All three categories are considerably and positively influenced by IT skills, and the significance level of firm value is greater than that of firm performance and future company performance. In other words, IT capabilities are more important to business value, which includes prospects for growth, intangible assets, and innovation, among other things.

3. Research Methodology

The purpose of the investigation, the creation of a hypothesis in light of prior research, andthe primary and secondary sources of data that were used to perform the research are all described in this chapter of the study.

Problem Statement: With technological improvements, Pakistan's FMCG industry is both extremely competitive and dynamic. Organizations must successfully manage resources while investing in selling and administrative costs if they want to stay competitive and profitable. Practices including investing in training and development, staff compensation packages, and technology fees have been suggested as a technique for enhancing performance and organizational profitability in earlier research. However, there hasn't been a full discussion of how such investments may affect profitability in the context of the Pakistani FMCG industry. Therefore, the main goal of this study is to ascertain how administrative costs affect the FMCG sector's profitability in Pakistan.

All expenditures incurred by the business, excluding those accounted for in product costs or related to sales and financial charges, shall be recorded as administrative costs. Using the offered material as a guide, we can comprehend how administrative costs affect sales and profitability as well as the long-term intangible advantages gained from investing in administrative costs. In the light of past studies and the literature review, we have concluded the discussion in the form of a hypothesis.

Hypothesis: "Increase in administrative expenses brings a positive impact on the

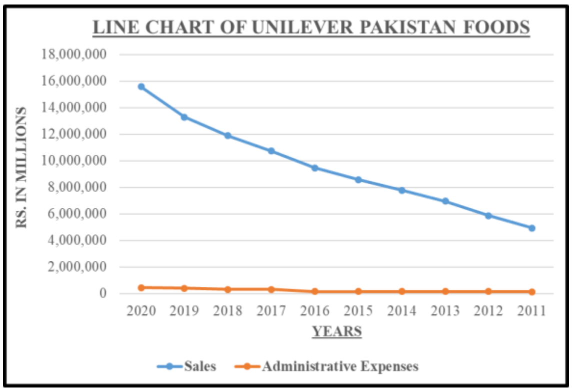
profitability of the FMCG sector".

In this hypothesis, the dependent variable is "profitability" and the independent variable is "administrative expenses". Resource management has to be focused as the major concern while these expenses play an important role in giving intangible benefits.

Relationship Of Variables With The Help Of Graphical Representation:

1. Unilever Pakistan Foods Limited:

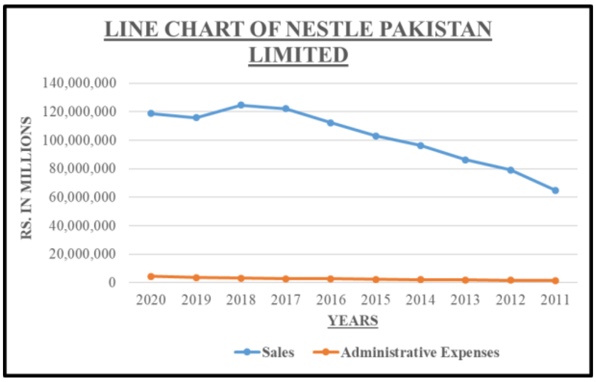
To analyze the impact of administrative expenses on sales, let's take an example of fast moving consumer goods (FMCG) giant, Unilever Pakistan foods limited. This graph makes it abundantly evident that there is an increase in the administrative expenditure over the course of a 10 years time period.



In **2020**, the Covid-19 pandemic caused a global economic crisis and several businesses filed for bankruptcy. Despite the COVID-19 lockout, which had a major impact on the business of Food Solutions, the company registered a broad-based growth of **17.2%** in **2020**. The company's **11.7%** growth in **2019** was mostly driven by volume increase. The company expanded by **10.7%** in **2018.** The company saw a **13.5%** increase in volume in **2017**. The company expanded by **10%** in **2015**, with underlying volume growth increasing by **7%**. The company increased EPS by **17%** in **2014**. Sales increased by **12%**, and volume growth overall increased by **7%**. Due to cost savings and an improved sales mix, there was an increase in the gross margin by **137** basis points. UFPL food category brands including Knorr, Noodles & Ketchup expanded as aresult of increasing brand equity and consumption both in urban and rural areas along withthe help of driving penetration through targeted digital marketing campaigns. Figures of increased sales & company growth are proof that the company is investing in the right direction.

2. Nestle Pakistan Limited:

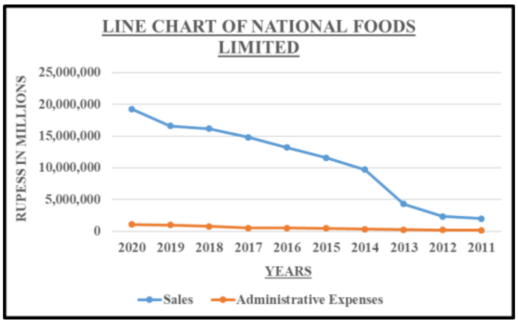
Throughout the period of ten years, Nestlé Pakistan reported **PKR 118.8 billion** in revenue for **2020**, an increase of **2.4%** over **2019**. Despite the pandemic's exceptional condition, the corporation was still able to increase income through unhindered product supply and availability, innovation and renovation projects, expanded numerical distribution, and investments in the brands. With the assistance of different cost-saving initiatives, optimization projects, and pricing management, the business was also able to increase profitability. According to a business magazine, Profit Pakistan, For the six months ending on **June 30, 2018**, Nestlé Pakistan reported a **4.2%** revenue rise, translating to an overall increase in revenue of **Rs 2.6 billion.** The company generated **Rs 64.6 billion** in

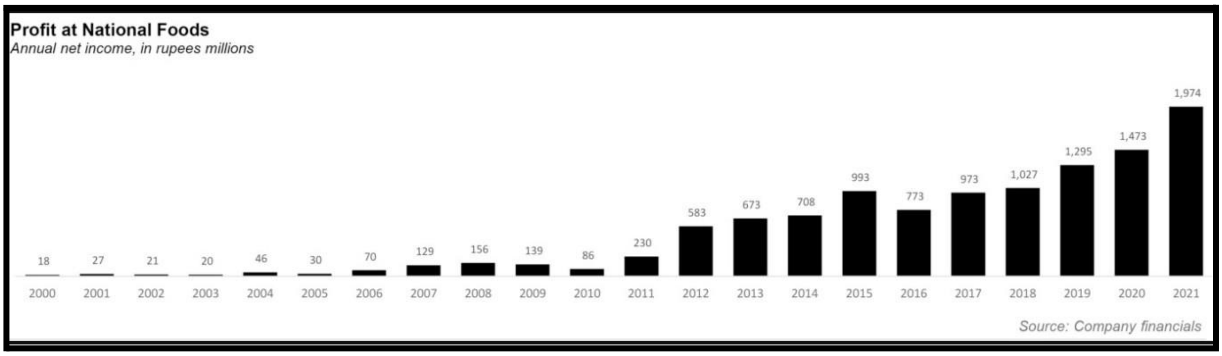


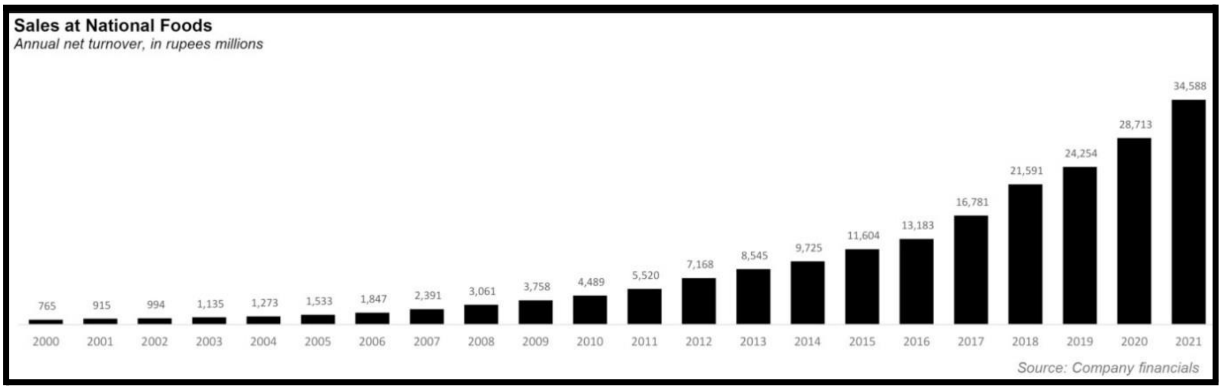
total revenue. In comparison to the same period previous year, the company reported an after-tax profit of **Rs 6.3 billion** for the six months that ended on **June 30, 2018** (**Bukhari, M. F., 2018).** An overall increase trend in costs was observed, with distribution and selling costs, administrative costs, and finance costs rising by **12.1%, 15.7%**, and **82.0%**, respectively. Contrarily, there was a **12%** decline in other operational costs. In contrast, net sales for the reported period grew **8%** to **Rs 32.9 billion** from **Rs 30.4 billion** on **March 31, 2017**, an increase of **8%.** According to the Nestle Pakistan press release, the operational profit for Nestlé Pakistan climbed to Rs. **19.1 billion**, representing a **17.3%** rise over the same period previous year. This was accomplished thanks to smart cost management. In an article published on “The Express Tribune” website, **Baloch, F. (2014),** mentioned about the growth in the income of Nestle Pakistan. According to him, The largest food and consumer goods firm in the world's Pakistani affiliate declared a net profit of **Rs 6.4 billion,** or **Rs 141 per share**, for the **January-September 2014** period, up from **Rs 4.4 billion**, or **Rs 99 per share,** during the same period in the previous year. According to Pakistan stock exchange reports, Nestle Pakistan's **first-quarter 2011** net profit increased **51%** to **Rs 1.49 billion**. Throughout the period of ten years, Nestle Pakistan did an amazing job to manage itsfinancial resources effectively. In the graph, the organization clearly seems to manage its administrative expenditure well in order to achieve organizational objectives like growth andan increase in the price of the shares as well.

3. National Foods Limited:

According to a financial data providing website, for **FY20,** National Foods Limited recorded net earnings of **Rs 1.65 billion**, a **20.43%** YoY increase. The company's net profits were **Rs. 1.37 billion** during the same time previous year, in contrast. As a result, the company's earnings per share increased from **Rs. 8.68** to **Rs. 9.87**, a **13.7%** YoY increase. The company's net sales for the year climbed by a solid **18.39%** YoY, mostly as a result of consumer- and brand-driven initiatives that were carried out in both the domestic and global market with increasing vigor. The company's **29%** gross margin stayed constant. On the expense front, NATF reported a **16%** YoY increase in distribution costs, an **8.83%** YoY increase in administrative costs, and a **5.8%** YoY increase in other costs spent by the company. The company's taxes increased by **86.62%** YoY, although generally, this had a favorable effect on net earnings. The company also disclosed a cash dividend of **Rs. 5** per share, or **100%,** for **FY20** along with its financial results. While there was uncertainty during COVID, National Foods maintained its commitment to its employees by giving them rewards and timely wage payments. The CEO further stated that the business remained dedicated to advancing business fundamentals and strengthening/maintaining its position as the market leader in all significant categories through contingency planning.







Results are evident. Sales were little over **Rs. 765 million** in **2000**, and they passed the **Rs. 1 billion** threshold in **2003** and the **Rs. 2 billion** threshold in **2007**. It would increase by a billion per year starting in that year. By **2014**, annual sales were increasing by **Rs 2 billion**. Sales increased from **Rs 16 billion** in **2017** to **Rs 21 billion** in **2018**. Additionally, revenue increased from **Rs 28 billion** in **2018** to **Rs 34 billion** in **2021**. Similar to profits, they were average until about **2012.** The company started making significant profits at that point, and in**2018**, those profits surpassed **Rs 1 billion**. Net income in **2021** was **Rs 1.9 billion.** What accounts for this rapid rise? In addition to focusing on mayonnaise and salty snacks, the company reportedly sought new distribution partners in the UK and the United Arab Emirates. New crushed pickle, pink salt, and pepper grinders were also introduced. The biggest investment National Food has made, though, may be in its reputation. Now in its sixth season, National ka Pakistan follows a celebrity chef as he explores the food of Pakistan. The business also spends a lot of money buying ad space on cartoon networks to promote its ketchup to kids. Being a food firm has a subtle but crucial component: having wonderful food, but perhaps more significantly, being everywhere. That's what National has been aiming to accomplish throughout. Administrative expenditure seems to rise in the graph mentioned as well which could be linked to the increase in the profits as well. It is quite evident that the organization seems to invest in the right direction in order to stay ahead ofthe competition.

4. Sampling & Instrument

Data is analyzed through a sample procedure and choosing specific instruments for the source in order to evaluate the effect of administrative costs on the profitability, which are the independent and dependent variables in this research on fmcg companies, respectively. Sampling assisted this study obtain reliable results in order to assess my variables. Primary research is used to obtain real-time data that can be used to judge a market's viability. Further demonstrates the relationship between the variables and elements affecting the overall organizational process. The source listed below are how the data have been gathered, and the tools used are also listed:

Source of Primary Data Collection:

The objective of source selection is to ensure that data are accurate, and more transparent, that interpretation is done better, and that research difficulties are handled effectively.

Managerial Employees/Accountants:

The source which I have chosen for my thesis includes managerial employees. Then comes accountants of companies in the FMCG sector as well which are the most viable source of data, since they are equipped with all the necessary financial information that is useful for analyzing the variables of our research. As a cumulative view, both of them do possess the same job descriptions in FMCG organizations with respect to money handling jobs, however, accountants are comparatively the ones with all finance-related data at hand majorly. Both of the sources were selected on the criteria of major finance handling of the business so as to test the authenticity of the hypothesis based on the expenditure & profit relationship.This study focuses on the impact of administrative expenses, which are non-production costs, which is why accountants will be the best source to get an idea of resource management as well. In my research, the instruments which I have chosen included an interview collected from the HOD of the relevant department. This interview consists of those questions specifically designed to analyze the impact of administrative expenditure on the profitability. Second instrument is a well-structured questionnaire consisting of a set of direct and unstructured questions

5. Primary Data Analysis

In this chapter, the collected data through questionnaires is analyzed by using **SmartPLS**. This chapter includes response rate analysis, demographic analysis, descriptive statistics, correlation analysis, VIF analysis, convergent validity tests, discriminant validity tests, estimates calculation, hypothesis decision and model performance.

Response Rate Analysis:

To conduct the study, a total of **550** questionnaires are distributed to the target population. Out of which **498** questionnaires are returned back. From that only **483** questionnaires are valid i.e. response rate of the study is **92%** while the valid response rate of the study is **84%.**

Demographic Analysis:

In order to collect information on the individuals who took part in the data collection process, a survey questionnaire was administered in which respondents were questioned in a variety of ways regarding their gender, age, marital status, employment, educational background, and income. An examination is made of the demographic responses of **483** respondents.

Table 5-2 Demographic Summary of Respondents:

Demographic Characteristics	Frequency	%
Male	271	44%

Female	212	56%
Below 25	121	25%
25 – 34 yrs old	322	67%
35 – 44 yrs old	30	6%
45 and above	10	2%
Below Rs,25,000 Rs. PKR	20	4%
25,000 - 50,000 Rs. PKR	183	38%
50,000 - 75,000 Rs. PKR	140	29%
75,000 - 100,000 Rs. PKR	30	6%
Above 100,000 Rs. PKR	110	23%

Descriptive Analysis:

Descriptive analysis is a statistical method for summarizing and describing the primary characteristics of a dataset. This may include measurements of central tendency (such as mean, median, and mode), measures of spread (such as standard deviation (SD) and range). The objective of descriptive analysis is to offer a clear and informative image of the data.

Table 5-3 Descriptive Analysis:

Constructs	Missing	Mean	Median	Min	Max	Standard Deviation
C&B1	0	1.892	2	1	4	0.822
C&B2	0	1.959	2	1	4	0.813
C&B3	0	1.747	2	1	5	0.9
C&B4	0	2.273	2	1	4	0.809
C&B5	0	2.041	2	1	5	0.932
C&B6	0	2.145	2	1	4	0.761
TECH1	0	1.708	2	1	5	0.814
TECH2	0	1.981	2	1	4	0.749
TECH3	0	2.333	2	1	4	0.923
PROF1	0	2.292	2	1	5	0.839
PROF2	0	2.248	2	1	4	0.69
PROF3	0	2.356	2	1	4	0.852

Note: PROF: Profitability of FMCG, C&B: StaffCompensation & Benefits expense, TECH: Technology expense

The above table shows descriptive analysis results obtained by using SmartPLS software. The descriptive analysis displays missing value, mean, median, minimum, maximum and standard deviation of the data. From the above table, it is witnessed that there are no missing values in the analyzed data. Mean of the responses falls between 2 – 3. Median of the responses fall at 2. Minimum observation is 1 and maximum observation is 5 as we have adopted a 5-point likert scale in the questionnaire. The standard deviation of the responses falls close to 1.

Correlation Analysis:

Correlation analysis is used to measure the strength between constructs. Secondly it is also used in detecting multicollinearity in the data. The results of correlation in the below table depicts that there is a positive association between each construct. Moreover, there is no high correlation between constructs i.e. there is no correlation higher than 0.8 so there is no existence of multicollinearity.

Table 5-4 Correlation Analysis:

Constructs	C&B1	C&B2	C&B3	C&B4	C&B5	C&B6	TECH1	TECH2	TECH3	INV1	INV2	INV3
C&B1	1.0											
C&B2	0.3	1.0										
C&B3	0.4	0.3	1.0									
C&B4	0.1	0.4	0.2	1.0								
C&B5	0.3	0.3	0.6	0.2	1.0							
C&B6	0.1	0.3	0.0	0.4	0.2	1.0						
TECH1	0.4	0.2	0.2	0.1	0.3	0.1	1.0					
TECH2	0.2	0.2	0.2	0.1	0.3	0.0	0.3	1.0				
TECH3	0.0	0.2	0.0	0.1	0.1	0.3	0.2	0.0	1.0			
PROF1	0.0	0.4	0.1	0.1	0.1	0.3	0.1	0.2	0.2	1.0		
PROF2	0.0	0.5	0.0	0.2	0.0	0.5	0.0	0.0	0.3	0.5	1.0	
PROF3	0.1	0.3	0.1	0.4	0.1	0.4	0.2	0.0	0.1	0.0	0.2	1.0

Note: PROF: Profitability of FMCG, C&B: StaffCompensation & Benefits expense, TECH: Technology expense

PLS-SEM Modelling:

The PLS model consists of two other models: the measurement model and the structural model. According to **Creswell & Clark (2011)**, internal relationships between items of each construct are depicted in the measuring model. However, the structural modal entails relationships with different constructs **(Sarstedt & Hwang, 2020)**. The main purpose or objecting of using PLS-SEM technique is to ensure convergent and discriminant validity of the data.

Convergent Validity:

Convergent validity examines the degree to which multiple indicators of the same construct are connected **(Amora, 2021).** It is used to determine if different measurements of the same construct produce comparable findings, and therefore measure the same construct **(Purwanto & Sudargini, 2021).** The tests used to determine convergent validity are the outer-loadings test, composite-reliability test, Cronbach's alpha, and AVE **(Yusoff et al., 2020)**.

Outer loadings, also known as factor loadings, are coefficients that show the degree to which a specific item or measure is associated with a given component **(Legate et al., 2021)**. Outer loadings must be more than 0.70. **(Afthanorhan and colleagues, 2021).** According to the data in the table below, all outer loadings are more than 0.70 (mentioned in table 5.6). Cronbach's alpha is a metric for determining the reliability of a construct. Cronbach's alpha iscomputed using the item correlations of the construct **(Surucu & Maslakci, 2020)**. Cronbach's alpha must exceed 0.70 to reflect a high degree of internal consistency. The table 5.6 illustrates that each Cronbach's alpha exceeds 0.7. Composite reliability (CR) andAverage variance extracted (AVE) also evaluates the reliability of the scale. Composite reliability represents the extent to which scale items evaluate the construct (Mellinger & Hanson, 2020). CR is computed by averaging the inter-item correlations. Its value must be at least 0.7 or above. The below table 4.6 illustrates that the CR of each structure exceeds the minimum requirement. AVE demonstrates the precision with which a scale's items measure asingle construct and investigates the overlap with other structures **(Mellinger & Hanson, 2020).** The AVE criterion value must be greater than 0.5 **(Surucu & Maslakci, 2020).** According to the data shown in the table 4.6, the AVE for each construct exceeds thebenchmark.

Table 5-6 Convergent Validity Tests:

Constructs	Outer loadings	Cronbach Alpha	Composite reliability	AVE
C&B1	0.787			
C&B2	0.795			
C&B3	0.773	0.784	0.814	0.724
C&B4	0.711			
C&B5	0.737			
C&B6	0.765			
PROF1	0.757			
PROF2	0.864	0.742	0.845	0.668
PROF3	0.783			
TECH1	0.753			
TECH2	0.743	0.768	0.869	0.794
TECH3	0.974			

Note: PROF: Profitability of FMCG, C&B: StaffCompensation & Benefits expense, TECH: Technology expense

Discriminant Validity:

Discriminant validity is the degree to which a measure of one construct is distinguishable from measures of other constructs **(Yusoff et al., 2020).**

Coefficients / Estimates:

Coefficients are derived to represent the strength and direction of the relationship between two variables **(Hair Jr et al., 2020)**. They can be utilized to assess the relevance of variables in the model. In addition, they are used to determine whether the research hypotheses are supported or not **(Ringle et al., 2015).**

Table 5-10 Model Coefficients and Hypothesis Decision

IV's	Estimate	T Statistics	P Values	Remarks	Decision
C&B	0.616	25.909	0.000	Significant	H # 1 rejected
TECH	0.146	4.128	0.000	Significant	H # 2 rejected

Dependent variable: PROF
Note: PROF: Profitability of FMCG, C&B: StaffCompensation & Benefits expense, TECH: Technology expense

The above table includes estimate (beta), t-statistic and p-value of the model. The estimate (beta) shows how much is the impact of the independent variable on the dependent variable. Results depict a positive impact of administrative expenses (staff compensation & benefits expense and technological expense) on the profitability and growth of the FMCG companies. Staff compensation and benefits expense is found to be more impactful on the profitability as the coefficient is higher as compared to technological expense. The coefficient of the staff C&B is found to be 0.616 whereas the coefficient (estimate) of the technological expense is 0.146.

T-statistic and p-value are used to check the significance of the variable. As a rule of thumb, p-value should be less than 5% or 0.05 (level of confidence). The results found p-value of both variables less than 5% i.e. estimates of both variables i.e. staff C&B expense and technological expense are significant in predicting profitability of the FMCG companies.

Thus, based on the results, we can reject our both null hypothesis i.e. staff C&B and technological expenses have a significant impact on the growth and profitability of theFMCG companies.

Model Performance (R-square):

The performance of the model is analyzed by using R-square criteria. R-square criterion measures the predictive power of the structural model. It tells the explanatory power of the variables. Higher the value, better the explanatory power of the variables **(Hair Jr et al., 2020; Purwanto & Sudargini, 2021).** The r-square of the model stands at 0.450 or 45.0% which means the independent variables of the study are able to explain 45.0% of the variation in the dependent variable. Moreover, the adjusted r-square stands at 44.8%. Results depict moderate performance of the model.

Table 5-11 Results of R-square:

R Square	R Square Adjusted
0.450	0.448

6. Opinions of Interviewee

Unilever Pakistan`s Financial Business Partner - Experiential Marketing, Mr. Usman was interviewed in order to better understand the relationship between administrative costs and the profitability of the FMCG companies of Pakistan.

According to him, administrative expenditure creates a positive impact on the company's profitability. According to him, investments have to be made according to a funnel approach in which degree of financial leverage must strike a healthy balance with the degree of operating leverage. As the term implies, financial leverage refers to the leverage that a corporation obtains through using debt in its capital structure. Because debt entails interest payments that must be made by the company whether or not it is profitable, an increase in debt in the capital structure will raise financial risk. One crucial factor that determines how sensitive earnings per share (EPS) are to changes in operating profit is the degree of financial leverage (EBIT). This ratio is essential in determining the financial risk involved in the business' operations. A financial statistic called the degree of operating leverage (DOL) gauges how sensitive a company's operating income is to sales. In order to keep the morale ofyour employees high, strengthen your employee relations, maximize employee retentionratios, and employee loyalty you`ve to invest in the administrative expenditure. This could surely boost employee productivity which in turn impacts on the profitability of the company as well. He mentioned that it depends on the nature of the business. In the case of FMCG companies specifically, it is not a good practice to cut down administrative costs given their significant importance to strengthen the relations with all major stakeholders. As long as the employees are satisfied with their jobs and they`re playing a vital role along with theaccomplishment of organizational goals, FMCG organizations must not move towards downsizing or cut down on the membership costs as well. This expenditure helps them in creating an image of differentiation as well which yields tangible and intangible benefits for the organization in the long run. Also, it's not the right approach to carve an asymmetrical relationship between sales and administrative expenditure to maximize profits. There is no need to disproportionate any of the administrative expenditure. An example was quoted bythe interviewee at this stage in order to clarify the importance of investing in the administrative expenditure. He said, “If I have to convince my employee in order to attain his/her targets, then I have to be ready as well in order to give him something as a return value, in the shape of perks, benefits & allowances. So that he himself gets convinced in order to give his services". This example was given to highlight the importance of investments in order to get the results.

7. Conclusion

We may infer from the aforementioned research, responses, and interviews that corporations reject the premise and that the impact of administrative costs on the profitability in the fmcg organizations is negligible. However, the findings show that in order to efficiently manage financial resources, these expenses must be regulated. As per the interviewees` responses and questionnaire analysis, it is safe to say that the investment in the administrative expenditure is necessary in order to enjoy intangible benefits in the shape of employee retention & employee loyalty. However, they need to be prioritized according to the major objectives of the FMCG companies.

8. Recommendations & Limitations

This study recommends that no asymmetrical relationship should be maintained between the administrative expenditure and sales in order to maximize profits. This is an unhealthypractice which projects a company's image in a bad light into a money-oriented organization ignoring the importance of employee relations & stakeholders. No offensive strategy could beadopted immediately in order to cut down any important component of the administrative expenditure including downsizing, or reducing membership costs. Equal importance shouldbe given to both administrative and selling expenditure. In an FMCG setup, it is important to set aside measures for effective cost management. This study highlights a very important factor that resource management must not be done at the expense of the company's long term intangible benefits. The profound impact of this expenditure must not be ignored as they are majorly responsible for creating a differentiated image of the company.

Limitations of this study included time constraints. Due to time constraints, only a small number of respondents responded to the study's questionnaires. A bigger sample size would have allowed for a more accurate conclusion. However, the impact of administrative costs on the profitability sector is only discussed in this research whereas profitability can be influenced by a variety of other internal and external factors. The impact of non-production expenses on the fmcg sector in Pakistan should therefore be better examined in futureresearch, which must also take other variables into account.

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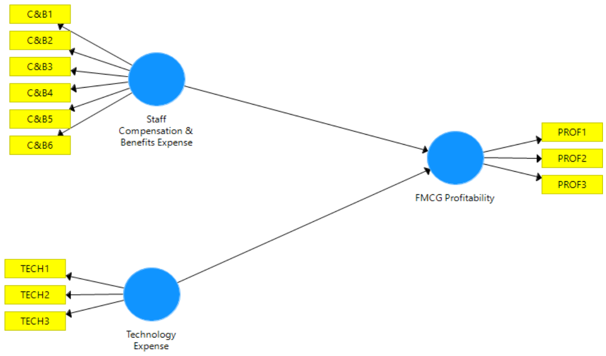
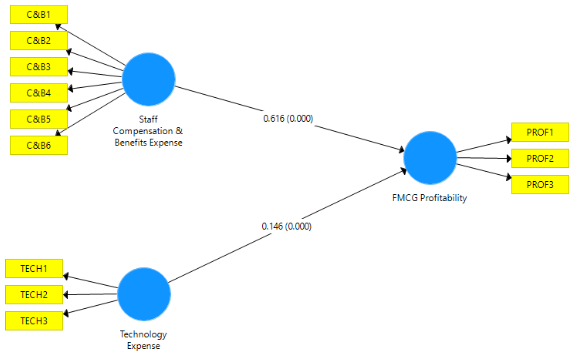
Annexure I

PLS Model Image



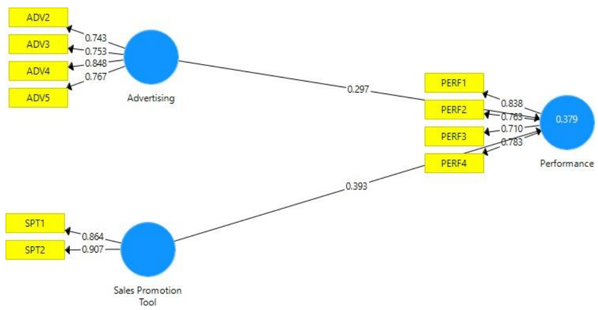
Annexure II

Model Image with P-values and T-statistic



Annexure II

Final Model with OuterLoadings



Annexure III

Final Model with Coefficient and P-value