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# Midlands State University



## FACULTY OF COMMERCE DEPARTMENT OF ACCOUNTING

### ANALYSIS OF THE IMPACT OF OPERATIONAL COST CUTTING STRATEGIES ON FINANCIAL PERFORMANCE

[A CASE STUDY OF ZIMBABWE ALLOYS CHROME (under judicial management)]

By

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Dissertation submitted in partial fulfillment of Bachelors of Commerce Accounting  
Honours Degree at Midlands State University Gweru: Zimbabwe

2018

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**[(A case study of Zimbabwe Alloys Chrome (under judicial management)]**

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## **DEDICATION**

My dedication goes to the Lord Almighty for the strength and courage he gave me when I was doing this research. I also dedicate to my mother and sisters for their unconditional love and support towards me.

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## **ABSTRACT**

The research aims to analyse the impact of operational cost cutting strategies on financial performance. A case study of Zimbabwe Alloys Chrome (under judicial management) was used to analyse the impact of the operational cost cutting strategies implemented, determining factors that affect the successful implementation of operational cost cutting strategies. Literature from different scholars and authors on cost cutting was reviewed in this study. The study made use of questionnaires and interviews to collect data from the organization. The study targeted 26 ZAC members, a total of 22 questionnaires were distributed to ZAC staff and 18 were returned earning 82% and 3 individuals were interviewed inspiring a 100% response rate. Data was presented using tables, graphs and analysis was made resulting in conclusions being drawn. Upon data analysis, it was revealed that ZAC cost cutting measures positively affects the financial performance in the long run but in the short run the financial woes will worsen before they improve. The recommendations passed by the researcher included the improvement of current cost cutting measures and continuation with the application of the cost cutting measures. The researcher also recommended ZAC to implement controls so as to make sure that all current cost control procedures and policies are adhered to, budget formulation and introduction of incentives and bonuses for meeting budgets.

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## **LIST OF ACRONYMIC**

ZAC                Zimbabwe Alloys Chrome

PEST              Political, economic, social and technological

## CHAPTER 1

### INTRODUCTION

#### Introduction

This chapter covers the background of the study, statement of the problem, research questions and objectives. It also goes on to look at the significance of the study, assumptions, delimitation and limitation of the study. The chapter concludes by giving definition of key terms and a chapter summary.

#### 1.1 Background of the study

Zimbabwe Alloys Chrome (ZAC) a company which is under judicial management, has been facing declining financial performance (table 1.1) for the past four years, posing a threat to its viability and sustainability. Mr. R. Saruchera the Judicial Manager, noted that continuous increase in costs without increase in financial performance (revenue) exposed the company for closure and recommended operational cost cutting strategies such as downsizing to be implemented as a way of increasing financial performance of the company (management meeting minutes, August 2014). Following the Judicial Manager's recommendation, the company implemented cost cutting strategies to curb operational costs. A review of the judicial manager's reports for the financial period from 2014 to 2016 shows that financial performance has continued to decline regardless of the cost cutting strategies implemented as shown by table 1.1 below.

**Table 1.1 The performance statistics from 2014 to 2016 for Zimbabwe Alloys Chrome (Private) company under judicial management.**

<b>Financial Year</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>
<b>Revenue</b>	7,935,000	4,117,000	2,115,000
<b>Operational Costs</b>	3,863,000	3,108,000	2,356,000
<b>Profit</b>	<b>4,072,000</b>	<b>1,009,000</b>	<b>(241)</b>

Source: **Financial statements for Zimbabwe Alloys Chrome Limited Company (2014-2016)**



Table 1.1 above shows a distribution trend in sales, operational costs and profitability performance of Zimbabwe Alloys Chrome from 2014 to 2016. The data shows a decrease in operational cost for the year 2014 to 2016, the decline is corresponding to the cost cutting strategies implemented such as restructuring. The positive gains expected from the cost cutting strategies implemented has been negatively reversed as the company realized a decrease in revenue generated for the financial period 2014, 2015 and 2016 respectively. The company recorded an incremental profit of 68% in the initial year of 2014 followed by a decline of 102% and 140% in 2015 and 2016 respectively.

Mr. R. Saruchera expressed the need to review the operational cost cutting strategies implemented so as to ascertain its effectiveness on financial performance of Zimbabwe Alloys Chrome limited company and to have a balance with revenue generation capacity. This was necessitated by the views of other management staff that the strategy has resulted in the creation of a tense operating environment that is crippling the capacity of the company to generate revenue since the strategy has affected employee welfare and also constrained the company's marketing budget.

## **1.2 Statement of the problem**

Zimbabwe Alloys Chrome Limited Company under judicial management has been facing a continuous decrease in revenue and profitability despite the operational cost cutting measures implemented. The unattended impact of the operational cost cutting strategy such as downsizing has been negatively affecting the financial performance of the company. This research aims to analyze the impact of operational cost cutting strategies on the financial performance of Zimbabwe Alloys Chrome.

## **1.3 Sub research questions**

- What operational cost cutting strategies are being implemented by ZAC a company under judicial management?
- What factors should be considered when implementing operational cost cutting strategies at ZAC?
- What factors influence the successful implementation of operational cost cutting strategies at ZAC under judicial management?
- What is the effect of cutting employee related costs on the financial performance of ZAC?

- What is the reaction of employees on cutting employee related costs implemented at ZAC?

#### **1.4 Objectives**

- To determine operational cost cutting strategies being implemented by ZAC a company under judicial management.
- To identify factors to be considered when choosing to cut cost.
- To analyse factors influencing the successful implementation of operational cost cutting strategies at Zimbabwe Alloys a company which is under judicial management.
- To discuss the implication of cutting employee related cost on the financial performance of the company.
- To describe the reaction of employees on the operational cost cutting measures implemented by the company.

#### **1.5 Significance of the study**

##### **1.5.1 To the student**

To fulfill the requirements of a Bachelor of Commerce (Honours) Degree in Accounting which the student is studying at Midlands State University.

##### **1.5.2 To Midlands State University**

To be used in the library as referral material by fellow students in cost accounting and cost management strategies.

##### **1.5.3 To Zimbabwe Alloys Chrome (Private) Limited (under judicial management)**

To enable Zimbabwe Alloys to identify other areas which need attention for the company to improve its financial performance through recommendations from the research.

#### **1.6 Assumptions**

This research is going to be carried out on assumption that:

- i. The data used is free from errors and bias.
- ii. There are no changes in the nature and size of the company during the research period.

### 1.7 Delimitations of the study

The research is centered on Zimbabwe Alloys Chrome under judicial management in Gweru. The study is limited to operational cost cutting strategies implemented by the company only. The study covers three years from 2014 to 2016. The population used in the research includes Zimbabwe Alloys Chrome operation workers, the top management and the department supervisors of the company.

### 1.8 Limitation of the study

Some data was confidential. The respondents provided estimates not the exact figures in the source documents which led to the researcher using some source of secondary data such as published annual reports.

### 1.9 Definition of key terms

**Financial performance-** the degree to which an entity's financial objectives are being met in the specified period of time in the form of revenue and profits.

**Operational cost cutting strategies-**these are plans designed to achieve long term plans of cost reduction or action meant to maintain and control expenditures without damaging the long-term performance of the entity.

**Cost-**expenses associated with the running of the organization.

**Cutting employee related costs-**measures implemented by a company to reduce employee related expenses and improve profitability, Bragg (2010)

### 1.10 Summary

This chapter highlighted the importance of conducting this research as well as the current state at Zimbabwe Alloys. The major reason of conducting this research was to analyze the effectiveness of operational cost cutting strategies on financial performance of Zimbabwe Alloys Chrome. This chapter covered an insight to the background of study, statement of the problem and importance of conducting the research. Terms were also defined. The chapter that follows will be a review of literature used in the research.

## **CHAPTER 2**

### **LITERATURE REVIEW**

#### **2.0 Introduction**

Gichuki (2014) defines literature review as an evaluation of your topic's objectives and questions making use of literature undertaken by others on the same subject. This chapter covers the review of literature on analyzing the need to cut operational costs, the cost cutting strategies implemented by companies under judicial management, factors influencing the success of operational cost

cutting strategies, the effect of cutting employee related costs and the reaction of employees towards the operational cost cutting strategies implemented.

## **2.1 Overview of operational cost cutting strategies**

Cutting operational cost guarantees efficiency in the productivity of companies under judicial management as outlined by Gichuki (2014). Youming (2015) noted that operational cost cutting strategies are implemented to reduce and control the level of expense incurred by companies in preventing unnecessary spending. Vorley and Keeney (2014) added that operational cost cutting strategies are measures established by the management in improving the financial performance of companies through reducing operational expenses in a way that the organization's objectives and long term goals are not affected. This is also supported by Wileman (2016) who defined operational cost cutting strategies as plans that are implemented to curb cost incurred from operations without departing from the long term goals of the organisation.

### **2.1.1 Costs**

Sharfman (2015) define costs as the equipment, economic resources, real facilities, supplies, manpower and all other resources necessary to produce outputs and accomplish work activities. Cost is the monetary value of all the expenditures incurred in the production of goods and services. Cost are classified as fixed or variable cost. Fixed costs are those cost which are not affected by the level of output, they remain constant for example rent. Variable costs are those costs that changes with the level of output produced for example cost of materials.

### **2.1.2 Financial Performance**

Financial performance is a subjective measure of how a firm can best use assets from the primary mode of business and be able to generate revenue as defined by Hafez (2015). Maheshwari (2015) defined financial performance as a yard stick of how effective an entity is in employing its assets so as to generate revenue in its primary mode of business. Financial performance is used as a general measure of the overall organisation's financial health over a given period of time and can be used to compare similar firms across the same industry or to compare industries or sectors in aggregation.

## **2.2 Analysing the need to cut costs**

Companies under judicial management are suffering from increasing operational costs. Profit motives, gaining competitive advantages and increased utilization of resources necessitates the need to cut operational cost of companies under judicial management. A positive relationship exists between cutting operational cost and financial performance of companies under judicial management since an increase in cash generated and earnings received is realized as emphasized by Gichuki (2014) and Namu et al (2014). Razak and Vattikoti (2016) is of the view that to increase profit and the share value of the company there is need to cut operational cost thereby enhancing the financial performance of the company.

### **2.2.1 To enhance profitability of the company**

The main objective of a company is to increase profit and this is successfully achieved by implementing cost cutting strategies to reduce operational costs thereby enhancing a good financial performance of the company as suggested by Ibrahim and Muritala (2015). Marx (2012) and Warusawitharana (2016) outlined that if a company implements cost cutting measures they are most likely to realise positive gains thus enhancing its financial performance. Furthermore Watson et al (2013) is of the view that if cost controls are adopted by a company, it will be guaranteed of financial stability which boosts the company's profit. According to Olalekan and Tajudeen (2015) cost management definitely ensures efficiency as the company will be able to meet the market demand which guarantees an increase in profit. Sharfman (2015) added that in order to maximise profit, the company must minimise operational cost to as low as possible since profit is defined as the excess of income against costs. Neu (2013) added on that if the revenue of a company is not rising as expected, cutting some operational costs which the company does not find necessary is the best way of enhancing profit.

However, some cost of a company such as direct cost are not directly related to production so these cannot be avoided to increase profitability. Wileman (2016) is of the view that every company has got some costs which are controllable and some which are non-controllable. Non controllable costs cannot be influenced by the cost cutting strategies implemented by a company hence these strategies are inapplicable to raise profitability of the company. Vorley and Keeney (2014) argued that a company which enjoy profits from cutting operational costs will experience negative financial performance in the long run. Wileman (2016) added that cutting operational cost also

diminishes potential growth of companies in the future. Some costs of the company such as direct cost are directly linked to profits so cutting down such cost decreases production hence negatively affecting the financial performance of the company (Oluwagbemiga et al, 2014). Watson et al (2013) acknowledged that employees greatly contribute to the profitability of the company by increasing productivity hence cutting labour costs will adversely affect the financial performance of the company.

### **2.2.2 To gain a greater market share**

Implementing operational cost cutting strategies enables the company to reduce prices since the expenses that has been influencing the cause of high prices has been reduced which then enables companies to gain competitive advantage hence increasing its market share (Marx, 2012). In relation to that, Youming (2015) defined competitive advantage as the benefit that a company derives over its competitors from offering products of high quality at an affordable price. Operational cost cutting strategies aims to reduce expenses which the company might see as unnecessary. In support to this, Massard (2013) stated that in the business environment an organization must beat competition by offering products at reduced prices so as to win customers and this is accomplished by cutting operational cost to enhance the financial performance of the organization. Anchor (2013) stated that it is a requirement for every company to respond to the changes in the business environment hence companies should have a greater market share as compared to its competitors and should have full concentration on its targeted group. Companies must adopt to technology and be innovative at a lower cost so as to be competitive and have an increased market share.

On the other hand, lowering cost to produce goods or services comes at an expense of poor quality of goods produced as outlined by Namu et al (2014). To gain a market share in the business environment is also costly on the other hand because as the company seeks to do different activities from its competitors it tends to spend more in acquiring some competitive techniques such as advertising and this compromises the financial performance of a company (Wen, 2014). Namu et al (2014) added that to gain competitive advantage is not easy since customers are only willing to pay prices which are below the cost of production and this is a disadvantage to the service provider company. In conclusion cutting costs positively affect the financial performance of a company

### **2.2.3 To increase utilisation of resources**

Resource utilisation is the use of scarce resources which are available to produce the maximum benefit as possible at reduced losses as defined by Maiga (2013). Operational cost cutting strategies result in increased efficient ratio as outlined by Hafez (2015). The need to cut operational cost to companies under judicial management is justifiable as these strategies insert cost awareness to the workers in the organization which therefore result in better utilization of resources hence enhancing the financial performance of the company. Wen (2014) postulated that cutting operational cost enhances efficiency of resource utilisation as it identifies areas where wastages are taking place and this improves the financial performance of the organization through improved efficiency and productivity.

On the other hand Chigara et al (2013) argued that implementing cost cutting strategies may result in the wastage of resources and decrease of production. Some cost cutting strategies such as downsizing may have a negative impact on the financial performance of the organization since employees are greatly demotivated by this measure. Some employees may fail to adhere to the procedures and policies of the cost cutting strategies since they might be demotivated by the increased work supervision which comes with the measures to reduce cost hence they might have a negative attitude towards the cost cutting strategies implemented by the organization. This results in decreased productivity and a wastage of resources.

## **2.3 Cost cutting strategies being implemented**

Operational cost cutting strategies being implemented by companies under judicial management include restructuring and activity based costing to reduce costs associated in running of a business. Below is the review of literature on the advantages and disadvantage of each cost cutting strategy.

### **2.3.1 Organisational Restructuring**

Organisational restructuring is a way of strategic management which assist in cutting operational cost through changing the structure of a company, downsizing and shortening the chain of command as outlined by Cameron and Green (2013). Restructuring is reducing the number of employees and the company's operations in an attempt to curb the operational costs of a company. Restructuring improves the profitability of a company as stated by Sulaiman (2012) in one of his researches of Oil and Gas industries in Nigeria which asserted that organizational restructuring enhanced the profitability of the companies. According to Peetz (2015) restructuring is the act of reorganizing the company's organogram for the purpose of making the company profitable.



According to Maiga (2013), organizational restructuring process assists the company in increasing the quality of its products whilst decreasing the level of operational costs. These costs may be in the form of labour costs therefore cutting down labour costs and channeling excess capital towards quality assurance can lead to production of quality products. Restructuring of the organization improves liquidity of the company and achieves the continuous existence of the business in line with the going concern basis of accounting.

Powell and Yawson (2014) further on concluded in their study that takeovers and bankruptcy of companies would be reduced by introducing restructuring schemes on UK companies thereby resulting in the company surviving for the foreseeable future. According to Peetz (2015) organizational restructuring enhances a company's creativity. In a case study concerning Sony and Microsoft he concluded that the companies carried out restructuring efforts to revise their organogram such that they would gain competitive advantage over Google and Apple. This brought about creativity and innovation which outperformed Google and Apple on key business indicators such as market share and revenue growth. According to the Herald, Kudakwashe Mutandi (2014) Steward bank's staff costs were 39 % of total operating expenses in the half year ending August 2015 and as a way of curbing these excessive costs, Steward Bank retrenched 40% of its employees and this was an effective cost cutting technique. An attempt to cut costs through organizational restructuring also results in an increment in economic value of the business through achievement of high productivity levels as suggested by Peetz (2015).

However, though restructuring is a useful cost cutting strategy, it has its own limitations. According to the research carried out by Munoz-Ballon and Sanchez-Bueno (2014) in the manufacturing firms in Spain, they found out that restructuring does not improve productivity since this activity demotivates employees as they are not guaranteed of their job security hence turns out to yield low production. Bragg (2010) added on that restructuring as a way of cutting operational cost will contribute negatively to the financial performance of the company since some companies are resistant to change hence more effort must be adopted to guarantee that workers must be emotionally be motivated so that they will be committed to reduce cost initiatives. Motivated workers may minimize costs rather than those employees that are demotivated so restructuring may contribute negatively to the financial performance of companies.

### **2.3.2 Activity Based Costing (ABC)**

Activity based costing is defined as a process that allocates costs incurred in coming up with a product. Bahnub (2014) stated that an effective measure to reduce cost is through activity based costing. ABC classifies cost drivers and cost pools to boost the financial performance of companies through identifying indirect expenses to services provided accurately. Garvey et al (2012) defines activity based costing as a process which helps to enhance the financial performance of a company by identifying activities that are incurring costs without adding any significant value to the company. Activity based costing helps companies to give more attention to activities that are absorbing huge costs and can be able to exercise cost cutting strategies to those activities in order to enhance the financial performance of the company. Bahnub (2014) is of the view that organisations should use the ABC approach in their operations because it comes up with cost per unit making it easy to calculate the actual cost absorbed in coming up with that product. The activity based costing helps firms to allocate activities or product which are of high costs on which cost cutting strategy can be applied to these activities to reduce wastage and increase efficiency. When a product which is incurring high costs has been identified it comes easier for the company to apply the cost cutting strategy to reduce cost.

However, it can be argued that activity based costing is a very difficult method to apply as a cost cutting strategy because it involves a lot of effort and paperwork on calculations which might not suit well with small companies to enhance their financial performance as stated by Maheshwari (2015). ABC cannot be relied on sometimes because not all activities can be easily measured in terms of costs, Sanni and Hashim (2013) added on to say that for an organization to be able to apply the activity based costing technique, it must have acquired sufficient resources and experienced personnel which negatively strain the financial performance of an organization by increasing its costs. It is also argued that ABC does not prepare its financial reports accordingly with the generally accepted accounting practice (GAAP), so it is expected that an organization should at least employ another technique to work with the ABC method and this turns out to be costly to the organization, negatively affecting the financial performance. ABC method also takes into account those irrelevant costs which are not required for the decision making of an organization hence this does not enhance the financial performance of a company.

## **2.3 Factors influencing the success of operational cost cutting strategies**

Razak and Vattikoti (2016) are of the view that government legislations and the decisions made by shareholders plays a significant role in the successful implementation of operational cost cutting measures.

### **2.3.1 Government Policies and Legislations**

Government policies and legislation are defined as the laws that guides the way companies operate in a given country. Ibrahim and Muritala (2015) asserted that government legislations and policies have a positive and negative impact on the successful implementation of operational cost cutting measures. The ZIMASSET policy established in 2013-2018 in Zimbabwe encouraged firms to operate at lower cost, eradication of poverty and to add value to the economy as outline by Madhuku (2013). Tshili (2016) noted that it is not legal to cut down on worker's salaries in response to a proposed policy by the government to suspend the cutting of workers' salaries and bonuses in the next two years as a measure of operational cost cutting to reduce the spending of government in Zimbabwe. The Zimbabwe Amended Labor Act chapter 28:01 supported the implementation of operational cost cutting strategies through the removal of retrenchment benefits given to employees after they are fired and this has resulted in the increased downsizing as witnessed in the case of Zimbabwe Alloys Chrome and Dairy Board Zimbabwe, in which the companies took advantage of the laws implemented by the government to lay off workers as a way of downsizing. In the study carried out by Ibrahim and Muritala (2015), it reflected that government policies increases the growth of business as supported by his research of 172 companies during the period of 2006 to 2010 which stated that in every reform of the government policy there is a 0.15% increase in the growth of the business.

On the other hand some policies implemented by the government might negatively affect the financial performance of companies. The cutting down of employees' salaries and wages as a way of cost reduction might not be effective since the government implemented the policy which protects employees from unnecessary salary reduction in the Amended Labor Act chapter 28:01. The monetary and fiscal policy implemented by the government affects the financial performance of business negatively since there is a negative relationship between inflation, exchange rates (monetary policy) and the return on asset as emphasized by Ibrahim and Muritala (2015). Mashakada (2016) added on that there is a maximum wage bill implemented by the government in which companies should not cut the employee salaries beyond the stipulated maximum wage

bill, companies must pay its workers an amount above the maximum wage bill so this has a negative effect on the financial performance of the companies.

Lewis, Richardson and Corlis (2015) concluded that the success of operational cost cutting strategies implemented is influenced by regulatory reforms in the small to medium firms and in bigger companies the regulatory reforms have no effect hence no effect on the financial performance of multinational and international companies in overall. The laws of the government is a tool that influences the success of the operational cost cutting strategies implemented.

### **2.3.2 Decisions made by shareholders**

The decisions made by the shareholders in an organization contribute highly to the financial performance of the company as they significantly impact the operations of the organization (Ferri and Oesch, 2012). Maenpaa (2016) is of the opinion that the management can only be able to make decisions at the management level but it has to consult the shareholders for the approval of those decisions. Shareholders are able to turn down a decision which does not increase their wealth so they greatly contribute to the successful implementation of the operational cost cutting strategies. In relation to that Hiam (2015) outlined that owners of the company have a great effect on the manager's decision taken to cut on operational cost. Hafez (2015) agreed that the shareholders decision will influence the success of a cost cutting strategy implemented if it greatly enhance the value of the shareholders wealth but if the strategy pose a negative effect on the shareholders wealth the strategy is likely to fail.

However Cole (2012) disagreed that the decisions made by shareholders vary from one to another so one shareholder may not influence the decision to be taken by the company to implement operational cost cutting strategy. Maenpaa (2016) concluded that shareholders decisions (both minority and majority shareholders) is a factor which neutrally affect the success of operational cutting strategies since shareholders seek to balance the opinion of the board of directors and the management.

### **2.3.3 Improper management of costs**

Berk (2013) postulated that an organisation should have a monitoring process so as to ensure that the objectives of operational cost cutting strategies implemented are met. Watson et al (2013) is of the view that in an organization the departments should ensure their own budgets that enable monitoring and review of set targets. The cost cutting strategies can be difficult to succeed when

there is absence of the monitoring process at an organization and therefore the strategies may fail to achieve the desired goals. The cost management team should be able to formulate budgets to help them analyse any variance which may exist and the action to be taken thereof. The judicial manager should take appropriate action if there is evidence of negative variances. Variances assist the cost management team to identify areas that may need special attention to implement the operational cost cutting strategies so as to enhance the financial performance of companies under judicial management.

#### **2.4 The effect of cutting employee related costs**

Cutting employee related costs is what the management come up with whenever there is an economic difficult and this may affect the financial performance of the organization both negatively and positively. Warusawitharana (2016) is of the opinion that workers consider if the cutting of employee related cost whether it was based on incompetence or on greediness. Employee would react positively if there are fore warned about the state of the financial position before such cost cutting strategy which is employee related is implemented. The Theory X and Y by Herzberg on motivation of workers clearly shows how the cutting of employee related cost affect the financial performance of a company. This states that some workers are motivated by money to work (Theory X) and some workers only seek to attain the goals of an organization (Theory Y). Cutting salaries of employees may demotivate workers and this will lead to employees producing less than expected hence affecting the profitability of the company. Buhler (2015) noted that cutting employee related cost will demotivate and demoralize workers hence leading to the workers producing products of low quality and poor performance which then negatively affect the financial performance of a company. Adding on to that Cooper and Schindler (2014) emphasized that cutting employee related cost comes at the expense of workers producing goods of low quality which turns to affect the competitiveness of the company hence reducing the market share of the company adding to the decline in its profitability.

On the other hand in a research carried out by Munoz (2014) in Spain on various companies he reached a conclusion that downsizing as a way of cutting employee related costs improves the financial performance of a company as it enhances efficient allocation of scarce resources and improves financial performance consequently. Chigara et al (2013) also agreed emphasizing that

removing idle and surplus workers through downsizing is a way of allocating scarce resources which improves the financial performance of an organization.

## **2.5 The reaction of employees towards the cost cutting measure implemented**

Cutting employee related cost is an implemented operational cost cutting measure mostly carried out in developing countries such as Zimbabwe in order to revive economies in the business environment as emphasized by Buhler (2015). The employee related cost include bonuses, retrenchment packages, salaries, wages, pension funds, commutations and also medical aids subscriptions. The employees respond differently to the operational cost cutting measures implemented and the financial performance of the company as a whole is influenced by the reaction of these employees. Most employees negatively react to the salary reduction and the delay in bonuses. Supporting this, Madhuku (2016) asserted that the cutting of employee salaries as a cost cutting strategy is by government legislation not allowed as stated in the Labor Act (28:01) as a result employees respond negatively to this leading to high rate of labor turnover. As it was witnessed in Zimbabwe during 2008- 2009, employees demonstrated against the cutting of salaries and other benefits which then led to workers vandalizing the property of the company. Muchichwa (2016) supported this by pointing out the demonstration of Hwange Colliery Mine workers against the cutting of salaries and freezing of bonus payment in October 2013. Cutting of employee related costs in developing countries as a method of cutting operational costs will result in workers leaving the country going to developed countries in search of greener pastures which shows the brain drain effect as stated by Mashakada (2014). In most cases employees are motivated by money to work efficiently in coming up with a good financial performance. The reduction of employee related cost demotivates workers and their morale leading to poor organizational performance.

However the cutting of employee related costs may be argued that it can positively affect the financial performance of a company. After cutting the salaries of employees, some workers will work efficiently and increase production as they will be afraid to lose their jobs as stated by Chigara et al (2013). Under the recession of the economy, cutting employee related costs is justifiable and different workers react differently to this cost cutting strategy. Some workers main objective is to fulfill the organizational goals and cutting their salaries and employee benefits will have no effect on the financial performance of the company as outlined by Herzberg Theory Y. Tshili (2016) stated that some workers in organization react negatively or positively when they are under pressure and without pressure they do not adopt the changing business environment.

It may be concluded that cutting the employee related cost as a strategy of operational cost cutting have no effect on the financial performance of the organization as a whole since employees react differently from this strategy depending on the country and place they are working as concluded by Tshili (2016).

## **2.6 Summary**

This chapter showed literature review on how some other scholars viewed the need to cut costs, cost cutting strategies being implemented by companies and factors influencing the success of these cost cutting strategies implemented. It also covers the effect of cutting employee related costs and then concluded with the reaction of employees towards the cost cutting measures implemented.

## **CHAPTER 3**

### **RESEARCH METHODOLOGY**

#### **3.0 Introduction**

This chapter focuses on the research methodology which involves the design used in the analysis of the impact of operational cost cutting strategies on financial performance. The chapter goes on to highlight the sample population which was used to collect data and a chapter summary to end with.

#### **3.1 Research Design**

Research design is defined as a procedure which the researcher carries out to collect and analyse the variables stated in the research problem (Creswell, 2014). Rajasekar et al (2013) added that research design is used in integrating various components of the research logically to ensure the effectiveness of the research problem. The research design helps in answering the research questions and it is important because it solves the problem statement so the approach to be used by the researcher is of great impact in determining the outcome of the research. Wyk (2012) is of the view that research design involves three approaches which are descriptive approach, exploratory approach and explanatory approach. The explanatory approach includes the identification of reasons behind the relationship in the variables under study and exploratory approach involves the discovery of new data under little research has taken place. This study used

the descriptive approach as it is the appropriate method to analyse the impact of operational cost cutting strategies on financial performance.

### **3.1.1 Descriptive research**

Wyk (2012) asserted that descriptive research design gives an accurate presentation of data with sufficient details of the variables under study. Rajasekar et al (2013) added on that the descriptive research approach involves qualitative and quantitative technique of gathering data. This research design is more appropriate because it combines both quantitative and qualitative method because the demerits of the one approach is covered up by the other approach such as the mixed approach. According to Cohen et al (2013) he agreed that descriptive research design concentrates on current data provide from interviews and statistical data hence it guarantees flexibility of the design. This research design is important because it enhances the ideas put forward by previous researchers as it brings out data regarding factors underlying a research problem. The descriptive research design is therefore suitable for this research. The researcher sought to bring out the reasons why the operational cost cutting strategies implemented by ZAC have failed to enhance the financial performance of the company.

### **3.1.2 Qualitative Research**

Creswell (2014) defines qualitative research design as an approach which presents data that cannot be measured in numerical terms. Qualitative approach focuses on how the population respond to social situations so as to obtain a better understanding of the society. Qualitative research design is also defined as descriptive in nature and its main objective is to best report peoples' thoughts, opinions and views. The qualitative method helped the researcher to come up with an understanding of how the operational cost cutting strategies implemented has affected the financial performance of ZAC based on the opinion of the employees. The workers at ZAC provide data on the advantages and disadvantages of the operational cost cutting strategies implemented, the impact of these strategies on the financial performance of ZAC and how they are responding to the strategies which makes the research outcome to be dependable.

### **3.1.3 Quantitative Research**

Quantitative research approach is the various techniques acquired when a researcher collect and analyse data from a certain number of respondents who are presenting the whole population Armstrong (2014). This method is a fast and reliable method of gathering data and can also be used where a large population is involved. Cohen et al (2013) is of the view that quantitative



approach is suitable for the gathering of precise data which is used to make quantitative predictions. The researcher used the quantitative approach because it is less time consuming hence the data was analysed using graphs and statistical models from the quantitative data gathered.

### 3.2 Research Population

Research population is the targeted population where information relevant to the research is going to be obtained according to Wyk (2012). In addition to that Hox (2013) outlined that a research population is a group of people that are relevant to the study and are important for the research to be undertaken. Thirty employees of Zimbabwe Alloys Chrome are used as the target population in this research, the research population involves every employee who was affected either negatively or positively by the operational cost cutting strategies. The general manager, 8 members of the finance department, 8 department supervisor, 1 member of the IT department and 12 members in the operations sector.

### 3.3 Census size

Boeiji (2013) defines census as a procedure of acquiring and analyzing data systematically about the members of a given population. The intent of a census is to count everyone in a population rather than a fraction so it gives 100% response.

**Table 3.1 Illustration of census size used in data collection.**

Description	Census size	Data collection method
General manager	1	Interview
Department supervisors	6	Questionnaire
Finance	7	Questionnaire
Finance manager	1	Interview
IT Department	1	Interview
Operation Staff	10	Questionnaire
<b>Total</b>	<b>26</b>	

Table 3.1 illustrates a census of 26 members showing that everyone is targeted in the population to give 100% response to ensure that the data collected is reliable in showing the fair position of the financial performance of the organization in relation to the implementation of operational cost cutting strategies.

### **3.4 Sources of Data**

Armstrong (2014) defines data as semi-processed or unprocessed information. The research is concentrated more on primary data while also being supported by secondary data. According to Babbie (2013) primary data is defined as the original or first-hand information gathered from the main source which mostly is a witness or a participant in an event. Primary data is the most significant method of collecting data since it takes into account the first hand information from the source according to Armstrong (2014). Questionnaires and interviews are the tools used to collect the primary data by the researcher from the employees of Zimbabwe Alloys Chrome (under judicial management). Babbie (2013) argued that primary data is time consuming and costly, so to avoid this drawback primary data and secondary data will be used by the researcher.

Secondary data is defined as data gathered by another party other than the one who wants to use it Rajasekar et al (2013). Secondary data is data which is already available and is used for other purposes in an organization for example the annual financial statements of a company, its main advantage is that it is easily accessible in the records of a company. Babbie (2013) is of the view that secondary data may be less costly and time saving compared to primary data since it is readily available. Cohen et al (2013) added on that the available data can be compared to previous year's performance such as comparing the financial performance of the organization before the implementation of cost cutting strategies and after the implementation of these strategies which makes it easier to identify problems and trace them where there are coming from. However secondary data may be misrepresented or sometimes outdated as emphasized by Wyk (2012). The researcher used both primary data and secondary data in gathering data which might give more reliable results of the impact of operational cost cutting strategies on the financial performance of Zimbabwe Alloys Chrome (under judicial management).

### **3.5 Research Instruments**

Research instruments are data collection tools used to gather processed and unprocessed information which is to be analysed in the study as defined by Rajasekar et al (2013). Rowley (2014) is of the view that relevance and reliability of the information produced will be determined by the research instruments chosen by the researcher. Interviews and questionnaires were used by the researcher to gather data so as to fulfill the objectives of the research.

#### **3.5.1 Questionnaire**

A questionnaire is a written document with open and closed questions on which a group of people in a sample are expected to provide answers as defined by Babbie (2013). Open and closed questions were used by the researcher in providing much reliable information on the impact of operational cost cutting strategies on financial performance of ZAC. Open questions are defined as questions in which the respondents provide their views in answering them and closed questions are those questions presented on the likert scale where the respondents are supposed to choose from the provided answers (Relethford, 2013). Questionnaires provide the respondents with sufficient time to write their views which they find important in analysing the impact of cost cutting strategies on financial performance. In using questionnaires there is also elimination of bias since the respondents get to answer the questions by themselves with no face to face interviewing. However it may take long for the respondents to answer the questionnaires which is time consuming. There is one way communication when using questionnaires hence the respondents end up relaxing when they meet a tense research question and sometimes they interpret the questions differently. To attend to these demerits the researcher also carried out face to face interviews.

#### **3.5.2 Likert Scale**

A likert scale is a scale which shows the responses of people's opinions in regard of a particular subject as defined by Armstrong (2014). They further explained that it helps to show the level of agreement from participants regarding aspects under the area of study. Questions are designed by the researcher to make them easy to understand using a likert scale and is presented in a tabular format as illustrated below.

#### **Table 3.2 Likert Scale**

Question and Answer	Strongly agree	Agree	Neutral	Disagree	Strongly Disagree
Answer	5	4	3	2	1

**Source: Bertram (2015: pg 1)**

Table 3.2 above illustrates variety options the participants can take in responding to the questions and answers provided. The various opinions of the likert scale assisted the researcher to organize the views of people and their experiences on the analysis of the impact of operational cost cutting strategies on financial performance at ZAC. According to Bertram (2015) a likert scale is less time consuming, highly reliable and it seeks to answer what exactly the research objective is focusing on.

### **3.5.3 Interviews**

Cohen et al (2013) defines interviews as a way of gathering data through oral means and conversations which is used as a method of exchanging ideas. Bertram (2015) emphasized that face to face interviews are the most effective method of collecting data of high quality and there are very much flexible as compared to other ways of collecting data. The researcher can make the questions more understandable to the participant and encourage the participants to respond (Relethford, 2013). The researcher asked questions, taking down notes on the answers of the respondents. The communication skills of the researcher helped in the collection of reliable data from the participants in the sample group as the researcher took approximately ten minutes on each interview which helped the researcher to get more appreciation and a deeper understanding of the area under study. This encouraged the researcher to carry out interviews knowing that it is most likely that the data collected from this method is reliable.

### **3.6 Reliability and Validity**

Reliability is the degree of dependability and excellence of a research instrument in producing stable and consistent results as defined by Creswell (2014). According to Babbie (2013), reliability is shown by the extent to which the data is considered to be free from errors in producing accurate results. In addition to that Cohen et al (2013) said that data is considered to be reliable if the instruments used on the research obtain same results on the same subject after used by different

researchers. To ensure that data is reliable, the researcher two research instruments which are questionnaires and interviews on which they had same questions created from the objectives of this research. The sample size used targeted all the departments within ZAC in Gweru, Zimbabwe which eliminate bias of the data collected. Interviews made the researcher understand more the information that were gathered through questionnaires which ensures dependability on the gathered data. As mentioned by Cohen et al (2013) that the sample size should be 50% and above in order for it to be sufficient in making decisions, the sample size of this research is 70% which ascertain the reliability of data collected. Triangulation method was used by the researcher in comparing collected data of each research instrument for any differences which ensures reliability.

Validity is defined by Relethford (2013) as how capable the data obtained for the research is able to address the main research question. He further explained that the validity of the data refers to its meaningfulness and exactness relating to the research problem. Data is said to be valid when it is true, legally accepted and if it is relating to the problem under study (Wyk, 2012). The research objectives and questions guided the researcher to formulate the interview guides and questionnaires which ensures validity of the research instruments as it focuses in providing relent feedback for the research under study. The research instruments used were verified for mistakes and errors to ensure that the respondents had properly answered the questions following instructions and this guaranteed the validity of the research instruments.

### **3.7 Data presentation and analysis**

Data presentation is defined as a demonstration and consolidation of raw data collected from the participants to enable them to be understandable and easy to interpret by the readers (Relethford, 2013). The researcher grouped and classified responses from the research instruments in accordance to the research questions they are relating to. The researcher used visual aids like pie charts, bar graphs and tables to present data collected so as to enhance understandability of data collected. Visual aids made it simple to interpret and analyse raw data that was collected from the sample which simplified the relationship between the findings and the problems of the company under study.

According to Armstrong (2014), data analysis guarantees that trends and sequences are established from the collected data so that conclusions which are appropriate can be drawn. Babbie (2013) outlined that a modal response can be used to reach conclusions as it shows a clear picture of

events taking place in a particular scenario. The researcher used the modal response to conclude the situations happening at ZAC and percentiles were also calculated to classify responses of the participants and this analysed the data collected.

### **3.8 Summary**

This chapter focused on the procedures that were used to collect raw data. A descriptive research approach was used in the study. Interviews and questionnaires were used to collect raw data and relevant information that the researcher used to ensure validity and reliability of the data collected was also provided in this chapter. Next chapter discussed the analysis of results gathered from the organization.

## CHAPTER 4

### DATA PRESENTATION AND ANALYSIS

#### 4.0 Introduction

This chapter serves to present several data findings which were collected through interviewing a panel of experts at Zimbabwe Alloys Chrome (under judicial management). Graphs, tables, percentages and pie charts were used by the researcher in presenting data collected from ZAC and analyzing it to give a meaning.

#### 4.1 Response rate

The data was collected using interviews and questionnaires. In the study, the researcher targeted a population of 22 staff members and out of 22 questionnaires 18 were returned yielding a response rate of 82%. Creswell (2014) stated that any percentage above 50% is favorable for recommending and concluding the research findings. The researcher distributed 22 questionnaires to the store man, members of the finance department, department supervisor, lab assistance and members in the operations sector. Table 4.1 below illustrates the response rate.

**Table 4.1: Illustration of the questionnaire response rate**

<b>Respondents</b>	<b>Questionnaires sent</b>	<b>Questionnaires returned</b>	<b>Response rate</b>
Store man	1	1	100%
Department Supervisors	6	5	83%
Finance	7	6	86%
Lab assistant	1	1	100%
Operation Staff	7	5	71%
<b>Total</b>	<b>22</b>	<b>18</b>	<b>82%</b>

#### **Response rate from ZAC staff member**

Table 4.1 above illustrates that out of 22 questionnaires sent to the participants, 18 participants responded. 100% was obtained from the store man and lab assistance, 86% from the finance department, 83% from the department supervisors and 71% from the operations staff members which then yielded a total of 82% response rate as shown in the table.

**4.2 Why there is a need to cut operational costs**

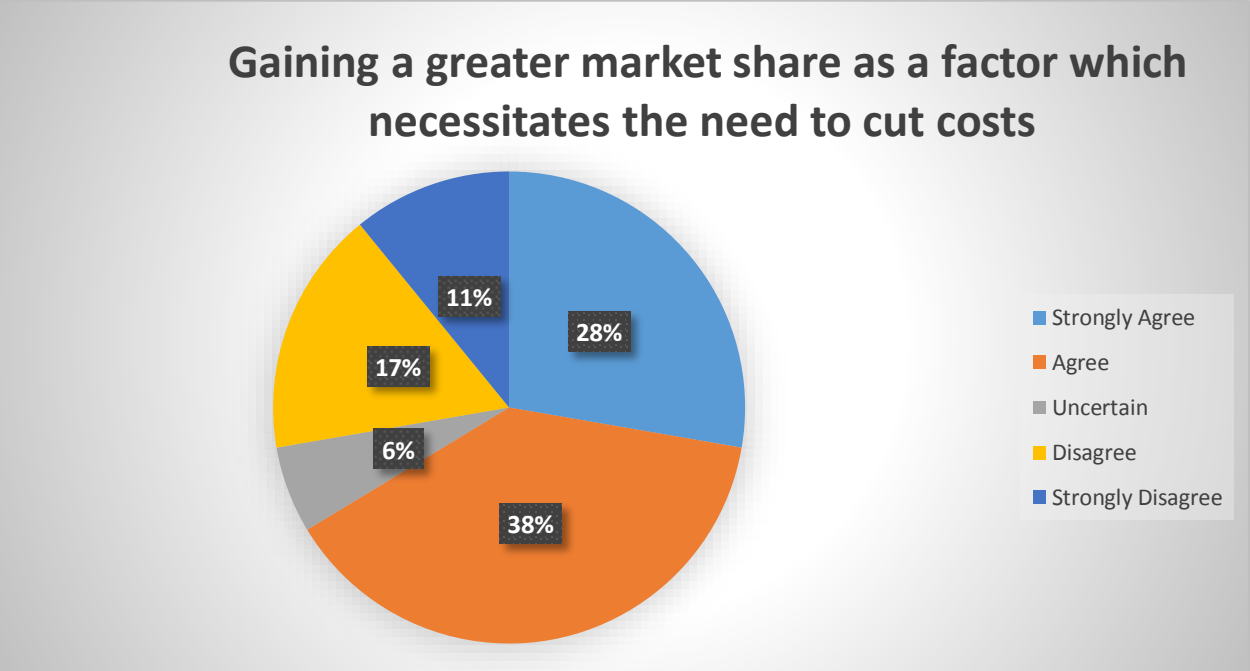
The research question aims to determine whether increasing the market share and proper utilization of resources necessitates the need to cut operational cost or not. Below is the respondent’s results from questionnaires returned.

**4.2.1 To gain a greater market share**

**Table 4.2: Responses on increasing market share**

No. of respondents	Strongly agree	Agree	Uncertain	Disagree	Strongly disagree	Total
5	7	1	3	2	18	

**Fig 4.1: Gaining a greater market share as a factor which necessitates the need to cut costs**



Source: Primary Data



Fig 4.1 shows results on whether gaining a greater market share is a factor which necessitates the need to cut operational cost or not. The pie chart shows that 5/18 (28%) strongly agreed that to gain a greater market there is need to cut operational costs, 7/19 (39%) agreed and 1/18 (6%) is uncertain, 3/18 (17%) disagree and 2/18 (11%) strongly disagree that there is no need to cut operational costs in order to gain a greater market share. A total of 67% respondents agreed that by implementing cost cutting strategies the organization would gain a competitive advantage through reducing its prices as a result of low cost to produce hence increasing its market share.

Massard (2013) pointed out that for companies to gain a greater market share they should sale their products at a lower price to attract customers and this may be done after cutting cost to low the cost of production. However, a total of 28% disagreed that implementing cost cutting strategies does not guarantee a greater market share noting that having a competitive advantage is a marketing tool and not a measure of cutting costs. The pie chart also shows that 28% respondents strongly agree as shown above hence the researcher concluded that gaining a greater market share through reducing prices necessitates the need to cut operational cost so as to balance the profit, cost and revenue.

#### 4.2.2 To increase proper utilisation of resources

**Table 4.3: Proper utilization of resources**

	Strongly agree	Agree	Uncertain	Disagree	Strongly disagree	Total
Number of respondents	5	9	0	2	2	18

**Fig 4.2: Responses on proper utilization of resources**

## Proper utilisation of resources as a factor which necessitates the need to cut cost

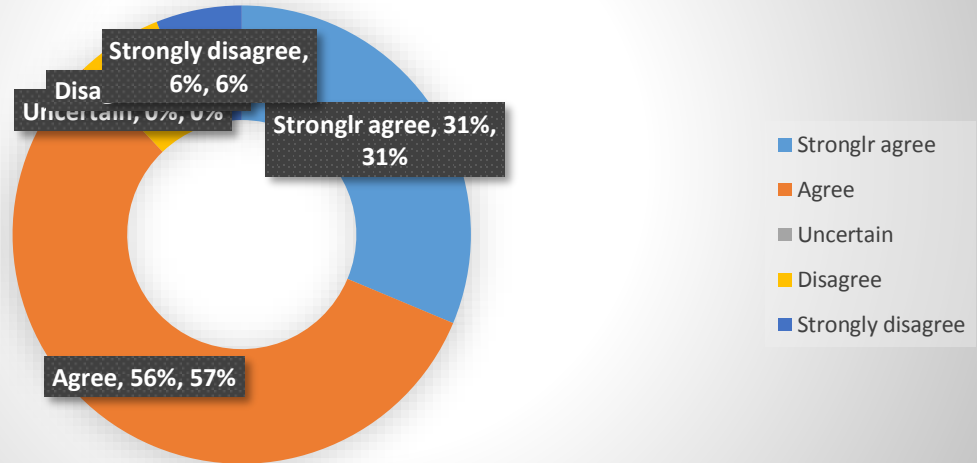


Fig 4.2 above illustrates the responses of the participants on the need to cut operational costs so as to increase proper utilisation of resources. The pie chart shows that 5/18 (28%) respondents strongly agree and 9/18 (50%) agree that to increase proper utilization of resources a company should implement cost cutting strategies. The pie chart above also shows that 0% are uncertain meaning there was no respondent who was indifferent. As shown by the table 2/18 (11%) respondents disagree and 2/18 (11%) strongly disagree that implementing cost cutting strategies leads to proper utilisation of resources. In total, 28% respondents strongly agree and 50% agree making it 78% of respondents who support that implementing operational cost cutting strategies improves the financial performance of an organization through utilization of resources properly. This was supported by Wen (2014) who noted that controlling costs avoids underutilization of resources thus enhancing the financial performance of an organization.

Fig 4.2 also shows that 2/18 (11%) respondents disagree and 2/18 (11%) strongly disagree that implementing cost cutting strategies result in proper utilization of resources their reason being that they have witnessed poor utilization of resources as a result of cost cutting measures. Garvey et al (2012) is of the view that cutting employee related costs such as employee salaries demotivates workers hence some resources are underutilised leading to poor financial performance.

From the interviews with the management, the researcher gathered that if operational costs are cut there are great chances that there will be an increase on the market share of ZAC through reduced prices of products and resources will be properly utilized. The researcher gave a conclusion that implementing operational cost cutting strategies improves the financial performance of the organization.

### 4.3 Cost Cutting strategies being implemented by ZAC

The research question aims to analyse organizational restructuring and activity based costing as the cost cutting strategies being implemented by ZAC to enhance its financial performance. Below is the responses of ZAC employees on the effectiveness of the cost cutting strategies being implemented.

#### 4.3.1 Organisational restructuring

**Table 4.4: Responses on Organisational restructuring**

	Strongly agree	Agree	Uncertain	Disagree	Strongly disagree	Total
No. of respondents	4	6	2	4	2	18

**Fig 4.3 Raw Data: Organisational restructuring as a cost cutting strategy enhances the financial performance of the organization**

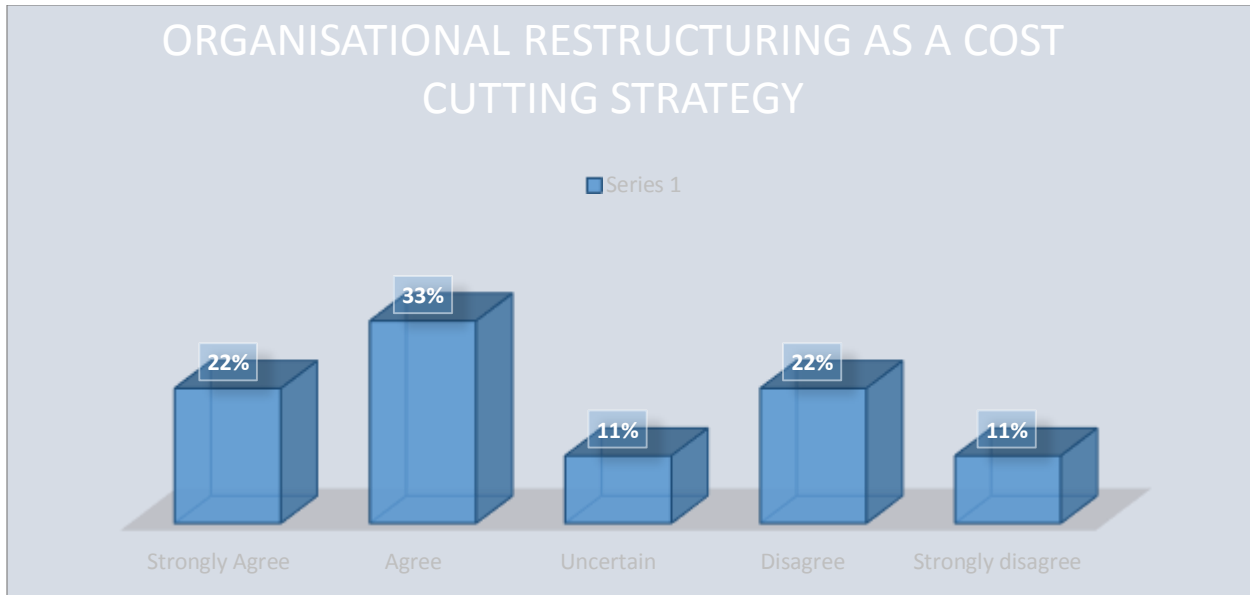


Fig 4.3 above illustrates the responses of employees on the effectiveness of organisational restructuring as an operational cost cutting strategy implemented by ZAC to improve its financial performance. As illustrated by the graph above, 4/18 (22%) strongly agree that organizational restructuring is an effective strategy of cutting cost implemented by ZAC. 6/18 (33%) agree that this strategy is effective as they are supported by Peetz (2015) who outlined that organizational restructuring process assists the company in increasing the quality of its products whilst decreasing the level of operational costs. Table 4.4 shows that 2/18 (11%) respondents are uncertain if organizational restructuring is an effective method of cutting operational costs to enhance the financial performance of the organisation.

However, 33% respondents (22% disagree and 11% strongly disagree) disagree that organizational restructuring enhances the financial performance of the organisation as they are of the view that this method of cutting costs lead to demotivation of workers hence it negatively affect the financial performance of the company. Considering the total response of 55% respondents who agree, the researcher therefore concluded that organizational restructuring is an effective method of cutting cost implemented by ZAC to improve its financial performance.

#### 4.3.2 Activity Based Costing (ABC) method

**Table 4.5: Responses on Activity Based Costing**

	Strongly agree	Agree	Uncertain	Disagree	Strongly disagree	Total
Number of respondents	8	8	1	1	0	18

**Fig 4.4 Primary data: Activity based costing as an operational cost cutting strategy**

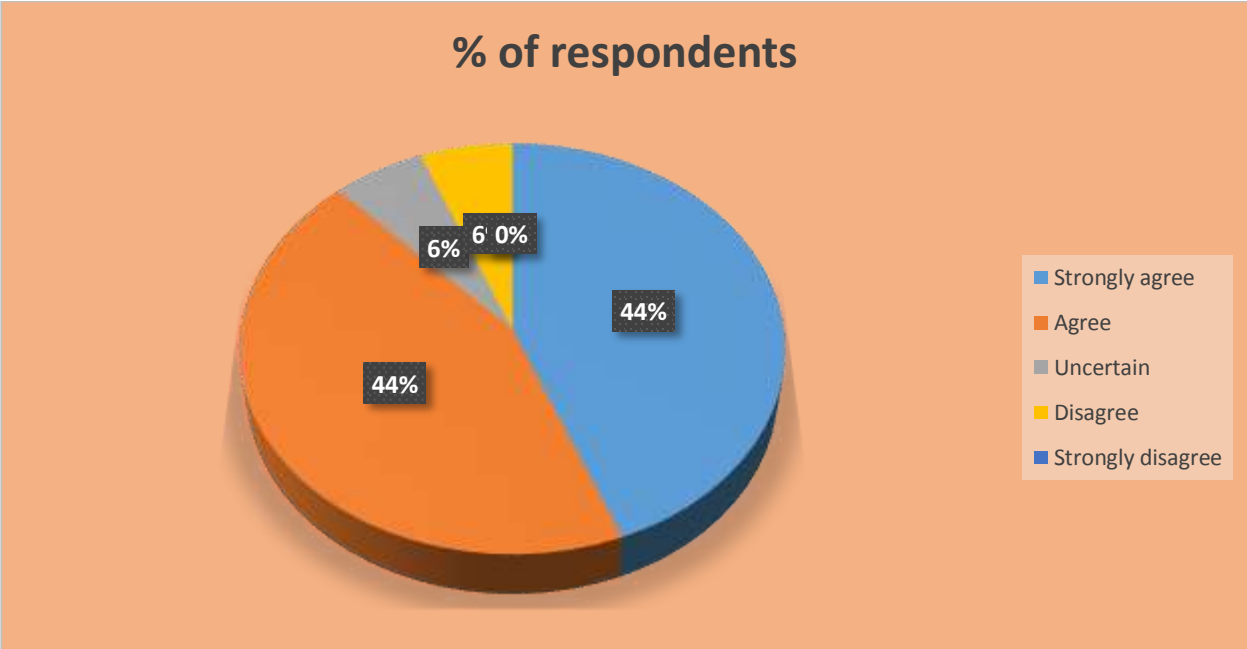


Fig 4.4 above shows that 8/18 (44%) of respondents strongly agree and 8/18 (44%) agree that implementing activity based costing as a cost cutting strategy will enhance the financial performance of the organization. There are 1/18 (6%) respondents that are not certain about the effectiveness of activity based costing on the financial performance of ZAC. The pie chart also shows that 1/18 (6%) respondents disagree and 0% strongly disagree that implementing activity based costing as a cost cutting strategy will improve the financial performance of the organization. In total, 16/18 (88%) respondents who agree and strongly agree that by implementing activity based costing will guarantee improvement on the financial performance of the organization are supported by Hashim (2013) who is of the view that in the calculation of total production cost the activity based costing technique includes accurate cost of activities hence this guarantees enhancement on the financial performance definitely.

The 1/18 respondent who is not sure if activity based costing will guarantee improvement on the financial performance of ZAC is supported by Maheshwari (2015) who noted that this is a complex technique which requires knowledgeable and well experienced workers and due to this factor it might be difficult for the financial performance to be improved by activity based costing method. The 1/18 (6%) respondents who disagree is also supported by Maheshwari (2015) who noted that some costs are difficult to break down hence this technique may fail to improve the financial performance. Basing on the modal response of 16/18 respondents agreeing. The researcher found out that implementing activity based costing as an operational cost cutting strategy improves the financial performance of ZAC from the interviews with the management.

#### **4.4 Factors influencing the success of operational cost cutting strategies**

The research question seeks to analyse the policies and legislations of the government, the decisions made by the shareholders and the improper management of cost as factors influencing the success of operational cost cutting measures.

##### **4.4.1 Government laws and legislations such as minimal wage rate for employees**

**Table 4.6: Responses on the government laws**

	Strongly agree	Agree	Uncertain	Disagree	Strongly disagree	Total
Number of respondents	6	7	2	2	1	18

**Fig 4.5 Raw data: Responses on government laws**

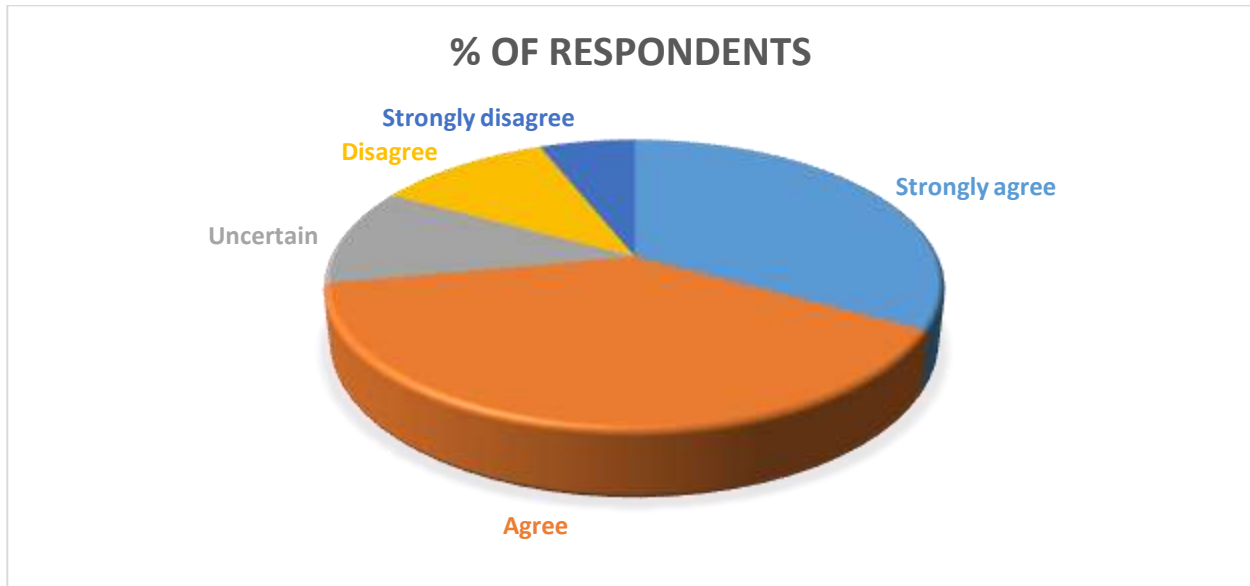


Fig 4.6 above shows that 6/18 strongly agree that policies implemented by the government such as the minimal wage rate for employees affect the success of operational cost cutting strategies implemented by ZAC. The table shows that 7/18 (39%) agree that the government policies affect the success of the cost cutting measures implemented. The pie chart also shows that 2/18 of the respondents are uncertain on the fact that the government policies determine the success or failure of the cost cutting strategies implemented. The 13/18 who agree and strongly agree that government policies influence the success of cost cutting measures implemented are supported by Amended labor act (chapter 28.01) which stipulate that unnecessary reduction of employee salaries as a strategy of cutting operational cost is not allowed hence this affects the organizational strategy. The 2/18 (11%) respondents who are uncertain are supported by Hiam (2015) who stipulated that the government is there to manage, coordinate and protect the success operation of an organization without negatively affecting the going concern and employees of the company.

The 2/18 (11%) respondents who disagree and 1/18 (6%) who strongly disagree that the policies of government does not influence the success of cost cutting strategies implemented by ZAC are supported by Ibrahim and Muritala (2015) who is of the view that the government implement policies in order to promote the growth of businesses and this therefore does not affect the operational strategies implemented by the organization. Basing on the modal response of 13/18 (72%) who agree, the researcher concluded that government policies influences the success of operational cost cutting strategies implemented.

#### 4.4.2 Decisions made by shareholders

**Table 4.7 Primary data: Responses on the decisions made by shareholders**

	Strongly agree	Agree	Uncertain	Disagree	Strongly disagree	Total
Number of respondents	2	3	3	6	4	18

**Fig 4.6 : Responses on the decisions made by shareholders**

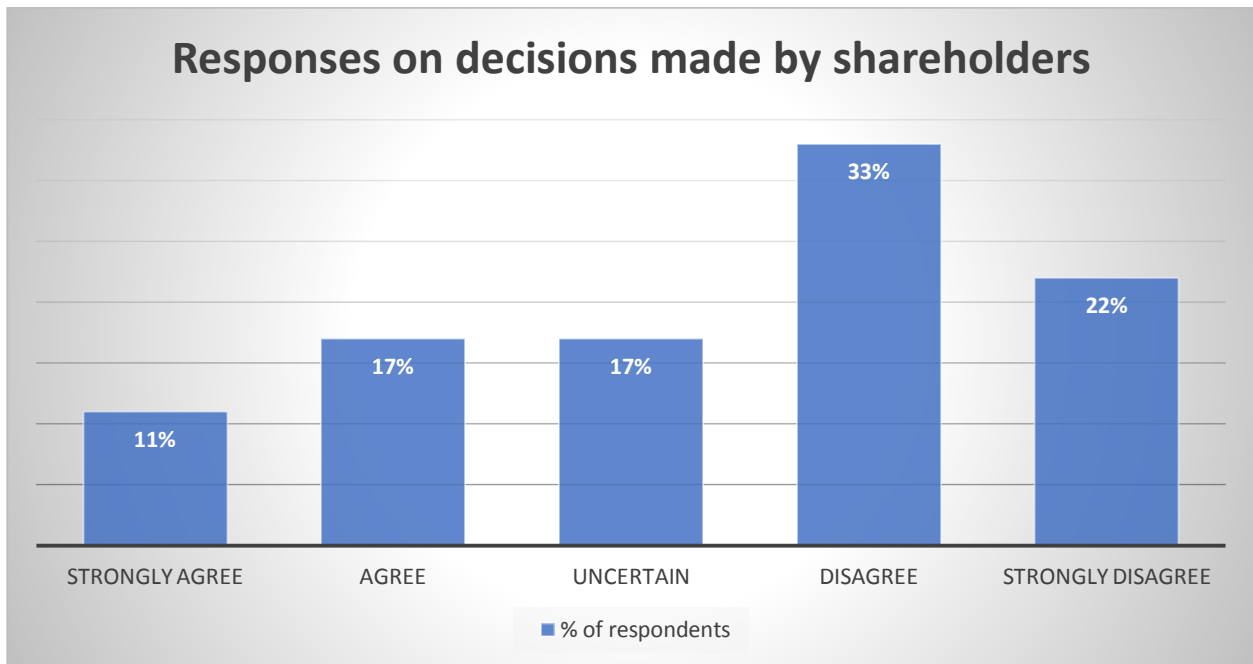


Fig 4.7 shows that 11% strongly agree that decisions made by shareholders influences the success of operational cost cutting strategies implemented and 17% agreed that the decisions of shareholders directly affects the strategies implemented at ZAC.17% respondents are uncertain on whether the decisions made by the shareholders influence the success of cost cutting strategies implemented or not. As shown by the graph 33% disagree and 22% strongly disagree that the decisions of shareholders influence the success of cost cutting strategies implemented.

In total the 28% of respondents (11% strongly agree and 17% agree) are supported by Cole (2012) who pointed out that decisions made by majority shareholders are in favour of the company as their aim is to maximize their wealth through increasing the financial performance of the



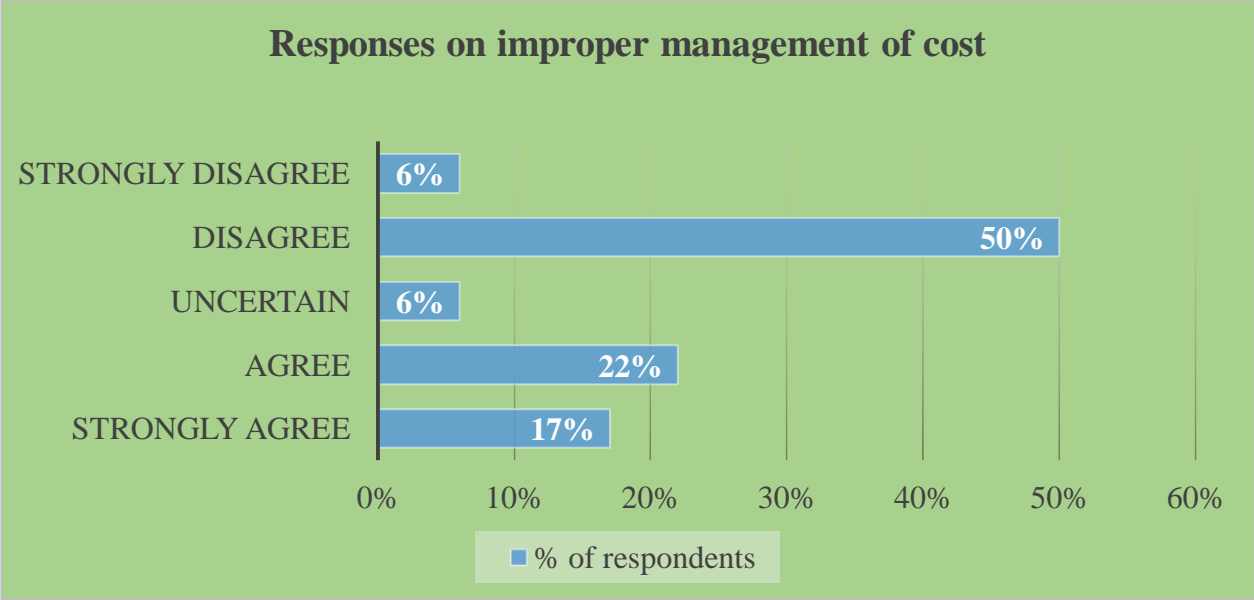
organization hence their decisions strongly influence the success of the cost cutting strategies implemented. An aggregate of 55% (33% disagree and 22% strongly disagree) respondents argue that shareholders decisions does not influence the success of cost cutting strategies implemented as they are supported by Massard (2013) who noted that a limited liability exist between the shareholders and the organization hence there is no interference in the organization business strategies formulation by the owners. The total response of 10/18 (55%) respondents disagree that the decisions made by the shareholders affects the success of cost cutting strategies implemented since ZAC is under judicial management and all decisions are made by the judicial manager . The researcher concluded that decisions made by shareholders does not influence the success of cost cutting strategies implemented at ZAC.

#### 4.4.3 Improper management of costs

**Table 4.8 Primary data: Improper management of costs**

		Strongly agree	Agree	Uncertain	Disagree	Strongly disagree	Total
Number of respondents		3	4	1	9	1	18

**Fig 4.7: Responses on improper management of costs**



As shown by fig 4.7, 3/18 (17%) strongly agree and 4/18 (22%) agree that improper management of costs as a factor affects the success implementation of cost cutting strategies. Fig 4.8 shows that 1/18 (6%) respondent is uncertain that improper management of cost is affecting the success implementation of cost cutting strategies within the organization. The graph also illustrates that 9/18 (50%) respondents disagree and 1/18 (6%) strongly disagree that there is improper management of cost affecting the success implementation of cost cutting strategies within the organization.

In total the 7/18 respondents (3/18 strongly agree and 4/18 agree) acknowledge that there is improper management of cost in the organization which is affecting the cost cutting strategies implemented, their opinion is supported by Chigara et al (2013) who is of the opinion that most workers are not well equipped with the knowledge of cost cutting strategies and this is the reason why controlling costs is failing to enhance the financial performance of businesses as anticipated. 10/18 (56%) respondents (9/18 disagree and 1/18 strongly disagree) deny that improper management of costs exist within the organization as they are only of the view that duties are just not being well segregated in the organization and this is also supported by Wen (2014) who emphasized that if there is well segregation of duties in the organization the problems of improper management of costs will not rise. Basing on the 56% modal response of disagreeing respondents, the researcher concluded that improper management of costs does not influence the success of cost cutting strategies implemented at ZAC.

#### 4.5 The effect of cutting employee related costs to enhance financial performance

The research question aims to analyse how the cutting of employee benefits, employing contract workers, cutting salaries of employees and retrenchment affect the financial performance of the organization. Below are the responses of ZAC members on the effectiveness of cutting employee related costs to enhance financial performance

**Table 4.9 Primary data: Responses on cutting employee benefits as a strategy to enhance financial performance**

	<b>Strongly agree</b>	<b>Agree</b>	<b>Uncertain</b>	<b>Disagree</b>	<b>Strongly disagree</b>	<b>Total</b>
<b>Number of respondents</b>	<b>10</b>	<b>8</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>18</b>

**Fig 4.8: Responses on cutting employee benefits**

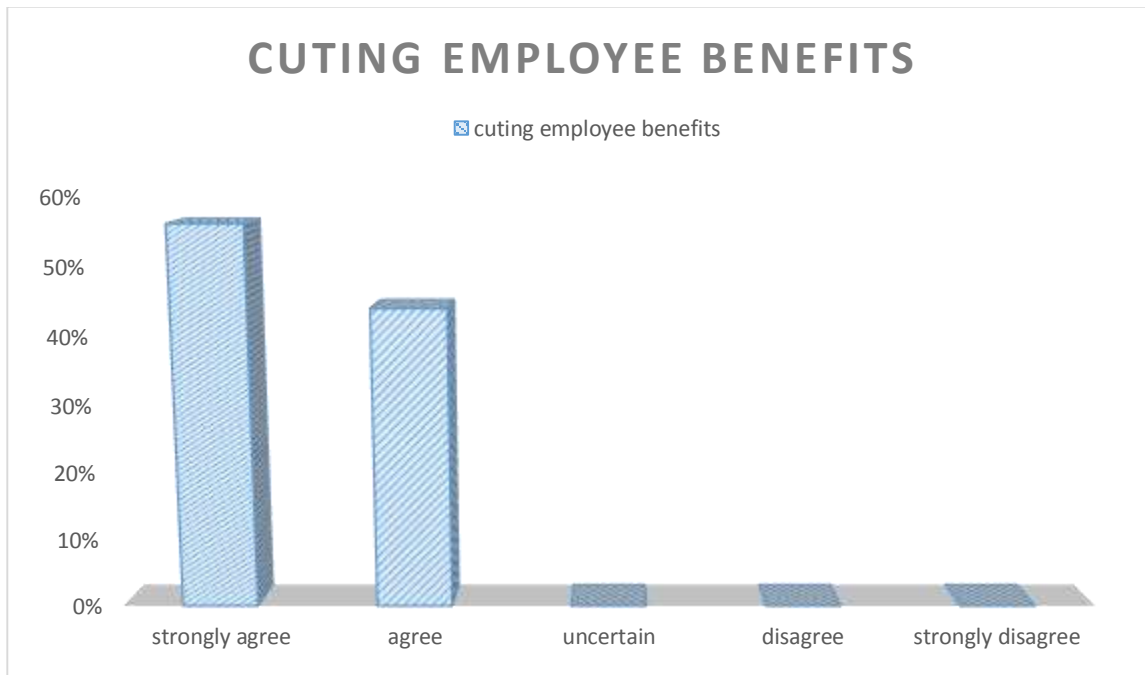


Table 4.9 shows that out of 18 respondents, 10 strongly agree and 8 agree that cutting employee benefits affect the financial performance of the organisation. Fig 4.8 illustrates that 0% respondents are uncertain, disagree and strongly disagree that cutting employee benefits affect the financial

performance of the company. According to Fig 4.8 the 10/18 (56%) respondents strongly agree and 8/18 respondents agree that cutting employee related costs will lead to low production which then negatively affect the financial performance of the organisation and hence this is supported by Cooper (2014) who noted that cutting employee related cost will demotivate and demoralize workers hence leading to the workers producing products of low quality and poor performance which then negatively affect the financial performance of a company. It can be concluded that 100% respondents agree that cutting employee benefits negatively affect the financial performance of ZAC.

**Table 4.10: Responses on employing contract workers as a cost cutting strategy to enhance financial performance**

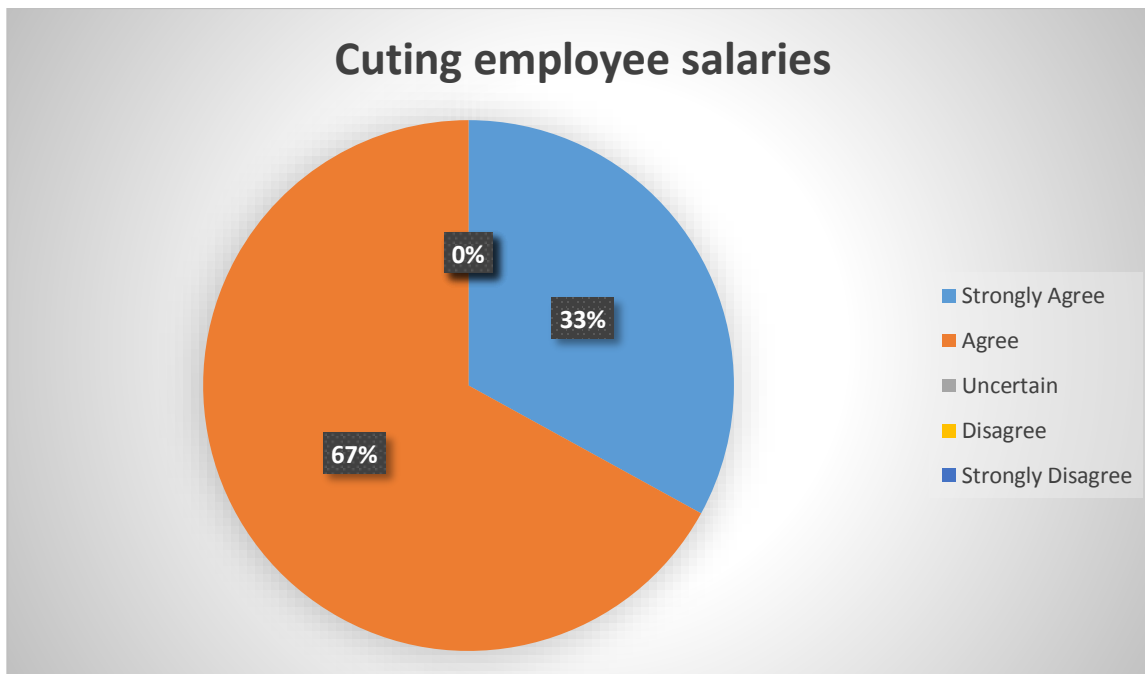
	<b>Strongly agree</b>	<b>Agree</b>	<b>Uncertain</b>	<b>Disagree</b>	<b>Strongly disagree</b>	<b>Total</b>
<b>Number of respondents</b>	<b>7</b>	<b>10</b>	<b>1</b>	<b>0</b>	<b>0</b>	<b>18</b>
<b>% of respondents</b>	<b>39%</b>	<b>56%</b>	<b>6%</b>	<b>0%</b>	<b>0%</b>	<b>100%</b>

Table 4.10 shows that 7/18 (39%) respondents strongly agree and 10/18 (56%) respondents agree that employing contract workers as a cost cutting strategy negatively affect the financial performance of the company through decreased productivity while 1/18 (6%) respondents is not certain on whether this strategy negatively affects the financial performance of the company or not. None of the respondents disagree or strongly disagree that employing contract workers negatively affect the financial performance of the organization through low production. The 17/18 (95%) respondents who agree that employing contract workers decreases productivity are supported by Munoz (2014) who is of the opinion that employees under a job contract may fail to produce efficiently since these people have job insecurities. It can be concluded that 95% respondents agree that employing contract worker will lead to low production hence negatively affecting the financial performance of ZAC.

**Table 4.11: Responses on cutting salaries of employees as a cost cutting strategy to enhance financial performance**

	Strongly agree	Agree	Uncertain	Disagree	Strongly disagree	Total
No. of respondents	6	12	0	0	0	18

**Fig 4.9: Responses on cutting salaries of employees**



As shown by Fig 4.9, there are 6/18 respondents who strongly agree and 12/18 respondents who agree that implementing the strategy of cutting employee salaries will affect the financial performance of the company through decreased productivity since this strategy demotivates workers. None of the respondents is uncertain, disagree or strongly disagree that cutting employee salaries will negatively affect the financial performance of ZAC. It can be concluded that cutting employee salaries negatively affect the financial performance of ZAC through low production basing on the 100% who agree on this fact.

**Table 4.12: Responses on retrenching employees as a cost cutting strategy to enhance financial performance**

	<b>Strongly agree</b>	<b>Agree</b>	<b>Uncertain</b>	<b>Disagree</b>	<b>Strongly disagree</b>	<b>Total</b>
<b>Number of respondents</b>	<b>7</b>	<b>11</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>18</b>

**Fig 4.10: Responses on Retrenchment**

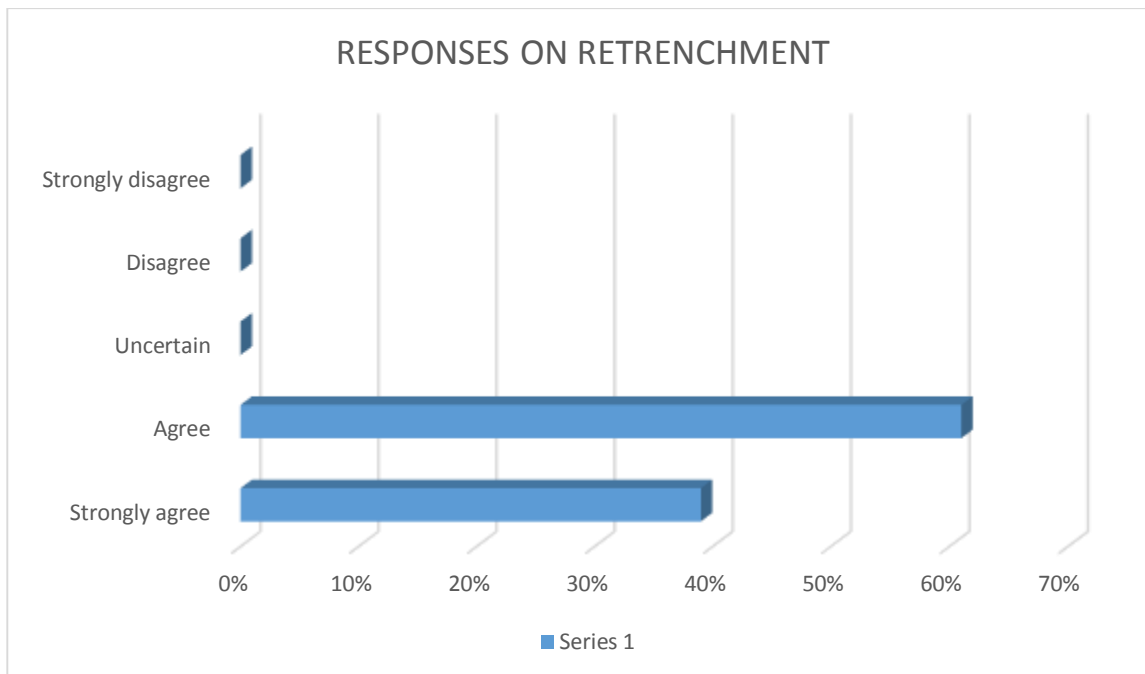


Fig 4.10 illustrates that 7/18 (39%) strongly agree and 11/18 (61%) agree that retrenchment is a main factor which will lead to decreased productivity and resulting in poor performance of the company. None of the respondents is uncertain, disagree or strongly disagree that retrenchment will negatively affect the financial performance of ZAC. It can be concluded that retrenchment as a strategy of cutting operational costs negatively affect the financial performance of the company basing on the 100% respondents who agree and strongly agree to this fact.

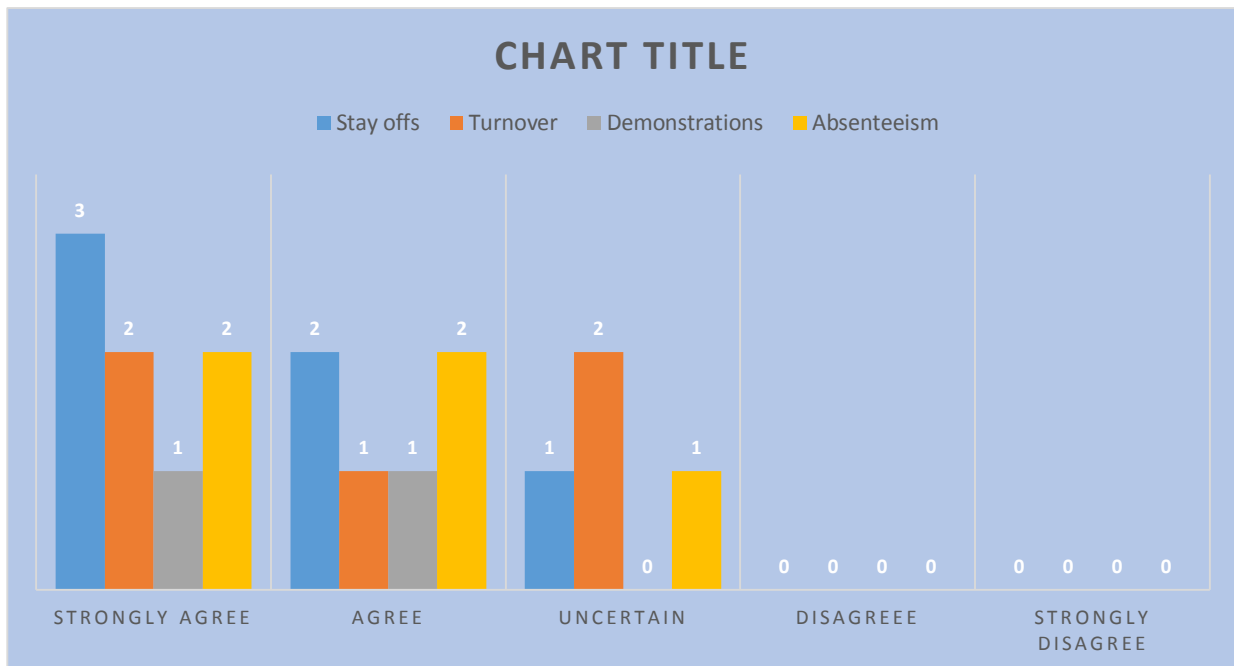
However, from the interviews with the management at ZAC the researcher obtained that cutting employee related costs came with its disadvantages as they stated that demotivated workers tend to utilize resources improperly which will then negatively affect the financial performance of ZAC.

#### 4.6 The reactions of how employees react after cutting down employee related costs

**Table 4.13: Responses on how employees react after cutting down employee related costs**

	Stay offs	Turnover	Demonstration s	Absenteeism	total
Strongly agree	3	2	1	2	8
Agree	2	1	1	2	6
Uncertain	1	2	0	1	4
Disagree	0	0	0	0	0
Strongly disagree	0	0	0	0	0
total					18

**Fig 4.11: Responses on the reactions of employees after cutting employee related costs**



The illustration in Fig 4.10 shows that 8/18 of the respondents strongly agree that employees react after cutting employee related costs. From the 8 who strongly agree, 3/8 strongly agree that workers react through stay offs, 2/8 strongly agree that employees react through absenteeism, 1/8 strongly agree that workers react through demonstrations and 2/8 strongly agree that employees react through labour turnover as workers look for greener pastures. Fig 4.10 also shows that 6/18 of the respondents agree that employees react negatively after cutting bonuses and salaries causing poor performance, Madhuku (2016) viewed the same stating that cutting employee related costs is in contrary with the Labor Act Chapter 28.01 which states that companies must not cut salaries and benefits without formal notice. From the 6 who agree, 2/6 agree that employees react through stay offs, 1/6 agree that employees react through labour turnover, 1/6 also agree that employees react through demonstrations and 2/6 of the respondents agree that employees react through absenteeism. The graph shows that 4/18 respondents are uncertain on whether employees react to cutting down of employee related costs.

On aggregate, 14/18 (78%) agree that employees react negatively after cutting employee related costs. No results showed any disagreement on the fact that employees react. The modal class 8/18 strongly agreed that employees react negatively after cutting employee related costs and from the results obtained from the interviews with the management, the researcher concluded that cutting employee related costs negatively impact the financial performance of the organization and results in demonstration, vandalism, turnover and increased absenteeism.

#### **4.7 Interview responses**

An interview guide was carried out to some of the participants in the sample group and these are the general manager, the finance manager and a member of the IT department. The three interviews were successfully carried out as these three have a deeper understanding of the research problem. The interviews were all successful 3/3 (100%), the main motive of these interviews was to include all information necessary for concluding and adding value and reliability to information gained through questionnaires. Discussion below is interview respondents of every ZAC member interviewed and the researcher conclusion basing on the results obtained.

##### **4.7.1 The need to cut operational costs**

The respondents highlighted that cost cutting plays an important role in ensuring that costs are reduced or stabilized so as to influence profits consequently financial performance of ZAC and this is supported by Watkins (2014) who posited that increasing revenue is not the only way to



increase profitability but the reduction of cost associated with the production of that revenue will also result in an increase in profitability. The interviewee stated that there is need to implement operational cost cutting strategies to facilitate the need to increase the market share of the company and increase proper utilization of resources as statistics from 2014 – 2016 were provided. The responded outlined that the market share is increased after the company has gained a competitive advantage by reducing its prices and this can only be ascertained when the cost of production has been decreased, so there is a need to implement operational cost cutting measures to have a balance between revenue and costs.

#### **4.7.2 Operational cost cutting strategies implemented at ZAC to enhance the financial performance**

The respondent (finance manager) was of the view that the current cost cutting strategy of organizational restructuring is sufficient to enhance the financial performance of ZAC and there is no need to implement other techniques to use but rather he emphasized on the need to comply and follow the set cost cutting procedures and policies. The other respondents pointed out that as a cost cutting measure the company restructured the departments in the organization, some employee benefits were reduced to curb increase in operational costs and retrenchment packages were available to minimize the number of permanent workers since it is less costly to work with contract workers. The interviewee outlined that after the implementation of cost cutting measures, a partial decrease in the operational costs was noticed for the year 2014 and 2015 as a result of the organisational restructuring strategy implemented.

#### **4.7.3 Factors affecting the successful implementation of operational cost cutting strategies at ZAC.**

The respondents noted that the successful implementation of the operational cost cutting strategies are being affected by the Labour laws in Zimbabwe which state the employee minimal wage rate (labour Act chapter 28.01). The interviewee were of the opinion that the labour laws are there to protect the employees from cutting salaries as a measure to control cost hence this factor challenges the success on the implementation of cost cutting strategies. The interviewee pointed out that terminating employee contract without a notice is an offence noting the labor Act Chapter 28.01. Cutting wages, salaries and employee benefits is in contrary with the government laws in Zimbabwe. Tshili (2016) and Madhuku (2016) agreed that cutting salaries and wages in Zimbabwe is in contrary with the labor act and the success of this strategy is hindered by the laws of the state.

#### **4.7.4 Effect of cutting employee related costs**

From the interviews carried out, it was also noted from the respondents that the measure of cutting employee related costs leads to low production capacity and this is evidenced by the decrease in the revenue recognized yearly since 2014 to 2016 after the operational cost cutting strategies were implemented, the employees are demotivated so they tend to produce lowly which is negatively affecting the financial performance of the organization. The interviewee also mentioned that after cutting employee related costs the workers respond negatively through stay offs, labour turnover, demonstrations and absenteeism from work.

#### **4.8 Conclusions**

The respondents pointed out that increasing operational costs and gaining a greater market share as the major factors necessitating the need for operational cost cutting strategies. The interviewee pointed out that due to increasing costs of fuel, electricity bills and labor costs the management of the organizations calls for the implementation of operational cost cutting strategies to strike a balance between costs and revenues. The organization offered retrenchment packages to employees so as to minimize labour costs. Organisational restructuring was also ventured to cut increasing operational costs. Operational cost cutting strategies implemented witnessed a partial decrease in operational costs. However, on implementation of operational cost cutting strategies at the organization, the interviewee pointed out that government laws and regulations, policies, shareholder decision and improper utilization of resources affect the successful implementation of the cost cutting strategies. From the respondents, employees react negatively after cutting employee related costs at ZAC through stay offs, demonstrations and absenteeism.

#### **4.9 Summary**

This chapter focused on analyzing and presenting data collected from questionnaires and interviews. The validity of the research was illustrated to show that the research findings were not biased. Descriptive summaries, tables, pie charts and graphs were used to present and illustrate the primary data. The next chapter provides recommendations and conclusions from the research findings.

## **CHAPTER 5**

### **SUMMARY, CONCLUSIONS AND RECOMMENDATIONS**

#### **5.0 Introduction**

This chapter highlighted the total of main study areas, drawing conclusions and recommendations on the analysis of the impact of operational cost cutting strategies on financial performance. Conclusions of the research shall be drawn from the research findings obtained from the previous chapter. After concluding the study, the chapter recommends Zimbabwe Alloys Chrome (under judicial management) on how it can best implement operational cost cutting strategies to enhance the financial performance of the company.

#### **5.1 Summary of chapters**

The first chapter focused on giving an insight of the background of study, statement of the problem and importance of conducting the research. . It also looked at the significance of the study, assumptions, delimitation and limitation of the study. The chapter concludes by giving definition of key terms and a chapter summary showing details covered.

The second chapter showed literature review on how some other scholars viewed the need to implement cost cutting strategies and its impact on the financial performance of the organization. Tregor (2017) defining operational cost cutting strategies as operative principles to increase operations efficiency through decrease in operational costs and cumulative productivity allowing rationalization of resources. Sharfman (2015) expressed that increasing costs may be as a result of uncontrollable costs but organizations have to implement operational cost cutting strategies. Various sources were reviewed pertaining to cost cutting strategies being implemented by companies and factors influencing the success of these cost cutting strategies implemented. Madhuku (2016) noted that employees react negatively after cutting employee related costs as an operational cost cutting strategy. Findings were discussed on the effect of cutting employee related costs and then concluded with the reaction of employees towards the cost cutting measures implemented.

Chapter three focused on the procedures that were used to collect raw data showing that a descriptive research approach which compose of both quantitative and qualitative methods of collecting data was used in the study. A census size of 25 members was selected and to obtain

relevant data, interviews and questionnaires were used to collect raw data. Relevant information that the researcher used to ensure validity and reliability of the data collected was also provided in this chapter.

Chapter Four concentrated on analyzing and presenting data collected from 18 questionnaires and 3 interviews. The validity of the research was illustrated to show that the research findings were not biased. Descriptive summaries, tables, pie charts and graphs were used to present and illustrate the primary data obtained from Zimbabwe Alloys Chrome on the analysis of the impact of cost cutting strategies on financial performance.

## **5.2 Major research findings**

The research examined the impact of operational cost cutting strategies on financial performance of Zimbabwe Alloys Chrome. The major research findings are as follows.

### **5.2.1 Factors facilitating the need for cutting operational costs**

The research found out that the need for proper utilisation of resources and increasing market share of the company are main factors contributing to the need to implement operational cost cutting strategies at Zimbabwe Alloys Chrome company. However, increasing the profit of the organization is the other factor that necessitates the need to cut operational costs and the researcher concluded that these two major factors facilitate the need to cut on operational costs.

### **5.2.2 The effectiveness of operational cost cutting strategies implemented by ZAC**

The research revealed that to enhance the financial performance of the company and to curb losses, the organization carried out activities in restructuring of the company which includes workers retrenchment and downsizing. According to the study, this strategy showed that the financial performance of the company is improved in the long run unlike in the short run since the company might end up paying retrenchment costs and legal fees which negatively affects the financial performance of the company.

### **5.2.3 The reaction of employees after cutting down employee related costs**

The research also revealed that employees negatively react to the operational cost cutting strategies especially when the strategy is employee related which include cutting employee benefits, salaries cut and retrenchment as it demotivates the worker. The study also found out that employees tend

to react through staying off from work, labour turnover, demonstrations and absenteeism from work.

### **5.3 Conclusion**

The study aims to analyze the impact of operational cost cutting strategies on financial performance and this study pointed out that ZAC was facing decreasing returns and increasing operational costs after the implementation of cost cutting strategies. Literature reviewed that the need for a relook on all operational cost cutting strategies implemented and looking for other operational cost saving and cost containment techniques rather than cutting costs. The organization should consider ongoing operational cost savings and cost reductions techniques not once off strategies (cost cutting). The organization should continuously assess the PEST environment after implementing cost cutting strategies, costs may increase as a result of the external factors that the business operates in. The study was successfully carried out.

### **5.3 Recommendations**

ZAC should not see reducing costs as a once off activity but instead it should view it as a continuous process and therefore it must take corrective action by continuously reviewing the operational cost cutting strategies implemented. This was supported by Wileman (2016) who highlighted that management should stop considering cost reduction as a once off event, but costs should gradually be removed through capitalization of cost saving opportunities.

There is need to promote the interaction of management and employees at ZAC so as to improve coordination between them. The management must also ensure that workers are adequately supervised and there should ensure that the internal controls of the organization are regularly reviewed to avoid wasting resources. This is supported by Gichuki (2014) who highlighted that internal controls should be reviewed to ensure that the procedures and policies of cost cutting strategies are being followed by the employees.

ZAC should also consider the qualitative factors of cutting cost rather than only concentrating on the quantitative aspects such as cutting costs to improve the financial performance of the company through increasing its profits. The qualitative factors that it should consider it is that reducing the salaries of employees demotivates them which then leads to reduced productivity and hence decreases the financial performance , therefore the company sometimes has to give the employees some incentives to motivate them (Babbie, 2013).

ZAC should formulate a committee that is responsible for the cost cutting operations in the organization. The committee should be the one which implements the cost cutting strategies within the organization and monitor the effectiveness of the implementation of these strategies and also make sure that the policies are being adhered to. This committee helps to create understandability of the operational cost cutting strategies within the organization.

ZAC should consider the cost benefit analysis for cost cutting strategies that are more costly to implement. According to Cole (2012), if the benefits derived from implementing the strategy outweighs the costs then it can implement the strategy.

The management of ZAC should also involve workers when making decisions so as to avoid negative responses towards the operational cost cutting strategies that would have been implemented.

#### **5.4 Summary**

This chapter focused on the summary of all chapters, highlighting the major research findings, the conclusions from the study and recommendations to ZAC. The research looked at the analysis of the impact of cost cutting strategies on financial performance with ZAC being used as a case study.

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## APPENDIX A



No 558 Mkoba  
Village 2  
Gweru, Zimbabwe

16 April 2018

To the General Manager  
Zimbabwe Alloys Chrome  
Stand no. 1678 Bristol road  
Gweru, Zimbabwe

Dear sir

### **RE: REQUEST OF PERMISSION TO COLLECT DATA RESEARCH FROM YOUR COMPANY**

I am kindly requesting for the permission to collect research data from your company. I am carrying out a research titled “**Analysis of the impact of operational cost cutting strategies on financial performance- case study of ZAC (under judicial management)**”. This dissertation is in partial fulfillment of the requirements of the Bachelor of Commerce in Accounting Honors Degree. You are assured that all information provided in the research will be treated with strict confidentiality and for academic purposes only.

Your Sincerely

Tanyanyiwa Tatenda

R144791C

**APPENDIX B**  
**MIDLANDS STATE UNIVERSITY**



**FACULTY OF COMMERCE**  
**DEPARTMENT OF ACCOUNTING**

**QUESTIONNAIRE**

**Dear Respondent**

My name is Tatenda T. Tanyanyiwa a Bachelor of Commerce Accounting Honors Degree student at Midlands State University. I am carrying out a research titled “**Analysis of the impact of operational cost cutting strategies on financial performance- case study of ZAC (under judicial management)**”. I am interested in your opinions and views on the following questions. You are assured that all information provided in the research will be treated with strict confidentiality and for academic purposes only.

Tatenda. T. Tanyanyiwa

R144791C

Signed on \_\_/\_\_/2018

## APPENDIX C

### QUESTIONNAIRE

#### Instructions

1. Please kindly attempt all questions
2. Tick your response in the appropriate box.

#### Questions

**1. Cutting operational costs enhances the financial performance of a company through;**

Strongly Agree    Agree    Uncertain    Disagree    Strongly Disagree

- i. Increase in the market share
- ii. Increased utilisation of resources

**2. The following are effective operational cost cutting strategies implemented to enhance the financial performance**

Strongly Agree    Agree    Uncertain    Disagree    Strongly Disagree

- i. Organisational Restructuring
- ii. Activity Based Costing

**3. The successful implementation of operational cost cutting strategies is affected by the following;**

Strongly Agree    Agree    Uncertain    Disagree    Strongly Disagree

- i. Government policies such as the minimal wage rate of employees
- ii. Decisions made by shareholders
- iii. Improper management of cost

**4. The following employee related cost can be cut to enhance the financial performance without decreasing productivity**

Strongly Agree    Agree    Uncertain    Disagree    Strongly Disagree

- i. Cutting down on employee benefits
- ii. Employing contract workers
- iii. Salary Cut
- iv. Retrenchment

**5. Employees are demotivated by cutting the following employee related costs and hence tend to react as follows**

Strongly Agree    Agree    Uncertain    Disagree    Strongly Agree

- i. Stay offs
- ii. Turnover
- iii. Demonstrations
- iv. Absenteeism

**Thank you so much for your support!!!**

**APPENDIX D**  
**INTERVIEW GUIDE**



1. What operational cost cutting strategies are being implemented by ZAC?

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2. What factors should be considered when implementing the operational cost cutting strategies?

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3. What factors influence the successful implementation of operational cost cutting strategies at ZAC?

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4. What is the effect of cutting employee related costs on the financial performance of ZAC?

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5. What is the reaction of employees on cutting employee related costs?

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**THANK YOU FOR YOUR TIME!!!**