**MIDLANDS STATE UNIVERSITY**

**FACULTY OF COMMERCE**

**DEPARTMENT OF ACCOUNTING**

**Research project topic**

***An Analysis on the impact of cost cutting on profitability: A case of Freight World***

***By***

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***This dissertation is submitted in partial fulfilment of the requirements of the Bachelor of Commerce Honours Degree in Accounting at Midlands State University.***

**Gweru, Zimbabwe**

**November 2014**

# APPROVAL FORM

The undersigned certify that they have supervised the student Nyasha Kanda dissertation entitled**: An analysis on the impact of cost cutting on profitability: Case of Freight World Zimbabwe.** The dissertation was submitted in partial fulfilment of the requirements of Bachelor of Commerce Honours Degree in Accounting at Midlands State University.

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# RELEASE FORM

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# Dedication

The dissertation is dedicated to the Kanda family for all their love and support through my journey. While eyes see within, but a great future awaits beyond. Even as I stood by the edge of a cliff, I always find rest with them around. I salute you all members of Kanda family.

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In God I trust, in my weakness I find strength in Him.

# ABSTRACT

The practical experience of work related learning motivated this research to be conducted by the researcher after some observations through the period of 2013 at attachment. The main purpose was to analyse the impact of cost cutting on profitability of Freight World. The profits of Freight World continue to fall down even after implementing cost cutting. Freight World has to establish ways and means to revive its current profit levels as they are in danger zone.

Literature was reviewed so as to attain the goals or the objectives of the study. The findings of the study revealed that cost cutting strategy was negatively affecting the profits of the company. The findings of the research also revealed that employee costs and the administration costs were the one affecting significantly and negatively the profits of Freight World. The organisation has implemented a cost cutting strategy but the strategy lacks communication, commitment by the workers .The findings further revealed the need to have flexible intact controls after cost cutting that can enable the organisation to stick to the objectives of the entity and cost cutting.

Based on the findings, it is therefore recommended that the company should restart the cost cutting afresh with more employee participation in the whole process from initiation of ideas. This can help the organisation in creating a workforce that support the idea of cost cutting at will and not by duress. There must be close monitoring and documentation of performance after some predetermined regular intervals.

**List of Acronomys**

**IOMA**Institute of Management Accounting

**MSU**  Midlands State University

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# CHAPTER 1

# INTRODUCTION

## 1.1 Chapter introduction

In this chapter, the research outlines firstly the background of the study to bring out the story behind the problem. The statement of the problem, objectives, main research question, conceptual framework and limitations of the study would follow. The chapter will end with a list of definition of terms and conclusion.

## 1.2 Background to study

Cost cutting has recently grown to be one of the main area businesses have been focusing of late in recent years. According to [www.gap.net](http://www.gap.net) (accessed 27/3/2014 at 9:57am), they noted that every organization needs to be thinking about the days of implementing cost cutting programs will be over without endas they are part of the companies DNA and everyday will getfresh ideas on how to cut or get rid of costs. Bahnub (2010) strongly supported that activity upgrading drive the entity in boosting its performance in terms of profitability.

“Few people will argue that improvement in profitability and reduction of costs are more critical aspects of business today”, said Ludy (2010, p. 17). Quoted in the minutes of the meeting that took place on the 24th January 2014, the Managing Director Mr Nyaruwanga said, “The operating expenses and cost of turnover had sky rocketed up over the past three years and measures to reduce costs need to be taken with immediate effect”. Katzenbach (2008) strongly supported the other perspective that “A truly committed workforce can reduce costs more and sustain the reductions longer than a workforce under duress”. The scholar further said that some entities carry out cost cuts programmes in a way that encourage workers participation.Peccei (2004) noted that,the motivation for cost cutting strategy has usually been aboutas a way out of trouble or tightening up in difficult times. In the minutes of a meeting conducted 24th of January 2014, the Financial Director Chiromba said, “feel it is moment to centre attention on fresh challenges that will require a deeper look into the current strategy”. He also said “The goal of the entity is to maximise shareholders wealth”.

Below is the table illustrating the relationship of turnover, profit and cost

**Table 1.1: Relationship between turnover,profit and costs**

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| **Year** | **Turnover**  **($)** | **Change in turnover (%)** | **Cost of sales and operating expense**  **($)** | **Budgeted Operating expenses and cost of sale($)** | **Change in expenses (%)** | **Profit/(loss) ($)** | **Change in profit (%)** |
| **2010** | **3966345,00** | **-** | **1670340,00** | **2150000.00** | **-** | **+2143342,00** | **-** |
| **2011** | **4058042,00** | **+2.31** | **2216514,00** | **2150000.00** | **+32.70** | **+1465812,00** | **-31.61** |
| **2012** | **3687790,00** | **-9.12** | **3254718,00** | **2700000.00** | **+46.84** | **+322655,00** | **-77.99** |
| **2013** | **3785891,00** | **+2.66** | **4174563,00** | **3500000.00** | **+28.26** | **-351086,00** | **-208.81** |

**Source: Freight World management accounts**

The table 1.1shows the failure of the entity in managing its risings costs contributing to the failure of organisation achieving main aim of increasing wealth. The turnover had been fluctuating over the past four years and the average turnover has been 3874517 in the process. “If profit improvement is the main goal of business, why is that most business people do not know how to reduce costs continuously” said Ludy (2010, p, 4). Unusual events can happen that can push costs without the ability to gain compensating turnover. The operating expenses and the cost of turnover had been rising since 2010 up to current year. With this information, it is evident that the entity profits had been having an inverse relationship with the cost.

Bragg (2010) stipulated that major focus for the entity would be eliminating all unnecessary expenditure, rearranging processes to eliminate waste and improving efficiency. Bragg also noted that companies that have better position in fighting its competitors.The failure has been in managing the activities of the entity by its workers as there have been misuses of overtime facility, high administration costs and increase in total salaries because of new workers recruited and poor monitoring of debtors leading to bad debts. The entity had also been embarking on staff training, customer satisfaction programmes since 2011 to improve quality and increase speed of operations.

The approach the entity used harnessed the workers and they have not been taking care in creating willing workers in minimising costs. Katzenbach (2008) noted that getting employee commitment in reducing costs is often hard, so emphasis must be in place to ensure that the implementation can be success.

## 1.3 Problem Statement

The background illustrated that the Freight World has been facing increasing costs over the recent four years. The organisation profits had been going down year by year for the past four years. The researcher seeks to gather information about the impact of cost cutting in trying to minimise costs, improve profit level and surviving in business.

## 1.4 Objectives of research

* Align cost cutting to organisational aim.
* Assess ways to reduce costs and improve profits.
* Point out reasons that lead organisations to embark on cost cutting.
* Analyse cost leadership.
* Highlight cost cutting process.

## 1.5 Main research question and Sub research questions

**1.5.1 Main research question**

How can the organisation revive it profit levels?

**1.5.2Sub research questions**

* Whydo organizations embark on cost cutting?
* What is cost leadership?
* What is cost cutting process?

## 1.6 Statement of Hypothesis

Bragg (2007) stated that if there is no verification of rapiddevelopment towards an exact target cost within a relatively short period, then itis healthier to either ditch the plan or at least shelve it for a short time. Based on Bragg literature it is hypothesised that;

**“The cost cutting strategy can fail to uplift the profit”.**

However, it is by that, the cost cutting need to be looked carefully in its implementation to evaluate its future as quickly as possible.

## 1.7 Justification of study

The research is going to be focusing on analysing the impact of cost cutting in reducing the costs of an organization.Analyse best practises of cost cutting in review in trying to improve the profitability. Business need to stay in business to save the country in reducing unemployment, improving people’s living standards. Since the costs of the entity have been rising in previous years, the research also focuses on trying to device the best practises that can help the organisation to increase their profits.

## 1.8 Delimitations of the study

**Time**

The research is for the period beginning 2010 to the year 2013.

**Geography**

The study took place at Freight World Head Office located in Graniteside industrial area. This was because of the convenience to the researcher in terms of cost and accessibility.

**People**

The target respondents of the research are those in managerial positions and other employees down the hierarchy at Freight World.

## 1.9 Limitations of Study

Objectivity in research had limit of various factors, below are some of them:

* The period for research provided by the university is too little that it limits the level of quality for the research to take place. The time to move from the campus to research area was limited because the time when the research was in process, it was the same time the lecturers took place at the university. Sometime the researcher had to use emails to cut the costs.
* Availability of reliable data was also a major limitation since the company employee to signed confidentiality clauses restricts passing of certain data about the entity. They fear the entity might be at risk so they try to keep much information confidential as far as possible. I had to use some of the data I collected whilst I was still at the work related learning studies.

## 1.10 Conceptual Framework

Simon (2010) noted that cost cutting is the most common tool for tackling the crisis, not least because it is ostensibly under company’s control.In times that crisis hit the company; there must be quick actions in finding solutions that aims in driving profits upward and keeping the flow of cash sound in short period of time.

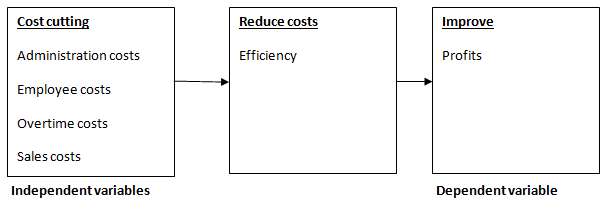
Bragg (2007) noted that if there is no verification of rapiddevelopment towards an exact target cost within a relatively short period, then itis healthier to either ditch the plan or at least shelve it for a short time. The scholar also suggested on the assumption that new methods to reduce costs or less-expensive resources will be available in the near future that will make target cost achievable.

According to Simon (2010) stipulated that approximately 80% of all companies in the world are at present working to implement cost cutting programmes. Yet those that are short of cash may prove unable to fully finance their cost cutting measures. Facing imminent dangers and impending risks, companies must put traditional long term growth strategies on the back seat and go after quick win.

Most researchers in previous studies seem to argue that cost cutting tends to yield results as time progress whilst other scholars argued that in some cases cost cutting strategy fails in relatively short period. The critical point they had was that cost cutting success varies across environment of the different organisations. In this, the conditions have to be clear and capable to restore the business profit position.

The fig 1.2presents a conceptual framework, which attempts to outline how cost cutting can affect profit. It explains cost cutting as a rescue for organisation in reducing costs.

**Conceptual framework**

****

**Fig 1.1 Source: Research data**

## 1.11Definitions of terms

**1.11.1 Profitability-** is the ability to earn a positive gain from an investment or a business operation

**1.11.2 Cost**- can be defined as the sacrifice (in monetary terms) that a business makes in the pursuance of its objectives.

**1.12.3Cost cutting**- is the process of looking for, finding and removing unwarranted expenses from the business to increase profits without having a negative impact on product or services quality. Many business managers will engage in periodic cost reduction drives in order to make their company’s operation more efficient and boost profits

## 1.12 Summary

The chapter focused on introducing the readers to the research and the main problems that have actually contributed the research to occur. The chapter looked at background of problem to help in understanding the research question. It also looked at the objectives, hypothesis,conceptual framework and delimitations. The following chapter will be focus on literature review of the relevant subject.

# CHAPTER 2

# LITERATURE REVIEW

**2.1 Introduction**

The chapter focuses in analysing cost cutting as a strategy of reducing costs and improving the company profitability. The objectives will be discussed in different perspectives and views of various authors. The chapter focuses in combining the information to close the gap as per the views of different authors.

## 2.1.1 Overview of cost cutting

Ludy (2010) stipulates that in our business, we are frequently challenged to restructure our organisations in order to make use of and care for the resources that fuel profitability. We have put organisations in position, and carry on to run them, in accord with the philosophy that manage, compliance, structure, procedures and policies that lead to a profitable organisation. The scholar also noted that there is one key area that is continually neglected to be highlighted. The scholar was trying to put a mark that profit generation must stood as a function and has to be managed just as organisations manage other departments.

William and Keeney (2014) noted that cost cutting strategies are essential to make safe profitability in future but they run a risk of creating a risk averse co-operate culture which jeopardises the company ability to exploit new business opportunities. Cost cutting is a mainconcern in all companies’ strategies and with high level of significance. The scholar also emphasised that cost cutting is within the ability of the entity as the costs are generated internally. Simon (2010) warned every organisation that embarks on cost cutting that it can negatively affect stakeholder like employee. The scholar urges not to take it to the extreme because the end result might be a bad one to hear of indeed.

## 2.1.2 Cost cutting benefits

Barrow (2010) notes that improved constitute higher profits and increased market share. The scholar also noted that the aim of cutting costs is to ensure that organisations make satisfactory profit. He also noted that when the organisation is prudently run, so had a good chance of surviving when the going gets tough and is capable to take benefit of growth opportunities.

Neu (2013) noted that when there is little potential for revenue to rise, cost cutting becomes the best means to lift profits up. The competitors of the organization can be put under pressure depending on how organization creates best value of its savings from cost cutting. Cost cutting will start by having an impact on the bottom line. Neu also noted that cost cutting efforts end result is the aims can be brought into being without any capital expenses. Cost cutting aims to remove the root of each expense the organisation regard as unnecessary in its operations.

Hiam (2010) notes that to push for creativity, people get very serious and conservative when it comes to cost cutting and tends to overlook the more modern approaches. The scholar also points out to the group that simple cost cutting is a triumph orbe defeated equation.He also went further to say that inventive brainstorming methods are valid to cost cutting.

## 2.1.3 Cost cutting drivers

Simon(2010) notedthat there are 3 elements that drive profits up. The scholar named the drivers as cost, sales and price.He urges management centre of attention be on the three in desperate times. Profit will vary on thecost those changes with activity and usage. The level in which the variable and fixed cost has on profits depends on their relative magnitude. Cost drivers number of employees, hourly wages, hours worked a day, days per week.

## 2.1.4 Challenges in cost cutting

Bragg (2011) noted that , “Another problem is that a great deal of mandatory cost cutting can result in finger pointing between various parts of the company, especially if employees in one area feel that they are being called on to provide a disproportionately large part of the savings. Avoiding this problem requires strong interpersonal and negotiation skills on the part of the project manager”.

Katzenbach (2008) stipulates company’s faces resistance to change therefore effort must be put in place to ensure emotional commitment by workers in planning reduction of costs initiatives. The scholar went on to say that the commitment by workers to behaviour change can reduce costs. Katzenbach also further highlighted that willing employees can minimise costs jointly with sustaining reductions longer as compared employee under duress. Ludy agreed with Katzenbach on the matters of resistance to change.

Ludy (2010) stipulates that the process of making an organisation ready for a change is sometimes overlooked. Most time ideas that seem to have a great potential at initialisation stage might cut the legs of a business and leave the business on its knees struggling for survival. Sometimes the business might not be ready for the programme.

Kothari (2010) noted that superficial cost cutting measures that are focusing on instant results without long term returns could disturb the entity future in terms of profits and likely potential survival. Failure related to communication and promotion. This is evident in inappropriate budget for advertising, sales force, and other promotional communications and efforts often communication are ineffective, in spite of adequate budgeting.

Berk (2010) noted the common problem by many firms to maintain and update an action item list is critical to implementation. The scholar noted that each cost reduction concept is must have written records for future reference as documentation to ensure that objectives of cost reduction are attained. The scholar went further to note that it’s important because it identifies who need to do what, when and current status.

Bragg (2010) said the department which volunteers to cut costs will have to look for a way to trim expenditure to a position that the department will no longer be able to carry its tasks as assigned. He also highlighted another challenge by saying reduction of costs that is blanket usually leads to removal of soft expenditures that might be critical for growth of the entity in future. He noted some of the expenditures such as training of workers, additional sales people and highlighted that they are key for growth of the entity in the long run.

Bragg noted another challenge saying that some managers that would have participated in reducing costs for some time will be forced to in co-operate some unusual expenditure in the budget. He went on to say that the main reason will be that when next accounting reduction of costs programme start to run, they will be left with some fat to trim from their budgets.

## 2.2.1Establishing cost cutting objectives and its alignment business objectives

Barrow (2010) noted that cutting cost is at all times done with an objective in vision, at the end of the day the objective at all times to be traceable back to making a business an improved one.Neu (2013) noted that the main aim of a successful cost cutting and output development program have to be to save plenty of money and make use of the those amounts saved in ensuring that they use the saving wisely to make major improvements to help your business.

IOMA (2012) noted that reducing costs strategies must be clearly explained and aligned to the company’s strategy. They went further to say that if cost cutting is done without reference to organisational strategy it will be more of employee’s torture. IOMA also noted that when all knowledge lacks about the destination of cutting costs, they will view cost reduction as means to pile extra work.

Neu (2013)stipulatesthat cutting costs in an important part in management of organisations services. In preliminary cost cutting and improvement program planning decision have to be made on the levels the organisation is willing to spend and also accepting to save in the process. The scholar noted that the combination is both objective and subjective considerations. The higher level managers must strive to come up with outcomes that can be achieved. The balance has to be struck on achievable (not too high) target and too low targets that does not offer a challenge to the organisation.

## 2.2.2 Best approaches to start a process

Hiam (2010) stipulates that there is need to give speech to outline the main idea of cost cutting to the employees so that they understand everything clearly. The speech will be highlighting the needs and the benefits expected to be derived from it. The employees also need to know their value to the program so that they will not be affected badly by it.

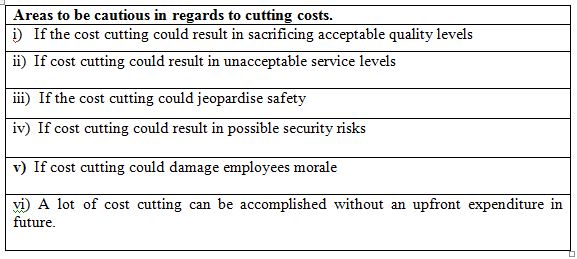
Neu (2012) noted that the group can have many names that people will want to. The group has a chance to be an important one in creating the best approaches in cutting costs. A committee usually include managers of the entity.The committee will observeeach activity so that their efforts are aimed at making sure the cost cutting is a triumph. They ensure that every part of the organisation is centred at pushing for better outcomes. Committees provide knowledge of companydifferent facets, cost cutting leads,communications and sacred cows.

Berk (2010) stipulates that in order to attain significant cost reduction there is need for a team that is disciplined. This is made possible by support from the upper hierarchy of the organisation. The scholar highlighted that along the way it will not be ease as you will encounter resistance in activities associated with cost reduction, but there must be strong parameter that must be drawn in order to succeed. The team must capitalise as it prioritize reducing costs opportunities, assess the necessity of all costs, identify cost and risks for each proposed action, meet at least once a week and maintain an action to create and sustain cost cutting momentum.

## 2.2.3 Areas of uncertainty that organisation must be aware of first before embarking on cost cutting.

Neu (2013) noted that is important that upper management lead the cost cutting program across the whole organization. The following are areas must be looked into carefully by businesses:

**Areas the organisations need to be cautious on in cost cutting**

****

**Fig 2.1 Source Neu (2013)**

## 2.3 Cost leadership

Hill et al (2014) noted that for a company to implement cost leadership, it must choose a combination of structure, control and culture compactible with lowering its cost structure while preserving its ability to attract customers. It also requires managers to continuously monitor their control systems to find ways to restructure or streamline them so that they operate more effectively.

## 2.3.1 Individual accountability

Wileman (2011) noted that to be able to drive down cost there must be good reporting and accountability. The main idea is to promote responsibility of actions among each and every member of the organisation. The scholar also noted that targets must be attached to each individual of the organisation to ensure that there is control of the outcome. When single person have responsibility over targets, outcomes, the person is regarded to have control over both. Controlling costs in this situation is boring and everyone will always make an effort run away from making tough decisions that might come in the process.

Berk (2010) noted the existence of a possible risk that remains and that is sustaining the effort. In many cases organisations have standards but they have fallen into disuse. Monthly senior management efficiency reviews will help to prevent that. Support from senior management is usually helpful.

## 2.3.2 Persistence

Wileman (2011) highlights cost cutting as an important programme in private companies as it can add value to business. The important ingredient in making sure that the cost cutting has higher probability of favourable outcome is persistence. The managers must be aware that they need to critically review and make progress recommendation every now and then about the cost cutting programme. The idea need to be revisited to make it crystal clear so that the organisation can achieve its intended favourable results.

## 2.3.3 Short time frames

Wileman (2011) noted that cost reduction gets achieved when the organisation aims for quick results. Good results for reducing cost must be reached within a short period of time not long period like five years. In the twentieth century the most frequent question is how the organization can have progress of costs in weeks or months times.

## 2.3.4 Feedback loops

Wileman (2011) noted that feedbacks loops plays an important part to managers and are essential in their duties. There is great need to be aware of areas that the in organization is taking a step ahead and areas in which the business is taking a stumble.The scholar also noted that what the business can measure it can also manage. The challenge to management is to measure as soon as possible and review in the same speed that is fast.

Kaplan and Porter (2011) also supported the idea of Wileman(2010)that managers believe that’s if something cannot be measured then definitely managing or improving is impossible. They went on to say that most providers lack knowledge about their costs; hence they experience the degree of rigour. When linking outcomes and improvement of process in making cost reduction sustainable and systematic. Kaplan and Porter also noted that failure to measure outcome and costs simply promotes efficient workers to keep on going unrewarded. They also went further to highlight that inefficient have less reasons to upgrade their efforts.

Wileman (2011) also noted that a good feedback loop requires good data. You need to be capable to place solid, tangible facts around improvement or the short falls of it versus main targets. The numbers need to clear to ease interpretation in order to save time as they will minimise possible debates and focus on important aspects.A good feedback loop has to be produced in all respect of time because the earlier the feedback it is produced the better. Updates of feedback had to be reported in ensuring visibility and transparency.

Morabito(2010) noted that in order to influence organization knowledge, companies must be willing to stretch beyond mass customisation so it can be able to transform work. The scholar also noted that the critical look into cost cutting is highly centred in making sure that the organization attains the best value of information and with precision. The aim is to satisfy customers but at the same time spending less money.

## 2.3.5 A challenging base

Wileman (2011) noted that base case position as levels the organisation will be anticipating its cost trends to together with major cause of costs result. The scholar also noted that when the organization is not able to raise its profits then its main focus must be shift to cutting costs. When the organisation remains stagnant on fixed positions competitors might overtake the organisation. The scholar also emphasized that a strong cost leader base case expectation must be other unit cost reductions every year.

## 2.3.6 Continuous improvement culture

Wileman (2011) noted that with continuous improvement, everyone is hardly satisfied that 2the current year targets have been attain but everyone will be willing to do more and more in the coming period. The scholar also noted that this was adopted from the Japanese.

## 2.4.1.Reasons that lead organisations to embark on cost cutting

Leinwand andMainardi (2013) noted that costs cutting success in long term or short run are not driven by analyzing finance. The scholars suggested that they happen when management understandthe need for a complete change. The process is not reduction of costs as in general, but it encompasses the fear that the organisation might fail to remain in industry for a foreseeable future ahead. These urgent situations presentprecisely the exactdrive to create critical strategic changes.

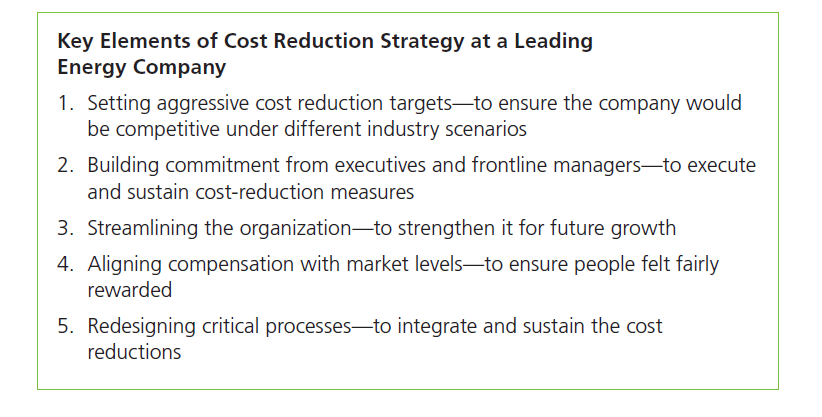
Verzuh (2012) noted that most companies opt to cut unnecessary expenditure because overtime cost more. The rates of the workers for overtime allowance tend to be too high sometimes as they can earn up to fiftypercent more when working overtime. When salaried workers put in overtime, but sustained overtime can incur other intangible costs.

Leinwand andMainardi(2013) stipulates thatthe most successful companies will be those whose top executives appreciate and take the route idea that lower expense and higher profits as important for business. They will be clear about their future and cut costs with an eye toward strengthening their ability to move along the way of its operations.

## 2.4.2. Elements of lowering costs

Katzenbach (2008), the scholar noted that the following activities do get the hearts of employees but they also gain employee initiative, support, and commitment towards lowering the costs. The senior managers must launch the initiative to and the programme must have the following elements as they are crucial and important:

**Key elements in reducing costs**



**Fig 2.2 Source: Katzenbach (2008)**

## 2.5. Stages in the process of cost cutting

Jarwaharlal (2002) argued that cost cutting may be implemented hurridly, where as they should be carried out carefully thought and in a planned manner. It is a corrective function and is applicable to every business activity. It challenges standards assumes existence of concealed potential saving by removing wastes, improving operations, improved standards of quality and finding other means to reduce costs. Reducing cost has to be achieved using internal factors.

Neu noted the 5 basic cost cutting processes that are very important in making sure that the program will have chances of being a success. The following are the stages:

**Stage 1**

Neu (2013) stipulates that it is top management that starts cost cutting and productivity improvement goals, program time frame and communicates them to every member that is

accountable for attaining them. The scholar also suggested aims need to be explained in variety of means so that they become clear and easy understand. The related means are percentage budget reduction, stated amount in dollars reduction and a defined productive uplift.

Bragg (2010) stipulates that there is for regular communication with close tight monitoring inserted in a system that allows information to flow up down the organisation.Reports, newsletters, minutes of meetings are some of the methods the organisation can use in exchange of information internally. Bragg also noted out critical issue of integrating communications of the different teams working in locations that are different.

**Stage 2**

Neu (2013)noted that stage two is when responsibility is passed handed over to individuals who will be accountable for achieving the cost savings and productivity improvements by implementing the changes that makes possible the desired outcomes to be achieved. They are expected to identify and document the results of their efforts and communicate them to top management.

IOMA (2012) argues that the workers need their expectations to be clearly addressed with precision. If this is not addressed the workers will feel like they are being left to operate in darkness. There is great need for people to have idea about what is expected from them. The scholar went further to say that everything means to make the aims clear and making it priority for them to be achieved together requirements for top performers.

**Stage 3**

Neu (2013) stipulates that those up the hierarchy and lower must be responsible for achieving the cost savings and increased productivity monitor and measure the results. Everyone within the organisation will play an important role in making sure that the objectives set are actually reached. The Scholar also noted that appropriate staff across the whole organization from the finance department, human resources or other departments may also be assigned to help monitor and measure results

**Stage 4**

Neu (2013)Top management communications successful cost cutting results to everyone in the business. This usually done to make sure that all workers who have inputted their effort towards achieving organisational goals are provided with incentive of thanking them for their cooperation and some rewards come as non-financial or financial.

Bragg (2010) argued that a reward system has a chance of taking long time to come up with the savings that an idea generates within a specified traced time. The rewards can also be difficult to apportion among the workers because their efforts towards cost cutting are hard to measure.

**Stage 5**

Neu (2013)noted that top management rewards the individuals responsible for positive results on a timely basis.Bragg (2010) argues that the workers will focus on adding only what they term as large payback ideas and will result in eliminating the cumulative value of small payoff idea.

## 2.6 Summary of chapter

Literature review is analysing the impact of cost cutting in trying to improve the company profits. The chapter covered all the objectives and sub research questions that were highlighted in chapter one of the study. The major area of concern was how the implementation of cost cuttingcan tend to affect the company profits

# CHAPTER

# METHODOLOGY

## 3.1Introduction

The chapter highlight the main elements that were used in carrying out the research. Also noted in the chapter is the relevant research design used for data collection to enhance the insight of the analysis of the impact of cost reduction on profitability at Freight World. It looked at the research design, the data to be used, research population and the research instruments. The chapter is very important to the researcher since the researcher was helped in attaining more accurate and reliable data he has gathered for analysis.

## 3.1.1 Research Philosophy (Positivism)

Saunderset al (2009) noted that it is an approach of a natural scientist. The approach centres in using the data that is already available to come up with a hypothesis. The hypothesis forms the centre of the research as a whole. All the findings and possible recommendations are going to all around the hypothesis that is derived. This type of approach allows research to proceed as far as possible. The assumption highlighted emphasized that the researcher is not affected by the research area or what he comes across through the research. Interviews are structured to ask the respondents to gather their feelings.

## 3.1.2 Research design

Perri 6 and Bellamy (2012) stated that, research design is typically outlined out in advance of proceeding to plan the research. The research design aims on the means and ways in which the research is going to be conducted. Hakim (2000) noted thatresearch design is the point where questions that arose through the debating are actually transformed to researchwith intention of obtaining solution or answers to them. Research design is often viewed as a facilitator of the discussion that takes place in research in trying to reach the objectives for the research. He also noted that all attention goes to look for a way, find a way and execute the means to achieve a goal or the purpose. The required information is not fixed in all situations; hence therefore information that is needed in a particular situation to find means and ways is not the same from the one project to another.

## 3.1.3 Mixed research

Saunders et al (2009) stipulates that the mixed approach utilises the bet value out of both quantitative and qualitative approaches. In this case there is separation of the two a quantitative data is analysed an independent whilst qualitative data is also analysed as an independent itself separately. Quantitative data was also analysed qualitative to attain best analysis out of the data.

## 3.1.4 Descriptive research

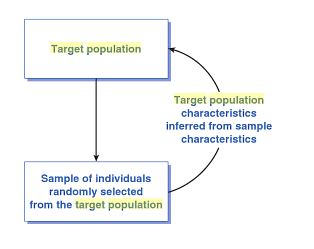
Aaker (2009) noted that descriptive research concentrate in coming up with frequency of occurrence of a particular event or the level of relationship of two or above variables. Thyer (2010) noted that the researchers who use descriptive research usually outline the process of pointing out the sample characters. He also says that it helps investigators to gain knowledge about variables on those involved and establishing the relationship of variables. Johnson andJohnson and Christensen (2012) noted that researchers who adopt descriptive research often take the following 3 stage path:

* Choose at random the sample out of the outlined population.
* Highlight key features of the sample.
* Infer the characteristics of the population based on the sample.

## 3.2.1 Population

Relethford (2012, p. 18) noted that, “often, the purpose of the study and consideration of sample size will dictate the definition of the population”. Collins et al (2000) highlighted that population as people in a specified area under study at that particular moment of time to necessitate boundaries in conducting the research. The research population is the head offices staff personnel of Freight World Graniteside Harare. Wagner (2004:189) noted the types of population as accessible and target population.

**Fig3.1Distinction of target population and sample**

**Source: Relethford (2012)**

## 3.2.2 Sampling

Walliman (2011) noted that sampling is conducted when you can find information from part of a population and information is relevant for the research. He also noted that the there must be great caution in choosing a sample because of the need for reliable data.

## 3.2.3 Sampling Technique

Saunders et al (2009) stipulates that there is high need of choosing a technique of sampling that will actually be of high value to the researcher in yielding positive results. Stratified random sampling is one the researcher had chosen as part of the research.

**Reasons for using stratified random sampling**

* It scrutinizes dominance of a single group due to across distribution.
* Aim at minimizing errors.
* Look on to important subpopulations that matters most.
* Essential part of planning

**3.2.3a Sample for research questionnaires**

|  |  |  |
| --- | --- | --- |
| **Table3.1Questionnaire** |  |  |
| **Targeted departments** | **Sample population** |  |
| Heads of Departments | 4 |  |
| Finance department personnel | 5 |  |
| Operations department personnel | 7 |  |
| Human Resources department personnel | 4 |  |
| Sales Department personnel | 6 |  |
| Total people | 26 |  |
|  |  |  |
| **Source: Data research**  **3.2.3b Interview respondent rate**  **Table 3.2Interview Sample**   |  |  | | --- | --- | | **Target population** | **Number of respondents** | | **Finance department** | **2** | | **Operations department** | **2** | | **Total** | **4** | |  |  |
| **Source: Research data** |  |  |

## 3.4 Type of sources

## 3.4.1 Primary sources data

Saunders et al (2009) noted that trust is highly essential when gathering primary data. He also note that rates of response cannot be measured with certainty but tend to differ at different times.Du Plessis (2001) noted that primary is data obtained from source that means where it originates. Interviews and questionnaires were the means to obtain data.

**Reasons for collecting primary data**

* Improve reliability of data
* Improved accuracy of data

## 3.4.2 Secondary data sources

According to Saunders at-al (2009) stipulates that secondary data comprise both raw data and published summaries. The data is obtained in two different locations, either internally in the organisation or externally outside the organisation. Most organisations collect and store a variety of data to support their operations: for example, payroll details, copies of letters, minutes of meetings.

## 3.5 Research Instruments

## 3.5.1 Questionnaires

Cole (1996) noted a questionnaire as a document used to gather information specifically for a prescribed analysis and intention. He also says that it contains directives and statements that are structured with an intention of getting answers to the research being carried out. He also went further to say that the questionnaire is not the same with other methods in the sense that the respondent had to fill in the written record provided for future reference. Cole noted that this type of questionnaire is called the self-administered questionnaire. The questionnaire was send to Freight World to be filled with the targeted population. The structure contained both the open ended and closed types of question.

**Reason for choosing questionnaires**

* The researcher preferred this method in conducting research because it will allow the respondent to read carefully
* The respondent will fill in the questionnaire when they have adequate time to do so at their work place or in the comfort of their own homes
* They are structured in a way that allows the researcher to gather information that is essential for the research.

## 3.5.2 Interviews

Saunders et al (2009), structured interviews use questionnaires on a predetermined and standardised set of questions, you read out each question and then record the response on a standardised schedule. A structured interview was used in this case, this the interaction between the researcher and those with the information required for the research. The researcher interviewed the managers, procurement personnel, marketing personnel and customers. Face to face and telephone interviews were conducted.

**Reasons for choosing face to face interviews**

* It allowed the researcher to critically scrutinise some of the facial expressions that the respondent usually put when they are answering the questions.
* It allowed the researcher to gather more information than required as some responses led to further issues being raised by the respondent.
* Clarity could be attained especially when the respondent could not understand the question the researcher could further explain in more detail.
* It was a friendly way since some of the people who were responding were the people I worked with during the attachment period

## 3.5.3 Closed-ended questions

Kumar (2010) stipulates closed-ended do not give the responded the freedom to answer in his/ her own perspective. These are questions that are the same as the multiple choice, they give the respondent a set of options required to answer as guided by the researcher. The responded had to abide to the options available. The closed ended question was used in questionnaires.

## 3.5.4 Open-ended questions

They are often used to probe for additional information through questions such as ‘Why?’ (Tustin *et al*., 2005:396-97; Cooper & Schindler, 2009). Freedom is granted to the responded to fully explain their view about the question. There is no set of prescribed way to answer the question as provided by the responded. The method of question is utilised in situation of collecting primary data. The responses tend to give clear answers and can give rise to other issues being highlighted that the author is not aware of.

## 3.6 Likert scale

Burns and Grove (2009) stipulate the scale as prescribed response format by the researchers to measure response intensity. Saunders et al (2009) noted that the questions are instruments of gathering other people views pertaining to the issues highlighted by the researcher. Usually five point scale is used and the following are the main contents below:

* Strongly Agree
* Agree
* Uncertain
* Disagree
* Strongly disagree

## 3.7 Data Analysis

Janert (2011) stipulates that business sits on data, process and generate some more everyday of its operations. Business personnel must look for alternatives to make use of this data. Business makes use of this data by using different methods creating relationship of data available. The data available processed has value in making decisions and looking at it you can notice things.The scholar noted that if you look for data you will definitely observe things. Observations they lead to some reflections.

Cooper and Schindler (2003) noted that data analysis as different processes of minimising the quantity of data attained and reproducing it into manageable size. He also noted that the aim is to convert the data into information and make use of it in decision making and deriving conclusions. The researcher used Microsoft Excel in deriving some of the conclusions and analysis.

## 3.8 Data Presentation

Kimball and Ross (2011) stated that data presentation is how we organise, keep, released for use to the intended users using applications for analysis. In the last statement they referred to combined marts. The researcher used the following in presenting data gathered

* Graphs
* Tables in presenting the data.

The data has to be presented, stored, and accessed in dimensional schemas. the graphs also contain the heading, figure number and source.

## 3.9 Regression Model

The researcher utilised multi regression model in testing the co-existence of relationship of profit (dependant variable) and cost cutting of cost such as (employee costs, administration costs, overtime and sales costs) independent variables.

**Table3.3Variable, measure and indicators for regression**

|  |  |  |
| --- | --- | --- |
| **Variable** | **Measure** | **Indicator** |
| **Dependent** |  |  |
| Profit | Profit attained | Percentage |
| **Independent** |  |  |
| Employee cost | Actual cost | Percentage |
| Administration cost | Actual cost | Percentage |
| Overtime cost | Actual cost | Percentage |
| Salescosts | Actual cost | Percentage |

**Source: Research Data**

Y = *β*0+ *β* 1X1+ *β* 2X2+ *β* 3X3+ *β* 4X4+ *e*

The coefficients are as follows:

Y is Profit

*β*1 is beta coefficient

*β*0 is constant terms

X1 is administration costs

X2 is employee costs

X3 is overtime costs

X4 is sales costs

E is the error term

## 3.10 Validity and reliability

Perri 6 and Christian Bellamy (2012) noted validity as the level to which the ways used to operationalise the concept really capture what we intend to capture. The researcher aim was to make sure that the gatherings that were attained as results of the research are of great value to everyone who was going to use the output. In some instance, some school mates and my supervisor had to re check and correct some of the errors they observed to maintain the value of data. The researcher consulted other lecturers to hear their views about the questionnaire and interview questions before they were dispatched. It was another way to improve reliability of questionnaires to suit its intended use to the research.

## 3.11 Summary

The chapter looked at the research methodology of the research. The various aspects of the chapter discussed included the research design, data collection procedure, the validity and reliability of the data collection techniques. The next chapter presents and analyses the findings obtained through the use of this research methodology. The interpretation and discussion of the results then follow in the following chapter.

# CHAPTER 4

# DATA ANALYSIS, FINDINGS AND PRESENTATION

## 4.0 Introduction

The chapter in attendance shows an analysis of data gathered using the questionnaires and interview methods. The analysis aims at giving an insight answering the objectives and the questions that were raised in chapter 1. Data will is presented in form of table, pie chart and the main tool used in doing this is the Microsoft Excel.

## 4.1 Basic information

## 4.1.1 Responds rate of questionnaires

Only one person failed to respond to the questionnaire because of the leave he had taken the week the researcher went to collect data. The questionnaires response rate marked a success rate of 96%. Below is a diagrammatical presentation showing level of success of response;

**Table 4.1 Respondents rate of questionnaires**

|  |  |  |  |
| --- | --- | --- | --- |
|  |  |  |  |
| **Sources** | **Sample size** | **People who responded** | **Percentage** |
| Heads of Departments | 4 | 4 | 100.00% |
| Finance department personnel | 5 | 5 | 100.00% |
| Operations department personnel | 7 | 7 | 100.00% |
| Human Resources department personnel | 4 | 4 | 100.00% |
| Sales Department personnel | 6 | 5 | 83.00% |
| Total | 26 | 25 | 96.00% |
|  |  |  |  |

**Source: Research Data**

The questionnaires had a 96% success rate of people who managed to complete the questionnaires the researcher provided them with. Only 1 person did not manage to respond because he was away on leave.

## 4.1.2 Responds rate of interview questions

The interview question was a total success as all the respondents successfully managed to answer the researcher questions. The success rate was 100%.

## 4.2 Basic questions to respondents

**4.2a Gender**

**Gender**

**Fig 4.1 Source: Research Data**

**4.2b Educational Qualification**

**Table 4.2Educational Qualification**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Level of qualification | Up to A level | Diploma | Degree | Masters | Total |
| Number of respondents | 9 | 10 | 4 | 2 | 25 |
| Percentage | 36% | 40% | 16% | 8% | 100% |

**Source: Research Data**

**4.2c Range of years serving the organisation**

**Table 4.3Range of years serving the organisation**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Range of years | Up to 3years | 3 to 6 years | 3 to 9 years | 9 to 12 years | 12 and above |
| Number of respondents | 11 | 3 | 2 | 4 | 5 |
| Percentage | 44% | 12% | 8% | 16% | 20% |

**Source: Research Data**

## 4.3 Questionnaire responses analysis

## 4.3.1Cost cutting implementation taking place in the organisation.

**Table 4.4Cost cutting implementation taking place in the organisation.**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| Response | Strongly agree | Agree | Strongly disagree | Disagree | Uncertain | Total |
| Number of respondents | 10 | 9 | 1 | 3 | 2 | 25 |
| % of respondents | 40% | 36% | 4% | 12% | 8% | 100% |

**Source: Research Data**

**Cost cutting implementation taking place in the organisation.**

**Fig 4.2 Source: Research Data**

Based on research 40% strongly agree,36% agree, 4% strongly disagree, 12 % disagree and 8% were uncertain about the implementation of cost cutting within the entity. A majority of 76% was aware of cost cutting taking place within the organisation.

## 4.3.2 Cost cutting is ideal in improving company profit.

**Table 4.5Cost cutting is ideal in improving company profit.**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| Response | Strongly agree | Agree | Strongly disagree | Disagree | Uncertain | Total |
| Number of respondents | 8 | 7 | 2 | 4 | 4 | 25 |
| % of respondents | 32% | 28% | 8% | 16% | 16% | 100% |

**Source: Research Data**

**Cost cutting is ideal in improving company profit.**

**Fig 4.3Source: Research Data**

A total of 60% agreed that cost cutting can improve profits, whilst 24% supported the notion that it does not improve the profits of the company. The remaining 16% were uncertain that cost cutting would improve the company profits. A big question arose because of response because the company profits are going down but the workers are pessimistic that the strategy can uplift the profits.

## 4.3.3Challenges exist in implementing cost cutting.

**Table4.6Challenges exist in implementing cost cutting.**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| Response | Strongly agree | Agree | Strongly disagree | Disagree | Uncertain | Total |
| Number of respondents | 9 | 7 | 4 | 3 | 2 | 25 |
| % of respondents | 36% | 28% | 16% | 12% | 8% | 100% |

**Source: Research Data**

Challenges exist in implementing cost cutting.

**Fig 4.4 Source: Research Data**

Based on the data 36% strongly agree, 28% agree, 16% strongly disagree, 12% disagree and 8% were uncertain that there are challenges in implementing cost cutting. A total of 64% making the majority agreed that there is existence of challenges in the implementation of cost cutting within the organisation.

## **4.3.4 Profit can be increased by cost cutting in short run**.

**Table 4.7 Profits can be increased by cost cutting in short run**.

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| Response | Strongly agree | Agree | Strongly disagree | Disagree | Uncertain | Total |
| Number of respondents | 5 | 4 | 6 | 7 | 3 | 25 |
| % of respondents | 20% | 16% | 24% | 28% | 12% | 100% |

**Source: Research Data**

**Profits can be increased by cost cutting in short run**

**Fig 4.5Source: Research Data**

Based on the research data 20% strongly agree, 16% agree, 24% strongly disagree,28 disagree and 12% was uncertain that profits can be enhanced by cost cutting. The majority of 52% ofthe respondents disagreed that cost cutting is the way to boost profits in short term. The findings agree with the Bragg (2010), but he also went on to say that if it does not yield results quickly then it must be dropped.

## 4.3.5Cost cutting is an effective way to minimize costs.

**Table 4.8 Cost cutting is an effective way to minimize costs.**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| Response | Strongly agree | Agree | Strongly disagree | Disagree | Uncertain | Total |
| Number of respondents | 3 | 8 | 7 | 3 | 4 | 25 |
| % of respondents | 12% | 32% | 28% | 12% | 16% | 100% |

**Source: Research Data**

**Cost cutting is an effective way to minimize costs.**

**Fig 4.6Source: Research Data**

Based from the data collected by the researcher 12% strongly agree, while 32% agrees that cost cutting is effective way to uplift profits. The other 28% strongly disagrees, 12% disagree and 16 % was uncertain. The research seems to show a normal distribution of perception of respondents.

## 4.3.6Management always review cost cutting strategy.

**Table 4.9 Management always review cost cutting strategy**.

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| Response | Strongly agree | Agree | Strongly disagree | Disagree | Uncertain | Total |
| Number of respondents | 4 | 3 | 11 | 6 | 1 | 25 |
| % of respondents | 16% | 12% | 44% | 24% | 4% | 100% |

**Source: Research Data**

**Management always review cost cutting strategy**

**Fig 4.7Source: Research data**

The total of the respondents who strongly disagreed and disagreed was 68% supporting that management did not review the strategy. A total of 28% strongly agree and agree that management did review the cost cutting strategy. The remaining 4 % was uncertain about the question. The findings disagree with Wileman (2011) who said companies must strongly revisit their programmes to ensure that there is progress or not.

## 4.3.7Workers were adequately training to carry out cost cutting strategy.

**Table 4.10Workers were adequately training to carry out cost cutting strategy.**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| Response | Strongly agree | Agree | Strongly disagree | Disagree | Uncertain | Total |
| Number of respondents | 4 | 5 | 9 | 6 | 1 | 25 |
| % of respondents | 16% | 20% | 36% | 24% | 4% | 100% |

**Source: Research Data**

**Workers were adequately training to carry out cost cutting strategy.**

**Fig 4.8Source: Research Data**

Some of the respondent 36% strongly disagree and 24% disagree that workers had adequate knowledge. On the other hand 16% strongly agree and 20% agree that workers had adequate training. The other 4% were uncertain that workers had training. The findings of the question went against the idea cited in chapter by Ludy (2010) who supported that the workers must have adequate training before implementing programme in an attempt to reduce the costs.

## 4.3.8Controls in place to monitor the implementation of cost cutting.

**Table4.11 Controls in place to monitor the implementation of cost cutting.**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| Response | Strongly agree | Agree | Strongly disagree | Disagree | Uncertain | Total |
| Number of respondents | 1 | 2 | 12 | 8 | 2 | 25 |
| % of respondents | 4% | 8% | 48% | 32% | 8% | 100% |

**Source: Research Data**

**Controls in place to monitor the implementation of cost cutting**

**Fig 4.9Source: Research Data**

Of the respondents 48% strongly disagree and 32% disagree that there are controls in implementing cost cutting. The majority disagree making the organisation vulnerable mismanagement of resources because of absence of controls. The other 8% was uncertain, 4% strongly agree, while 8% agreed that the controls were in place. The findings disagrees with Wileman (2011) in chapter two who said that there is need for companies to have sound control to ensure successful cost leadership in an organisation.

## 4.3.9Challenges the organization is facing in implementing cost cutting.

**Table 4.12Challenges the organization is facing in implementing cost cutting.**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| Description | Strongly agree | Agree | Strongly disagree | Disagree | Uncertain | Total |
| a) weak review systems | 3 | 16 | 0 | 3 | 3 | 25 |
| % of respondents | 12% | 64% | 0% | 12% | 12% | 100% |
| b)Rushed implementation | 5 | 13 | 5 | 3 | 0 | 25 |
| % of respondents | 20% | 52% | 16% | 12% | 0% | 100% |
| c)Resistance to change of activities | 7 | 11 | 2 | 4 | 1 | 25 |
| % of respondents | 28% | 44% | 8% | 16% | 4% | 100% |
| d)Absence of workers willingness | 2 | 1 | 2 | 0 | 20 | 25 |
| % of respondents | 8% | 4% | 8% | 0% | 80% | 100% |

**Source: Research Data**

a). The data shows that 64% agrees and 12% strongly agrees that the review systems of the organisation are weak indeed. 0% strongly disagrees, 12% disagrees and the other 12% was uncertain in their response. The finding shows a disagreement with the idea by Bragg (2010) who emphasized the need for organisations to have strong review systems.

b). Basing on the data obtained from the research 20% strongly agree, 52% agrees that the implementation was conducted in a rushed manner. The other 16% strongly disagrees, 12% disagrees and 0% uncertain that the implementation was done quickly. The majority agrees with the notion of rushed implementation.

c). Research data highlights that 28% strongly agrees, 44% agrees that there was resistance to change within the organisation. The other 8% strongly disagree,16% disagrees and 4% was uncertain about resistance to change. The findings shows an agreement with Katzenbach (2008) noted in chapter 2 who said that many companies face resistance to change by employees in implementing new programmes.

d). Research data shows that 80% was uncertain about the unwillingness of workers towards the cost cutting strategy implementation. 8% strongly agree, 4% agree, 8% strongly disagree and the 0% disagrees with the notion of unwillingness of workers in committing to cost cutting. From the finding it seems that majority of the workers seems not interested in revealing their opinion on willingness part.Katzenback (2008) emphasized that workers must participate without duress but at will.

## **4.3.10Controls being utilized by the organisation**.

**Table 4.13Controls being utilized by the organisation**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| Description | Strongly agree | Agree | Strongly disagree | Disagree | Uncertain | Total |
| a) Reward for employees | 17 | 5 | 0 | 2 | 1 | 25 |
| % of respondents | 68% | 20% | 0% | 8% | 4% | 100% |
| b)Set clearly defined objectives | 10 | 6 | 7 | 2 | 0 | 25 |
| % of respondents | 40% | 24% | 28% | 8% | 0% | 100% |
| c)Communication | 3 | 2 | 15 | 4 | 1 | 25 |
| % of respondents | 12% | 8% | 60% | 16% | 4% | 100% |

**Source: Research Data**

a) Research data shows that 68% strongly agreed and the other 20% agrees that the reward for employees is the control that is currently utilized by the company at the moment. The data also shows that 0% strongly disagrees, 8% disagrees and 4% was uncertain that the rewards for employees control is utilised most by the company. It can be argued that everyone in the organisation is satisfied that they are having enough money in their pockets at the end of the month. Bragg (2010) also agrees that workers have to be rewarded for their efforts.

b) Based on the data 40% strongly agrees, 24% agrees, 28% strongly disagrees, 8% disagrees and 0% was uncertain. Most of the workers agree that the objectives that were set by the organisation were clear. The findings agree with the notion outline by IOMA (2012) in chapter two that the company must clearly set their cost cutting objectives.

c) The shows that60% strongly disagree, 16% disagrees and 4% was uncertain that communication control is being utilized. The other 12% strongly agreed whilst the other 8% agrees that communication is being utilized. From these finding is can be concluded that the company had weak communication system within. This disagrees with Neu (2013) who emphasized the need for communication in making a cost cutting programme work.

## 4.3.11Most effective control

**Table 4.14 Most effective control**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Response | Reward for employees | Set clearly defined objectives | Communications | Total |
| Number of respondents | 16 | 5 | 4 | 25 |
| % of respondents | 64% | 20% | 16% | 100% |

**Source: Data Research**

Based on the data 64% of the employees choose reward for employees as the most effective control. From these finding it can be argued that most employees are happy and concerned with seeing their pockets fat. The other 20% ticked clear objectives as most effective in terms of control. The remaining respondent supported communication as the most effective control.

## 4.4Analyses of the interview questions

**4.4.1 What costs are eroding profits?**

Two of the respondents noted that the overtime and administration costs are contributing the most to the costs that have been rising. The other two respondents agreed with the other two but they went on to highlight other costs such as bad debts, sales costs, repairs and maintenance.

**4.4.2Does the organization need these costs?**

The three respondents replied saying the organisation needs some of the costs but there must be some kind of control as to keep the levels of these expenses in within reasonable limits. The other respondent noted that the company do not need these costs at all as it is affecting the company negatively in terms of its profit.

**4.4.3Can cost cutting improve company profits?**

All the respondents agreed with the notion that the cost cutting can improve the profits of the business. They added that cost cutting needs some elements like willingness of the workers, good communication, commitment and proper documentation of all activities to ensure that a common goal is achieved of removing unnecessary expenses.

**4.4.4Does Freight World have cost cutting targets?**

All the respondent agreed that Freight world has targets that management set at the beginning of each year that enhance its chances of achieving main goal to maximise shareholder’s wealth. These targets include both quantitative and qualitative in nature. Under quantitative, they are limits that organisation expect to expend in a given financial period that are included in the budget prepared before the beginning of period. Qualitatively the standards are set to enhance or better the services that the organisation currently offers to its stakeholders.

**4.4.5What controls can management put in place do to minimize costs?**

The two respondents pointed out the need for better communication within the organisation to ensure that information flows through in respect of time. They also noted that every activity needs to be documented and the organisation has to allow all the workers in the organisation to participate in development of ideas. The other two went to highlight that there is need to follow up in every implementation that take place to ensure.

**4.4.6Obstacles in implementing cost cutting strategy?**

The first respondent noted that other workers were not given enough knowledge about the cost cutting strategy. The other respondent noted that there is repetition of work as other over workers at the other branches do some of the work that had to be redone at the head office. The third responded noted that there is challenge that there is less effective communication across the departments of the organisation. The fourth respondent noted that there is weak supervision of overtime and most of the workers tend to claim from the facility at easy.

## 4.5Quantitative results analysis

It is summing up of econometrics model results, correlation, coefficient and {t} values and the analysis is helping to shed more light on the hypothesis under the study.

## 4.5.1 Coefficient and {t} statistics analysis

**Table 4.15 Summary of standard error, coefficient, {t} values and {p} statistics**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| Profit | Coef. | Std. Err. | T | P>t | [95% Conf. | Interval] |
| Employee costs | -2.96507 | 3.73E-07 | -7.90E+06 | 0 | -2.96507 | -2.96506 |
| Overtime | 6.939247 | 2.88E-06 | 2.40E+06 | 0 | 6.93924 | 6.939254 |
| Salescosts | 20.62096 | 1.55E-06 | 1.30E+07 | 0 | 20.62095 | 20.62096 |
| Administration costs | -12.5676 | 1.84E-06 | -6.80E+06 | 0 | -12.5676 | -12.5676 |
| \_cons | -0.02521 | 0.0602976 | -0.42 | 0.688 | -0.16779 | 0.117374 |

**Source: Stata 11**

When the {t} value is greater than 2 in terms of absolute value, it means the dependent variable significantly related to the independent variable.

The model is highlighting that the employee costs have a negative {t} value and negative coefficient. The results mean that employee costs are contributing significantly and in a negative way towards the profit of the organisation. They are eating away all the profits for the entity. The results show a negative relationship between employee costs and profits.

The model shows results that administration costs have a negative {t} value and negative coefficient.The results mean that administration costs are contributing significantly and in a negative way towards the profit of the organisation. They are eroding profits for the entity. This implies that a negative relationship between employee costs and profits exists.

There is a positive coefficient and {t} values for overtime facility. This implies that overtime affects profits positively. The costs are significant between overtime costs and the profits. The coefficient of overtime on profit is +6.939247. On the other hand the sales costs have a positive correlation of +20.62096. The sales costs have a positive {t} value of 1.30, meaning it does not have a significant influence on profit.

## 4.5.2 Correlation analysis

**Table4.16Statistics on correlation of dependant and independent variables**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Profit | 1 |  |  |  |  |
| Employee cost | -0.4327 | 1 |  |  |  |
| Overtime costs | -0.5271 | 0.9597 | 1 |  |  |
| Sales costs | -0.1779 | 0.9551 | 0.8901 | 1 |  |
| Administration costs | -0.5786 | 0.8986 | 0.9394 | 0.8533 | 1 |

**Source: Stata 11**

When the correlation is below 0.8, it indicates that there is no problem and nothing needs to be done on the independent variables. From the results obtained, they are indicating that all the independent variables have no problem with the dependent variable profit and nothing needs to be done on them. The independent variables seem to be affecting themselves in a big way.From the results obtained the cost cutting has failed to therefore agreeing with the hypothesis.

## 4.6 Summary

The chapter focused on data analysis and presentation. The questionnaire was sent to the 26 expected respondents and 25 of them were able to respond. The researcher managed to interview the entire expected respondents making it a 100% success rate. The researcher also used regression in establishing the relationship between independent variable (profit) and the independent variables. The chapter also outlines the analysis presented using Stata 11.

# CHAPTER 5

# CONCLUSION AND RECOMMENDANTION

## 5.0 Introduction

This chapter look at the summary of chapters, the major findings of research, and conclusion of the study, recommendations and suggested areas of further study.

## 5.1 Chapter of summaries

Chapter one outlined the background of the study as well indicating the major problem that freight world is facing that even after implementing a cost cutting strategy the profits are falling downwards. The chapter analysed the trends of operating costs have been on the rise from 2010 up to the current year and the effect to the profits. The major contributors of the operating costs are the administration costs, employee costs, time management, bed debts and sales costs.

Chapter two focused on reviewing the area of study by the researcher. In the chapter the researcher was reviewing what other authors wrote about the area of study in question. This was an important area since it had to combine different thoughts, conclusions of researches conducted by different authors in different geographical locations. The chapter limits was the objectives that the researcher cited in chapter one.

Chapter three focus on the research methodology that the researcher used in conducting the research. Positivism research philosophy was the one the researcher used in carrying out the research. Mainly the data collected was the primary data from the source. The research instruments used was the questionnaires and the interviews. The chapter also highlighted how the data was going to be analysed, presented as well as tested for validity and reliability.

Chapter four looked at the analysing and presenting all the data collected using the research instruments. The finding was collected in relation to the objectives that the researcher noted in the chapter one. The objectives have to be addressed so that study will remain valuable to the users of the information. The data was presented using excel that provided different utilities like graphs, pie charts and tables. This helped in making the data understandable to the users of the information.

## 5.2 Finding of the study

Freight World currently has a cost cutting strategy in place.The cost cutting programme has failed to lower down the costs of the organisation that has been rising and hence the shareholders wealth has remained stagnant.The cost cutting programme implementation has been a failure it is evidenced by the finding of the research that company cost continues to increase yet the main objective of cutting costs is to minimise them.

The controls of the organisation are very weak; I might be tempted to say that they rarely exist within the organisation. The communication is very poor. The issue that rose from the research was that the workers seem to rejoice that the control of rewarding the staff is an effective control. A great point debate arose that these cost have been affecting the company main goals negatively. The managers of the company are not leading by example in making sure the costs are minimised to lower levels.

There is need to adequately train the staff personnel so that they possess enough knowledge about the cost cutting strategy. Education is the key because it teaches the personnel what they are actually expected to do in the program. There was no enough involvement of the staff in the initiation of targets and aims of the cost cutting. This made it hard for the organisation since some of the workers tend to be resistant to the changes.

## 5.3 Recommendations

The researcher recommends the company to use Neu (2013) five stage processes in starting and implementing cost cutting program as indicated in chapter two. The stages are as follows a) top management initiates the cost cutting idea and communicates to all its employees, b) pass responsibility to every individual for every activity taken, c) the programme has to be monitored and outcomes measured, d) management communicates successful cost cutting outcomes, and e) top management rewards the individuals as to their achievements. The process will assist the company to critically analyse its cost. Every individual will be accountable for his or her actions in the day to day operations of the company.

Wileman (2011) supports the importance of feedback loop. It stretches the organisation to point out solid reasons for difference of targets and short falls. He scholar also noted that there must be good communication in the organisation.

Bragg (2010) disagrees with the last stage of rewarding employees saying it might increase the costs if not carefully considered. The scholar went on to emphasize the need for careful rewarding system that will not kill the willingness of employees. The findings also encouraged the company cut the employee costs and administration costs to minimise their costs.

In agreement with Katzenbach (2008), the scholar noted that rather focusing on cutting costs only, the organisation need to make whatever necessary to get the willingness of workers. This serves to help the in making the employees accept their responsibility in making the programme a success as an addition to stage number two of the five stages. Workers who are willing to participate always do much better than workers under duress.

## 5.4 Areas of further research

Further research areas such identifying hidden dependencies that are located in the operations of an entity in trying to come up with the possible areas to cut the costs.Another area is to find ways to coordinate ideas and human effort into a successful cost cutting programme.

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**Appendix A: Introductory letter**

Midlands State University

Department of Accounting

P. Bag 9055

Gweru

23 September 2013

Finance Director

Freight World

100 Kelvin Road South Graniteside

Harare

Dear Sir

**RE: Seeking permission to gather data from the organisation.**

I am a student in my final year at the Midlands State University, pursuing a Bachelor of Commerce Honours Degree in Accounting. It is a condition that I must perform a research during the final year, to be issued to the faculty for authorization. The research is a partial fulfilment of the requirements of the Bachelor of Commerce Honours in Accounting Degree. The topic I am researching on is called: - (**Analyses on the impact of cost cutting on profitability): A case study of Freight World**

In order for the research to triumph, l kindheartedly request for your help to grant me the permission to hand out questionnaires to the chosen workers in your organization. The information will be used solely for academic agenda only and will remain confidential. If there are any queries, I am accessible on the following contact details for any clarifications or queries: 0776 108 870, or email me on [blavin111@gmail.com](mailto:blavin111@gmail.com) or the Accounting department chairperson.

Your help will be very much appreciated.

Yours sincerely

Nyasha Kanda {R112436H}.

**Appendix B Questionnaire**

**Instructions for answering questions**

Name must not be noted on the questionnaire

Responses have to be completed on space available on questionnaire by ticking.

All questions have to be filled.

**Questions**

**Basic information**

a. Gender

Male [ ] Female [ ]

b. Tick educational qualification

Up to A level [ ] Diploma [ ] Degree [ ] Masters [ ]

c. Range of years you have served the organization?

Up to 3years [ ] 3 to 6 years [ ] 3 to 9 years [ ] 9 to 12 years [ ] 12 and above [ ]

**Questionnaire**

1. Are you abreast of the implementation of cost cutting within the organization?

Strongly agree [ ] Agree [ ] strongly disagree [ ] Disagree [ ] Uncertain [ ]

2. Is cost cutting is ideal to improve company profits?

Strongly agree [ ] Agree [ ] strongly disagree [ ] Disagree [ ] Uncertain [ ]

3. Are there any challenges in implementing cost cutting?

Strongly agree [ ] Agree [ ] strongly disagree [ ] Disagree [ ] Uncertain [ ]

4. Can profits be increased by cost cutting in short run?

Strongly agree [ ] Agree [ ] strongly disagree [ ] Disagree [ ] Uncertain [ ]

5. Is cost cutting an effective way to minimize costs?

Strongly agree [ ] Agree [ ] strongly disagree [ ] Disagree [ ] Uncertain [ ]

6. Management always review cost cutting strategy?

Strongly agree [ ] Agree [ ] strongly disagree [ ] Disagree [ ] Uncertain [ ]

7. Workers had adequate training to carry out cost cutting strategy?

Strongly agree [ ] Agree [ ] strongly disagree [ ] Disagree [ ] Uncertain [ ]

8. Are there any controls in place to monitor the implementation of cost cutting?

Strongly agree [ ] Agree [ ] strongly disagree [ ] Disagree [ ] Uncertain [ ]

9. The following are the challenges the organization is facing in implementing cost cutting?

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Challenge | Strongly agree | Agree | Strongly Disagree | Agree | Uncertain |
| Weak review systems |  |  |  |  |  |
| Rushed implementation |  |  |  |  |  |
| Resistance to change of activities |  |  |  |  |  |
| Absence of workers willingness |  |  |  |  |  |

10. The following controls are being utilized by the entity?

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Control | Strongly agree | Agree | Strongly disagree | Disagree | Uncertain |
| Reward employees for the work |  |  |  |  |  |
| Set clearly defined objectives |  |  |  |  |  |
| Communication |  |  |  |  |  |

11. Which of the following is the most effective control?

Reward employees for the work [ ] Set clearly defined objectives [ ] Communication [ ]

**Appendix C: Interview guide**

**Interview questions guide**

1 What costs are eroding profits?

2 Does the organization need these costs?

3 Can cost cutting improve company profits?

4 Does Freight World have cost cutting targets?

5 What controls can management put in place do to minimize costs?

6 Obstacles in implementing cost cutting strategy?

**Appendix D:Profits and costs (4 month each comparison from January 2010-December 2013)**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Profit | Employeecosts | Overtime | Salescosts | Administrationcosts |
| 428668 | 241125 | 16112.4 | 52430.6 | 3927.4 |
| 643003 | 361687 | 24168.6 | 78645.9 | 5891.1 |
| 1.10E+06 | 602812 | 40281 | 131077 | 9818.5 |
| 293162 | 282652 | 27052.8 | 64308.4 | 30442 |
| 439744 | 423979 | 40579.2 | 96462.6 | 45663 |
| 732906 | 706631 | 67632 | 160771 | 76105 |
| 64531 | 430853 | 50724.8 | 71052.8 | 37806.2 |
| 96796.5 | 646279 | 76087.2 | 106579 | 56709.3 |
| 161328 | 1.10E+06 | 126812 | 177632 | 94515.5 |
| -70217.2 | 572653 | 53270.4 | 90065.2 | 47674.4 |
| -105326 | 858980 | 79905.6 | 135098 | 71511.6 |
| -175543 | 1.40E+06 | 133176 | 225163 | 119186 |

**Source: Published company accounts (include dependable and independent variables)**