Propositions for Zimbabwe Businesses in Managing Costs in the Multi-Currency Era

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Abstract

Zimbabwe has undergone a decade of economic decline during the hyperinflationary period. This was its worst in its history. An attempt to jumpstart the economy saw February 2009 ushering in the multi-currency era. The foreign currency shortage which was prevalent in the hyperinflationary period did not ease off. Neither substantial foreign direct investment nor meaningful domestic investment flowed into the economy. A low level of cash resources existed within the economy due to low levels of investment. Business operating costs erode these cash resources. This paper suggests to Zimbabwe businesses possible measures to complement the conventional approaches to managing costs in this multi currency era given the scanty levels of investment injections into the economy. No research has been carried out in Zimbabwe on how operating costs may be contained given the low levels of domestic and foreign direct investment. Given the importance of investment for growth, as the economy slowly experiences growth, it draws on measures which were applied in some developed and emerging economies in the management of costs. The descriptive survey method and desk research were carried out to enable the gathering of data .Questionnaires and an interview guide were used to gather data. A sample of 30 business units was selected in the Gweru.. Major findings were that most entities maintain financial records not for cost control purposes but just to comply with regulations; most business units lack personnel with the cost management skills to practice lean management. The paper recommends cost variance reporting ,lean management practices and a culture of continuous improvement.
The paper presents an overview of the economy over the hyperinflationary era up to the multicurrency era, a review of related literature, the methodology applied, measures to contain operational costs in the multi currency era and the conclusion.

Key words: Lean Management, Segregation of duties, Verification, Internal Controls, Multi-currency

Introduction

Managing operational costs in business can be a mammoth task irrespective of the times, let alone in the Zimbabwean environment that experienced turbulence for a decade followed by insignificant investment inflows from both the domestic and foreign markets. Within economic circles, cash resources are scarce relative to the demand for them. Since the 1990s, Zimbabwe has experienced a lot of challenges in all sectors of the economy. Post 1997 Zimbabwe was suspended from the International Balance of Payment Support. On 14 November 1997 the Zimbabwean dollar 'crashed'. This was evidenced by inflation whose rate was unstable. Since that time, Zimbabwe has experienced a shortage of foreign currency. It fell in arrears in foreign debt servicing. It experienced a high unemployment rate due to declining industrial capacity utilization. The economy suffered from unstable energy supplies. There was under- utilization of land due to resource constraints. Companies folded up in the mining and manufacturing sectors. High interest rates made it prohibitive for entrepreneurs to borrow.(State of the Economy-June 2006)

The Governor of the Reserve Bank of Zimbabwe (Gono;2006) presented the state of business operations without the Productive Sector Facility from 2004-2006 as follows:

- Those static 12,7% (cumulative 93,7%)
- Those that cut down operations 25,4% (cumulative 77,8%)
- Those that had closed business 28,6% (cumulative 46,1%)
- Those continuing operations 6,3% (cumulative 52,4%)
- Those that increased product prices 3,2% (cumulative 81%)

Hyperinflation was over 1000% and was the highest in the world; 80% of the population was jobless and the population was living below the breadline. The economy experienced a negative growth rate of 2,4%.

The Central Bank crafted intervention measures. The objective was to sustain service delivery and avert the danger of further company closures and to increase capacity utilization.

February 2009 ushered in the multicurrency era and the suspension of the Zimbabwean dollar as the functional currency. The Minister of Finance in his Budget Speech(Biti T:.2009) spelt out the implications of the 'death of the Zimbabwe dollar' as follows:

i. the level of economic transactions would be determined by the amount of foreign money supply-"small stock of inflows of rands and the US $ in circulation and minimal Foreign Currency Accounts' deposits.
ii. this called for more exports than imports.
iii. with effect from February 2009, the economy would operate on a cash basis.

The net effect was for the economy to embark on cash budgeting and come up with creative ways of raising additional financial resources.

The manufacturing capacity utilization for 2009 was 10%. Revenue collections for the fiscus for January and February 2009 amounted to US$36,8m whilst expenditure stood at US$60m. The Minister acknowledged that Zimbabwe businesses were 'limping'(www.zimtreasury.org).

In the 2010 National Budget the Minister of Finance said, "Zimbabwe would rely largely on domestic revenue to fund its budget as donors continued to hold back aid.

The CIA World Fact Book (July 2011)gives economic indicators on Zimbabwe pointing towards a real growth of 5,9% in 2010. The economy still had to handle a large external debt burden whilst experiencing insufficient formal employment.

The 2012 National Budget reiterated Zimbabwe's 'limited access to external financing which necessitated that fiscal buffers be rebuilt. The cumulative revenue collection over January to February 2012 was below the target by US$59,2m.Debate has been on-going on the need to improve the liquidity situation and encourage the use of the formal banking sector.Since the onset of the multicurrency era, the business community had to start from scratch to reorganize business funding and deliver returns to shareholders. The onus to attract foreign investment has since rested in the hands of businesses.

Given the background to the study, this paper advocates for propositions to be adopted by the corporate world over and above the conventional cost control techniques. These should result in cost savings being realized, reduce pressure on liquidity hence 'freeing' foreign currency for other ends. This should enhance shareholder value, the gross domestic product and ultimately economic growth. A variety of measures to manage costs have been proposed and implemented in both the developed and emerging economies. Coote and Gould (2006) covered the concept of lean management. This is a production concept which leads to substantial returns for entities that would have applied it. This is substantially due to cost savings enjoyed by such entities. The origination of the concept lay with Engineer Taachi Ohio of Toyota Motor Corporation after World War II. The concept is focused on the elimination of waste in any business activity. A cut in volumes that must be reworked would contribute towards management of costs. The process of converting scrap into alternative products also is a step in managing costs.Empowerment of workers is another way of having workers contribute ideas on how best costs may be managed. Building partnerships with suppliers helps in cost cutting as lower charges may be quoted by the supplier. An improvement in the total quality helps in sustaining the demand for such quality goods or services. Reducing inventory holding level reduces holding costs and lowers risks of obsolescence of inventory.

Kimmel, Weygandt and Kieso(2011) identified the internal control principles. The six principles of control activities are establishment of responsibility, segregation of duties, documentation of procedures, physical controls, independent internal verification and the human resource controls. These controls are relevant in both the manual and computerized accounting systems.Young (2011) notes that providing finance feedback to business units is essential in cash management and ultimately in managing costs. This helps in promoting accountability, creating the ideal influence and when supported by clear explanations, the right tone is set.

Methodology

The descriptive survey method was used to gather primary data from the business sector. The population was made of the Gweru Urban business units. The population was stratified into the general retail sector, food sector, transport service sector and the construction sector. Stratification was effected in order to accommodate cost management practices unique to each sector. Smith(2003) describes the descriptive survey method as a way of obtaining information concerning the current status of a phenomenon in respect of variables or conditions on the ground. Such a survey targets specified respondents. The survey can either be qualitative or quantitative.

In short the descriptive survey describes the characteristics of a specific population(www.aect.org;260213).

Maykut & Morehouse (2004) further states that the quantitative approach quantifies the results of peoples' words and actions through the statistical analysis. The quantitative research allows a generalization of data and analysis of cause and effect using some statistical measures. The weakness that can be attributed to this approach is that at times it can collect superficial data. The development of standard questions by the researcher can lead to structural bias and false representations where data actually reflects the view of the researcher instead of the respondent. The descriptive survey approach elicits the participants' experience or perceptions(De Vos *et al.* (2002).

Data triangulation is a way of assuring validity of research results through a combination of methods and approaches. It also enables the overcoming of weaknesses and bias which can arise from the use of one method. Research instruments used to this end were questionnaires and an interview guide. These instruments enabled the collection of primary data. 90% of the population was made up of small to medium enterprises. 10% was constituted by companies.

Saunders *et al.*(2007) defines sampling as the selection of a fraction of the total number of units of interest for the ultimate purpose of drawing general conclusions about the entire body of units. A conclusion can thus be arrived at from the sample. The sampling method applied was the stratified random sampling method. Saunders *et al.* (2007) acknowledge that after dividing the population into sub-populations which are now more homogenous than before, population items can be selected from the strata. Such a procedure generates results which are more representative of the whole population.

Correlations can be made about the sub-sets

The questionnaire was designed along the Likert Scale format with five options for each statement-strongly agree, agree, unsure, disagree and strongly disagree. These targeted finance office staff, finance managers and costing staff. The Likert Scale was used since it attributes a quantitative value to qualitative data facilitating a statistical analysis. The Likert Scale enabled data analysis to be carried out with ease and saved response time for the respondents. Anonimity was ensured by coding the questionnaires and ensuring that the identity details of the respondents were not furnished. This ensured that respondents would be objective in their responses and be more willing to contribute towards the research. As was cited by Bell (2000), great care was exercised in the choice of terms and phrases to ensure that there was no ambiguity in the demands of the questionnaire.

The demographic data sourced aimed at establishing the level of education attained ,business-related training and experience of the respondents. The residual sections covered the establishment of cost control policy, the adequacy of accounting personnel, motivating factors for maintaining accounting records, use of accounting records covering costs, cost control through budgets, the use of costing reports for cost control purposes, internal controls in place, management practices in improving cost control.

The interview guide was structured to confirm matters raised in the questionnaire. These were aimed at data triangulation of findings from the questionnaires. They also enabled the researcher an opportunity to ensure that the respondents obtained a fuller understanding of questions posed.. As cited by Saunders at al(2007), interviews facilitated the probing of the interviewee by the researcher on issues which may not have been very clear.

To facilitate data collection, appointments for interviews were made through electronic mail. Questionnaire distribution was also made through electronic mail and by hand. Data would be presented in tables. The measure of spread applied in analyzing the findings is the mode.

Results and discussion

The findings as shown in Table 1 are on a sector by sector basis.

Table 1. Findings

	Retail sector %	Food sector %	Transport sector %	Construction sector %	Overall mean score %
Demographic Data					
Level of education					
At least 'O' level	90	75	68	70	76
Below 'O' Level	10	25	32	30	24
Business related training					
With exposure	35	30	32	60	39
Without	65	70	68	40	61
Business experience					
At least 3 years	38	30	32	30	32
Under 3 years	62	70	68	70	67
Costing policy					
In existence	23	32	26	32	28,25
Non-existence	77	68	74	68	71,75
Accounting records					
In place	100	100	100	100	100
Non-existent	0	0	0	0	0
Motivating factors for record maintenance					
Compliance with regulation	56	52	52	52	54
For future planning purposes	24	18	20	20	21
Reporting cost levels	10	20	16	13	15
Reporting profit	10	10	12	12	11
Adequacy of personnel for cost management activities					
Adequate	23	22	20	18	20,75
Inadequate	77	78	80	82	79,25

Existence internal controls					
Management supervision					
Existence	100	100	100	100	100
Non existent	0	0	0	0	0
Authorization of expenditure					
In existence	75	65	70	68	69,5
Non existent	25	35	30	32	30,5
Budgeting and budgetary control					
In existence	35	30	45	32	35,5
Non existent	65	70	55	68	64,4
Cost variance reporting					
Always carried out	15	12	10	15	13
Seldom	40	50	57	60	51,75
Rarely carried out	45	38	33	25	35,25
Lean management practices					
Engaging lean staff levels					
Never	100	100	100	100	100
Practice	0	0	0	0	0
Deliberate efforts to cut on waste					
Rarely do so	80	75	81	74	77,5
Never	20	25	19	26	22,5
Review of cost controls					
Annually	8	6	12	10	9
Bi-annually	0	1	2	3	2
Seldom	16	20	25	17	19
Never	16	20	25	17	17

The findings revealed the following:

General retail sector

Demographic data showed that for those charged with governance of the entities,90% at least have GCE Ordinary level of education whilst 10% have not attained this level of education.. Those who have been exposed to to business related training account for 35% whilst the rest have not had such exposure.. Those who have business experience of at least 3 years are acoount for 62% whilst 38% have business experience of below 3 years.

23% of the entities have a costing policy related to their activities whilst 77% do not have a defined costing policy.

100% of the respondents acknowledged that they maintain some form of accounting records.

The motivating factors behind the maintenance of accounting records were as follows:
56% were motivated by the need to comply with regulation;
24% used these for future planning purposes;
10% use these for costs' reporting purposes and
10% use these for profit reporting purposes.

On the adequacy of suitably qualified accounting personnel,23% confirmed that they had adequate personnel which could perform reasonably well. 77% said they experienced manpower constraints.

Management supervision was being experienced by all entities.

Authorisation of expenditure as a cost control measure was being experienced by 75% of the entities whilst the residual 25% said this was being done on an ad hoc basis in some enties.The management practice of budgeting and budgetary control was being experienced by 35& of the entities whilst 65% confirmed its non-existence.

Cost variance reporting was confirmed to be in existence by 15 % of the respondents;40% said this was done erratically whilst 45% confirmed the absence of cost variance reporting in their entities. On efforts being made to cut on waste, 20% confirmed that they erratically made efforts to cut on waste whilst 80% admitted that they never gave lean managementit due consideration. On review of controls,76% of the respondents seldom reviewed these controls;16% never reviewed these whilst 8% reviewed these annually.

Food sector
Demographic data reflects that 75% of the respondents in governance of the entities hold at least the GCE Ordinary level pass whilst 25% fall below this level if education:30% have business-related training whilst 70% do not have such business related training;70% have over 3years of business experience whilst 30% have business experience falling under 3years.

32% of the respondents confirmed that their entities had a costing policy in place whilst 68% did not have such a policy in place.

100 % respondents confirmed that their entities maintained some form of accounting records.

The motivating factors for maintaining records were as follows:
52% did so in compliance with regulation
18% kept them for future planning purposes
20% maintained them to report on costs incurred and
10% maintained these for profit reporting purposes.

On the adequacy of accounting personnel,78% indicated that they are experiencing personnel constraints whilst 22% confirmed that they had suitably qualified personnel.

The respondents acknowledged that they all experienced some management supervision
65% confirmed that authorization of expenditure was a prevalent internal control measure. 35% said this was done on an ad hoc basis.
70% confirmed that budgeting and budgetary control was non-existent whilst 30% confirmed its application in their entities.
12% of respondents confirmed that cost variance reporting was practiced;50% said this was carried out erratically and 38% said no cost variance reporting was practiced in their entities.
25% of the respondents confirmed that they erratically made efforts to cut on waste whilst 75% had never thought about lean management practices.
73% seldom reviewed cost control measures for their application and effectiveness;20% never reviewed these controls;6% reviewed these annually and 1% reviewed them bi-annually.

Transport sector
Demographic data revealed that 68% of those governing the entities at least hold GCE Ordinary level passes whilst 32% had an academic standard which fell short of the Ordinary level standard.32% had received or had been exposed to some business related training.68% had business experience of over 3years whilst 32% had experience of under 3years.
74% of the respondents acknowledged that they had a costing policy in
Place whilst 26% acknowledged that they do not have such.
100% respondents acknowledged that they maintain some accounting records.
On the motivating factors for the maintenance of records,
52%felt this was due to the need to comply with regulation
20% saw it fit to facilitate future planning purposes
16% felt this was to enable the reporting on cost levels whilst
12% said this was for reporting profit levels.

On the adequacy of accounting personnel,20% confirmed that their personnel needs were adequate whilst 80% faced manpower challenges.

100% respondents acknowledged that management supervision was in place as part of internal controls.

70% of the respondents confirmed that authorization of expenditure was being done whilst 30% indicated that this was done on an ad hoc basis.

55% of the entities had budgeting and budgetary control in place especially over consumables whilst 45% acknowledged the non-existence of budgetary control.

57% confirmed that they occasionally prepared cost variance reports;10% said they always prepared such cost variance reports whilst 33 % never had such a control measure in place.

81% of the respondents acknowledged that they had never given consideration to lean management practices whilst 19% had never given the thrust to cut on waste. On reviews of controls,61% of the respondents seldom carried out this exercise; 25% never reviewed the controls;12% did it annually whist 2% did it bi-annually.

The construction sector
This is the building construction sector made up of contractors.
Demographic data showed that 70% held the GCE Ordinary level passes whilst the other 30% held other subject passes below the standard of the GCE Ordinary level.

60% of the respondents had business related training in project costing whilst the 40% had not had such formal training.

70% had had business experience of over 3years whilst 30% had experience falling under 3years.

32% had a costing policy in place whilst 68% did not have such a policy.

100% respondents acknowledged that they had maintained some accounting records.

The motivating factors for the maintenance of accounting records were as follows:
55% did so to comply with regulation, for instance the revenue authority.
20% did so for future planning purposes;

13% did so to facilitate cost reporting whilst 12% did so for profit reporting purposes.

18% of the respondents acknowledged the adequacy of accounting personnel whilst 82% faced manpower challenges in securing such personnel.

100% respondents acknowledged that management supervision was being carried out in one form or another in their entities as part of internal control.

68% acknowledged that authorisation of expenditure was prevalent in their entities whilst 32% claimed that such a practice was non-existent in their entities.

68% confirmed that the budgeting and budgetary control practices were carried out whilst 32& claimed that such practices were non-existent in their entities.

60% confirmed that cost variance reports were at times formulated for cost control purposes;15% said such reports were always drawn up whilst 25% hardly remembered when such reports were formulated.

26% never gave thought to lean management practices whilst 74% rarely gave thought to a cut in wastages as a cost control measure.

70% acknowledged that they seldom reviewed controls;17% never reviewed them;10% reviewed them annually whilst 3% did so bi-annually.

Overall findings

Table 1 shows the overall results based on the overall mean score.

i. Demographic data shows that 76%% of the respondents hold GCE Ordinary level of education whilst 24% have an education falling short of the Ordinary level. The findings show that the entities have a reasonable level of knowledge that given the right business orientation, they can reasonably be expected to effect cost control measures in their businesses.

ii. Those with business related training stand at 39% of the respondents whilst those without are 61%. Business related training is lacking in those entrusted with governance of these entities.

iii. Those with over 3years experience in business are 67,5% whilst those under 3years experience are 32,5%. A substantial level of business experience is available within the business sector which when shared or pooled would assist in managing costs.

iv. The availability of a costing policy was confirmed by 28,25% of the respondents whilst 71,75% do not have. This shows the absence of a costing template in most sectors implying that challenges are bound to arise in cost management.

v. Accounting records are being maintained by all respondents. This shows that the entities should be amenable to advice on how more benefits can be derived from the records maintained.

vi. On the motivating factors for the maintenance of records
54% do so for compliance with the regulators such as Revenue Authority;

21% do so for future planning purposes;
15% do so for cost reporting purposes whilst
11% do so for profit reporting purposes
The motivating factor seems to be rooted substantially in meeting the regulatory obligations as opposed to managing costs in order to drive the entity forward.

vii. On adequacy of personnel, 20,75% have the requisite personnel to discharge cost management duties whilst 79,25% have challenges in securing such personnel. This shows that the calibre of manpower desirable in the entities to execute management duties is inadequate.
viii. Management supervision as an internal control practice has been prevalent in all entities. This shows the desire of entities to achieve their goals.
ix. The authorization of expenditure has been prevalent in 69,5% of the entities whilst this form of internal control has been done on an ad hoc basis in 30,5% of the entities.
x. Budgeting and budgetary control is being practised by 64,5% of the entities whilst 35,5% are not utilizing this form of cost management practice.
xi. Cost variance reporting is not being done by 51,75% on an erratic basis;35,25% do not prepare such reports whilst 13% are in the habit of preparing cost variance reports.
xii. This shows the lack of thrust on cost management practices in most entities. On lean management practices,79,5% rarely make effort to cut on waste whilst 22,5% have never thought of lean management practices. This confirms that managing costs lacks emphasis given the scarce resources in this multi-currency era.
xiii. On the review of cost control measures,70% seldom review these; 19% never do so 9% do so annually and 2% bi-annually. This practice of assessing the effectiveness of the controls is not done as it should. This seems to show that controls may be on paper but not being effective in cost control.

Conclusion

The findings are of significance to the business community in that gaps in cost control procedures were revealed. The control measures commonly employed in the entities were highlighted alongside what measures can be put in place in cost management in this era of low investment inflows.

Recommendations

Given the findings across the board, existing cost control measures and practices in entities must be reassessed.

- The maintenance of accounting records should be stretched to facilitate cost control and performance reporting on a timely basis. This should include variance reporting and budgetary control.
- Management supervision and practices should be diverse and comprehensive to achieve cost control objectives.
- Participatory decision-making should prevail in entities so that input from personnel is shared in line with the shared vision of the entity. This should promote a culture of continuous improvement which is essential for growth.
- Lean management practices such as cutting on waste, reworks, lean staff and recruiting the best within the limited resources should be adopted whenever possible
- A review of the controls within an entity must be done periodically so that such controls fulfill the desired objectives.
- Funds permitting, personnel could attend seminars or refresher programmes organized by support bodies such as Small Enterprise Development Corporation.

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