Impact of Administration and Production Expenses on Profit

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Abstract

The impact of administration and production expenses on profit can be significant for any organization. If these expenses are not properly managed, they can eat into the company's profit margins, reducing the overall profitability of the business. On the other hand, if these expenses are effectively controlled, they can help to improve the bottom line and increase the overall profit margins. In order to minimize the negative impact of these expenses, companies should strive to keep them as low as possible, while at the same time maximizing the efficiency and productivity of their operations. This can be achieved through careful planning, effective cost control measures, and a focus on continuously improving processes and systems. It is analyzed that if administration expenses are too high, it can reduce the overall profitability of the business, as these expenses are not directly tied to the production of goods or services. In the same way, if production expenses are not effectively controlled, they can lead to higher costs and lower profit margins. However, proper management of these expenses can lead to improved profitability. This can be achieved through a number of strategies, such as reducing waste, streamlining processes, and implementing cost control measures. For example, by reducing waste in the production process, companies can lower their production expenses and increase their profit margins. Additionally, implementing effective cost control measures can help companies to reduce their administration expenses, freeing up more resources to invest in growth and expansion.

Keywords: Administration expense, Productivity, Production process, production expense, Growth

Introduction

Academics have studied a wide variety of problems linked to the sector since there is broad consensus that it is important to Pakistan's developing economy. The goal of this research is to pinpoint the elements that Pakistani oil and gas businesses' performance depends on. Petroleum has been used for these purposes as a sealant, as well as in the construction and lighting sectors, since ancient times. Bitumen (asphalt), a semi-solid associated with petroleum seeps, has been found in petroleum seeps in Italy, China, Egypt (Gebel Zeit), Cuba, and the Dead Sea. The natural crude oil seeps that may be discovered in Baku, which is in modern-day Azerbaijan, have been a source of pride for thousands of years. Ancient cultures in India, Greece, Persia, northern Iraq, and China found natural gas. The energy was utilized to evaporate water from salt brine in other locations, including as the Sichuan Valley. As new techniques for extraction and refinement grew to meet the expanding demands of the technology sector, petroleum and natural gas gained significance throughout time. In the nineteenth and twentieth centuries, oil was produced in large quantities not only by the United States and Russia, but also by Canada, Mexico, Iran, Trinidad, Saudi Arabia, and Venezuela.

The Pennsylvania Rock Oil Company was founded in 1855 by George Henry Bissell and a number of investors in search of a kerosene substitute that didn't need asphalt. On August 27, 1859, they hired Edwin Drake to dig the first oil well at Oil Creek in Titusville, Pennsylvania, ushering in the modern age of petroleum. Their newly renamed Seneca Oil Company was immediately overshadowed by John D. Rockefeller's Standard Oil, which had been founded in 1870 and ultimately grew to control nearly 80% of the market for oil products. Since electricity was invented in 1882, natural gas and/or oil are no longer required to power illumination. The oil industry recognised an opportunity when this new automobile was made accessible, while natural gas producers turned their focus to cooking and house heating. Standard Oil had to be split up into 34 separate companies in 1909 due to antitrust regulations, but by the 1940s, three of these businesses had grown to dominate the industry with four other international organizations, garnering them the nickname "the Seven Sisters." Large oil companies were compelled to establish agreements with countries that export oil in order for oil production to continue. These governments were growing more keen to gain from the wealth of the oil business and more protective of their resources. A fifty-fifty profit-sharing arrangement was created after World War II, but oil-exporting governments began nationalizing businesses almost once to gain more financial control. The second half of the twentieth century witnessed a run of oil crises and panics as a consequence of a tenuous balance between oil supply and price for both oil exporting and oil importing nations, which was often upset by politics and wars.

Research Objectives

1. To examine the role/impact of administration and production expenses on profit in the petroleum industry.

2. To examine the role/impact of administration and production expenses on profit in the petroleum industry during COVID-19.

3. To examine the role of demand in influencing administration and production expenses on profit in the petroleum industry.

Research Questions

RQ1: What is the role/impact of administration and production expenses on profit in the petroleum industry?

RQ2: What is the role/impact of administration and production expenses on profit in the petroleum industry during COVID-19?

RQ3: What is the role of demand in influencing administration and production expenses on profit in the petroleum industry?

Literature Review

In the petroleum and chemical sub sector of the energy business, operational costs are a key factor. Analyzing this company's operational expenditure allocation is also crucial. To effectively manage operational costs in the sector for performance and growth, adequate planning is required. Businesses have operations expenditures like marketing, administration, and research & development that are not accounted for as production costs but are still incurred (Zhu and He, 2017). Due to the value they bring to the company's intellectual capital, future expenses in marketing (advertising, promotion, etc.) and administrative spending (executive salary, etc.) are also included in these costs. Organizations in business should carefully consider this accounting area. However, the costs covered by these expenditures are significant both in terms of the amount spent and the return on investment for the enterprises. No unique adjustments are required when transferring marketing and administrative costs to financial accounts; however, modifications are required when reporting expenditure on R&D.

According to the International Financial Reporting Standards, research and development expenses are divided into two groups for reporting reasons. In this situation, money spent on research is seen as an expense, but money spent on development is viewed as an investment. Research and development, marketing, and general overhead expenditures should all be assessed in terms of their effects on growth. Because different experts have varied definitions of business size, they utilize various growth metrics. A company's size may be inferred to some degree from its yearly revenue, profit margin, and level of investment in both physical and human resources. Due to the relative ease of quantifying employment and the interest of policymakers, researchers in economics and geography often focus on employment (Muller, 2019). The study's financial variables were derived from the accounting data. The three often mentioned factors that contribute to success are drive for growth, intrinsic abilities, and pressure to perform. Additionally, they said that the company's age, financial performance, accessibility to outside capital, and development readiness were all variables in the success of the business. They discovered that the effects of environmental factors on firms were rather small.

It is believed that a company's development is related to elements like its size and the caliber of its finances and output. Additionally, they discovered that an organization's sales revenue and total assets had a clear correlation, but the size of an organization's personnel, its R&D budget, and its other intangible assets had minimal impact on the company's growth prospects. Despite the fact that several studies have been conducted to look at the phases of a corporation's development, the literature lacks information on how these organizations grow and which factors have an influence on growth. Organizations function in a variety of social and economic situations and have varying forms and features across the globe (Kerzner, 2017). Thus, it is essential to comprehend the internal and external elements that influence a company's decision about its development strategy. Businesses use both monetary and non-monetary criteria to assess their success. Only a few examples of the common performance metrics that make up financial indicators are profit, ROI, and sales. By examining the company's financial records, they may be evaluated. Profitability information was classified in this research as a performance indicator under the more general category of financial indicators, which also includes cash flow, inventory turnover, and actual performance against projected performance. Numerous studies that have been published have used profitability data extensively as a performance metric.

In industrialized nations like Norway, the utilization of natural resources has contributed to rising economic development and prosperity. The effective management of Norway's petroleum resources serves as an example of how such resources could be managed within governmental institutions to maximize its inherent potential and facilitate their growth and industrialization. Early in Norwegian history, a government commercial, policymaking, and regulatory organization was founded. In spite of evidence to the contrary, Norway's organizational structure, which separates activities into several departments, is seen as a model of excellence in the petroleum industry (Chan, Ngai and Moon, 2017). It is difficult to predict how the Norwegian model might apply to nations at a completely different political and economic stage of development given that Norway was already a stable democracy when the administrative architecture with particular tasks was created. Under the current system, Norway assumes enormous risks and costs, but a country with a smaller and less liquid GDP per capita could see the risk less favorably.

Research Methodology

The theoretical viewpoint connected to the study has been explored in this part. This will assist readers in understanding the assumptions and ground rules used in the research study. The present study's major goal is to provide correct knowledge to the readers. It has been observed that three sorts of research methodologies are used to perform research in any study.

Methodological Approach

Out of all the various research procedures, the inductive methodology was chosen by the researcher for this study. Inductive inquiry is described by the authors of a standard work on the subject as "the search for patterns via observation and the creation of explanations, theories, for those patterns through a chain of hypotheses." However, the researcher has chosen to gather data using more effective qualitative methods. Because it gives a more thorough knowledge of experiences, events, and context, qualitative research is essential in education. It also responds to the study's "how" and "why" questions. Through qualitative research, we may explore issues that cannot be quantified on a straightforward scale, which helps us better comprehend human nature.

The present study employs a qualitative research approach, emphasizing the importance of using an appropriate research method in a study. This enables researchers to clearly analyze and explore the study's goals and objectives (Bresler, 2017). However, because of varied data gathering processes, aligning qualitative data might be difficult. The complexity arises during the construction of the study and the problems in making the data comparable. As a result, the applicable research technique must closely synchronize and gather the various data kinds with minimum temporal gaps. The qualitative research approach, on the other hand, gives thorough perspectives, facts, and underlying reasoning for the specific study field (Flick, 2018). Because a qualitative technique is useful in giving detailed data, it was chosen for this research investigation. The research will use a secondary data analysis strategy.

Data Analysis Methods

In data analysis the responses from 150 respondents that were asked to rate a series of statements on a scale of 1 to 5, where 1 represents ‘strongly disagree’ and 5 represents ‘strongly agree’ has been analyzed. The data from the survey has been analyzed to provide information on the mean, standard error of the mean, standard deviation, variance, range, minimum, and maximum for each statement.

Variables

Dependent

Profit

Large oil companies were compelled to establish agreements with countries that export oil in order for oil production to continue. These governments were growing keener to gain from the wealth of the oil business and more protective of their resources. A fifty-fifty profit-sharing arrangement was created after World War II, but oil-exporting governments began nationalizing businesses almost once to gain more financial control. The second half of the twentieth century witnessed a run of oil crises and panics as a consequence of a tenuous balance between oil supply and price for both oil exporting and oil importing nations, which was often upset by politics and wars.

Independent

Administration Cost

If a business spends money on activities that aren't directly related to its main operations, administrative costs increase. Instead of affecting just one department or unit, these expenditures have an impact on the whole organization.

Sales

Profits may be raised in two ways: by increasing sales and by reducing expenses. Since sales provide revenue for the business, they are crucial. High manufacturing costs would have an impact on the company's sales and earnings, thus that cost has to be assessed.

Cost of Goods Sold

Simply described, a product's "cost of goods sold" is the whole sum of its direct expenses (COGS). It is a section on a profit and loss statement that often includes expenses like labor and material costs. Costs related to the product's promotion, sale, or distribution are not included.

Comparison

Relationship of Variables

The whole cost of producing the items for sale is accounted for in a company's "cost of goods sold" (COGS). COGS exclude marketing and overhead expenses. Deducting revenue (sales) from COGS is necessary to get gross profit and gross margin. Profits decrease when COGS increase. The values of cost of goods sold (COGS) vary according to the particular set of accounting standards that are used. In contrast to cost of goods sold (COGS), operational expenditures (OPEX) encompass all costs other than the direct costs of producing the item or rendering the service.

Findings

Secondary Data

Despite the fact that the BM ratio has a positive influence on stock returns, its capacity to forecast economic slowdowns and unfavorable market circumstances in the future is strongly suggested. These findings might have been helpful in the ongoing development of research and literature on the Book to Market ratio as a predictor of future stock market performance in developing economies. This is because the ratio measures how much a company's assets are worth relative to its current market value. This research is carried out on an annual basis due to the fact that the financial ratios are obtained on an annual basis from the annual financial statements of the oil and gas companies. However, it may be carried out on a quarterly basis in order to obtain more refined findings that more accurately predict the outcomes. In spite of the fact that the price-to-earnings ratio and dividend yield were not found to be as effective in predicting stock returns as the book-to-market ratio, this study found that the book-to-market ratio was the most accurate predictor of stock returns. Investors who are not involved in the oil and gas industries have the ability to make decisions based on these ratios. Indicators such as the sales-to-price ratio, the debt-to-equity ratio, firm size, and profitability ratios are some of the others that are used to assess the strength of future returns.

According to BUI and NGUYEN (2021), the oil and gas sector is generally recognised as a major driver of Vietnam's economic growth, which motivates scholars to look at the relationship between a broad range of factors and this business. The main goal of this research is to pinpoint the variables that substantially influence oil and gas business profitability in Vietnam and to establish a link between those variables. Over the course of the six-year period starting in 2012 and concluding in 2018, a total of 203 samples were gathered from 29 different firms listed on the Vietnam Stock Exchange. In this research, the dependent variable is return on assets (ROA), whereas the independent variables are financial leverage (FL), government ownership (GOV), dividend payment (DIV), the fixed-to-total asset ratio (FA), and the exchange rate (ROA). This investigation was based on the results of earlier investigations (ROA). As determined by the findings of this study, four variables—leverage, government ownership, dividend, and currency rate—were shown to be essential to the return on investment (ROI). ROA is increased by government ownership and dividend payments and decreased by leverage and exchange rate volatility. The findings of this research suggest that a high debt ratio in a company's capital structure may hurt its bottom line. If the exchange rate has a negative effect on the productivity of the company's activities, the bottom line might also suffer. To enhance corporate operations, potential degrees of government ownership and dividend payments may be examined.

An investigation on the correlation between capital structure and business performance is now being carried out on a global scale. It would seem that the study that demonstrates a negative correlation is more prevalent. The factors that determine whether or not petroleum companies owned by the Indian government are successful in the petroleum industry. According to the findings of the study, a negative correlation exists between leverage and profits, however a positive association exists between fixed asset turnover ratio and profits. In this research, we investigate how the performance of oil and gas companies that are listed on the Vietnam Stock Exchange is impacted by a number of different causes. According to the findings of the investigation, there is a negative connection between debt ratio, exchange rate, and corporate profitability at the 1% level of significance. In addition to government ownership and dividend payment, ROA may be favorably impacted by a number of other factors; however, the inclusion of fixed assets within the asset structure has no effect.

Primary Data

Increase cost of goods sold in petroleum sector decreases profitability

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly disagree	24	16.0	16.0	16.0
	Disagree	18	12.0	12.0	28.0
	Neutral	22	14.7	14.7	42.7
	Agree	47	31.3	31.3	74.0
	Strongly agree	39	26.0	26.0	100.0
	Total	150	100.0	100.0	

Increased administration of goods sold in petroleum sector decreases profitability					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly disagree	25	16.7	16.7	16.7
	Disagree	18	12.0	12.0	28.7
	Neutral	29	19.3	19.3	48.0
	Agree	35	23.3	23.3	71.3
	Strongly agree	43	28.7	28.7	100.0
	Total	150	100.0	100.0	

Increased sales of goods in petroleum sector can can increase profitability					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly disagree	25	16.7	16.7	16.7
	Disagree	17	11.3	11.3	28.0
	Neutral	19	12.7	12.7	40.7
	Agree	38	25.3	25.3	66.0
	Strongly agree	51	34.0	34.0	100.0
	Total	150	100.0	100.0	

Increased expense in petroleum sector can decrease profitability					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly disagree	23	15.3	15.3	15.3
	Disagree	16	10.7	10.7	26.0
	Neutral	13	8.7	8.7	34.7
	Agree	64	42.7	42.7	77.3
	Strongly agree	34	22.7	22.7	100.0
	Total	150	100.0	100.0	

Increased administration expenses has decreased profitability					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly disagree	20	13.3	13.3	13.3
	Disagree	25	16.7	16.7	30.0
	Neutral	22	14.7	14.7	44.7
	Agree	36	24.0	24.0	68.7
	Strongly agree	47	31.3	31.3	100.0
	Total	150	100.0	100.0	

Role of leadership and management can influence administration and production					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly disagree	22	14.7	14.7	14.7
	Disagree	24	16.0	16.0	30.7
	Neutral	22	14.7	14.7	45.3
	Agree	38	25.3	25.3	70.7
	Strongly agree	44	29.3	29.3	100.0
	Total	150	100.0	100.0	

Global environment has caused ineffective administration and production					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly disagree	18	12.0	12.0	12.0
	Disagree	15	10.0	10.0	22.0
	Neutral	19	12.7	12.7	34.7
	Agree	39	26.0	26.0	60.7
	Strongly agree	59	39.3	39.3	100.0
	Total	150	100.0	100.0	

The role of COVID-19 pandemic has adversely influenced production expenses					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly disagree	22	14.7	14.7	14.7
	Disagree	23	15.3	15.3	30.0
	Neutral	23	15.3	15.3	45.3
	Agree	44	29.3	29.3	74.7
	Strongly agree	38	25.3	25.3	100.0
	Total	150	100.0	100.0	

The increasing production due to increased demand has decreased profits					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly disagree	20	13.3	13.3	13.3
	Disagree	15	10.0	10.0	23.3
	Neutral	23	15.3	15.3	38.7
	Agree	48	32.0	32.0	70.7
	Strongly agree	44	29.3	29.3	100.0
	Total	150	100.0	100.0	

The pandemic has created ineffective administration expenses					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly disagree	21	14.0	14.0	14.0
	Disagree	24	16.0	16.0	30.0
	Neutral	19	12.7	12.7	42.7
	Agree	41	27.3	27.3	70.0
	Strongly agree	45	30.0	30.0	100.0
	Total	150	100.0	100.0	

Increasing fuel costs and employees' salaries have swiftly decreased profits					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly disagree	20	13.3	13.3	13.3
	Disagree	19	12.7	12.7	26.0
	Neutral	22	14.7	14.7	40.7
	Agree	41	27.3	27.3	68.0
	Strongly agree	48	32.0	32.0	100.0
	Total	150	100.0	100.0	

Ineffective budgeting has caused decreasing profits					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly disagree	15	10.0	10.0	10.0
	Disagree	21	14.0	14.0	24.0
	Neutral	35	23.3	23.3	47.3
	Agree	43	28.7	28.7	76.0
	Strongly agree	36	24.0	24.0	100.0
	Total	150	100.0	100.0	

Conclusion

The oil and gas industry are a significant part of Pakistan's economic strategy until 2030. This industry has expanded in Pakistan for more than 35 years, enhancing the economy and level of life of the nation by raising exports, foreign exchange earnings, and the country's energy independence. As a result, this sector has helped Pakistanis cope with unrest and poor performance, catapulting the nation into the group of middle-income countries. Additionally, the sector's upstream operations contribute to strengthening national sovereignty. The question of which elements are most crucial to this field's success emerges. Profitability of the businesses is seen as essential. A few of the problems that firms must face include competition, governmental restrictions, technology advancements, corporate management, firm resources, and human and financial limitations. Therefore, in order to establish an effective framework, managers and administrators must focus their efforts on controlling and researching the sources of profitability.

Recommendations

Due to their effects on the industry, the firm must consider commodity prices, currency volatility, interest rate risk, and political developments. Several criteria need to be considered in order to decide whether or not hydrocarbon extraction is viable. Repairing the damage that the industry's actions have caused to the environment is often essential. Despite these difficulties, oil and gas production and the associated taxes are a major source of revenue for many nations. The ability of governments to extract the majority of the oil and gas from their lands is also improving.

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Appendix

Questionnaire

Impact of Administration and Production Expenses on Profit						
S.No	Characteristics	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
1	Increase cost of goods sold in petroleum sector decreases profitability					
2	Increased administration of goods sold in petroleum sector decreases profitability					
3	Increased sales of goods in petroleum sector can can increase profitability					
4	Increased expense in petroleum sector can decrease profitability					
5	Increased administration expenses has decreased profitability					
6	Role of leadership and management can influence administration and production					
7	Global environment has caused ineffective administration and production					
8	The role of COVID-19 pandemic has adversely influenced production expenses					
9	The increasing production due to increased demand has decreased profits					
10	The pandemic has created ineffective administration expenses					

11	Increasing fuel costs and employees' salaries have swiftly decreased profits					
12	Ineffective budgeting has caused decreasing profits					

Primary Sources	**Population**	**Sampling Method**	**Sample Size**	**Instrument**
Employee	300	Random Sampling Technique	30	Survey Questionnaire
Supplier	200	Random Sampling Technique	20	Survey Questionnaire
Stakeholder	100	Stratified Sampling	10	Interview/Survey Questionnaire

Results

Statistics		N		Std. Error of Mean	Std. Deviation	Variance	Range	Minimum	Maximum
		Valid	Missing						
	Increase cost of goods sold in petroleum sector decreases profitability	150	0	0.115	1.404	1.972	4	1	5
	Increased administration of goods sold in petroleum sector decreases profitability	150	0	0.117	1.434	2.056	4	1	5

	Increased sales of goods in petroleum sector can can increase profitability	150	0	0.120	1.473	2.171	4	1	5
	Increased expense in petroleum sector can decrease profitability	150	0	0.111	1.359	1.848	4	1	5
	Increased administration expenses has decreased profitability	150	0	0.116	1.421	2.019	4	1	5
	Role of leadership and management can influence administration and production	150	0	0.117	1.427	2.037	4	1	5
	Global environment has caused ineffective administration and production	150	0	0.113	1.388	1.927	4	1	5

	The role of COVID-19 pandemic has adversely influenced production expenses	150	0	0.114	1.391	1.935	4	1	5
	The increasing production due to increased demand has decreased profits	150	0	0.111	1.359	1.847	4	1	5
	The pandemic has created ineffective administration expenses	150	0	0.116	1.421	2.019	4	1	5
	Increasing fuel costs and employees' salaries have swiftly decreased profits	150	0	0.114	1.399	1.956	4	1	5
	Ineffective budgeting has caused decreasing profits	150	0	0.104	1.271	1.615	4	1	5