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**FACULTY OF COMMERCE**

**DEPARTMENT OF ACCOUNTING**

**AN INVESTIGATION INTO THE EFFECTIVENESS OF COST AND  
MANAGEMENT ACCOUNTING PRACTICES IN A MANUFACTURING  
COMPANY. A CASE OF NATIONALPHARMACEUTICALS.**

**By**

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*This dissertation is submitted in partial fulfillment of the requirements of the **Bachelor of Commerce Accounting (Honors) Degree** in the Department of Accounting at Midlands State University.*

*Gweru: Zimbabwe, 2014*



**APPROVAL FORM**

The undersigned certify that they read and recommend to the Midlands State University for acceptance a dissertation entitled, "**An investigation into the effectiveness of cost and management accounting practices in a manufacturing company**" A case of National Pharmaceuticals (Pvt) Ltd, submitted by Shumirai Murambiwa in partial fulfilment of the requirements of the Bachelor of Commerce Accounting Honours Degree (HACC).

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## **DEDICATION**

I dedicate this project to my mother Angela Mapinge and to God the Almighty with whom nothing is impossible.

### **ACKNOWLEDGEMENTS**

This dissertation is not a mere writing of my academic research but a true reflection of the selfless coaching and encouragement of aspiring people I have interacted with. Firstly, my profound gratitude goes to Mr Mazhindu, my supervisor for his awesome guidance, steadfast support, patience and immense contributions towards this research. I am also indebted to the entire Accounting Department staff at Midlands State University for their contributions to the success of this research.

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**ABSTRACT**

*The focal point of this research was to investigate into the “effectiveness of cost and management system in a pharmaceutical company” A case of National Pharmaceuticals. National Pharmaceuticals is one of the major players in the pharmaceutical sector in Zimbabwe. The company was manufacturing below capacity as a result of funding problems. The company opted to outsource the drugs as a cost reduction technique. Since it started outsourcing drugs, it began to experience a decline in reported profits from 2011 to 2013 due to high import costs charged on the drugs. A review of related literature was carried out to establish what renowned authors and scholars had to say concerning outsourcing as a cost control and management accounting tool in a pharmaceutical manufacturing company. The researcher also relied heavily on the internet during research to provide literature concerning the research under study. The major sources of related literature were internet journals, accounting text books and accounting package developers websites. Descriptive research design was used both questionnaires and interviews were implemented because of its cost and time effectiveness. The gathered data were presented using tables and pie charts to illustrate the research findings and responses gathered. This was facilitated with the help of the Likert Scale model. A summary, recommendations and conclusion were made on how to make the cost and management accounting system relevant and effective for the operations at National Pharmaceuticals and in generally in the modern day Zimbabwe.*

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## CHAPTER ONE

### INTRODUCTION

#### 1.0 Introduction

This chapter covers the background to the research study, statement of the problem, main research question, sub research questions, research objectives, significance of study, delimitation of the study, limitation of the study, assumptions, abbreviations and definition of terms and summary.

#### 1.1 Background of the study

ZimTrade (2009) rated the Zimbabwean pharmaceutical second to South African pharmaceutical sector in SADC in terms of size and development, producing more than 65% of the essential drugs required in Zimbabwe and contributing about 15% to the Gross Domestic Product (GDP) of the country. NatPharm is one of the major players in the Zimbabwean pharmaceutical industry.

National pharmaceuticals has trained and skilled pharmacists, chemists, laboratory technicians and, biologists that have experience as well as the capacity to produce medicines including Anti-Retroviral Drugs (ARVs), over the counter (OTCs) and generic pharmaceuticals which are competitive both on the local and international market (management report dated 31 December 2012), however this labour force is not fully utilised because the company is operating at 2% from its normal capacity of 80%.

ZimTrade 2013 cited that the weaknesses of the pharmaceutical sector in Zimbabwe are that of relying on imported active pharmaceutical ingredients (APIs). There is continuous importation of drugs in small quantities by NatPharm which disadvantaged the company of bulk-buying economies of scale resulting in paying high procurement costs that reduced the company's profits( *NatPharm management report dated 31 December 2013* ) .

Table 1.1 below shows the frequency of imports done in the shown years, the cost of imports and the resultant profit.

**Table 1.1- An analysis of import costs incurred**

<b>Year</b>	<b>Imports</b>	<b>Frequency of Imports per year</b>	<b>Profits/Loss during period</b>
2011	\$ 900 990	7 times	\$2,268 923
2012	\$1,660 600	9 times	\$1,426 339
2013	\$2,732 360	11 times	\$682 860

*Extracted from NatPharm Management report 2013*

Table 1.1 above shows the total import costs that were incurred by the company during the period 2011 to 2013 and the number of times NatPharm imported drugs in the respective years. As indicated by the table the import costs in 2012 increased with \$759 610 (84.31%) from that of 2011 and increased with \$ 1,071 760 (64.25%) in 2013. The increase in costs of imports from 2011 to 2013 led to a decline in reported profits. Despite the company facing a decline in reported profits as shown by table 1:1 NatPharm continued to import the drugs.

The table that follows is a comparison of import costs, total operating expenditure and resultant profit or loss for the respective years.

**Table 1.2-An analysis of revenue and expenditure for NatPharm**

<b>Period</b>	<b>Revenue</b>	<b>Operating expenditure inclusive of import costs</b>	<b>Import costs</b>	<b>Import costs as a % of operating expenditure</b>	<b>Profit/Loss</b>
<b>2011</b>	\$5,220 577	\$2,951 654	\$ 900 990	30.52	\$2,268 923
<b>2012</b>	\$5,215 351	\$3,789,012	\$1,660 600	43.83	\$1,426 339
<b>2013</b>	\$5,218 231	\$4,535,371	\$2,732 360	60.25	\$682 860

*Extracted from NatPharm financial statements- (2011; 2012; 2013)*

From table 1:2 the percentage of import costs to operating expenditure continued to increase from 2011 to 2013. In 2011 the import costs were 30.52% of the total operating expenditure and in 2012 it was 43.83% of operating expenditure and in 2013 import costs constituted 60.25% of the operating expenditure.

From table 1:2, operating expenditure has been increasing from 2011 to 2013 resulting in reduced profit. In 2011 operating expenditure was \$2,951 654 while profit was \$2,268 923 operating expenditure has increased by \$837 358 from 2011 to 2012 and by \$746 359 from 2012 to 2013 while profit has decreased from 2011 to 2012 by \$842 584 and by \$743 479 from 2012 to 2013.

The managing director of NatPharm in 2013 expressed concern over the increased operating expenditure as a result of increased cost of imports as she was quoted saying “The importation of medicines which come in small quantities are not cost effective as NatPharm continues to miss on economies of scale.”

The researcher therefore seeks to investigate into the effectiveness of cost and management accounting at NatPharm.

### **1.2 Statement of the Problem**

NatPharm pharmaceuticals is one of the major players in the pharmaceutical industry in Zimbabwe. Though the company has skilled workforce since 2011 the company has been manufacturing below capacity at 2% from the normal capacity of 80%. To cover the gap imposed by manufacturing at below normal capacity the company started to outsource through importing some of the drugs. Costs of importing the medicines have been increasing since the company started relying on outsourcing of these drugs. The company has been experiencing a decline in profits due to increased import costs since 2011 and the researcher therefore seeks to investigate into the effectiveness of the cost and management practices in a manufacturing firm.

### **1.3 Main Research Question**

Of what significance is the cost and management accounting function in a manufacturing pharmaceutical company like NatPharm?

### **1.4 The Research Objectives**

To evaluate the firm’s current cost control policies.

To identify measures in cost control and management.

To establish the existence of cost control implementation guidelines.

To assess the adequacy of personnel to implement the cost control guidelines.



To establish challenges in place over cost control implementation.

To establish the best practice in cost control at National pharmaceuticals.

### **1.5 Sub research questions**

What cost control and management policies are in place?

What strategies are there in cost control and management?

What cost control implementation guidelines are in place?

Is personnel adequate to implement the controls?

What challenges are faced over cost control implementation guidelines?

What would be the best practice in cost control and management at NatPharm?

### **1.6 Significance of study**

#### **To the student**

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

#### **To the University**

The research will provide literature to the University which can be used by other students

#### **To the company**

Recommendations by the researcher can be open for adoption by the organisation.

### **1.7 Delimitation of study**

The study is limited to NatPharm Pharmaceuticals operations based in Harare from period 2011 to 2013.

## **1.8 Limitations of study**

### **Time**

Time offered to carry the research study was inadequate and the researcher made use of the weekends.

### **Finance**

Transport and stationery costs impacted on the flexibility of the researcher to visit companies and the researcher had to stretch her own budget in funding the research.

### **Privacy and confidentiality**

Due to confidentiality and privacy policies of organisations, some information were not going to be availed to the researcher. The researcher promised the organisation to treat the information obtained with confidentiality and for academic purposes only.

## **1.9 Assumptions**

The company policies and controls will not change during the period of research.

## **1.10 Abbreviations and Definition of terms**

AIPs	-Active Pharmaceutical Ingredients
ARVS	-Anti Retroviral drugs
GDP	-Gross Domestic Product
NatPharm	-National Pharmaceuticals
SADC	-Southern Africa Development Community
OTCs	-Over the counter

### **1.11 Summary**

This chapter contained the background to the research study, statement of the problem, main research question, sub research questions, research objectives, significance of study, delimitation of the study, limitation of the study, assumptions, abbreviations and definition of terms.

## CHAPTER TWO

### INTRODUCTION

#### **2.0 Introduction**

This chapter focuses on research objectives. The research objectives include, cost control policies and its determinants, existence of cost control implementation guidelines, adequacy of personnel to implement the cost control policies, challenges in place over cost control implementation, controls which are in place over cost control policy implementation and best practice in cost control at National pharmaceuticals. The chapter also aims at analysing theoretical and empirical evidence findings with conflicting evidence and the research gap left behind.

#### **2.1 To evaluate the company's current cost control policy in place.**

##### **2.1.1 Outsourcing**

According to Auzair *et al* (2013) they highlighted that regardless of the increase in outsourcing activities by entities there is increasing evidence of failure in outsourcing arrangements. The complexities in outsourcing relationship cause drawbacks in the mitigation of risks. To support Auzair *et al* (2013), Boulaskil *et al* (2011) also argues that companies that outsource faces the problem of how to plan and control the outsourced operations. According to a survey carried out by KPMG in 2007 it indicated that about 89 percent of the companies surveyed indicated that they will remain or increase the speed at which they outsource their processes or activities in the future.

According to Jiang *et al* (2006) he highlighted that outsourcing decisions are triggered simply by production costs comparisons and not seriously considering transactions costs. He further added that outsourcing decisions increases costs and diminishes the company's revenue. Among the propagated advantages of outsourcing costs reductions due to diminished manufacturing costs, reduced investments and less fixed capital costs as they improve short run financial performance. According to the Prisma Research (2007) it stated that the number one business trend is the growth in outsourcing and the simultaneous evolution of outsourcing models. What we have and continue to witness is an outsourcing revolution, which has already changed the ways firms compete in industries as diverse as automobiles,

aerospace, telecommunications, computers, pharmaceuticals etc. (Carson 2007; Dahan *et al* 2000).

Carson (2007) highlighted that the large scale decomposition of production activities has dramatically altered the development of products in many industries, creating new market potential for several firms, large and small. The increased competition in outsourcing has caused a shift towards buyers' markets enabling companies of all sizes in nearly all industries to capitalise on their external sources of knowledge and capabilities.

#### **2.1.1.1 Product quality**

Lei *et al* (2005) highlighted that regardless of the potential benefits of outsourcing, the increased reliance on outsourcing products from outside suppliers may lead to a loss of overall market performance. They further added that there are acute threats associated with outsourcing and highlighted one of the threats as being that of having the ability to erode the firm's potential for organisational learning and development of new technologies, in particular those skills necessary for developing new businesses and core competences. Therefore the company is subsequently probable to lose touch with those changes that offer new opportunities for product and process innovations.

## **2.2 To identify other measures in cost control and management**

### **2.2.1 Employee Downsizing**

Workforce downsizing is defined as the deliberate reduction of the number of persons in an organisation. According to a study carried out by Datta *et al* (2010) they identified thirty-six studies that had studied the link between workforce downsizing and organisational performance. Out of the thirty-six studies, twenty of them concentrated on investor responses to downsizing announcements, nineteen of them focused on bearing of employee downsizing on accounting performance and sixteen had examined the impact of employee reduction on operational performance and other outcomes. The researcher will therefore look at the following effects of employee downsizing and what the relevant literature has to say.

### **2.2.1.2 Labour productivity and corporate performance**

According to Datta *et al* (2010)'s assessment concerning investor responses to downsizing announcements the conclusion was that averagely these announcements do bear an adverse influence on stock price. Datta *et al* (2012) postulated that workforce downsizing has a negative effect on profitability. In conclusion Datta *et al* (2012) were of the opinion that employee reduction has more negative influence than positive ones to the company. In addition Clark (2007) argued that downsizing has a negative effect on labour productivity because of the survivors' behaviour. They added that the remaining employees would tend to lose trust, morale, and motivation from their employers and consequently a decline in performance and productivity.

However, there are other scholars who support that downsizing can be beneficial to the company. According to Perry *et al* (2005) employee downsizing enhances improvements in performance in the medium term. According to the studies carried out by Yu *et al* (2006), they concluded that non-downsizing firms are out-performed by downsizing firms in the first couple years following employee reduction. However there are other studies that conclude that workforce reduction results in neither improvements in performance nor decreases in performance when compared with non-downsizing firms (Guthrie *et al* 2008).

In the process of downsizing, Love *et al* (2005), emphasised on the importance of timing of downsizing by mentioning that downsizing can be reactive and defensive or it may be proactive and anticipatory. They mentioned that reactive downsizing under circumstances of deteriorating financial performance increases time pressure and businesses that businesses might fail to have an orderly and well- structured downsizing process under time pressure.

### **2.2.2.2 Psychological effects of downsizing**

According to Spreitzer *et al* (2002) downsizing is defined as the purposeful reduction in the size of the employees of an organisation. Lueng *et al* (2002) argued that the current tendency of organisations to downsize has a major impact on everyone; to the government, society, organisations, terminated employees and even the remaining employees or the survivors. Appelbaum (2002) also added that the involuntary loss of jobs by the affected employees has negative effects on the families of the survivors be it psychological, social or financial effects. Greenberg *et al* (2007) added that the effects of downsizing on survivors have more

negative than positive effects. This is to purport that the employees who survive from the downsizing of the organisation are likely to experience more negative effects than the positive ones. Fong *et al* (2004) brought into the concept of survivor syndrome and defined it as the increased workload for the remaining workers in the aftermath of employee reduction. According to Cook (2004) he highlighted that more health problems and incidence of depression were typical of the survivors and of those laid off by the organisation.

### **2.2.2.3 Corporate reputation**

According to Steilos *et al* (2003) they identified a negative relationship between employee downsizing and corporate reputation for social performances. Steilos *et al* (2003) went on to define reputation for social performances as the business's reputation of principles, processes, outcomes which bears a social impact. They further alluded that reputation for social performances is important by way of being an intermediating variable between social corporate performance and corporate financial performance. According to Love *et al* (2005) they highlighted that corporate social performances have an effect on the company's profitability through its effect on the firm's reputation, however they also argued that corporate social performances can directly affect the firm's competitive position by signalling to the prospective employees the attractiveness of the firm as an employer thus influencing the firm's ability to attract and retain talented personnel.

### **2.2.2 Cost driver analysis**

According to Lucey (2008) he defined a cost driver is an activity which causes costs. He further added that a cost driver is a factor such as the level of activity or volume that casually affects costs, over a given life span in an entity. Horngren (2002) cited that a change and an effect relationship exist between a change in the activity level and or volume and a change in the level of total costs of the cost objects.

Drury (2008) alluded that the term cost driver is used to describe the events or forces that are the significant determinants of the cost of the activities for example, if production scheduling cost is generated by the number of production runs that each product generate then the set ups would represent the cost driver for production scheduling. Therefore cost control can be achieved through cost driver analysis and monitoring.

The pharmaceutical cost drivers according to Grootendorst *et al* (2011) included the general inflation of the country, population growth and population aging inter alia. They purported that these aforementioned cost drivers does have a direct effect on the annual growth in the pharmaceutical spending of any nation therefore increasing the costs of the pharmaceutical manufacturer directly. Even though these cost drivers are not directly involved in the operations of the entity or manufacturer these has proved to be some of the cost drivers of the pharmaceuticals because when demand increase it means the production volume also has to increase in the same proportion as demand by the consumers. Seiter (2005) supports that ageing population as a cost driver when they cited that volume is driven by ageing populations with increased morbidity, by the spread of diseases such as HIV/AIDS and malaria.

### **2.2.3 Procurement strategies**

According to Osborne (2003) companies during the acquisition management process, must find then choose business associates who are adequate enough to fill long-term business needs. For major purchases or uninterrupted future relationships, firms will use contracts to ensure they receive specific benefits from the seller or provider.

#### **2.2.3.1 Purchasing Consortia**

According to Hendricks *et al* (2004) purchasing consortia involves two or more autonomous companies that come together either officially or unofficially or through an independent third party for the reason of combining their individual requirements for purchased materials, services and capital goods. He added that the formation of a purchasing consortium is to leverage aggregated purchasing power of the group to optimise cost reduction and value added contractual terms and conditions from the external supplier. Hendricks (2004) concluded that according a study he carried out in 1997 a business purchasing consortia increases average return on investment. He also added that there is an often overlooked benefit of purchasing consortium which is the ability to network with other leading procurement organisations to benchmark best practices and supply market expertise.

However, Leddy *et al* (2006) highlighted that issues of trust, cooperation, and a limited supply base can instil reluctance from some companies to explore purchasing consortia



#### **2.2.4 Budgetary Control**

Budgeting and budgetary control systems play a major role in every company or institution by helping in establishing management control system for creating sustainable competitive advantage. According to Dutescu *et al* (2004) by reporting variances from planned costs, managerial accounting enables management to control costs and take corrective action. Sabau *et al* (2011) supported this in their *Economia Seria Management of 2011*, when they cited that in a pharmaceutical industry managers require both financial and non-financial information for the development and implementation of strategies by planning for the future (budgeting) making decisions about products, services, prices and what costs to incur (decision making using costing information) and ensuring that plans are put into action and are achieved (control). Budgetary control is defined as the establishment of budgets relating the responsibilities of executives to the requirements of a policy, and the continuous comparison of actual with budgeted results either to secure by individual action the objective of that policy or to provide a base for its revision.

However, Surajkumar (2011) argued that a budget is based on estimates and that it may or may not be true. He further alluded that a budget is not a substitute of management as he argued that the efficiency and utility of the budgetary system is dependent on skills and knowledge of the management. It cannot be executed automatically as continuous efforts are essential for the implementation of the budget and this makes organizational managers focus more on management issues than on budgetary control.

Drury (2008) highlighted that before good decisions can be made there must be some guiding aim or direction or guidance that will enable the decision makers to assess the desirability of favouring one course of action over the other. In budgetary control the objectives to be achieved, over the budget period and the policies to be adopted for the achievement of these policies should be determined. The various activities that must be undertaken for the accomplishment of the objectives should be determined. A plan should be drawn up in respect of each class of activity in physical as well as monetary terms for the full budget period and its parts. Comparisons of actual performance by each person, section, or department with the relevant budget and determination of causes for the discrepancies if any should be made.

When plans are not achieved, corrective action should be taken and when corrective actions are not possible plans should be revised and the objective achieved. According to Tadvalkar *et al* (2003) an effective cost and management accounting system is the one that encompasses the production of timely, relevant and accurate management accounts, effective communication of these accounts to management and the directors, evaluations of actual to the budgeted expenditures and revenues considering the variances and recommending on the corrective action to account for the variances.

### **2.3 Cost control Implementation guidelines**

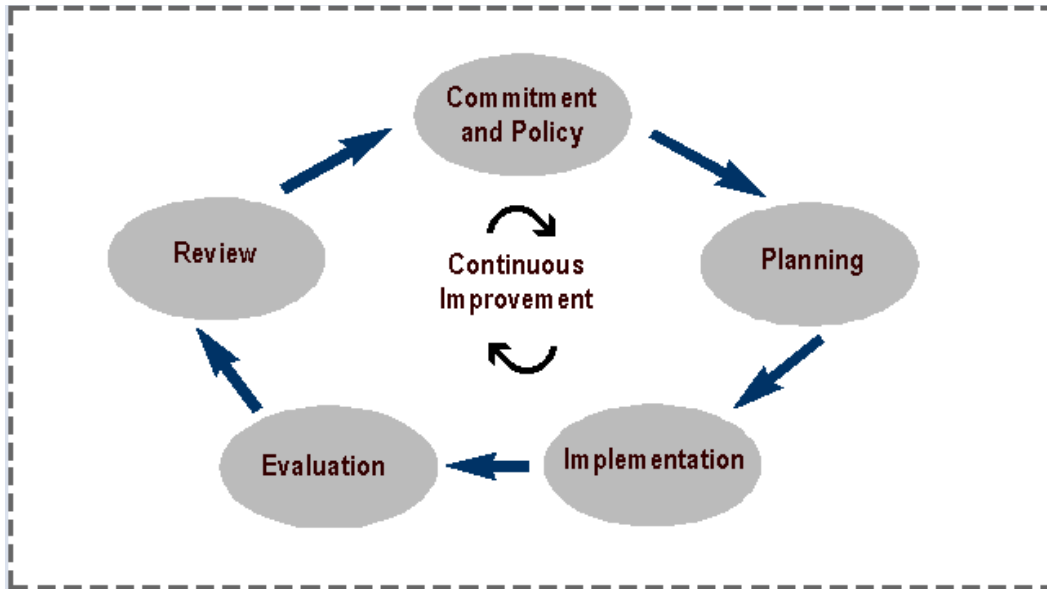
Implementation is defined as carrying out, executing or practising of a plan, a method or any method for doing something. For something to actually happen, implementation must follow any preliminary thinking.

#### **2.3.1 Building productive relationships**

Improved workforce performance requires productive relationships with bosses, peers, subordinates and the community.

According to Zigiariis (2012) they highlighted that for any cost minimisation effort to be successful there is need to clarify to the members of the cost reduction implementation team and the staff of the company on the implementation analysis details of the initiative and their roles in the successful outcome in the cost of a cost reduction techniques.

Doherty *et al* (2011) mentioned that there is need to educate the employees of the organisation on cost reduction programmes as the efficiency and effectiveness of a cost reduction program is based on the ability of an organisation to realise and verify the required cost savings at the same time embedding cost management practices and a culture of continuous improvement to ensure the maintenance of the savings. The following table illustrates the continuous improvement cycle.

**Table 2.1 Continuous Improvement Cycle**

*Source: 14001 Standards (1996)*

### 2.3.2 Employee involvement at all stages of the process implementation

Handy (2012) mentioned that there is a need to solicit employee ideas on cost reduction opportunities, allowing them to make meaningful contributions in decision making and providing feedback on their or even rewarding them for success as a result in their efforts.

### 2.3.3 Planning

According to Lucey (2008) planning is a primary task of management and it is concerned about the future and it relies on information from many sources both internal and external from the organisation for it to be successful. The information used for planning includes cost and financial data and also information relating to personnel, markets, competitors, production capacities and constraints and material supplies. Lucey (2000:268) defined planning as “The establishment of objectives, and the formulation, evaluation and selection of policies, strategies, tactics and action required to achieve these objectives. Planning comprises long term /strategic planning and short term operational planning. The latter usually refers to a period of one year”.

### **2.3.4 Evaluation**

With evaluation the budgeted costs are matched against the actual costs to account for any variance. Operations are also monitored and evaluated to see whether targets are being met. Lucey (2000) defined a budget as a plan expressed in monetary forms.

### **2.3.5 Commitment and policy**

Management should be committed to cost control management and communicate through the establishment of a cost control policies to ensure good results. After the evaluation of the budgeted costs to actual costs incurred, the top management reviews the results to see if the cost control measures in place are working effectively and yielding the desired results.

### **2.4 Adequacy of personnel to implement the cost control policies**

The cost and management accounting department of any manufacturing firm should assist management in the formulation of budgets or forecasts for the company. Drury (2008) supported this saying the accounting personnel will normally assists managers in the preparation of their budgets and he cited an example that the accounting personnel will circulate and advise on the instructions about the budget preparation process and they will also provide past information that may be used in the preparation of the present budget to ensure that the budget is presented on time. This was also supported by Horngren (2008) when they said managers quantify the plans of the in form of budgets and forecasts.

A budget provides a planning framework for any organisation; it enables management to know how to allocate the resources to different departments of the entity; it also iron out the base data necessary to draw up cash requirements forecasts; it is also the yardstick for performance measurement of any company by giving the direction of how to correct adverse variances and also how managers account for the results of their operations; and finally a budget helps in control of the activities and operations of the entity.

## **2.5 Cost control implementation challenges**

According to Buse *et al* (2005) in their view of policy implementation three implementation approaches were adopted namely the top-down approach, the bottom-up approach and the principal theory. All the three approaches have their own merits and demerits.

According to the Change Expectations Theory, the three common elements of all change include identifying what you expect people to stop doing, specifying what you expect people to start doing and conforming what you want people to continue doing.

### **2.5.1 Top -down approach**

The top down approach to change management implies imposed change as the initiative comes from the top. Anderson (2010) with this approach decision making is centralised higher at the top, excluding lower level employees in the change process though they are directly affected. The top down approach to change is about making changes quickly and dealing with problems quickly as they arise. With this type of approach decision making is limited to the top of the organisation, therefore lack of suggestions and ideas from the bottom of the organisation. This results in poor employee motivation and performance as their suggestions and ideas are not considered in the implementation process. This approach though quick to implement bears the biggest disadvantage of employee resistance.

### **2.5.2 Resistance to change**

The biggest problem in changing any organisation is resistance to change by the employees. When leaders make all the decisions by themselves and excludes the subordinates from the change process creates resistance by the employees.

According to Lunenburg (2011) there is human tendency to resist to change as it forces people to adapt to new ways of doing things. Ageboola *et al* (2011) described resistance to change as barriers arising from organisational politics, inappropriate use of power, challenges to cultural norms and institutionalised practices, lack of understanding, inappropriate timing, inadequate resources, incorrect information or employee suspicion of honourable management intentions. Resistance to change can fuel negative emotions and resentment,

which resultantly may lead to mental withdrawal of not being receptive to the ideas of others, declassifying and negative thinking about the others (Pieterse *et al* 2012).

Regardless of how well top level decisions can be made their success is stunted because they ignore so much of the organisation. Naturally people who are forced to adapt to change have the initial reaction to resist.

### **2.5.3 Bottom-up approach**

Handy (2012) mentioned that there is a need to solicit employee ideas on cost reduction opportunities, allowing them to make meaningful contributions in decision making and providing feedback on their or even rewarding them for success as a result in their efforts.

Bottom -up change management seeks to involve those affected in the change process. It aims at avoiding the pitfalls of imposed change by allowing individuals within their work groups to come to terms with change. According to Anderson (2010), though this approach incorporates the bottom employees in the change process, it runs into several problems such as being slow to respond to short term business demands. When the change initiatives come from the bottom it takes considerable amount of time to propagate the change throughout the organisation.

## **2.6 Controls to ensure compliance the cost control policies**

Cost control and management policies must be clearly communicated or otherwise available to employees. Employees must be provided with any additional training and awareness to employ a cost effective culture in their day to day duties.

### **2.6.1 Defined Responsibility**

Employee responsibilities should be clearly defined including those that work on behalf of the organisation as subcontractors and sub consultants to reduce the risk of duplication of tasks, wasting of resources and conflicts amongst the workers.

### **2.6.2 The need for skilled labour**

Piva *et al* (2008) highlighted that well trained personnel are an essential feature in the organisation so as to complement to cost control practices at the workplace. Leiponen (2005) emphasizes that skills are a significant constituent of absorptive capacity, being complementary to cost control and management, the results were that skills complement external collaboration strategies in positively affecting a firm's operating profit margin.

## **2.7 The Best cost control policy**

### **2.7.1 Cost Benefit Analysis**

Cost control policies differ from one organisation to the other. Cost control policies are developed from the organization's objectives. The cost and management accounting system can be improved by continued monitoring of the cost control techniques that is the use of cost benefit analysis. According to Drury (2008) he defined cost benefit analysis (CBA) as an investment appraisal technique for analysing and measuring the costs and benefits to the community of capital projects. Cost Benefit Analysis seeks to determine the incidence of costs and resultantly the benefits between different sectors of the community (Drury 2008). Drury (2008) further added that Cost Benefit Analysis attempts to take into account all the costs and benefits that accrue from a project by defining the costs and benefits in monetary terms.

### **2.7.2 Continued Research and Development**

There is need for continued research in the case of cost and management accounting department and continued implementation of the new innovations and ideas. According to Heller *et al* (2008) they postulated that there is need for constant research when it comes to the pharmaceutical sector in general worldwide since diseases are continued to be discovered. The management accounting need continued review and upgrade through the institution of new technological advances to upgrade the system. The management of any organisation must keep on training and retraining accounting employees on the latest innovations so as to enable them to keep updated. The management team should integrate its cost and management accounting system with the strategic management process and communication should be improved in the cost and management accounting system.

### **2.7.3 Best cost control and management practices used by some countries**

According to Becker (2004) in their World cost and management survey they concluded that firms in the US are better managed than firms in developing countries such as China, Brazil, and India. They also added that measuring management practices is impossible because it is unclear as to which management practices are good, as all management practices maybe contingent on the business situation. They concluded that what is termed the best practice should revolve around monitoring, targets and incentives.

According Anad *et al* (2003, in India they use traditional cost management technique but also with contemporary management tools such as Activity Based Costing (ABC). The firms in India concluded that firms have a better insight for benchmarking and budgeting with the use of ABC system.

In South Africa they argued that managers should be trained in the effective preparation of budgets including concepts such as zero based budgeting. Kibachi *et al* (2014) argues that “zero base” approach when taken into evaluation problem seems to be that the package is chosen according to some cut -off point on cost- ended ranking.

According to a study carried out by Anad *et al* on the cost management practices in China, they concluded that managerial incentives are substantially greater than the use of monitoring and target costing.

### **2.8 Summary**

This chapter focused on related literature over the definition cost control and management policy, its implementation guidelines, assessment of the adequacy of personnel to implement the policy and the controls in place to ensure policy compliance. The following chapter looks at the research methods to be used in obtaining data relevant to the study. s



## CHAPTER 3

### RESEARCH METHODOLOGY

#### 3.0 Introduction

This chapter summarises how the research was conducted, the research design used, sources of data, target group, population study, research instruments that is observations, interviews and questionnaires, the reliability or validity of research instruments, data presentation and data analysis.

#### 3.1 Research Design

A design is the basic method of collecting evidence: surveys, interviews, experiments, observations (participant and naturalistic), Archival research (data and textual archives), and a combination of these methods”, (Vogt *et al* 2012). Design is important because everything about the research flow from the type of design chosen. The research design is closely linked to the questions asked by the researcher.

Research design has been defined by Mylton (2007) as basically a framework that specifies the type of data that is going to be gathered, the data sources, and the procedures for collecting the data. The researcher employed qualitative research which uses non numerical data and is subjective; it incorporated methods such as interviews and discourse analysis. The gathered data were presented in tables and diagrams.

##### 3.1.1 Descriptive Research design

A descriptive research design describes and explains conditions of the present by using many subjects and questionnaires to fully describe the phenomenon (Marczyk *et al* 2003). Descriptive survey is apprehensive with addressing the specific characteristics of a particular population of subjects, either at a fixed point in time for comparative purposes.

The merits of using a descriptive or survey research are that it provides a relatively complete picture of what is happening at a specific time. The use of the descriptive research design enables large amount of data is collected and this maximises on the reliability and it is based

on true experiments which gives analysable data. It can also be a useful tool in developing a more focused study which can yield sufficient data that can be used as important recommendations in practice.

However the descriptive or survey research is difficult to review with survey techniques due to complex behaviour and that it lacks internal validity resulting from limited control over external variable. The results from a descriptive research can be not useful to discover a definitive answer or to disprove a hypothesis.

### **3.1.2 Explanatory Research design**

According to Marczyk (2003), explanatory research is used for seeking new insights for asking questions and for assessing phenomenon in a new light. It is helpful in clarifying one's understanding of the problem. According to Saunders et al (2007) this involves literature study and interview of experts in the field of study.

The advantages of this research design is that it flexible and adaptable to change as a result of new data and new data that may occur and that it is advantageous in directing subsequent research objectives

However explanatory research design lacks statistical strength though it can help the researcher begin to determine why and how things happen.

The researcher employed the descriptive research design as descriptive research is explains or gives that true picture of what is happening on the field or at National Pharmaceuticals.

### **3:2 Population**

According to Anderson *et al* (2011) he defined target population as the population people want to make inferences about, while the sampled population is the population in which the population is actually taken.

According to Panneerselvam (2005) population refers to every complete collection of research units or objects that collectively form the research domain. Population may be people, households, regions, departments, annual report and companies. Population can be

categorized in terms of geography, age and other characteristics. If the population is too large, it would be impossible for the research to involve the entire population in the research.

Saunders (2007) defined a population as any group of individuals, organisations, social interactions and events. Population is also defined as a group elements exhibiting more or less similar characteristics from which a sample to work with in a research is derived. The population also was defined as a group of individuals, persons, objects, employees, elements, or items from which a sample is obtained for measurement or research for example a population of pharmacists, chemists, engineers, sales representatives etc. The population was selected to be employees from NatPharm Pharmaceuticals, a manufacturing company in Harare.

### 3.3 Sample size

The research target National Pharmaceuticals Ltd production, purchasing, accounts and purchasing department employees as well as other employees.

Table 3.1 shows the respondent group, population, sample size, sample and data collection method used in gathering information for the research.

Department	Population	Sample size	Percentage
Accounts	12	10	83%
R&D	10	6	60%
Production	15	9	60%
Purchasing	16	7	43%
<b>Total</b>	<b>53</b>	<b>32</b>	<b>60%</b>

### 3.4 Sampling

Sampling is defined as the process of selecting a few (a sample) from a bigger group (sampling population) to become the basis of estimating or predicting the prevalence of an

unknown piece of information, situation or outcome regarding the bigger group (Kumar 2010).

### **3.4.1 Sampling techniques**

#### **Random sampling**

With random sampling each item of the population has an equal chance of being selected. According to Mandy Van *et al* (2003) they highlighted that with random sampling method, the method allows each possible sample to have an equal probability of being picked and each item in the entire population has an equal chance of being included in the sample.

Advantages of simple random sampling include that it aims at reducing the potential for human bias in the selection of cases to be included in the sample and also provides sample which is highly representing the population in study. The main disadvantage of random sampling is that it can only be carried out if the list of the population is available and complete, the list can be challenging to gain access.

#### **Systematic sampling**

According to Mandy Van *et al* (2002), a stratified sample is obtained by separating the population elements into non-overlapping or definite groups of similar characteristics called strata and then sampling a simple random sample from each stratum. A stratified sample is obtained by taking samples from each stratum or sub group of the population. When a population of several strata is sampled it is required that the proportion of each stratum in the sample should be the same as is in the population. Stratified sampling techniques are used where the population is heterogeneous, or dissimilar, where certain homogenous or similar sub populations can be isolated. Stratification ensured representation of each of the sub groups in the population.

The researcher used stratified random sampling technique. The method had the advantage that it made a fair representation of the population characteristics and had minimal bias since it is probabilistic in nature.

### **3.5 Sources of data**

There are two sources of data, that is primary and secondary data was collected.

#### **3.5.1 Primary Data**

According to Saunders (2005) he defined primary data as data that is obtained by the researcher specifically to solve the problem at hand, this is data collected personally through field work.

Primary data is data used in research that had been obtained using interviews, questionnaires and observations by the researcher. This is original data to solve the prevailing problem under research.

The gathered data was found to be free from bias because it provided the researcher with data which was current and up to date. The data gave reliable evidence as it was directly originated from the parties involved.

#### **3.5.2 Secondary data**

According to Panneerselvam (2005), he highlighted that secondary data is already gathered and available data which can be gathered from company annual reports, management accounts, newsletters, textbooks, journals and audit reports. Secondary data serves as complimentary data to primary sources.

Secondary data is advantageous as it is data that is already available so it is easy to obtain and less expensive compared to primary data however, secondary data may not be a reliable source of data as the data may not be relevant to the problem to be addressed.

### **3.6 Research instruments**

#### **3.6.1 Questionnaires**

Saunders (2005) defined a questionnaire as a set of questions working and sequence of presentation as well as more or less precise indication of how to answer each question. A questionnaire is a commonplace instrument for conserving data beyond the physical reach of the observer. With this method, the researcher prepared a series of questions relating to the

research subject. The questionnaire was designed to ensure as many responses as possible would be obtained.

According to Kumar (2005: 126) questionnaires are "... written list of questions, the answers to which is recorded by respondents, the respondents read the question interpret what is expected and then write down the answers. A questionnaire also can be defined as a list of questions used by the researcher to ask the sample of population selected in a research.

The advantages gained from the use of questionnaires are that questionnaires are cheap to use and also easy to administer. They enhanced better comparisons since each person was presented with a questionnaire with same questions and that questionnaires were distributed to many people at once. This method gave respondents anonymity and reconsideration of their responses since they had ample time to go through the questionnaire.

### **3.6.2 Interviews**

According to Mandy Van *et al* (2004) an interview is a dialogue between two or more people in a structured manner or unstructured conversation.

An interview involve face to face meeting with people and asking questions and the response is given immediately. The interviews can be oral or can be contacted over a telephone. Holborn (2002) defined an interview as a meeting between the interviewer and the interviewee. The interviews were contacted from a selected sample from employees of NatPharm Pharmaceuticals (Pvt) Ltd concerning the effectiveness of cost and management accounting in a manufacturing firm. The interviews gave the researcher time to speak to the respondents giving their in depth ideas and views concerning the usefulness of cost and management accounting in a manufacturing entity like NatPharm Pharmaceuticals (Pvt) Ltd.

The researcher adopted the use of interviews because they provided relevant and precise answers as the respondents responded to what they were asked and these curbed the limitations of questionnaires. The researcher found it flexible to rephrase the questions she asked to her needs with the use of interviews. To add to this the interviews proved to be time efficient since the allocated time was used efficiently and effectively. The researcher also used other skills of communication during the interviews like the non-verbal communication to aid in assessing the responses given.

### **3:7 Types of questions**

#### **3:7:1 Closed ended questions**

The researcher used closed questions for the purpose of this research. According to Panneerselvam (2005) they stated that this type of questions involves the use of structured questions. In this category, the respondent has limited freedom. One should give answers in accordance with the parameters given.

The merits of closed ended questions were that they were easy to analyse, easy to answer and the respondents took less time to respond to the questions.

However closed ended questions hindered flexibility as they confined respondents to respond within the boundaries and that the researcher had to make sure that all possible answers were available, lest the respondent would find no answer.

#### **3.7.2 Open -ended questions**

According to Panneerselvam (2005) , in open-ended questions, the interviewer writes the answer of the respondent verbatim and that there are no pre-coded classifications of answers to the questions This leaves the respondent free to offer any replies that seem appropriate in the question.

The advantages of open ended questions, more information can be obtained, respondents are free to respond thereby reducing interviewee bias and that respondents are not influenced by a pre-stated set of response categories and no limitations to the type of answers to be availed to the interviewer. Open ended questions allow the respondents to express their own opinions without being limited to the options availed by the interviewer.

Though open ended questions give the respondents room to express their position and thoughts, they also possess demerits. The disadvantages of open ended questions are that irrelevant data can be collected, the collected data can be irrelevant and some of the questions may be misinterpreted, hence irrelevant answers can be given and this type of questions lack statistical confirmation essential to base research conclusions.

### 3.7.3 Likert Scale

This is a unidimensional scaling method which assumes that the concept that was measured was one dimensional. According to Remenyi (2008) they highlighted that the Likert scale measures and scales human attitudes towards a certain issue. It is the sum of responses to several statements that the respondent is asked to evaluate.

The merits of using the Likert scale are that it is easy to comprehend since it uses a unidimensional method of data collection. It is easy to draw conclusions, reports, results and graphs from the responses; however with the use of the Likert Scale respondents usually have a tendency of repeatedly avoiding extremes.

The Likert scale was used by the researcher in the presentation of questionnaires to the sample that was pulled from the population.

**Table 3.2 The Likert scale**

Attitude	Strongly agree	Agree	Uncertain	Disagree	Strongly disagree
Scale	1	2	3	4	5

*Source: Remenyi (2008)*

### 3.8 Reliability and validity of research instruments

Saunders (2005) purports that validity and reliability as ascribed to secondary data are a function by which data collected and the source from which it was collected need to be analysed or checked for the authority of the source the data.

#### 3.8.1 Validity

According to Saunders (2005), the validity of data is the extent to which the data accurately measures what it intended to measure and reliability is the extent to which the data collection method will yield consistent findings if replicated by others. Validity refers to the reality and legality of the findings. It also means that the sample that had been used by the researcher adequately represent the target population under research study.



### **3.8.2 Reliability**

Reliability aims to reduce errors in the data gathered. Reliability also refers to the ability to consistently yield the same results when the same measurements were repeated on the same sample under study and under the same conditions. The information collected by the researcher was consistent to a larger extent hence it was considered reliable.

### **3.9 Data presentation**

This is when the researcher made an analysis of the gathered data and presented it using tables and pie charts. Data presentation is the way data is appearing or arranged on paper, pictures or diagrams. The researcher can use tables and graphs to present the gathered data. There is a need for the researcher to edit, segment, summarize and verify the data collected for it to be useful for the research.

### **3.10 Data analysis**

According to Kumar (2010) data analysis encompasses the reduction of accumulated data into a manageable size, the development of summaries, looking for patterns and the application of statistical analysis. Data analysis is a body of methods that help to describe facts, detect patterns and develop explanations. The collected data need to be analysed to obtain meaning out of it. The researcher used the mean, mode, median and the standard deviation for analysing the gathered data.

### **3.11 Summary**

This chapter summarized how the research study was conducted, research design, sources of data, sampling, target group, study population, data collection or research instruments that is observations, interviews and questionnaires, validity and reliability of research instruments, data presentation and data analysis. The following chapter is on data presentation and analysis.

## CHAPTER FOUR

### DATA PRESENTATION

#### 4.0 Introduction

This chapter focuses on data presentation and analysis. The gathered data is presented using tables and charts. The presented data is then analyzed and conclusions are made based on the mode.

#### 4.1 Data Presentation

The gathered data was presented using tables, pie charts and graphs which were summarised in narrative figures.

#### 4.2 Response rate

Out of the thirty two questionnaires sent out twenty three of them have been answered and returned to the researcher thereby achieving a 72 % response rate. The response rate based on the total population of 53 employees is 43% ( $23/53 \times 100\%$ ). Therefore, this response is valid since the as supported by Harallambos *et al* when they cited that a responserate of at least 33% is good and is a true representative of the whole population.

##### 4.2.1 Questionnaire response rate

**Table 4.1 Questionnaire Responses**

Department	Questionnaires sent out	Questionnaires returned	Percentage
Accounts	10	9	90%
R&D	6	6	100%
Production	9	5	89%
Purchasing	7	7	100%
<b>Total</b>	<b>32</b>	<b>23</b>	<b>72%</b>

*Source: Primary Data*

The table shows the sample size and the actual number of responses achieved by the researcher from the respondent group. Out of the thirty two questionnaires sent out only two of them were not returned to the researcher. The researcher therefore achieved 72% response rate. The response rate is valid to research as it is reliable and allow the researcher to collect reliable data as supported by Harallambos (2012) when they cited that a response rate of at least 33% is a true representative of the whole population.

The following table presents the biographic data for academic qualifications of the questioned respondents.

**Table 4.2 Academic qualifications of the respondent group**

<b>Academic Qualification</b>	<b>Sum count</b>	<b>Percentage (%)</b>
Doctorate	2	9
Masters	5	22
Degree	7	30
Diploma	6	26
A level	3	13
	<u>23</u>	<u>100</u>

From analysis of the table on academic qualifications it can be noted that out of the respondent group 2 of them had a doctorate, 5 had masters, 7 had degrees, 6 had diplomas and 3 had A Level. Based on the aforementioned qualifications, the researcher concluded that the respondent group was eligible to give sound responses because of their level of education.

### **4.3 Questionnaire presentation and analysis**

The data gathered through the use of questionnaires from respondents from the four departments, that is accounts, research and development, purchasing and production were bunched up and presented as follows:

#### 4.3.1 What cost and management control policies are in place at NatPharm?

The researcher asked this question to the respondent group to ascertain whether or not the respondent group is aware of the cost policy at National Pharmaceuticals and the usefulness and relevance of the cost control policy to the company.

The question was further broken down into sub questions and each was looked at individually. The following table shows the information relating to the cost control policies at NatPharm and the respective response rate.

**Table 4:3 Information relating to cost control policies at NatPharm.**

		Total	strongly agree	Agree	Uncertain	Disagree	Strongly disagree
(i) There is a cost control policy at NatPharm	RATE	100%	22%	57%	13%	9%	0%
	FREQUENCY	23	5	13	3	2	0
(ii) The policy was formulated by management	RATE	100%	65%	22%	13%	0%	0%
	FREQUENCY	23	15	5	3	0	0
(iii)The policy is documented	RATE	100%	9%	17%	22%	35%	17%
	FREQUENCY	23	2	4	5	8	4
iii) The policy is well communicated to the personnel	RATE	100%	9%	26%	22%	17%	26%
	FREQUENCY	23	2	6	5	4	6
(iv) The policy is communicated to new employees	RATE	100%	30%	26%	22%	9%	13%
	FREQUENCY	23	7	6	5	2	3

##### 4.3.1.1 There is a cost control policy at National Pharmaceuticals

From the twenty three questionnaires returned 5 out of 23 (22%) strongly agreed, 13 out of 23 (57%) agreed, 3 out of 23(13%) were uncertain, 2 out of 23 (9%) disagreed and 0 out of 23(0%) strongly disagreed with regard to the existence of a cost policy at National Pharmaceuticals.

An overall percentage of 79% of those who agreed indicated that a number of National Pharmaceuticals employees are aware of the current cost control policy in place though the 21% is indicative of the case though some are aware of the cost policy there are still some who are not aware of the existence of a cost policy at the company.

Based on the mode 79% agreeing, the researcher concluded that NatPharm employees are aware of costing and management accounting policy in place.

#### **4.3.1.2 The policy was formulated by management**

From the table 15 out of 23 (65%) strongly agreed, 5 out of 23 (22%) agreed, 3 out of 23(13%) were uncertain and no one disagreed as to management formulating the policy. An aggregate percentage of 87% indicates that management formulated the policy though the other 13% is uncertain as to who formulated the policy.

Based on the mode of 87% of the respondent agreeing that the policy was formulated by management, the researcher concluded that management of NatPharm is responsible for the formulation of the cost control policy.

#### **4.3.1.3 The policy is documented**

Out of the 23 questionnaires returned 2 out of 23(9%) strongly agreed, 4 out of 23(17%) agreed, 5 out of 23(22%) were uncertain, 8 out of 23(35%) disagreed and 4out of 23 (17%) strongly disagreed with regard to the documentation of the policy. Aggregately 26% agreed that the policy is documented while 74% disagreed.

Based on the 74% of the respondent group disagreeing, the researcher concluded that the policy is not documented.

#### **4.3.1.4 The policy is well communicated to personnel**

2 out of 23(9%) strongly agreed, 6 out of 23(26%) agreed, 5 out of 23(22%) were uncertain, 4 out of 23(17%) disagreed and 6 out of 23 (26%) strongly disagreed with regard to the documentation of the policy.

In aggregate 35% agree that the policy is well communicated to the personnel while 65% disagree that the policy is well communicated to personnel.

Based on the mode of 65% disagreeing, the researcher concluded that the policy is not well communicated to personnel. This disagrees with Doherty *et al* (2011) when they highlighted that any changes to be made to the company should be properly communicated throughout the organisation.

#### **4.3.1.5 The policy is communicated to new employees**

7 out of 23(30%) strongly agreed, 6 out of 23(26%) agreed, 5 out of 23(22%) were uncertain, 2 out of 23(9%) disagreed and 3 out of 23 (13%) strongly disagreed with regard to the policy being communicated to new employees. An overall percentage of 56 % indicates that the policy is well communicated to new employees within the organisation while 44% disagreed.

Based on the 56% agreeing rate and through the interview held with the general manager when they indicated that every new personnel who joins the company is educated of the policy, the researcher concluded that the policy is communicated to new employees.

#### **4.3.2 What cost control implementation guidelines are in place?**

The following table presents the findings regarding the cost control implementation guidelines at National Pharmaceuticals.

**Table 4.4 Information regarding cost control implementation guidelines**

		Total	Strongly agree	Agree	Uncertain	Disagree	Strongly disagree
(i) There is authorisation of the cost policy by responsible personnel before implementation	RATE	100%	39%	26%	22%	9%	4%
	FREQUENCY	23	9	6	5	2	1
(ii) The authorisation of the policy is documented	RATE	100%	35%	39%	13%	9%	4%
	FREQUENCY	23	8	9	3	2	1
(iii) Financial usage guidelines are also available for outsourcing decisions	RATE	100%	70%	13%	9%	9%	0%
	FREQUENCY	23	16	3	2	2	0

Source: Questionnaires

#### 4.3.2.1 There is authorisation of the cost policy by responsible personnel before implementation

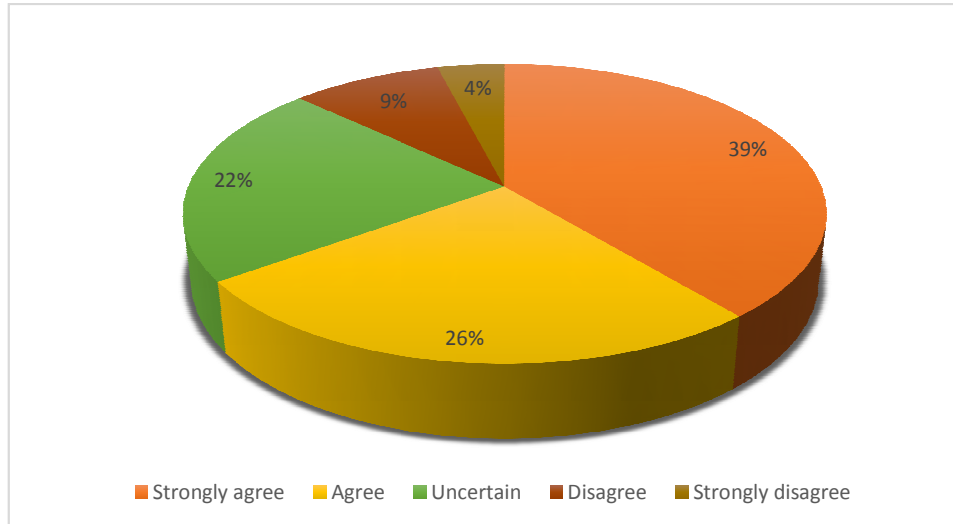
9 out of 23(39%) strongly agreed, 6 out of 23(26%) agreed, 5 out of 23(22%) were uncertain, 2 out of 23(9%) disagreed and 1 out of 23 (4%) strongly disagreed with regard to the authorisation of the cost policy by responsible personnel before implementation.

In aggregate 65% agreed that the policy is authorised by responsible personnel before implementation though 35% disagreed.

Based on the mode of 65% agreeing, the researcher concluded that there are effective controls in place with regard to the authorisation of the policy by responsible personnel before implementation.

The data that was presented with regard to the cost control policy is further presented by the use of pie-charts as follows.

The following pie chart presents the data gathered relating to authorisation of the cost policy.

**Fig 4.1 Authorisation of cost policy before implementation**

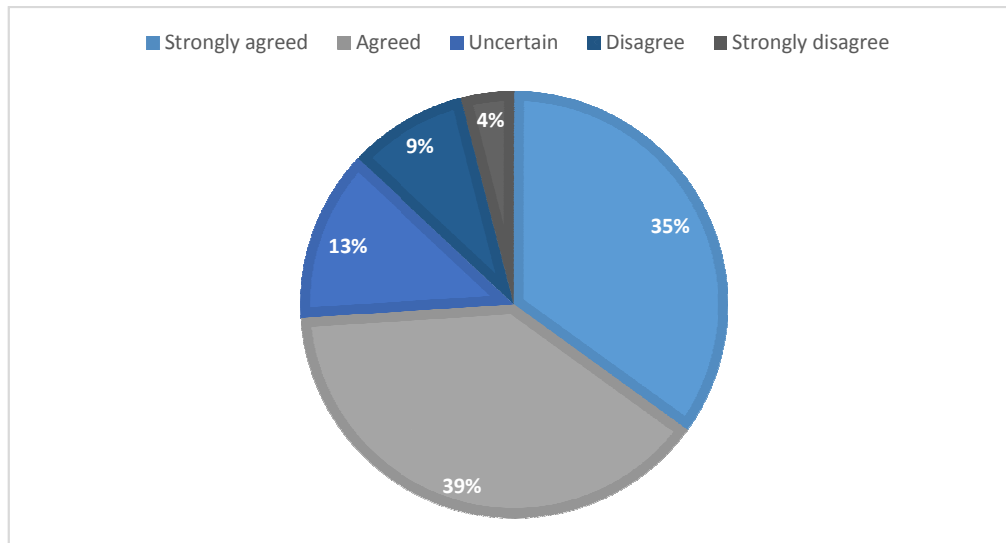
*Source: Questionnaires*

An overall of 65% of the questionnaires returned (39% plus 26%) indicated that cost implementation guidelines are available at National Pharmaceuticals. Based on the 65% of the respondent group agreeing the researcher concluded that there is authorisation of the cost policy before implementation by the responsible personnel at NatPharm.

#### **4.3.2.2 The authorisation of the policy is documented**

The following pie chart illustrates the percentage of those who agree, disagree and those uncertain as the documentation of the implementation guidelines.



**Fig 4.2 Documentation of authorisation**

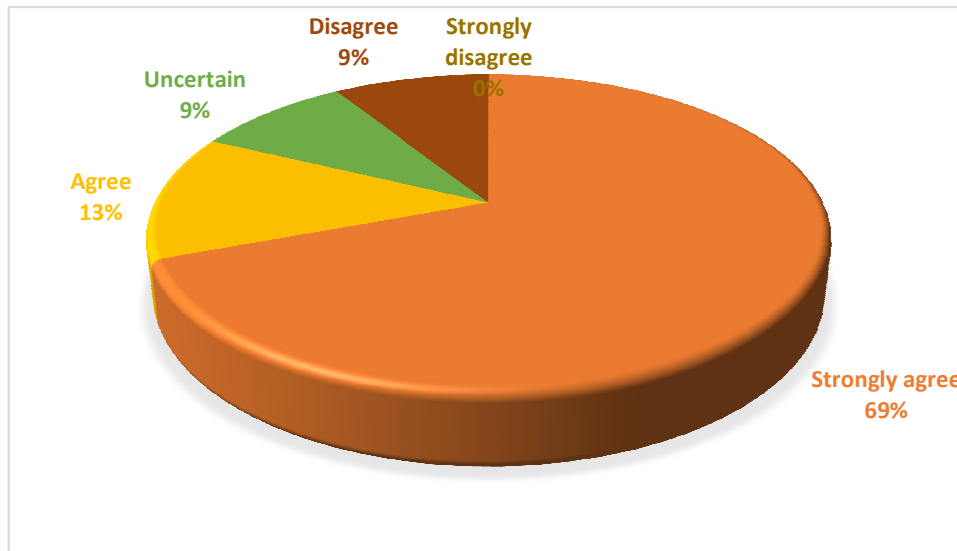
*Source: Questionnaires*

8 out of 23(35%) strongly agreed, 9 out of 23(39%) agreed, 3 out of 23(13%) were uncertain, 2 out of 23(9%) disagreed and 1 out of 23 (4%) strongly disagreed. In aggregate 74% agreed and 26% disagreed. This indicated that though the majority of the employees are aware with regard to the documentation of the policy, there are still some who are not aware that the policy is documented.

Based on the 74% of the respondent group agreeing, the researcher concluded that authorisation of the policy is documented.

#### **4.3.2.3 Financial usage guidelines are available for outsourcing decisions**

The following pie chart presents the gathered data relating to financial usage guidelines in respect of the cost control policy in place.

**Fig 4.3 Availability of financial usage guidelines for outsourcing decisions**

*Source: Questionnaires*

From the diagram 69% strongly agreed, 13% agreed, 9% were uncertain, 9% disagreed and nobody strongly disagreed with regard to financial usage guidelines being available for outsourcing decisions. In aggregate 82% agreed, while 18% disagreed. The researcher concluded that there are guidelines with regard to the use of financial resources at NatPharm.

#### **4.3.3 What are the cost control implementations with regard to the existence of controls?**

The following table presents the gathered data in respect of cost control implementation with regard to the existence of controls.

**Table 4.5 Cost control implementation with regard to existence of controls**

Question		Observations	Strongly agree	Agree	Uncertain	Disagree	Strongly disagree
(i) There is authorisation of cost control policies at NatPharm	RATE	100%	17%	22%	9%	30%	22%
	FREQUENCY	23	4	5	2	7	5
(ii) Controls over cost control policies are clearly defined as well as responsibility areas	RATE	100%	39%	35%	22%	4%	0%
	FREQUENCY	23	9	8	5	1	0
(iii) Cost control policies are authorised by responsible personnel before implementation	RATE	100%	35%	26%	26%	9%	4%
	FREQUENCY	23	8	6	6	2	1
(iv) Cost reports are prepared regularly by responsible personnel	RATE	100%	26%	26%	30%	13%	4%
	FREQUENCY	23	6	6	7	3	1
(v) Cost reports are reviewed regularly by the responsible personnel	RATE	100%	26%	26%	30%	13%	4%
	FREQUENCY	23	6	6	7	3	1

*Source: Questionnaires*

#### 4.3.3.1 Cost control policy implementation policy are in place at NatPharm

39% (9 out of 23) agreed that there is authorisation of the cost control policy at NatPharm. The remaining 61% (14 out of 23) disagreed that there is authorisation of the cost controls in place at the company.

Based on the 61% of the respondent group disagreeing, the researcher concluded that there is no authorisation of the cost policy at NatPharm.

#### 4.3.3.2 Controls over cost control policy are clearly defined as well as responsibility areas

Of the respondents asked 74% (17 out of 23) agreed that that controls over cost policy are clearly defined as well as responsibility areas while the remaining 26% (6 out 23) disagreed

that controls over cost policy are defined as well as responsibility areas. Based on this the researcher concluded that the controls over the cost policy are not clearly defined as well as the responsibility areas.

#### **4.3.3.3 Cost control policies are authorised by responsible personnel before implementation**

61% (14 out of 23) agreed that cost control policies are authorised by responsible personnel before implementation while the remaining (9 out of 23) 39% argued that the cost control policies are not authorised by responsible personnel before being implemented. Based on this the researcher concluded that there is proper authorisation by the responsible personnel before implementation with regard to cost control policies at NatPharm.

#### **4.3.3.4 Cost reports are prepared regularly by responsible personnel**

52% of the respondents (12 out of 23) agreed that cost reports are prepared and reviewed regularly by responsible personnel while the remaining 48% (11 out of 23) argued that the cost reports are not prepared regularly by the responsible personnel.

Based on the 52% plus the interview held with the Finance manager the researcher concluded that cost reports are prepared regularly.

#### **4.3.3.5 Cost reports are reviewed regularly by responsible personnel**

12 out of 23(52%) agreed that cost reports are prepared and reviewed regularly by responsible personnel while the remaining 11 out of 23 (48%) argued that the cost reports are not reviewed regularly by the responsible personnel.

Based on the 52% of the respondent group agreeing plus the interview held with the Finance manager the researcher concluded that cost reports are reviewed regularly by the responsible personnel.

#### 4.3.4 What is your assessment regarding the adequacy of personnel to implement cost control policies?

The following table presents the findings from the data gathered relating to the adequacy of personnel to implement cost control policies.

**Table 4.6 Adequacy of personnel to implement cost control policies**

		Total	strongly agree	Agree	Uncertain	Disagree	Strongly disagree
(i) There is adequate personnel in the cost and management accounting department	RATE FREQUENCY	100% 23	39% 9	35% 8	17% 4	9% 2	0% 0
(ii) A representative committee is present to implement the cost control policy	RATE FREQUENCY	100% 23	13% 3	13% 3	13% 3	43% 10	17% 4
(iii) NatPharm retrains its personnel for any new developments in the cost control policy	RATE FREQUENCY	100% 23	17% 4	39% 9	13% 3	17% 4	13% 3
(iv) Financial resources are available to help in the implementation of the cost control policy by the Committee	RATE FREQUENCY	100% 23	9% 2	9% 2	22% 5	39% 9	22% 5

*Source: Questionnaires*

##### 4.3.4.1 There are adequate personnel in cost and management department

An aggregate response rate of 74% (17 out of 23) agreed that personnel are adequate in the cost and management department and 26% (6 out of 23) argued that there is inadequate personnel in the cost and management department.

A rate 74% agreeing is indicative that there are adequate personnel in the cost and management department though 26% of the respondent group disagreed.

Based on the 74%, researcher concluded that there are adequate personnel in the cost and management function basing on the questionnaires bunched up with the interview held with the finance manager when he highlighted that there is adequate personnel in the cost and management accounting department.

#### **4.3.4.2 A representative committee is present to implement the cost control policy**

Of the 23 questionnaires returned, an aggregate of 74% disagreed with regard to the existence of cost control representative committee. However a 26% positive response was achieved from the respondents regarding the presence of the representative committee for the implementation of cost control policies. This indicated that though many of the respondents are aware of the absence of the representative committee, there are still some employees who are not aware of this.

From interviews done by the researcher four of the interviewed respondents agreed that there is no representative committee at National Pharmaceuticals. Based on this plus the 74%, the researcher concluded that there is no representative committee at NatPharm.

#### **4.3.4.3 NatPharm retrains its personnel for any new developments in the cost control policy**

Of the respondent group 56% (13 out of 23) agreed that NatPharm retrains its personnel for any new developments in the cost control policy however, 46 % ( 10out of 23) disagreed.

The 56% bunched together with interviews indicated that for any new developments NatPharm retrains its personnel and the 46% indicated that there are still some employees who are not aware of such activity. Based on the 56% the researcher concluded that personnel are retrained for any new development in the cost control policy.

#### **4.3.4.4 Financial resources are available to help in the implementation of the cost control policy by the committee**

4 out of 23 (18%) agreed that financial resources are available to help in the implementation of cost control policy by the committee while 19 out of 23 (82%) disagreed that financial resources are there.

The 82% disagree rate is significant to conclude that there are no financial resources to help in the implementation of the cost control policy. Bunched together with responses from the interviews held the researcher concluded that there is lack of financial resources to implement the cost control policy.

#### 4.3.5 What challenges are faced over cost control implementation guidelines?

The following table presents the findings of the researcher with regard to the challenges over cost control implementation guidelines at National Pharmaceuticals.

**Table 4.7 Challenges over cost control implementation guidelines**

		Total	Strongly agree	Agree	Uncertain	Disagree	Strongly disagree
(i) There is top- down approach to cost control and management at NatPharm	RATE	100%	39%	35%	17%	9%	0%
	FREQUENCY	23	9	8	4	2	0
(ii) There is resistance to change from some employees	RATE	100%	39%	26%	13%	17%	4%
	FREQUENCY	23	9	6	3	4	1
(iii) There is a bottom up approach to cost control at NatPharm	RATE	100%	9%	13%	9%	30%	39%
	FREQUENCY	23	2	3	2	7	9
(iv) Lack of qualified personnel to implement the policies	RATE	100%	9%	9%	22%	39%	22%
	FREQUENCY	23	2	2	5	9	5

*Source: Questionnaires*

##### 4.3.5.1 There is a top-down approach to cost control and management

From the twenty three questionnaires returned 9 out of 23 (39%) strongly agreed, 8 out of 23 (38%) agreed, 4 out of 23 (17%) were uncertain, 2 out of 23 (9%) disagreed and 0 out of 23 (0%) strongly disagreed with regard to the existence of a top-down approach to cost control and management.

Based on the 74% of the respondent group agreeing bunched up with the interviews done by the researcher all of the four respondents interviewed indicated that there is a top down approach to cost control and management. However the 26% of those who disagreed indicated that there are still some employees who are not aware of the type of approach to cost control and management at the company.

#### **4.3.5.2 There is resistance from some employees**

65% (15 out of 23) were of the opinion that the major challenge associated with cost control policy implementation is resistance from employees while 35% (8 out of 23) disagreed that there is resistance from some employees.

Based on 65% of the respondent group agreeing that there is resistance from some employees, the researcher concluded that there is resistance from employees over cost policies changes.

This concurs with Lunenburg (2011) when they cited that there is human tendency to resist to change as it forces people to adapt to new ways of doing things.

#### **4.3.5.3 There is bottom up approach to cost control**

5 out of 23(22%) agreed that there bottom up approach over cost implementation guidelines while 18 out of 23 (78%) disagreed that there is bottom up approach over cost implementation guidelines.

Based on the 78% of the respondent group disagreeing that there is a bottom up approach bunched together with interviews done by the researcher when three of the four respondents asked disagreed that there is bottom up approach over cost control implementation guidelines the researcher concluded that there is no bottom up approach to cost control at NatPharm. This implies that employees' participation in the implementation process is overlooked at NatPharm.

#### **4.3.5.4 Lack of qualified personnel to implement the policies**



18% (4 out of 23) mentioned lack of qualified personnel as a challenge over cost implementation while the remaining 82 % ( 19 out of 23) argued that lack of qualified personnel is not a challenge over cost control implementation.

Based on the 82% the researcher concluded that there is lack of qualified personnel to implement the cost controls and this contradicts with Piva *et al* (2008) when they highlighted that well trained personnel are essential to compliment the cost controls at the work environment.

#### **4.3.6 What would be the practice that can enhance cost control and management at NatPharm?**

The following table presents the findings of the researcher with regard to the best practice that can enhance cost control and management at National Pharmaceuticals.

**Table 4.8 Best practice to enhance cost control and management**

		Total	strongly agree	Agree	Uncertain	Disagree	Strongly disagree
(i) Downsizing	RATE	100%	39%	35%	17%	9%	0%
	FREQUENCY	23	9	8	4	2	0
(ii) Cost driver analysis	RATE	100%	39%	26%	13%	17%	4%
	FREQUENCY	23	9	6	3	4	1
(iii) Purchasing alliances	RATE	100%	39%	13%	9%	22%	17%
	FREQUENCY	23	9	3	2	5	4
(iv) Budgetary control	RATE	100%	9%	9%	22%	39%	22%
	FREQUENCY	23	2	2	5	9	5

*Source: Questionnaires*

##### **4.3.6.1 Downsizing**

Out of the 23 responses achieved 17(74%) agreed that downsizing can enhance cost control at NatPharm and 6 (26%) disagreed that it can enhance cost control at the company. This was supported by the General Manager when they indicated that they are in a process of retrenching employees in the company.

Based on percentage of 74% of those agreeing bunched with the interview response of the general manager indicates that downsizing can enhance cost control is satisfactory.

#### **4.3.6.2 Cost driver analysis**

A positive response rate of 65% supporting that cost driver analysis can enhance cost control at the company is satisfactory though 35% disagreed. Based on the satisfactory response rate of 65% the researcher concluded that cost driver can enhance cost reduction.

The 65% satisfactory rate was supported by Grootendorst *et al* (2011) when they purported cost drivers have a direct effect on the annual growth in the pharmaceutical spending of any country and therefore directly increase the costs of the pharmaceutical manufacture though they are not directly involved in the operations of the entity or manufacturer.

#### **4.3.6.3 Purchasing Consortia**

Responses from the group yielded a 52 % ( 12 out of 23) satisfactory rate that purchasing consortia can enhance cost control at NatPharm and 48% (11 out of 23) disagreed.

Based on the 52% the researcher concluded that purchasing consortia can enhance cost reduction. This was also supported by an interview by the procurement manager when they agreed that the use business alliances can reduce their costs.

This is supported by Hendricks *et al* (2004) when they alluded that the creation of purchasing consortium is there to enjoy the combined purchasing power of the group so as to enhance reduction in costs and value added contractual terms and conditions from the external supplier. Based on the frequency and interview with the procurement manager the researcher concluded that purchasing consortia can enhance cost reduction.

#### **4.3.6.4 Budgetary control**

18% (4 out of 23) of the respondents agreed that budgetary control can enhance cost control while 82% (19 out of 23) disagreed.

Based on the 82% the researcher concluded that budgetary control cannot enhance cost reduction at NatPharm.

The 82% that disagreed concur with Surajkumar (2011) when he argued that a budget may or may not be true as it is based on estimates therefore it is not regarded as a replacement for management as the efficiency and usefulness of the budgetary system is dependent on skills and knowledge of management. The researcher concluded that budgetary control cannot enhance cost control at NatPharm.

#### **4.3.7 Interview responses**

The following table presents the interviews done by the researcher.

**Table 4.9 Interview responses**

<b>Position</b>	<b>Interviews scheduled</b>	<b>Interviews done</b>	<b>Percentage %</b>
General Manager	1	1	100%
Procurement Manager	1	1	100%
Production Manager	1	1	100%
Finance Manager	1	1	100%
<b>Total</b>	<b>4</b>	<b>4</b>	<b>100%</b>

***Source: Interviews***

The table shows four interviews were scheduled with the respondent group and all of them have been conducted by the researcher as shown by a 100% response rate achieved.

#### **4.4 Summary**

This chapter was on data presentation and analysis with analysis gathered through the use of questionnaires and interviews. The various data gathered was presented through the use of tables and pie charts. The researcher witnessed weaknesses and challenges within the cost

and management practices currently at NatPharm that need attention. The following chapter will look at the major research findings, recommendations and conclusion.

## **CHAPTER 5**

### **SUMMARY, CONCLUSION AND RECOMMENDATIONS**

#### **5.0 Introduction**

This chapter is going to summarize the research findings, conclude the research in connection with the research questions as well as giving recommendations to National Pharmaceuticals on the need to have an effective and efficient cost and management system and also a summary of the research.

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

The focal point of the research was to investigate into the effectiveness of cost and management accounting system of National Pharmaceuticals. The major objective of the research was to address the effectiveness of cost and management accounting relation to the profitability of the company.

Chapter one highlighted the challenges faced by the company as a result of outsourcing the drugs. The statement of the problem sought to investigate into the effectiveness of outsourcing as cost control technique. It went on to outline the background of the research study, statement of the problem, main research question, research objectives, sub research questions, significance of study, delimitation of study, limitations of study, abbreviations and definition of terms as well as a summary.

Chapter two was on literature review. It reviewed what the relevant literature has to say in relation to the outlined objectives which centred into investigating the effectiveness of cost and management accounting in a manufacturing pharmaceutical company. Interrogations from different authors and scholars were used to support or argue on the research objectives.

Chapter three was on research methodology. The descriptive research design was used by the researcher. The chapter also presented the research population looking at accessible population and the target population. Due to the time factor the researcher employed the use of stratified random sampling to select the population. To aid in data collection questionnaires (with the help of the Likert scale) and interviews were used by the researcher.

Chapter four was on data presentation and analysis. The gathered data from the research findings which were done through interviews and questionnaires was presented using tables and pie charts in this chapter and analysed through the use of the mode per every diagram presented. Thirty two questionnaires were given out but only twenty three were able to be retrieved for the conclusions drawn. A total of four interviews were conducted.

## **5.2 Major research findings**

- ❖ The cost control policy in place is not effective.
- ❖ There are cost control implementation guidelines and control over the cost policy is well defined as well as responsibility areas.
- ❖ There is adequate personnel in the cost and management department though there is no cost representative committee.
- ❖ There is a top down approach to cost control and management at NatPharm and there is also employee resistance to the change process.
- ❖ Budgetary control, business alliances through the use of purchasing consortia, downsizing and cost driver analysis can enhance cost reduction at National Pharmaceuticals.

## **5.3 Conclusion**

The research study was successful as problem identified by the researcher is a pertinent problem on the ground at National Pharmaceuticals and that the researcher was able to obtain answers for all the research questions asked.

## **5.4 Recommendations**

- ❖ National Pharmaceuticals should formulate a cost reduction and cost control committee so as to manage the costs and spending of the company.

- ❖ The company should solicit employee ideas on cost reduction opportunities, allowing them to make meaningful contributions in decision making and providing feedback on their or even rewarding them for success as a result in their efforts.
- ❖ National Pharmaceuticals should engage reduction strategies such as purchasing their medicines in bulk to enjoy bulk buying economies of scale.
- ❖ National Pharmaceuticals should also reduce its workforce, the company has skilled but unutilised personnel because it is manufacturing below capacity
- ❖ National Pharmaceuticals management should continuously review their cost and management accounting system and upgrade it where necessary.
- ❖ A cost conscious culture should be adopted by every employee of the company and management of NatPharm should train employees on the benefits of cost culture management to both the company and the employees.

### **5.5 Areas for further research**

The researcher recommends a further study on the cost and management practices in manufacturing industries comparing the benefits of outsourcing against the use of internal resources.

### **5.6 Summary**

This final chapter summarized all the main research findings and implications; these provided the centre on which conclusions were drawn and recommendations given. That is this chapter focused on the summary of chapters, main research findings, conclusions from the study, recommendations made and further research areas were suggested.

**APPENDIX I****COVER LETTER**

Faculty of Commerce  
Department of Accounting  
P. Bag 9055  
Gweru  
31 October 2014

The Finance Director  
National Pharmaceuticals  
14 Lobengula Drive  
Southerton  
Harare

Dear Sir/Madam

**RE: PERMISSION TO CARRY OUT ANACADEMIC RESEARCH**

My name is Shumirai Murambiwa and seeks your permission to carry out a research on **“The effectiveness of cost and management accounting system of National Pharmaceuticals”**. The research is carried out in partial fulfilment of the Bachelor of Commerce Honours Degree in Accounting, the researcher is currently undertaking.

The information you make available will be kept confidential and used for academic purposes only. Your assistance will greatly be appreciated.

Yours faithfully

Shumirai Murambiwa (R112565M)

**APPENDIX II****QUESTIONNAIRE****Questionnaire for National Pharmaceuticals Management and Employees**

Dear Respondent

May you kindly assist by responding to the best of your knowledge to the questions attached to this letter. The information will be treated as confidential and will be used for academic purposes only.

**Instructions**

- 1. Please do not write your name on the questionnaire.**
- 2. Please show response by ticking the respective answer box and fill in the corresponding spaces provided.**

**Questions****Personal Questions****1. Department of operation**

Purchasing       Accounts       Research and development       Production

**2. Level of Education**

A' Level      Diploma      Degree      Masters      Doctorate  
 Others (specify) .....

.....



### 3. The following is in regard with the firm's current cost control policy

Question	Strongly Agree	Agree	Uncertain	Disagree	Strongly disagree
(i) Outsourcing is the cost control policy at NatPharm					
(ii) The policy was formulated by management					
(iii) The policy is documented					
(iii) The policy is well communicated to the personnel					
(iv) The policy is communicated to new employees					

### 4. Information regarding cost control policy implementation guidelines

Question	Strongly Agree	Agree	Uncertain	Disagree	Strongly disagree
(i) There is authorization of the cost policy before implementation by the responsible personnel					
(ii) The authorization of the policies is documented					
(iii) Financial usage guidelines are also available for outsourcing decisions					

**5. NatPharm cost control implementation includes the following with regard to existence of controls**

Question	Strongly Agree	Agree	Uncertain	Disagree	Strongly disagree
i) There is authorization of cost policies at National Pharmaceuticals					
(ii) Controls over the cost policy are clearly defined as well as responsibility areas					
(iii) Cost controls policies are authorized by the responsible personnel before implementation					
(iv) Cost reports are prepared by the responsible personnel					
(v) Cost reports are reviewed regularly by the responsible personnel					

**6. The following relates to adequacy of personnel to implement cost control policies**

Question	Strongly Agree	Agree	Uncertain	Disagree	Strongly disagree
(i) There is adequate personnel in the cost and management accounting department					
(ii) A representative committee is present to implement the cost control policy					
(iii) NatPharm retrains its personnel for any new developments in the cost control policy					
(iv) Financial resources are available to help in the implementation of the cost control policy by the Committee					

**7. The company is facing the following cost control implementation challenges**

Question	Strongly Agree	Agree	Uncertain	Disagree	Strongly disagree
(i) There is top- down approach to cost control and management at NatPharm					
(ii) There is resistance to change from some employees					
(iii) There is a bottom up approach to cost control at NatPharm					
(iv) Lack of qualified personnel to implement the policies					

**8. The following practices can enhance cost control for Nat pharm**

Question	Strongly Agree	Agree	Uncertain	Disagree	Strongly disagree
(i) Downsizing					
(ii) Cost driver analysis					
(iii) Purchasing alliances					
(iv) Budgetary control					

Any other.....  
 .....

**End of paper**

**Thank you for your cooperation**

**Shumirai Murambiwa (R112565M)**

**APPENDIX III****INTERVIEW GUIDE****Interview guide: Questions to National Pharmaceuticals Employees and Management**

Questions relating to the firm's (National Pharmaceuticals) cost and management practices.

**Questions**

1. Are you aware of the cost control policy in place?
2. What is the firm's cost control implementation guidelines?
3. What is your assessment regarding the adequacy of personnel to implement the cost control guidelines?
4. What are the cost control implementation challenges at National Pharmaceuticals?
5. What measures can be put in place to counter the associated challenges?
6. What would be the best practice in cost control at National Pharmaceuticals?

**Thank you for your cooperation**

**Shumirai Murambiwa (R112565M)**

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