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**FACULTY OF COMMERCE**

**DEPARTMENT OF ACCOUNTING**

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**ANALYSIS OF THE EFFECTS OF COST CUTTING MEASURES  
ON FINANCIAL PERFORMANCE: A CASE OF ZETDC**

*A dissertation submitted to the faculty of commerce in fulfilment of the requirements of the  
Bachelor of Commerce (Honours) Degree in accounting at Midlands State University.*

***GWERU, ZIMBABWE: MAY 2017***

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## **DEDICATION**

I dedicate this dissertation to my parents Langton Matongo and Faith Matongo and my brothers, you have been my inspiration. Thank you for your undying support, but above all glory be to the almighty God with whom everything is possible (Matthew 19:26)

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## **ABSTRACT**

The purpose of this research was to investigate the effects of cost cutting measure on financial performance using ZETDC as a case. The research objectives outlined the nature of cost cutting techniques, how cost cutting affect financial performance and challenges faced in the implementation of cost cutting. The descriptive survey research design was used and data was gathered through the use of structured questionnaires and interviews and a total population of 41 employees which included the top management, Accountants, HR and internal auditors was sampled using convenience and purposive sampling. A case study approach was undertaken using both qualitative and quantitative data hence the study is therefore a mixed design approach. The research was designed in a way that allows both field research and secondary sources to be used. Research instruments considered for the purposes of this research are questionnaires which had 88% response rate and interviews which yielded 100% response rate. The data gathered was presented through histograms, bar graphs, pie charts and tables. The data accumulated was analysed using descriptive statistics specifically percentages and mode and rational conclusions were drawn from this. Upon data analysis, it was revealed that ZETDC cost cutting measures positively affects the financial performance in the long run but in the short run the financial woes will worsen before they improve. The recommendations passed by the researcher included the improvement of current cost cutting measures and continuation with the application of the cost cutting measures. The researcher also recommended ZETDC to implement controls so as to make sure that all current cost control procedures and policies are adhered to, budget formulation and introduction of incentives and bonuses for meeting budgets and lastly renegotiating existing transfer prices in contracts agreed with other subsidiaries of ZESA.

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## LIST OF ACRONYMS

ACRONYM	MEANING
ZETDC	Zimbabwe Electricity Transmission and Distribution Company
ZPC	Zimbabwe power company
CIMA	Chartered institute of management accounting
ACCA	Association of chartered certified accounting

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## Chapter 1 Introduction

### 1.0: Introduction

This chapter highlights the background of the study, the problem statement, objectives of the study, main research question, sub research question and justification of the study. It also covers the significance of the study, delimitations and limitations to the study. The chapter concludes by definition of key terms which are those terms regarded as complex and technical ending with a chapter summary which focuses on the details covered so far.

### 1.1: Background of study

Nalwade and Parakh (2013) postulated that for a business to survive, grow and prosper, cost cutting is one of the main activities that ensure the attainment of such objectives. Barbole (2013), Ghasghae and Fathollahi (2014), Muriithi et al (2014) and Hazarika (2013) analysed on the relationship between cost cutting and financial performance and they all agree that cost cutting improves financial performance through increase in profits. Yu and Park (2016), Omotayo and Kulatunga (2016), Athalye et al, (2015), Barbole (2013), Ghasghae and Fathollahi (2014), postulated that there is a significant relationship between cost cutting and financial performance. Muriithi et al (2014) carried a study on the effects of cost cutting on the financial performance using APA insurance company as a case in Kenya and he concluded that cost cutting practices positively affect financial performance of a company when the company is experiencing financial woes and they recognised that there is a significant relationship between cost cutting and financial performance of an entity. After the implementation of cost cutting measures, the changes and movements in financial performance of APA can be presented using a tabular illustration as shown below.

**Table1.1: Summary of the revenue and expenses movements for APA from 2012-2014**

	2013 (\$ 000)	2012 (\$ 000)	2011 (\$ 000)	2010 (\$ 000)	2009 (\$ 000)
<b>Revenue and costs</b>					
<b>Revenue</b>					
Gross premium written	37,164	34,800	33,500	36,500	32,500
Net Premium Written	16,441	14,101	13,964	13,964	13,964
<b>Expenses</b>					
Operating costs	6,152	7,362.5	10,560	18,608	15,560
Claims	7,605	6,507	7,584	7,584	7,584
Commissions and acquisitions costs	1,430	4,881.5	1,168	1,168	2,168
<b>Underwriting profit</b>	<b>10,254</b>	<b>4,350</b>	<b>3,652</b>	<b>(2,700)</b>	<b>(4,652)</b>

*Source: extracted 2014 APA report and 2013&2012 NDI annual report*

From table 1.1, APA (Kenya) has been experiencing increase in profits since the adoption of cost cutting initiatives such as downsizing by the insurance company in 2009. They stopped experiencing losses in 2010 and its revenue increased by more than 200% in 2011 when the underwriting profit increased from a net loss of \$2700 to a profit of \$3652. The profits of confident pay further increased by more than 250% the period between 2012 and 2013 when the profits increased from \$4350 to \$10254

However despite the compelling evidence provided by the proponents of cost reduction practices, there is no general consensus so far on the effects of cost cutting practices on financial performance. While some researchers have found cost cutting to positively affect financial performance, other researchers with their findings provide evidence of either null or negative effects of cost reduction practices on financial performance. Bullon and Bueno (2014), Kawai (2015), Datta et al (2014), Mojeed (2013) and Dixu (2013) asserts that firms implementing cost cutting tend to suffer more financial difficulties than their counterparts. Secondly, the improvement of financial performance by cost cutting is greater among companies that had not experienced any loss than among those that had experienced losses. According to Enu44gu (2014) who carried out a research on the effects of downsizing on the financial performance of Nigerian firm found that firms that employ cost cutting techniques such as downsizing tend to worsen their problems than solve them as show below

Table1.2: Financial performance of CFC (Pvt) Ltd for the period 2013 – 2015

<b>Years</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>Variance 2013-2014</b>	<b>Variance 2014-2015</b>
<b>revenue</b>	\$1 200 900	\$1 020 362	\$817 806	(\$180538)	(\$817806)
<b>Profit</b>	\$422 534	\$101 230	\$96 899	(\$321304)	(\$4331)

(Source: CFC management accounts 2011- 2013)

Enugu (2014) highlighted that the implementation of cost cutting measures such as downsizing by CFC (pvt) Ltd (Nigeria) in 2011 caused their profits to fall by more than 100% in 2012 and they continued to fall in 2013 by small margin of 6%.

In Zimbabwe, ZISCO Steel and Kingdom Bank are among some of the companies that embarked on cost cutting when they were in financial distress but this did not solve their problems and the companies have since closed.

On the other hand, Econet wireless a giant mobile operator in Zimbabwe experienced losses for a 5 year period between 2007 and 2012 and the company embarked on cost cutting, employing techniques such downsizing and the company has since been experiencing increase in profits thus improvement in financial performance (Econet Financial Bulletin, 2008-2015).

Since the effects of cost cutting on financial performance remain unsolved, more evidence on the relationship between cost cutting and financial performance is required. This research contributes to amplify our knowledge on the relationship between cost cutting and financial performance in Zimbabwe. Up to our knowledge, this issue has been researched scarcely on power companies like ZETDC in Zimbabwe.

The treasury Manager at a management meeting held in Kariba on the 5th of August 2015 cited that the financial woes were merely emanating from the accumulation of high product and service cost, high cost of materials, rising labour and overhead costs, (ZETDC's Bulletin February 2015 Issue).

An external audit for 31 December 2014 conducted by BDO Kudenga and Co highlighted that there is looming controversy on why ZETDC costs continue to rise continuously causing the organisation to realise losses as from 2013 to 2015. The auditors labelled the instability caused by the fluctuations of cost as lack of costs management and management was advised to embark on a cost cutting initiative and cost benefit analysis as tools for cultivating cost stability (ZETDC's Annual Report 2016).

Table1.1 below shows summary of the movements in Revenue and Expenditure for ZETDC since 2013-2015.

**Table 1.3: Summary of the revenue and expenditure movements 2013-2015**

<b>Years</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>VARIANCE 2013-2014</b>	<b>VARIANCE 2014-2015</b>
<b>REVENUE</b>	\$71,931,654	\$88,024,628	\$118,447,833	16,092,974	30,423,205
<b>EXPENDITURE</b>	\$74 225 712	\$95,650,212	\$139,945,331	(21,424,409)	(44,295,119)
<b>Net Surplus/(Deficit)</b>	(2,294,058)	(7,625,584)	(21,497,498)	(5,331,526)	(13,871,914)

(Source, ZETDC's Financial Bulletin; February 2013-2016: page 12)

Table 1.1 above displays the financial performance of ZETDC showing Revenue, Expenditure and Losses made from the year 2013 up to the audited financial results for the year ended 2015.

ZETDC is facing an increase in losses from (\$2,294,058) in 2013, to (\$7,625,584) in 2014 and (\$21,497,498) in 2015 due to the increase in operating costs that are misaligned to revenues. The company has been experiencing a growth in its revenue and costs in the period between 2013-2014 and there was a 28.8% growth in costs, that is from \$74,225,712 to \$95,650,212 which yielded a 22.4% growth in revenue which increased from \$71,931,654 to \$88,024,628, while a growth by 46.3% in costs between 2014 and 2015, that is from \$95,650,212 to \$139,945,331 produced a growth of 34.5% in revenue, that is from \$88,024,628 to \$118,447,833 which resulted in continuous realisation of losses. ZETDC has seen its losses continue to increase by more than 200% in 2014, that is from (\$2,294,058) to (\$7,625,584) and this worsened in 2015 when its losses reached an alarming figure of (\$21,497,498) from the previous (\$7,625,584) despite a 34.5% increase in revenue. Despite ZETDC implementing cost reduction initiatives, ZETDC has been experiencing an increase in its losses for the past three years and the situation has proved to be worsening than to improve.

## **1.2: Statement of the problem**

ZETDC is facing an increase in its losses as a result of the increases in its costs that are not aligned to increases in revenues a situation that results in the erosion of shareholders wealth. Despite efforts in place to cut costs through practices such as downsizing the company's financial woes continue. As such the study seeks to analyse the effects of cost reduction measures on the financial performance of ZETDC.

## **1.3: Research objectives**

Main Objective

To analyse the financial effects of cost cutting measures on the financial performance of ZETDC.

### **1.3.1: Objectives**

The study seeks to:

- To review the nature of cost cutting initiatives at ZETDC and their impact on financial performance
- To analyse how the control of costs affects the financial performance of ZETDC.
- To expose the challenges being faced by ZETDC in implementing effective cost reduction initiatives that affect financial performance

### **1.4: Sub research questions**

While addressing the main research problem, the study will also answer the following questions;

- What is the nature of the cost reduction initiatives at ZETDC?
- How has cost controls measures affected the financial performance of ZETDC?
- What are the challenges being faced by ZETDC in implementing effective cost reduction initiatives that affect financial performance

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

#### **To student**

This study is going to be carried out as an obligation in part fulfilment of Bachelor of Commerce Accounting (Honors) and equip the researcher with research skills.

#### **To MSU**

This research will be used as an academic resource in the Accounting department by other researchers who will be doing related study in future. The whole compilation of the research is expected to contribute to the Accounting department academic resources.

#### **ZETDC**

Findings of this study shall bring about areas which the organisation needs to pay certain attention on so as to come up with effective cost cutting initiatives that enhance the financial performance of the organisation.

## 1.6: Limitation of the study

While conducting the research, the researcher encountered the following challenges which might affect the findings of the study in relation to quality and quantity of data gathered:

- Some respondents were not willing to cooperate when asked about certain questions due to confidentiality issues. To do away with this the researcher made use of other secondary sources of data that were available.
- There were constraints financially that made it difficult for the researcher to print and photocopy his research working papers, however ZETDC which the student was attached to during his 3<sup>rd</sup> year did allow the student to use some of their facilities.

## 1.7: Delimitations of the study

The research study will be narrowed to the period starting from January 2013 to December 2015. The research shall be carried out at ZETDC Head Office in Harare. The researcher shall focus on the Finance Department laying his main emphasis on the impact of cost cutting on the financial performance of ZETDC.

## 1.10: Definition of key terms

- **Financial performance-** measure of the overall firm's financial health over a given period of time
- **Cost cutting-** a series of steps used by an entity to maintain adequate control over its costs
- **Power tariff** – this is the charge of a unit of electricity to customers as defined by (nhanga, 2015).
- **kWh** – This is a unit of electricity measured in kilowatt-hours (Nyoni, 2016)

## 1.9: Summary

The chapter placed emphasis on the background of the research problem. Included in the chapter were the objectives of the research and the main research question. The next chapter will discuss the literature review of the research problem hence guiding the researcher on what he should look at within ZETDC.

## **Chapter 2**

### **Literature review**

#### **2.0: Introduction**

The purpose of this chapter is to familiarize with the literature around the study. The chapter will review past research studies and relevant journals concerning the effects of cost cutting measures on the financial performance, presenting both empirical and theoretical literature of the research topic. The previous chapter brought about the none existence of a general consensus in views from different authors thus bringing up the existence of a gap that sparked the need of a thorough study on the effects of cost cutting measure on the financial performance.

#### **2.1.0: Cost control**

Anthony, et al (2015) posits cost control as cost containment and defined it as a broad set of cost accounting methods and management tools that aim at improving business cost efficiency through costs reduction or at least reducing the rate at which they grow. Businesses use cost control methods to monitor, evaluate and ultimately enhance the efficiency of specific areas, such as departments or divisions within their operations. Lockyer (2014) opined cost control as a method of comparing the cost of a business activity with the original cost in order to ascertain if the cost is as planned. Sikka (2014) was of the opinion that in cost control, targets to be achieved must be set and cost control system guides the organisation towards the attainment of that goal. According to Ayachit et al (2014) cost control involves a series of steps used by an entity to maintain adequate control over its costs. They further explained that it involves the analysis of costs and interpretation by the management to device corrective measures so as to increase efficiency and economy of operation. Dixu (2013) posited that cost control refers to policies and practices adopted by an organisation to measure if actual costs are fall under budgeted costs so as to correct variances by adjusting budgeted costs.

### **2.1.1: Costs**

The broad definition of costs is related to the economic resources, manpower, equipment, real facilities, supplies and all other resources necessary to accomplish work activities or to produce work outputs (Stewart, 2015). According to Ayachit et al (2014), costs refer to the monetary value of all expenditures in the production of goods and services. According to Stewart (2015) costs can either be fixed or variable in nature. Fixed costs are those which are not affected by the level of output while variable costs are those costs that are affected by the level of activity.

### **2.1.2: Financial Performance**

According to McMahon (2015), financial performance can be defined as a subjective measure of how well a firm can use assets from its primary mode of business and generate revenues. Further this term is used as a general measure of the overall firm's financial health over a given period of time, and can be used to compare similar firms across the same industry or to compare industries or sectors in aggregation. Richards (2015) defined financial performance as yard stick of how effective an entity is in employing its assets so as to generate revenue in its primary mode of business. According to Garvey et al (2012), there are basically three financial ratios used to measure the financial performance of an entity.

#### **Profitability ratios**

Garvey et al (2013) posited that profitability ratios are financial calculations used in assessing an entity's ability to generate profits in relation to its expenses and other costs. Sanni and Hashim (2013) postulated that profitability ratios show the ability of the management to convert every dollar of a sale into profits. The common profitability ratios are gross profit margin, operating margin and net income margin. Gross profit margin is the ratio of gross profit to sales. Operating margin is the ratio of profit before tax to sale. Net income margin is the ratio of net income to sales. The return on asset ratio is a profitability ratio that measures the company's effectiveness in using its assets to generate profits

## **Liquidity ratios**

Sanni and Hashim (2013) posited that liquidity ratios are used in measuring an entity's ability to meet its debt obligations. It involves the calculations of the current ratio, quick ratio and operating cash flow ratio. The common and most basic liquidity ratio is the current ratio. The current ratio indicates the ability of an entity to meet its short term obligations. The quick ratio differs from the current ratio as it only includes cash, account receivables and marketable securities. It reflects the possible difficulty in selling prepaid assets in the event of an emergency.

## **Efficiency ratios**

According to Garvey et al (2013) efficiency ratios help in measuring how well a company utilise its assets to generate income. McMahon (2015) posited that efficient ratios show how an entity can utilise its assets and manage its liabilities effectively. Efficiency ratios work hand in hand with profitability ratios. There are two common efficiency ratios namely receivables turnover and inventory turnover. Inventory turnover is a ratio of the cost of goods sold to inventory. Receivables turnover is the ratio of credit sales to account receivables and it indicates how efficient a company is in actively collecting its debts and extend its credits.

### **2.2.0: Overview of the nature of cost reduction initiatives**

In his own words, Nusslc (2014) defined costs reduction as a process that involves the identification and removal of unwarranted costs so as to increase financial performance without compromising quality of services. Germany power companies initiated the utilization of costs reduction initiatives provoked by the rising need to stabilize costs with the main theme of achieving an internal costs efficiency relationship (Mazon , 2014). Not only did they want to save on costs, but also to optimize the use of scarce resource in strategic, tactical and operational divisions. For this cause the utilization of different cost cutting initiatives came about, with main emphasis on moving towards a successful costs reduction.

## **Empirical studies**

### **2.2.1: Activity based costing (ABC) and cost control**

Kim and Ballard (2014) highlighted that activity based costing is a useful technique in managing costs. Tang et al (2010) in his research conducted in China construction companies and adopted descriptive research design. They found ABC as a useful tool in assisting to raise the level of cost management of construction projects, thereby increasing the competitiveness of a project in terms of costs. The data which they collected consisted of more than 20 companies with those that use ABC and those that do not use ABC. They asserted that ABC assists in allocating overhead costs to every product of construction projects according to activities and companies that used ABC seem better off as compared to those that do not employ ABC. From their findings they recommended firms to use ABC when carrying out their costing activities as it is more efficient in calculating cost per unit of a product hence showing the actual cost incurred by a product according to activities. Their view was that when a product or activity with high costs is identified it makes it easy for the cost cutting committee to pin point the area to reduce costs

A research conducted by Kramer (2015) in Kenya on several manufacturing companies revealed that ABC enables the reduction of wastage and inefficiencies. Kramer (2015) adopted descriptive research design and used questionnaires and interviews to gather data on the usefulness and suitability of ABC. Kim et al (2014) was of the same view and highlighted that ABC focuses at allocating costs as per activity hence giving the correct amount of costs being attributed to a product or department and this helps in identifying areas where cost are high or where wastage is occurring so as to apply cost control measures. Kramer (2014) postulated that, ABC gives the need for a proper scrutiny into the business processes and the removal of non-value adding activities so as to reduce costs. Garvey et al (2012) was of the same view and explained that, ABC enables the enhancement of financial performance by identification of activities that do not add any value to the organisation and yet realising costs. Garvey et al (2012) also postulate that ABC helps an entity to focus their cost control measures on activities which are incurring huge costs so as to curb them hence enhancing financial performance. All these authors reached the same conclusion that firms should adopt the use of activity based costing as cost reduction technique as it is useful and effective.

However, Rasiah (2011) highlighted out that ABC is a more useful tool if applied to manufacturing industries which are concerned with unit cost of every product produced than non-manufacturing companies like ZETDC which are in the business of distributing and selling electricity thus it may not be useful in the enhancement of the financial permanence of the non-manufacturing companies. Adeniji (2011) supported this view and further explained saying that many non-manufacturing firms are involved in other activities that will make it difficult to measure in terms of costs thus such organisations cannot rely on this tool to improve their financial performance.

### **2.2.2 Traditional costing (TDC) and cost control**

Research done by Mushonga (2015) in Southern Africa stated that contractors were happy with the use of TDC. He used descriptive research design adopting a case study approach and his findings revealed that contractors and manufacturers regarded traditional costing as a useful technique in the allocating of indirect administration overheads to projects and in allocating project overheads to the project work sections. They argued that most managers were pleased with the use of TDC. Sani and Hashin (2013) postulated that that the use of TDC techniques produce inaccurate costing results as they use a single overhead absorption rate. Nassar et al (2010) in his study in Egypt, their findings reviewed that traditional costing tends to mislead unit cost results. In their research findings most managers and contractors strongly agreed (94%) that traditional costing systems results tend to mislead cost results. The consultants whom they interviewed were of the same view that traditional costing approach produced unreliable project cost results. On the other hand, majority of companies in different industries (94%) and all consultants agreed that activity based system produces accurate project cost results than traditional costing systems since it uses multiple activity rates to absorb overheads. They assert that the activity rates used in activity based technique reflect the fact that it is activities that demand overheads not the project. From their findings all these researchers concluded that firms should adopt the used traditional costing as it is an essential tool in cost reduction.

However Joan (2014) highlighted that TDC approach pools all fixed overheads together and then spreads them to products on a volume based measure such as machine or labour hours. According to Marx (2011) it's a well-known fact that TDC costing technique utilises a single

volume based cost driver and as a result TDC technique distorts the final cost of a project and mostly it distributes overhead costs to cost centres according to their relative use of direct labour Marx (2011) and Joan (2014) all concluded that traditional costing often give inaccurate final unit or project costs. Averkamp (2014) postulated that TDC approach allocates fixed costs to the items manufactured on the basis of volume such machine hours; numbers of units produced or direct labour hours. Collier et al (2013) agreed with (Marx ,2011 ;Collier et al , 2013; Richards ,2014) go on to say that TDC approach apportion fixed overhead costs to different cost centres through the use of machine or labour hours per unit as the base.

According to Rajaserani and Lalita (2013) the apportionment of overhead costs in traditional costing is reliant on labour hours or machine hours to the extent that this concept makes it difficult to reveal the relationship between indirect costs and each product. They argued that traditional costing system cannot present the management with an accurate and operational measurement of performance required in an environment which requires continuously learning and improvement. Whittington (2015) states that traditional costing does not account the fact those projects are using different amounts on different resources and for this reason one must allocate indirect costs to each production unit using activity based costing for more accurate and reliable results. Dauber et al (2012) concluded by saying that traditional costing focuses on expenditures while activity based costing focuses on what is being done in terms of activities.

### **2.2.3: Target costing (TC) and cost control**

A study carried out by Nicolin et al (2014) reviewed that the implementation of TC in UK industries proved to be a success as the intended objectives of better pricing that results in the improvement of financial performance were met. Demelo (2013) states that target costing technique was first successfully implemented to the manufacturing industry in USA. According to the research findings of Tomic and Jasevic (2014) the manufacturing industry of Brazil revealed that target costing is applicable and useful. According to Zemina (2013) target costing is a cost management technique used for the minimisation of the overall cost of a product or project during its entire life cycle. Target costing is a tool which that an entity plans in advance for the price points, project or product costs, which are desired to be achieve for a new project or product ([www.accountingtools.com](http://www.accountingtools.com) 02/04/17 ,14.50). Cardos (2014) is

of the same view with Zemina (2012) who asserts that target costing as cost control technique in which the final cost is set after making a market analysis and the project or product is tailor made to meet customer preference. Stefea and Abbas (2012) highlighted that the process of target costing begin by stating the desired selling price as a result of market research carried out for the new project or product and from this target selling price, the target profit is subtracted to determine the target costs.

Mostafa and Said (2013) postulated that target costing is a tool used to constantly monitor projects or products from the design stage throughout its life cycle. Target costing is regarded as one of the best techniques used for achieving consistent profitability in a manufacturing environment. Zengin and Ada (2010) highlighted that target costing technique is a proactive cost management measure which requires continuous market research and prices are closely monitored so as to understand the market demand and the price elasticity of demand.

According to Mondem et al (2010) target costing is a cost cutting technique characterized by the implementation of broad actions so as to reduce expenditure and streamline organizational processes and projects under a well-defined target costing approach generated by a common budget by the management from various divisions and departments of the organization. Tomic and Jasevic (2014) outlined that if TC is supported and implemented, not only will it help in the attainment of immediate cost cutting objectives, but can also create an efficient platform and new capabilities that will create a competitive advantage for the entity when market conditions are uncertain. Considering the views aforementioned by different authors regarding the implementation of costs cutting through target costing, Tomic and Jasevic (2014) gave a precise recommendation on the best practice of costs administration to enable a sustainable and successful costs reduction initiative and they explained target costing as a management tool that can be applied broad actions to reduce spending as well as streamlining organizational processes.

However, according to Mondem et al (2010) TC is rebutted on several grounds since it puts pressure on managers, engineers and designers to design in line with predetermined costs. Tomic and Jasevic (2014) had the same view and he argued that target costing requires a large amount of mandatory cost cutting that can result in finger pointing to different parts of the company and consequently it can be resisted by heads of departments.

#### **2.2.4: Kaizen and cost control**

According to Mondem et al (2015) Kaizen costing implies achieving cost reduction targets for every department motivated by a short term profit plan to the extent that a company changes the way it normally manufactures existing products or carry out its projects. The cost cutting initiatives include the eliminating wastage and continuous improvement. Singh & Singh (2012) postulated that Kaizen costing technique is a useful tool when producing a new product when cost cutting is required through the removal of wastages and use of expensive materials during manufacturing while at the continuously improving quality.

Okmen (2015) highlighted that Kaizen costing is a technique for managing profits as its main objective is to reduce production costs during manufacturing and in the purchase of raw material. In line with Okmen (2015) was Manzoor (2012) who further explained that Kaizen costing is a cost management technique that involves cost minimisation towards a targeted profit rather than just responding after cost overruns happen on the manufacturing. Zengin and Ada (2010) compared the Kaizen costing technique to other conventional cost control techniques that aim to investigate and respond cost overrun and concluded that the Kaizen costing practice proves to be more effective than the other methods. Kaizen costing practice involves the minimisation costs which results in changes in the production or manufacture of a product.

#### **2.2.5: Transfer pricing (TP) and cost control**

According to Jain and Narang (2012) transfer pricing is a cost cutting technique which enhances the financial performance of an entity. TP can be defined as the cost at which goods or services are transferred between subsidiaries of a group company (Jain and Narang, 2012). Nalwade and Parakh (2013) highlighted that the application and use of transfer pricing among subsidiaries enhances financial performance as the transfer price may be lower than the price which the product is being sold in the market. Nalwade and Parakh (2013) further explained the concept of transfer pricing and asserts that TP provides the ground for negotiations between the selling and the buying division so as to come up with a price that is beneficial to the group as a whole. Hafez et al (2015) stated that transfer pricing positively affects the financial performance of an organisation as it puts a business at a competitive advantage emanating from guaranteed supply of cheap raw materials hence making the company free from the risk of raw material price fluctuations.

However Maheshwari (2015) had a different view of the whole concept. Maheshwari (2015) argues that the success of transfer pricing depends on the negotiation skills of the buying and selling division and in the case where the buying division fails to negotiate for a lower price, transfer price will not enhance the financial performance. Rof (2012) has the same view with Maheshwari (2015) and he asserts that subsidiaries in a group have different goals and objectives thus they might not be aiming for the same goal and this reason transfer pricing cannot be relied upon as a tool that can result in the enhancement of the financial performance of an organisation.

### **2.2.6 Standard costing (SC) and cost control**

Jain and Narang (2012) states that standard costing is a technique that involves budgeting expected expenditure which will act as a road map in guiding expenditure. According to Hamilton and Martha (2015), after the construction of a budget, comparisons will then be made against the actual expenditures done and this acts as a yard stick in the measurement of financial performance as operating within the budget entails a positive impact on financial performance while negative variances from the budget entails a negative impact on the financial performance. The objective of setting standard costs is to enable a comparison between budgeted costs against actual costs to enable management of costs if there are adverse variances (Australia, 2012). (Akenbor and Agwor (2015) regard a negative variance as when actual costs deviate outside the budgeted costs, whilst a positive variance is when actual costs falls within the range of the budgeted costs

However, Otim et al (2012) opined that the use of standard costing does not necessarily imply the enhancement of the financial performance as its success in enhancing the financial performance depends whether the budgets were properly communicated or not. Garvey et al (2012) further emphasised that standard costing may not enhance financial performance as cost control reports are usually not timely.

### **2.2.7: Process based management (PBM) and cost control**

Mckinsey (2010) submitted that process based management (PBM) is a management technique that formulates cost reduction policies that are in line with the mission, vision, and core values of an entity and it helps to come up with policies that govern expenditures of an

organisation in question whilst ensuring that the company is not just functioning on a platform of costs efficiency alone, but one of effectiveness too. Mazon (2014) posited that since PBA starts from the strategic sphere, the direction of the projects won't falter, unlike when goals are formulated at a tactical level where some projects tend to deviate away from the budget. Mazon (2014) believed that working towards a common goal helps in bringing harmony across departments within the department. However, PBM requires reiteration as strategic support alone is inadequate to make the philosophy of costs reduction a success, thus brings in the need of strong participation from top management, middle management and employees from key production processes so as to enhance greater responsibility for optimal results. Despite the fact that the two scholars agree on the pre-consideration of PBA in costs reduction success. The opinion of Mckensey (2010) is worth considering and should be recommended as it puts importance around aligning the vision, mission and core values of an organisation during the formulation of costs reduction policies which in turn will help to define the policies that controls expenditure and utilisation resources, hence works best for organisations like ZETDC. Daly et al (2014) further emphasised that PBA does not only just manage individual processes but goes beyond to manage and operate all processes balancing and optimising the delivery of value to consumers and also differentiate the company from its competitors.

### **2.3.0: Cost control and organizational performance**

Wanyugu (2014) did a research on cost cutting practices on micro and various small businesses in Kenya using Kibera as a case and found out that the cost cutting practices are an important factor in the performance of SMEs as they have a positive impact on the firm's profits and total costs. While carrying out his study he adopted a descriptive research design and concluded an entity should search for ways to improve its financial performance and this can be achieved through cost reduction. Siba (2013) carried out a study on the relationship between financial management practices and financial performance of commercial banks in Kenya and her findings showed that 70% of the commercial banks' profits were increasing annually not because the revenue of the commercial banks was increasing but because their costs were falling. She found that bank managers are financial risk averse and avoid uncertain business ventures which tend to be risky in terms of high costs. Nyongesa (2014) analysed the relationship between financial performances of insurance companies in Kenya against cost control practices. His research findings showed that there was a positive and significant

relationship between costs control practices and financial performance as cost cutting resulted in an increase in profits, proper utilisation of resources, efficient utilisation of labour and better decision making which all have a positive impact on the overall performance of an organisation. All these researchers adopted descriptive research design and they recommended firms to embark on cost cutting as this will improve the organisation performance. However, the research did not establish reasons for this correlation.

Munoz (2014) carried out research on a wide range of firms in Spain and concluded that cost control measures such as downsizing improve financial performance. Munoz used descriptive research design to explain the variables from a sample consisting of firms adopting cost cutting and other not adopting cost cutting. He concluded that firms should engage on an effective and well planned downsizing as this will improve the efficient allocation of scarce resources and consequently improve financial performance. Chigara et al (2013) is of the same view that cost control improves financial performance of firms through efficient allocation of scarce resources and this includes the removal of idle and surplus workers through retrenchment or downsizing. They explained that utilisation of scarce resources implies the use of the scarce resources to generate the maximum attainable benefit with none accumulation of wastages. Evaggelia et al (2011) and Maiga et al (2013) further supported the view that cost control measures improve financial performance by improving efficiency and said that cost control measures enables attainment of maximum return from all the assets employed by an entity such as labour thus increasing financial performance.

Baumol et al. (2013) posited that layoffs in Japanese entities were more likely when they experienced lower profitability or incurred financial losses. Baumol et al (2013) was of the view that cost control positively affects financial performance through increases in profits and he found decreases in profitability as the primary motivator of downsizing among firms in Taiwan.

However the empirical studies on cost control practices and how they affect financial performance have presented mixed results. Klammer (2013) in his analysis of the relationship between sophisticated cost control methods and financial performance in USA, used a descriptive research design and found out that despite the growing adoption of sophisticated cost control methods, there was no consistent significant association between financial performance and cost control techniques. Yu and Park (2016) in their multiple variables study

of the effects of cost control measures on financial performance which also involved the use of modern cost control techniques on manufacturing firms in South Korea found that cost controls are more effective when a firm implements them proactively and less effective when an entity implements cost controls following a financial loss as a “quick fix” to a financial problem. They asserted that improvements as a result of cost control measures were greater in organisations that had not experienced losses than those that were experiencing losses. Their findings reviewed that firms implementing downsizing tend to suffer more financial difficulties than those who would not have embarked on a cost cutting exercise as these practices of cutting costs tend to negatively affect financial performance through decrease in staff moral which results in a decrease in productivity and efficiency.

Garvey et al (2012) opined that cost control demotivates employees thus causing them to be wasteful and inefficient in their duties thus bringing about a negative impact on the financial performance of entities. Ibrahim (2015) analysed the effects of cost control practices such as downsizing in Malaysian manufacturing industries and the research findings highlighted that announced layoffs do not enhance financial performance. He highlighted that the improvement of financial performance by retrenching was found to be greater among companies that had not experienced any loss than among those that had experienced loss. This shows that none of the financial variables were significantly affected following retrenching.

Datta et al (2014), Gandolfi & Hansson (2014) and Kawai, 2015) the assumptions appear to be unfounded as contradictory academic evidence proves that there is no general consensus that firm which engage in cost control practices such as downsizing achieve their intended financial objectives. Despite some studies having found downsizing as a tool to positively affect financial performance (Kang & Shivdasani, 2007; Palmon, Sun, & Tang, 2007; Espahbodi & John, 2014; Chen, Mehrotra, Sivakumar, & Yu, 2013; Yu & Park, 2016), other studies from around the world contradict these findings. A study of Chinese manufacturing industries from 2003 to 2015 revealed no significant differences in the financial performance between firms that embarked on a downsizing exercise and those that did not (Bullón & Sánchez-Bueno, (2011) while a study of 3266 companies on the Standard and Poor's 500 Index from 2007 to 2013 could not establish the existence of a significant, consistent evidence that downsizing led to improved financial performance (Cascio, & Young, 2013).

According to Wong (2015) cost control practices positively affect financial performance and results in increase in profitability, better utilisation of scarce resources, better decision making and improved supervision of labour which consequently results in the improvement of labour.

### **2.3.1: Cost control and profitability**

Warusawithrana (2016) and Marx (2013) posited that there is an inverse relationship between cost and profits. They explained that if costs fall, profits will rise and if costs rise, profits will also. With this view they postulated that cost control will reduce the total expenses which will consequently result in the increase in profits. Watson et al (2013) explained further by saying that, employing cost cutting measures will result in a doctor patient case, that is, he was of the view that cost cutting measures will enhance the financial performance of an organisation but the case may worsen before it improves. He had the same view with Park (2016) who asserted that cost control measures such downsizing and other techniques may actual cause the expenses to rise in the short run but cause expenses to fall in the long run.

However, While some researchers have found cost cutting to positively affect financial performance, other researchers with their findings provide evidence of either null or negative effects of cost reduction practices on financial performance. Bullon and Bueno (2014) assert that firms implementing cost cutting tend to suffer more financial difficulties than their counterparts. Secondly, the improvement of financial performance by cost cutting is greater among companies that had not experienced any loss than among those that had experienced losses

### **2.3.2: Cost control and resource utilisation**

According to Chigara (2013) the implementation of cost cutting measures inserts cost consciousness in employees in the organisation which consequently result in better resource utilisation. Maiga (2013) posited that resource utilisation involve the use of available scarce resources and produce the maximum benefit possible without any losses accumulated. Hafez (2015) postulated that effective cost cutting results in an increase in the efficient ratios. Wen (2014) posited that cost cutting brings efficiency in the utilisation of resource and areas where

wastages are occurring are easily identified hence this will result in the improvement of financial performance through increased productivity and efficiency

However, According to Garvey (2012) cost cutting may result in wastages and decrease in productivity. He argued that employing cost cutting strategies such as downsizing might demotivates the workers and this may have a negative effect on the financial performance of an entity. This is supported by Chigara (2013) and Agwor (2015) who postulated that cost cutting may also result in increased worker supervision which demotivates and make employees in the organisation to have a negative attitude towards cost cutting in the organisation which results in other individuals not adhering to the policies and procedures of cost cutting. This usually results in wastages and decrease in productivity.

#### **2.4.0: Challenges faced in implementing cost controls**

Slocumb (2015) highlighted that despite continual focus by some companies on traditional methods of cost reduction, cost reduction does not have a strong track record of truly providing positive change. Classic- problems with cost reduction efforts are that they limit upside and in some cases destroy value. Mitchell (2015) cited typical reasons for failure as lack of long-term thinking fundamentally limiting any sustainable cost reduction program. Many executives find it difficult to manage short-term bottom line impacts for the sake of longer term benefit. He further highlighted that lack of budgeting fundamentals around knowing normal costs as well as a lack of financial discipline and for process variability or instability limits many efforts from moving beyond a one-time leadership driven effort. These merely emanates from.

#### **2.4.1: Improper cost management and control**

According to Schawk (2013) there should be a monitoring process so as to ensure that the objectives of cost cutting are met. Dunken (2013) further postulated that the non-existence of a monitoring process makes it almost impossible for cost cutting plans to achieve the desired results. Dunken (2013) posited that in an organisation, the departments should maintain their own budgets that enable monitoring and review of set targets. If budgets are formulated, this enable the cost control committee to analyse if there variances and if they exist what action should be taken. The existence of negative variances calls for management to take

appropriate action. Garvey (2012) postulated that variances help the management in identifying areas that requires the application of cost reduction initiatives.

#### **2.4.3: Lack of support from top management**

Garvey et al (2012) was of the view that one of the challenges experienced in the implementation of cost cutting measures is lack of support from top management. Garvey (2012) was of the view that top management may have a negative perception of cost cutting measures due as cost cutting might affects some benefits they enjoy in the organisation. Cost cutting takes various form and it can come in the form of cutting fringe benefits hence in such cases top management may be reluctant to support cost cutting measures due to self-interest

#### **2.4.4: Insufficient knowledge of cost control techniques**

Chigara (2013) posited that the non-existence of adequate knowledge about cost cutting in an organisation can be a big challenge. He was of the views that employee must be trained and made to attend seminars concerning cost cutting so that they gain knowledge about cost cutting in the organisation. Hafez (2013) postulated that resistance towards cost cutting and negative perceptions are as a result of insufficient knowledge about cost cutting. He emphasised that if employees gain sufficient knowledge about cost cutting, they won't perceive the process as an enemy but rather as a way of progress in the organisation.

#### **2.5.0: Summary**

The chapter presented both theoretical and empirical literature of the research study focussing on the effect of cost cutting on financial performance of an organisation. Various research findings and conclusion of other authors were highlighted. The next chapter will present methodology of the study

## Chapter 3

### RESEARCH METHODOLOGY

#### 3.0: Introduction

This chapter includes the research methodology which comprises of the research design and research instruments used in collection and analysis of data. The chapter ends up with an analysis and presentation of data plan and then concludes with a chapter summary.

#### 3.1: Research design

Rajasekar et al (2013) defined a research design as the strategy used to integrate different components of the research in a logical and coherent way to ensure that the research problem is addressed effectively. They further emphasized that it includes the blue print for the analysis of the collected data. According to Creswell (2013), research design refers to the methods and procedures applied in the collection and analysis of variables outlined in the research problem. Wyk (2012) opined that the research design will be the framework created to help in finding the answers to the research questions. Wyk (2012) further emphasized that the research design must ensure the attainment of evidence which enables the address of the research problem effectively in an unambiguous way possible. Cooper (2011) postulated that the design of the research determines the study type, which is, adopting either exploratory research or descriptive research or hypothesis-testing research design

To fully satisfy the objective of the study, the researcher used descriptive research design, as the researcher wanted to analyse the effects of cost cutting on financial performance using a case of ZETDC. Farthing (2015) defined descriptive research design as a tool used in obtaining data about the current status of a phenomenon to explain what is on the ground concerning the variables in a situation. The researcher chose descriptive research design because it enables the interpretation of relationships existing between variables.

While using descriptive research design, the researcher experienced problems as the research design does not enable statistical testing. This was supported by Ceswell (2013) and Farthing

(2015) who highlighted that the main short coming of a descriptive research design is that it does not statistically test nor verify the research problem hence the absence of statistical testing may reflect the existence of some bias. However the despite the compelling evidence of the shortcoming of descriptive research design, it can be seen that its advantages more than offsets its short comings as descriptive research design encompass both qualitative and quantitative methods of data collection hence providing an opportunity to combine both quantitative and qualitative data collection methods. This is in line with Creswell (2013) who asserted that descriptive research design makes use of data collection methods that brings about reports which relate to measures of central tendency and correlation.

While using descriptive research design, the researcher used a case study approach. A case study approach was used because the researcher was exploring a single unit of a study. Creswell (2012) highlighted that a case is an in-depth study used to narrow down a broad field research to a simpler researchable topic. The researcher used a case study as he had also chosen descriptive research so that a case study will be used in forming descriptive inferences. The case study was used for descriptive purposes and it provided the researcher with a great amount of description and detail so that in-depth information about the problem statement is obtained.

This study is therefore a mixed approach, that is, both quantitative and qualitative data was utilised. Researcher used a mixed approach because it integrates both quantitative and qualitative data collected. Creswell and Clark (2011) postulates that a mixed method is an emergent methodology that enables the mixing of qualitative and quantitative data in a single research. The methodology is premised on the integration of complete and synergistic utilisation of data than to separate qualitative and quantitative data. According to Kuma (2011) qualitative research is a subjective systematic approach useful for describing situations and experiences and gives them meaning. A mixed approach enabled the researcher to gain more insight so as to explore the complexities inherent in the phenomenon. The researcher used a mixed approach as it enabled him to analyse effects of cost cutting measures on the financial performance of ZETDC. A mixed approach is useful in describing relationships and examines effects of the relationships

### 3.2.0: Research population

Vonk (2016) highlighted that a target population refers to a set of individuals relevant to the research under study. Markey (2013) was of the view that a target population is a collection of people deemed suitable for a research under study. Nargundkar (2012) posited that sample population is a subset of the total population with certain characteristics of the whole population.

In this research, the research population consisted of individuals from the finance department, audit, HR and IT department. The research population of this study had a total of 41 employees from ZETDC head office as shown below.

**Table 3.1: population and sample selected**

<b>Respondents</b>	<b>Population</b>	<b>Sample size</b>	<b>% of sample to population.</b>
Management	3	3	100%
Accountants	6	3	50%
Accounting officers	10	5	50%
Accounts Clerk	8	4	50%
HR	3	3	100%
IT	6	3	50%
Internal auditors	5	5	100%
<b>Total</b>	<b>41</b>	<b>26</b>	<b>64%</b>

The sample size of this research was 64% which consisted of 26 employees from the total 41 employees from ZETDC head office. Tomer (2012) sample size refers to the number of individual units of data that was collected in a survey. The size is very important as it determines the reliability of the findings. Novikov and Novikov (2013) assert that the bigger the sample size, the greater the possibility that the outcomes truly portray the population and for this reason the research chose a sample above 50% which was 64%.

### **3.2.1: Sampling and sampling techniques**

Vonk (2016) regards sampling as the process of selecting a small group of units from the whole population so as to use the sample as a representative of the whole population. According to Agbloyor (2012), sampling is a technique used in statistical analysis in which a selected set of observations will represent a larger population. Markey (2013) Sampling involves selecting units from a population of interest to examine the sample so as to fairly generalize our results back to the population from which they were selected.

Since it was impossible for the researcher to get data form the whole population at ZETDC due to time constraints, the researcher decided to use a sample and only 26 individuals were selected from the total population of 41 employees. This is in line with what Hall (2014) said when he highlighted that it is not possible to get the views of very individual from the population hence using a sample is logical. Sandy (2013) argued that the sample should be big enough to be the representative of the whole population and the researcher used a sample that was bigger than 50%, that is, 64% so as to obtain reliable data from the sample. The carrying out of a sample involves the use of either probability or non-probability sampling technique and the researcher used non probability sampling techniques.

Wilson and Coakes (2013) assert that non-probability sampling is a sampling technique where all individuals do not have equal chances of being chosen. This sampling method is used with the assumption that the characteristics of the whole population are evenly distributed. The researcher used non-probability sampling as it was more logical to use since it is less complex and straighter forward than probability sampling which is complex and hence not easy to use. However, the only short coming of using this sampling technique that each unit in the sample population has no equal chance of being selected and to cater for this short coming, purposive sampling was also carried out together with convenience sampling.

Saunders (2012) regarded convenience sampling as a type of non-probability sampling that utilises data collected from members of the population who are conveniently available to take part in the research study. Agbloyor (2012) postulated that convenience sampling uses the first source of primary data available for the research with no need for additional requirements. In other words, this sampling technique makes use of participants that can be readily found without any inclusion criteria. The researcher used this sampling technique as it allowed the utilisation of data that can be easily accessed.

While using this sampling technique, the researcher experienced the possibility bias because the technique has no systematic criteria to select a respondent thus bringing up sampling problems beyond the researchers control. This is in line with what Cokes (2013) posited by arguing that convenient sampling is subject to selection bias and influences coupled with sampling error. To cater for this the researcher opted to include the use of purposive sampling. The researcher chose convenience sampling technique as it is quite easy to get a sample and it is simple to adopt hence it eases the research. This is in line with what Agbloyor (2012) explained and stated by saying that convenience sampling is inexpensive to use as compared to other sampling techniques with participants that are readily available.

Creswell (2013) defined purposive sampling as a non-probability sampling technique which the sample population is selected on the basis of certain characteristics. This sampling technique is judgemental in nature. It is useful in scenarios where the researcher needs to reach the sample target quickly. The researcher used purposive sampling using his own judgement to get a sample that has the knowledge of the data that was being asked in the questionnaires and interviews. The researcher opted to use purposive sampling as to cater for the shortcoming experienced while using convenience sampling.

### **3.3.0: Data sources**

#### **3.3.1: Primary data**

According to Hox and Boeije (2013), primary data sources are sources that are directly linked with a given situations and the sample in a given area of study. Creswell (2013) outlined that primary sources enhances the reliability of data as they are highly credible. Mackey (2013) defined a primary source of data as physical object or written document created during the time of the research. Primary sources made it possible for the researcher to get closer to what really transpired during an historical time period. The researcher utilised primary sources of data to attain information on how cost control techniques affect the financial performance of, ZETDC. Primary sources of data like questionnaires and verbal communication during interviews made it possible to obtain data that is reliable and undiluted from the sample population. The main reason why researcher utilised primary source of data was because it provides more reliable information through interviews and questionnaires. The researcher experienced challenges in obtaining some of the primary sources. However for the researcher to overcome the challenge he used secondary sources as a substitute when primary sources could not be found.

### **3.3.2: Secondary data**

Milne (2012) highlighted that secondary data is data gathered by another party other than the one going to use it. Secondary data can be obtained from sources such as newspapers and management reports. The main advantage of data collected from secondary sources is that it is easily accessible in the company records. Saunders (2012) postulated that since the secondary data is readily available, this makes it less costly to gather as compared to the use of primary sources of data. Caswell (2013) posited that secondary sources of data are easy to access hence this saves time.

While using secondary sources of data, the researcher experienced problems with the data gathered as the quality and reliability of the secondary sources were unreliable. This is in line with what Saunders (2012) postulated by arguing that the main drawback of secondary sources of data is that the quality and reliability of the data is questionable given due to the fact the data being used is historical which may not fit with a present research problem under study. To cater for this drawback the researcher made use of other primary sources of data to validate the secondary sources through confirming in interviews and questionnaires. The main reason why the researcher opted to use secondary sources was that they are readily available in the company financial statements and management reports. Also due to limited amount of time available to the researcher, secondary sources were useful in making sure that all information is made available in time.

### **3.3.0: Research Instruments**

According to Milne (2012), research instruments are data collection techniques used to obtain information to be analysed in the study. Milne (2012) further emphasised that the research instruments chosen will determine the reliability and relevance of the end results. As indicated earlier, questionnaires and interviews were used to gather data which shall be used to meet the objectives of this research.

Bax (2013) postulated that a questionnaire as written document structured with questions for which respondents in the sample are expected to answer. Boeije (2013) was of the view that questionnaires must be used when gathering data which is subjective in nature. The researcher designed questionnaires making use of the likert scale.

The researcher used questionnaires because they cover almost all areas of the study and respondents will According to Caswell (2013), questionnaires cover all areas of the study in a short period of time. Caswell (2013) further explained that due to the user anonymity of questionnaires, respondents will give reliable accurate information. Also unlike interviews, questionnaires give the responder enough time to think and respond to the questions being asked in the questionnaire. However, the researcher experienced challenges while using questionnaires as different individuals' interpreted questions differently. Also using the questionnaires there was no conveyance of feelings and meanings and this brings about failure to capture emotional responses. To cater for this short coming, the researcher also carried out face to face interviews

.The researcher carried out face to face interviews. According to Muskat (2012) interviews involve face to face exchange or use of a telephone with both parties having the same goals. On the other hand, Goure (2011) defined interviews as conversation whereby the interviewer asks the interviewee some questions so that the interviewer gains information. The drawback experienced by the researcher while using interviews was that, they do not provide the respondents with enough time to think and about the question and analyse it hence sometimes responders will give answers without proper judgement and analysis. Such answers will negatively affect the results of the findings. To cater for this the researcher also made use of questionnaires which the respondent took home to answer without a hurry.

The researcher used interviews because they give answers that first come to responders head and in cases where the responder did not answer questions well, additional questions were asked so as to gather reliable and valid data. This is in line with what Goure (2011) postulated by saying interviews enables questions to be asked again when the interviewee fail to understand what is required by the question unlike questionnaires where individual may misinterpret questions with no one to guide them. Mackinney (2012) asserted that interviews include the conveyance of feelings and meanings and this brings about the capture of emotional responses.

### **3.4.0: Types of questions**

#### **3.4.1: Open ended questions**

Wilson and Coakes (2013) assert that open ended are questions that require the interviewee to give explanatory answers. They enable respondents to give further explanation without any probing from the interviewer. Muskat (2012) stated that the open ended questions are more useful when carrying out a research as compared to using closed ended questions as they give room for unlimited possible number of answers to be given in detail. Coakes further emphasised that open handed questions enable the responder to give detailed answers o complex matters.

The researcher used open ended questions so as to gather every detail from the respondents. Detailed answers were given by the respondents However, Coakes (2013) highlighted that most open handed questions tend to be too general and this leads answers with useless detail which may be irrelevant, hence to cater for this drawback, the researcher asked open ended questions which were a bit specific. The main reason the researcher used closed ended questions was because closed ended enables the researcher to get answers that will enable the researcher to analyse data statistically

#### **3.4.2: Closed ended questions**

Milne (2012) asserts that, when carrying out qualitative studies that requires comparison of results closed ended questions are the best to use. Ceswell (2013) postulated that respondents find closed ended questions quicker to answer and different answers from different respondents are easy to compare thus making it easy to statistically analyse. Milne (2012) further explained that closed ended questions make it easy for respondents to attend to sensitive topics as compare to the use of open ended questions and there are fewer confusing and answers that are irrelevant. However, according to Milne (2012, closed ended questions kill the conversation and eliminate the possibility of surprises. They limit the respondent's answers .closed ended questions force the respondent to give too simple answers. The researcher used open ended questions so that every detail is attained from the respondents

### 3.4.3: Likert scale

Novikov and Novikov (2013) postulated that the Likert scale is a measurement tool in a survey research used in scaling responses. They further explained that it measures the likelihood or satisfaction or quality. The Likert scale was used as a yard stick during the research to enable easy scaling of responses. It was useful in scaling the closed ended questions. Goure (2011) stated that the Likert scale ascribes quantitative value to qualitative data and it can be readily illustrated as shown below

**Table 3.5.4:** Likert scale

Question

	<b>Strongly agree</b>	<b>Agree</b>	<b>Uncertain</b>	<b>Disagree</b>	<b>Strongly Disagree</b>
Answer	5	4	3	2	1

### Validity and reliability of data

Mackinney (2012) posited that data validity is an important issue in clinical data trial management. The main aim is to maintain the integrity of the data. Thanasegaran (2012) postulated that an instrument can be regarded as valid if it is measuring what it is supposed to measure accurately. Two research instruments were used, that is, questionnaires and interviews and the triangulation technique was also adopted to enhance the validity of the data.

Reliability is the degree to which a research provides a consistent evaluation of a concept. Mackinney (2012) defined data reliability as the extent to which a tool used in assessment produces consistent and stable results. According to Thanasegaran (2012), data reliability is shown by the degree to which data is free from error to give accurate results. To ensure the reliability of the data, two research instruments were used. Interviews were conducted together with the use of questionnaires to ensure the reliability of the data and the sample used consisted of departments within ZETDC Head office in Harare Zimbabwe. The researcher also carried out a pilot study before the actual research study so as to ensure the reliability of the data.

According to Creswell (2013) a pilot study is a research study carried out prior the actual study. The researcher adopted a pilot study to investigate if the designed questionnaires would bring desired and successful research. Also the other reason for carrying out the pilot study was to examine if the questionnaires did not contain any errors.

Sandy (2013) posited that triangulation of collected data is the process that involve the use of multiple data sources to produce an understanding in an investigation. The main aim will be to come up with a comprehensive understanding. The researcher carried out this process so as to enable data validation through verifying with many sources. By data triangulation the researcher aimed to get the consistence of findings through testing with different instruments to asses some of the factors that may be influencing the results. According to Hall (2014), this process is mostly used by qualitative researcher and it enables researcher to come up with deeper meaning of the data. It is not just about validating the data but also to deepen and widen one understanding. To ensure data triangulation the researcher use both primary and secondary sources of data, interviews and questionnaires.

### **3.6.0: Data presentation and analysis**

#### **3.6.1: Data presentation**

Potter (2013) stated that using diagrams in the presentation of data brings better understanding of the data being explained and gathered. According to Thanasegaran (2012), data presentation involves summarising and communicating the research findings using bar graphs, pie charts and histograms.

According to Potter (2013), histograms present the mean, median, frequency and spread of data. It makes use of vertical columns when presenting the frequency of data. Histograms are useful when describing continuous data and enables the data to be put in a meaningful way on a diagram. The main advantage of a histogram is that it puts data in a more meaningful way that makes it easy to interpret ([www.moresteam.com](http://www.moresteam.com),08/04/2017 ,00:00). However, according to Potter (2013), it is difficult to make use of histograms when dealing with non-continuous data. Also when using a histogram, it is difficult to make comparisons.

Potter (2013), when dealing with discreet data, bar graphs are more useful than histograms. Bar graphs involve the use of either horizontal or vertical columns against the value being presented. This technique summarises the data in a more meaningful and logical manner that makes it easy to understand. However, bar graphs can't present continuous data ([www.moresteam.com](http://www.moresteam.com), 8/04/2017, 00:00).

A pie chart is a graph used in presenting data in a circular manner with an independent variable being shown along the circle ([www.researchmethods.net](http://www.researchmethods.net) 8/04/17;00:00). Potter (2013) postulated that this type of data presentation is easy as compared to the use of histograms and bar graphs. Pie charts can be understood in just a glance. However, the major disadvantage of a pie chart is that it can be influenced easily to and result in a false impression. The researcher opted to use all the types of graphs in presentation data as all of them are useful and each can be substituted when the other cannot or is difficult to use. The researcher also made use of emerging themes in analysing data from open ended questions. Emerging themes are the points that constantly popped out from the respondents while the researcher was carrying out his research.

### **3.6.2: Data analysis**

Kumar (2011) highlighted that data analysis involves the process of data evaluation through analytical reasoning to assess every component of data given. According to Hall (2014). After gathering data from various sources, it should be reviewed and then analysed so as to come up with a conclusion. Kumar (2011) stated that, after collection data, it should be organised so as to derive helpful information through assessing what the data is trying to tell.

### **3.6.3: Summary**

The chapter gave detailed explanations about the research methodology which consists of the research design, sample and sampling techniques, research instruments and data sources that were utilised. Included in this chapter was the validity and reliability of the used research instruments together with an analysis of data to be presented in the next chapter.

## Chapter 4

### DATA PRESENTATION AND ANALYSIS

#### 4.0: Introduction

This chapter serves to give the presentation, analysis and interpretation of the primary data collected using interviews and questionnaires at ZETDC head office. The findings presented on pie charts, bar graphs and histograms and analyzed to give meaning. The chapter goes on to compare and link the findings to literature presented in chapter two.

#### 4.1.0: Response rate

The data was gathered through administering of questionnaires and interviews. In the study distributed 41 questionnaires and only 36 were returned yielding 88% response rate. The researcher booked for 3 interviews and all interviews were conducted resulting to 100 % response rate. The response rate is likely to be reliable since it is above 50%. This is supported by Ceswell (2013) who posited that for a response rate to be reliable, it should be above 50% of the sample selected.

The researcher distributed 41 questionnaires at ZETDC and of the 41 only 36 were returned. This is illustrated using a table as shown below

**Table 4.1: Response rate**

Respondents	number Sample	Number of respondents	% response rate
Management	3	3	100%
Accountants	6	4	67%
Accounting officers	10	9	90%
Accounts clerk	8	6	63%
HR	3	3	100%
IT	6	6	100%
Internal auditors	5	5	100%
Totals	<b>41</b>	<b>36</b>	<b>87%</b>

Table 4.1, shows that 3 questionnaires were given to the management and they all responded resulting to 100% response rate. In the finance department, 6 questionnaires were distributed to the accountants and of the 6 only 4 were answered yielding 67%. 10 questionnaires were distributed to the accounting officers and of the 10, only 9 were returned giving a 90% response rate and 8 questionnaires were given to the accounts clerks and of the 8 only 6 were answered resulting to 63% response rate. To the HR department 3 questionnaires were issued and all 3 were returned resulting in a 100% response rate, other 6 questionnaires were disseminated to IT personnel and all 6 were returned resulting in a response rate of 100%. The internal auditors also gave a 100% response rate with all 5 out of 5 questionnaires being returned. In total 36 out of 41 questionnaires were successfully completed giving total response rate of 88%.

All interviews were conducted successfully with a 100% response rate by all respondents. This was made possible by making appointments with all three respondents. The response rates can be shown using a tabular illustration as shown below

**Table 4.2: Interviews response rate**

Target sample	Interview arranged	Interview conducted	Response rate %
Accounts officer	1	1	100%
Accountants	1	1	100%
Finance Manager	1	1	100%
Total	3	3	100%

As shown in table 4.2, there were 3 appointments with the respondents and they all respondent thus giving a response rate of 100%. The response is likely to be a success as the information attained will be reliable since it was obtained from different respondents. This is supported by Ceswell (2013) who posited that for a response rate to be reliable, it should be above 50% of the sample selected.

### 4.3: Demographic details

The research population can be classified into two groups namely males and females and the number of males who responded and the number of females who responded can be shown using a tabular elastration as shown below:

**Table 4.3: Gender analysis**

<b>Gender</b>	<b>No. of Respondents</b>	<b>Percentage Response (%)</b>
<b>Males</b>	20	55
<b>Females</b>	16	45
<b>Total</b>	<b>28</b>	<b>100%</b>

Table 4.3 above shows that 20/36 (55%) of the respondents were men and 16/36 (45%) of the respondents were women. According to table 4.3 the findings from the respondents are likely to be reliable as there almost equal participation of women and men. This is supported by Hox (2013) who posited that, for a sample to give reliable data there must be a balance a gender so as to hear equal voices of both males and females.

### 4.4: Background information.

The table below is a classification table that shows the number of respondents in each department.

**Table 4.4: Departments**

<b>Departments</b>	<b>IT</b>	<b>Internal audit</b>	<b>Finance</b>	<b>HR</b>	<b>Total</b>
<b>Respondents</b>	4	5	24	3	36

The table above shows the departments sampled in the study with their respective populations per department. This information can also be clearly explained using a graphical portrayal as shown below

**Fig 4.4: Percentage respondents per department**

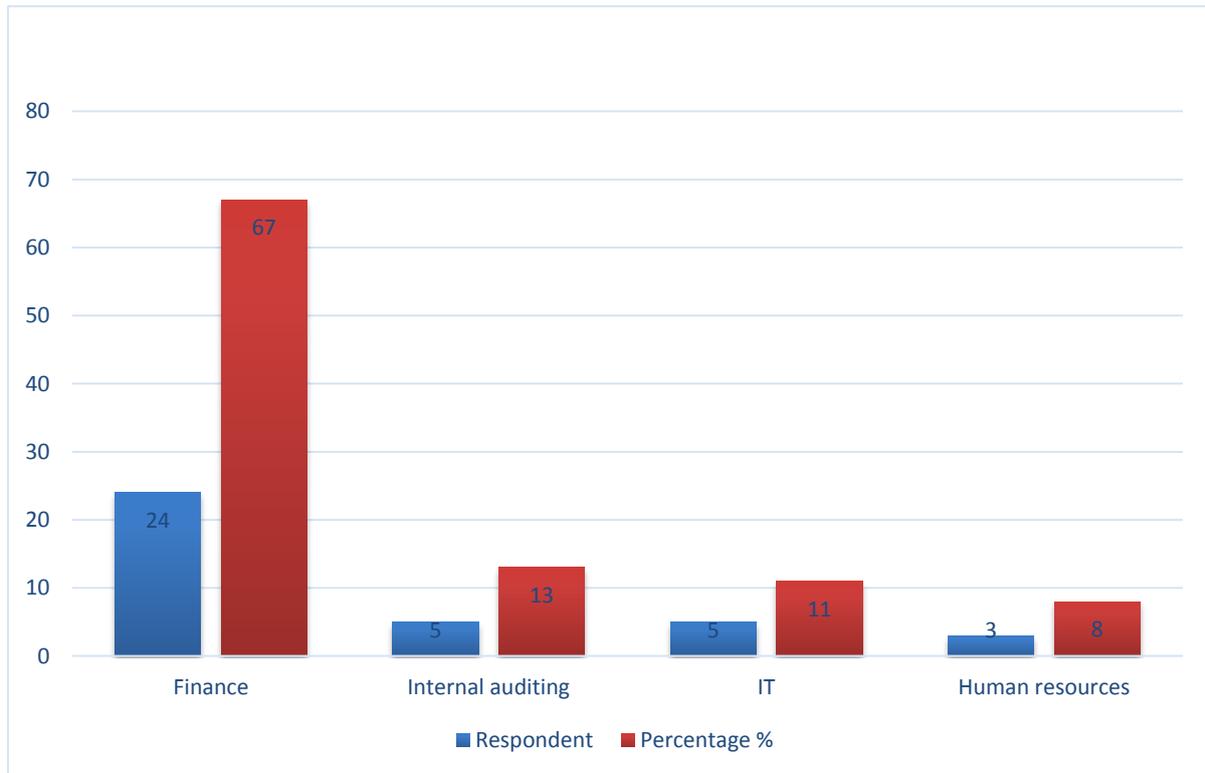


Fig 4.4 and table 4.4 shows that, 24 out of 36 (67%) contributors were from finance, 5 out of 36 (13%) from internal auditing, 4 out of 36 (12%) from IT and 3 out of 36 (8%) from human resources department.

In aggregate, 67% (modal) of the respondents were from finance section due to the use of purposive sampling. The study concluded that the results are likely to be reliable because majority of respondents (finance and internal auditing staff) have sound knowledge of cost cutting measures. This is supported by Wilson (2015) who postulated that the respondents under study must have reasonable knowledge about the topic under study.

#### **4.5: Level of qualification**

The purpose of the question was to analyse the level of qualification that each respondent holds and the response rate can be readily be illustrated using a table as shown below

**Table 4.5: level of qualification**

Level of education	Up to Certificate	Diploma	Degree	Professional course	PHD	Total
Respondents	3	9	19	5	-	36
%	8	25	53	14	0	100

**Fig 4.5: Highest level of qualification**

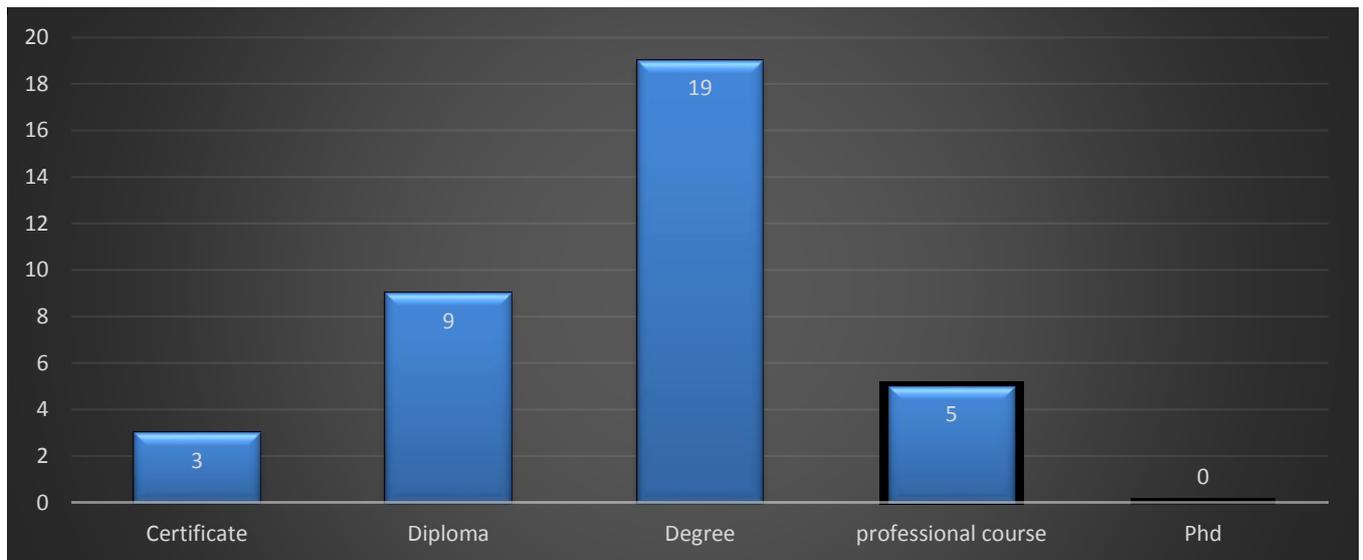


Fig 4.5 and table 4.5 shows that 3/36 (8%) holds certificates, 9/36 (25%) holds diplomas, 19/36 (53%) holds degrees (modal) and 5/36 (14%) holds professional course (ACCA).

According to the study the responses were concluded to be reliable basing on the abovementioned qualification given the modal level of education of respondents is a degree, hence the majority of respondents had the ability to give reliable responses, this is in line with what Wilson (2015) postulated that the respondents under study must have reasonable knowledge about the topic under study.

#### **4.6: Employment duration**

The question seeks to gather data on the number of years a respondent has worked at ZETDC to identify if they have adequate knowledge of the organization under study and the response rates can be readily illustrated using a table as shown below

**Table 4.6: Employment duration**

<b>Number of years</b>	<b>Below 2 years</b>	<b>2-5</b>	<b>5-10</b>	<b>10-15</b>	<b>Above 15</b>	<b>total</b>
Respondents	5	8	7	10	6	36
%	13	25	18	27	17	100%

As shown by the table 4.6, 5 out of 36 (13%) respondents worked for ZETDC for a period that is less than 2 years, 8 out of 36 (25%) between 2 to 5 years, 7 out of 36 between 5 to 10 years, 10 out of 36 (27%) (Modal) between 10- 15 years and 6 out of 36 (17%) have more than 15 years of experience.

In aggregate, 86 % of respondents indicate that they have been employed by ZETDC for more than 2 years. This entails that the majority of the respondents have adequate knowledge and experience of the techniques applied by ZETDC thus giving reliable responses. This was further reinforced by Wilson (2015) who articulated that in order for research findings to be valid and reliable, respondents must have knowledge of the organization under study.

### **Nature of cost cutting at ZETDC**

#### **4.7: Cost cutting and wastage of resources**

The question sought to investigate if cost cutting at ZETDC has resulted in the reduction of wastages and the table below shows the response rate.

**Table 4.7: wastage of resources**

**Raw data: Response rate**

	<b>Strongly agree</b>	<b>Agree</b>	<b>Uncertain</b>	<b>Disagree</b>	<b>Strongly disagree</b>
<b>Respondents</b>	3	24	9	0	0

The above shows the responses that were collected in the study in respect to the question asked to the respondent, if cost cutting has resulted in the reduction of wastage of resources at ZETDC. The information above can also be illustrated using a graphical portrayal as shown below

**Fig 4.7 Responses on cost cutting and wastage of resources**

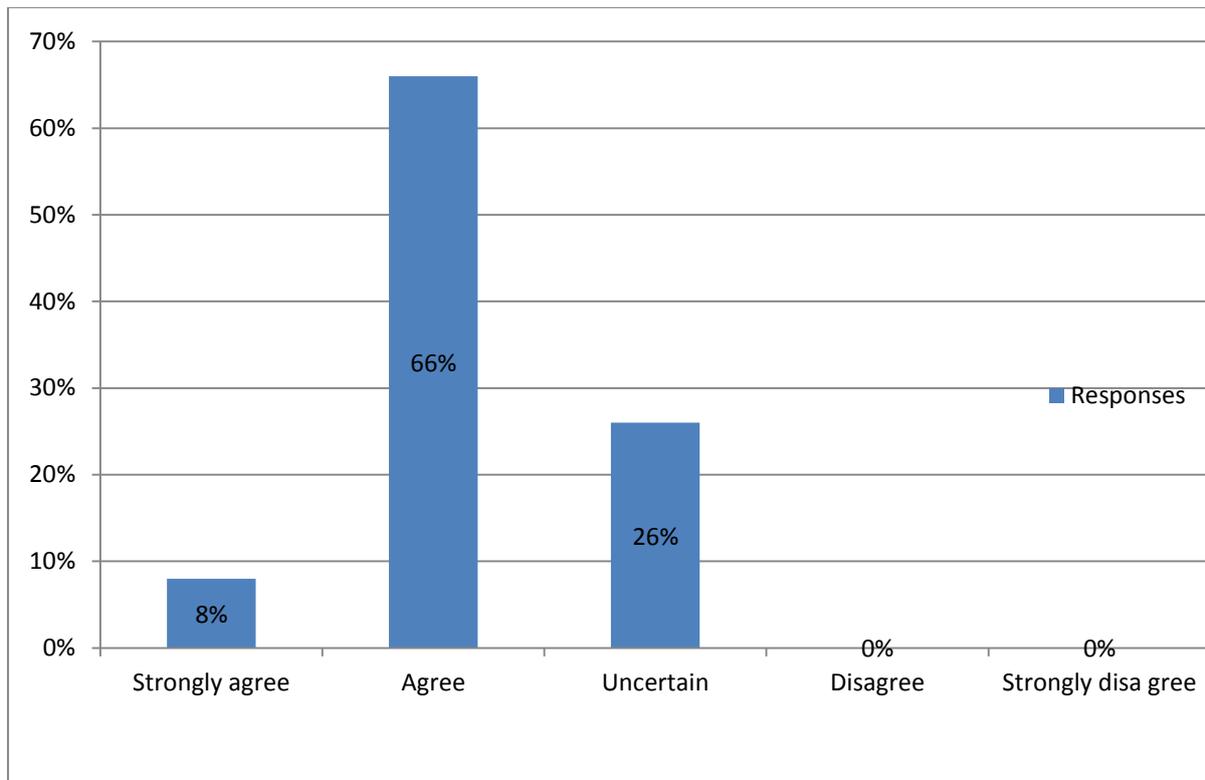


Fig 4.7 shows that 8% (3/36) respondents strongly agree that the cost cutting measures resulted in reduced wastage of resources hence improving the performance of ZETDC. Also, Fig 4.7 shows that 66% (24/36) respondents (modal) agree that cost cutting measures resulted in reduced wastage of resources.

The other remaining 22% (8/36) respondents were uncertain on whether cost cutting measures resulted in reduced wastage of resources. Fig 4.7 also shows that no one disagreed or strongly disagreed on whether cost cutting measures resulted in reduced wastage of resources given a response rate of 0% from the respondents.

In summary, a total of 28/36 (4 who strongly agree and 24 who agree) respondents agree that cost cutting is effective when it comes to enhancing the financial performance of the organization through reducing wastage of resources. This is reinforced by Chigara (2013) who asserts that cost cutting results in proper utilization of scarce resources so that they are employed to produce the maximum benefit without wastages

#### 4.8: Cost cutting measures and wage reduction

This question investigates on the nature of cost cutting measures at ZETDC if they involve cutting wages. The response rate can be shown using a tabular elastration as shown below

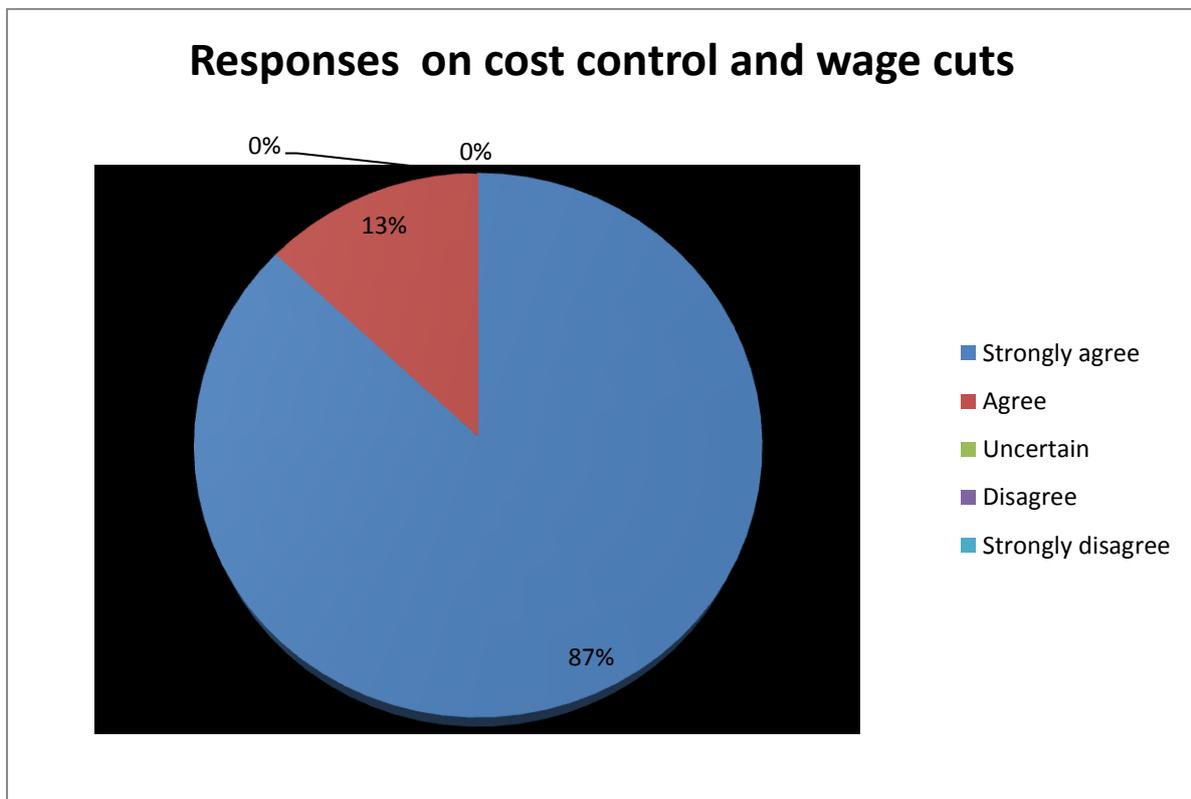
**Table 4.8: responses on wage reductions**

	<b>Strongly agree</b>	<b>Agree</b>	<b>Uncertain</b>	<b>Disagree</b>	<b>Strongly disagree</b>
<b>Respondents</b>	28	8	0	0	0

The raw data was used to extract the pie chart in Fig 4.8 below.

The response rate and meaning of the table above can be enhanced by the use of a graphical portrayal as shown below

**Fig 4.7: Responses on cost control and wage cuts**



According to Fig 4.8 above, 87% (28/36) respondents strongly agreed that the nature of cost cutting at ZETDC involve the cutting of wages while the remaining 13 % ( 8/36) agreed that cost cutting at ZETDC has been in the form of cutting wages. Fig 4.8 also shows all the respondents were neither uncertain nor disagreed on whether cost cutting has been in the form of cutting wages.

In aggregate, 36/36 (100%) respondents (87% strongly agree and 13% agree) that cost cutting at ZETDC has resulted in cutting of wages.

#### **4.9: Cost cutting and the cutting of incentives and overtime**

The purpose of this question was to establish if cost cutting at ZETDC has resulted in the cutting of incentives and overtime. The responses can be readily illustrated using a table and a histogram as shown below.

**Table 4.9: Incentives and overtime**

##### **Raw data: Responses rate**

	<b>Strongly agree</b>	<b>Agree</b>	<b>Uncertain</b>	<b>Disagree</b>	<b>Strongly disagree</b>
<b>Respondents</b>	18	13	5	0	0
<b>%</b>	50	36	14	0	0

The raw data was used to extract the graph below.

The table above shows the response rate on the question asked if the nature of cost cutting at ZETDC include cutting wages and incentives. The information displayed above can be shown using a graphical representation as shown below.

**Fig 4.9: Responses on cost cutting and the cut of incentives and overtime**

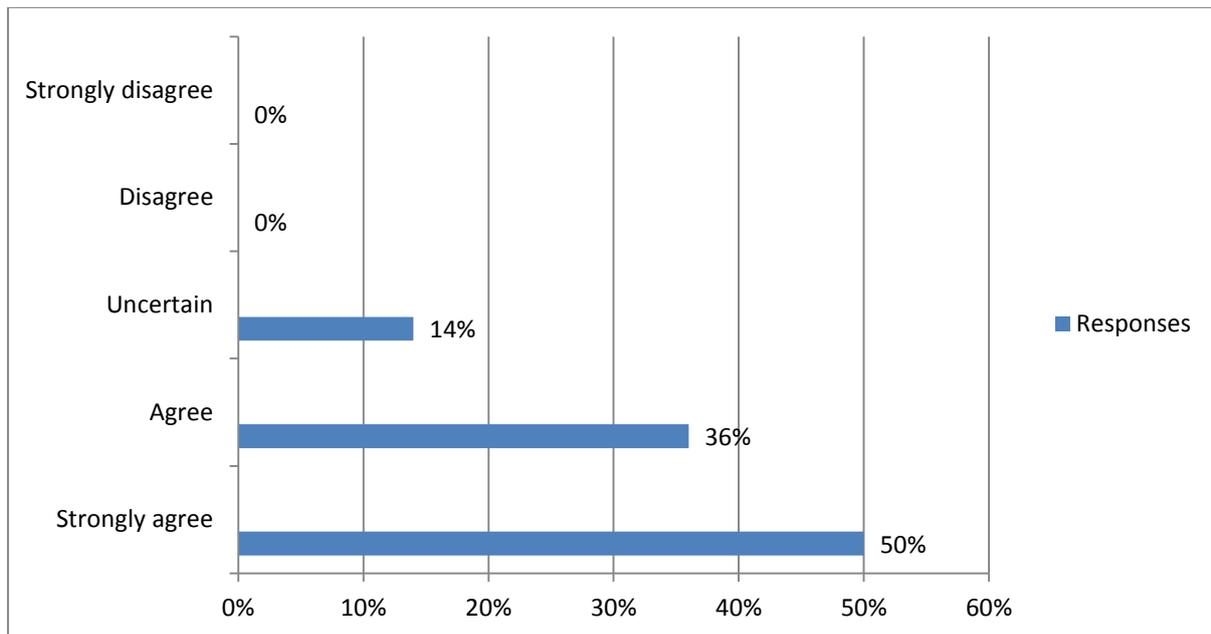


Fig 4.9, indicate that 50% (18/36) respondents strongly agree and 36% (13/18) respondents agree that cost cutting at ZETDC has brought about the reduction in incentives an overtime. According to Fig 4.9 14% (5/36) of the respondents were uncertain whether cost cutting has caused the reduction in incentives and overtime but there neither any respondent who did not disagree.

In summary, 31/36 respondents (18 strongly agree and 13 agree) confirms that cost cutting at ZETDC has caused the reduction in incentives. There were 5/36 respondents who were uncertain about whether cost cutting brought about the reduction in incentives and overtime and of these includes the accountants since accountants at ZETDC are not paid for overtime worked. At ZETDC there are certain positions that are not entitled to overtime worked unlike accounting officers who are paid for overtime worked.

### **Effects of cost cutting**

#### **4.10: Cost cutting and retrenchments**

The question sought to analys if cost cutting at ZETDC include cutting of wages or not and the response rate can be readiy shown using a tabular elastration as shown below.

**Table 4.10: cost cutting measures and retrenchments**

	Strongly agree	Agree	Uncertain	Disagree	Strongly disagree	Total
Respondents	5	26	2	3	0	36

The table above can be shown using a graphical representation as illustrated below by fig 4.10

**Fig 4.10: Responses on retrenchment**

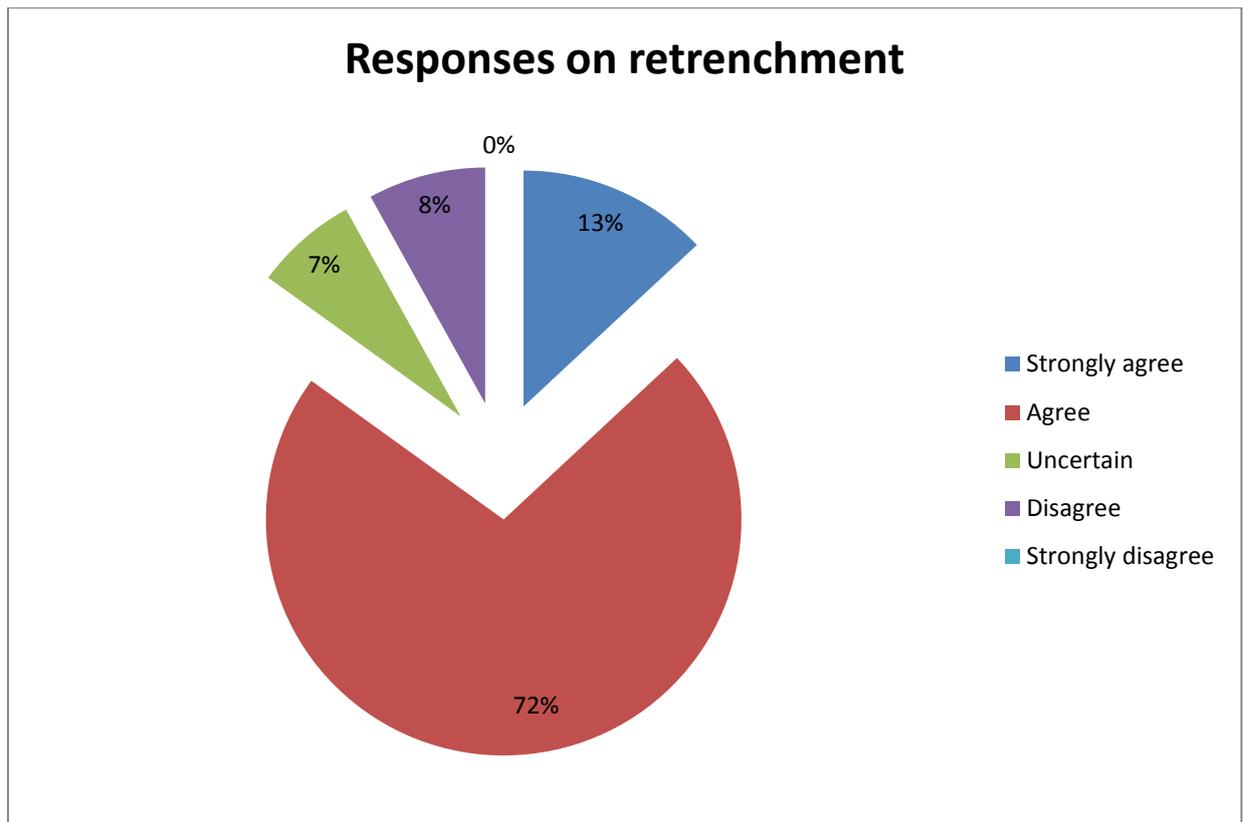


Fig 4.10 shows 13% (5/36) respondents strongly agree and 72% (26/36) respondents agree that cost cutting has resulted in retrenchments. Figs 4.10 also show that 7% (2/18) respondents are uncertain about whether cost cutting has resulted in retrenchments while 8% (3/18) respondents disagree.

In aggregate, 85% respondents (13% who strongly agree and 72% who agree) agree that cost cutting at ZETDC has resulted in retrenchments, 2/36 (7%) respondents who were uncertain are from the HR department while 8% (3/36) are the management who disagreed that there were retrenchments but rather in interviews they highlighted that employees who were laid off are those who were on contracts and whose contracts were not renewed when they expired.

#### 4.11: Cost cutting and staff morale

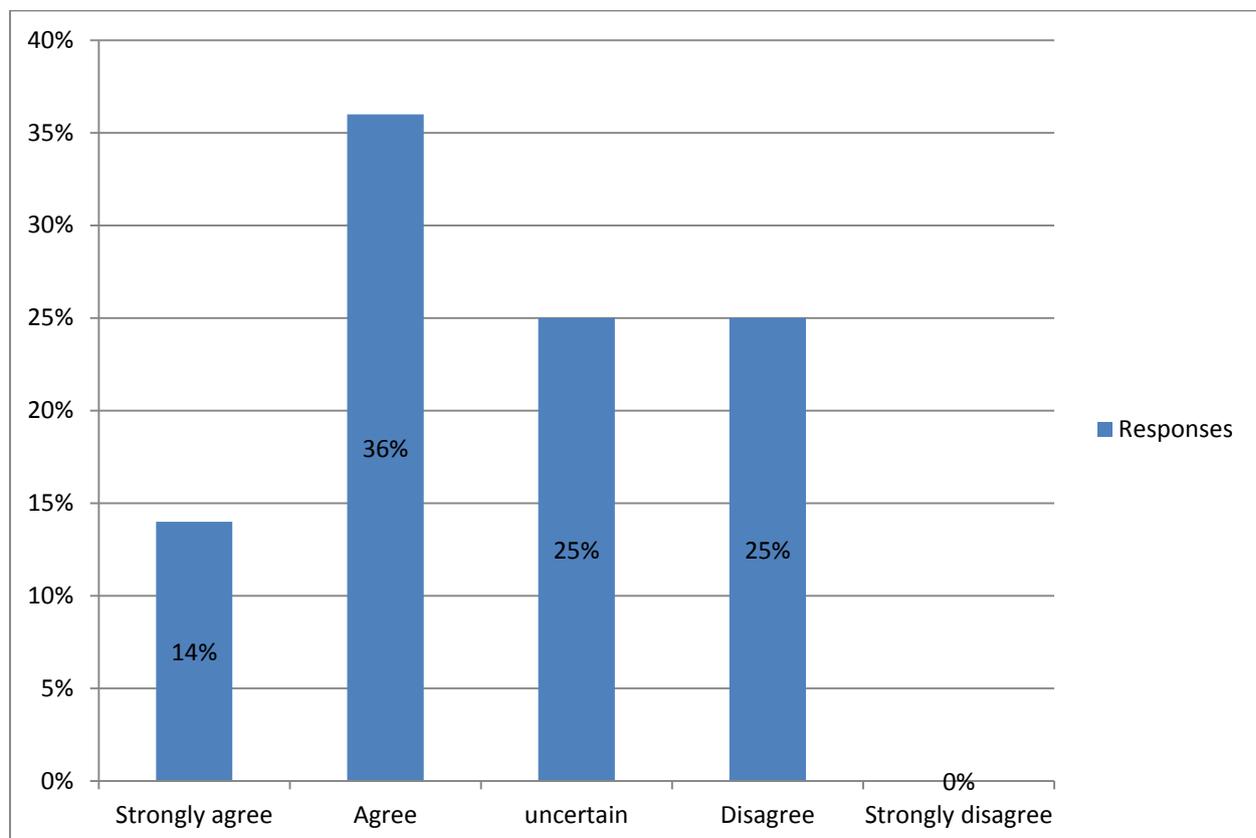
The purpose of this question is to assess whether the cost cutting at ZETDC has reduced the staff morale and consequently reduced productivity. The raw data of the statistics found are illustrated by a table below

**Table 4.11: Responses on staff morale**

	Strongly agree	Agree	Uncertain	Disagree	Strongly Disagree
Respondents	5	13	9	9	0

Table 4.1 above shows the number of respondents asked the question if there is reduction of staff morale at ZETDC due to the implemented cost cutting techniques at. The table above can also be represented by a graphical portrayal as show below

**Fig4.11: Responses on staff morale**



According to Fig 4.11, 14% (5/36) respondents strongly agreed that the cost cutting measure at ZETDC reduced the staff moral and this has led to the decrease in productivity. The graph also shows that 36% (13/36) respondents agree that the cost cutting measure at ZETDC reduced the staff moral and this has led to the decrease in productivity. Fig 4.11 also shows that 25% (9/36) respondents are uncertain on whether the cost cutting measure at ZETDC reduced the staff moral and this has led to the decrease in productivity. On the other hand, the remaining 25% (9/36) disagreed that the cost cutting measure at ZETDC reduced the staff moral and this has led to the decrease in productivity.

In aggregate, it can be noted that 40% (14 who strongly agree and 26 who agree) agree that cost cutting at ZETDC has reduced the staff morale while on 25% disagree. This view is further reinforced by Wong (2015) who asserts that the implementation of cost cutting in an organization will reduce the staff morale and end up demotivating the employees as the nature of cost cutting include activities such as reduction in wages and incentives for the employees.

#### **4.12: Cost cutting and supervision**

The question sought to analyze if cost cutting has led to increased supervision at ZETDC which results in an increase in productivity and the responses are shown using a tabular elastration as shown below

##### **Raw data: Responses on monitoring performance of workers**

	<b>Strongly agree</b>	<b>Agree</b>	<b>Uncertain</b>	<b>Disagree</b>	<b>Strongly disagree</b>
<b>Respondents</b>	6	24	4	2	0

The data above can be used to come up with a graph as shown below

**Fig 4.12: Cost cutting and supervision**

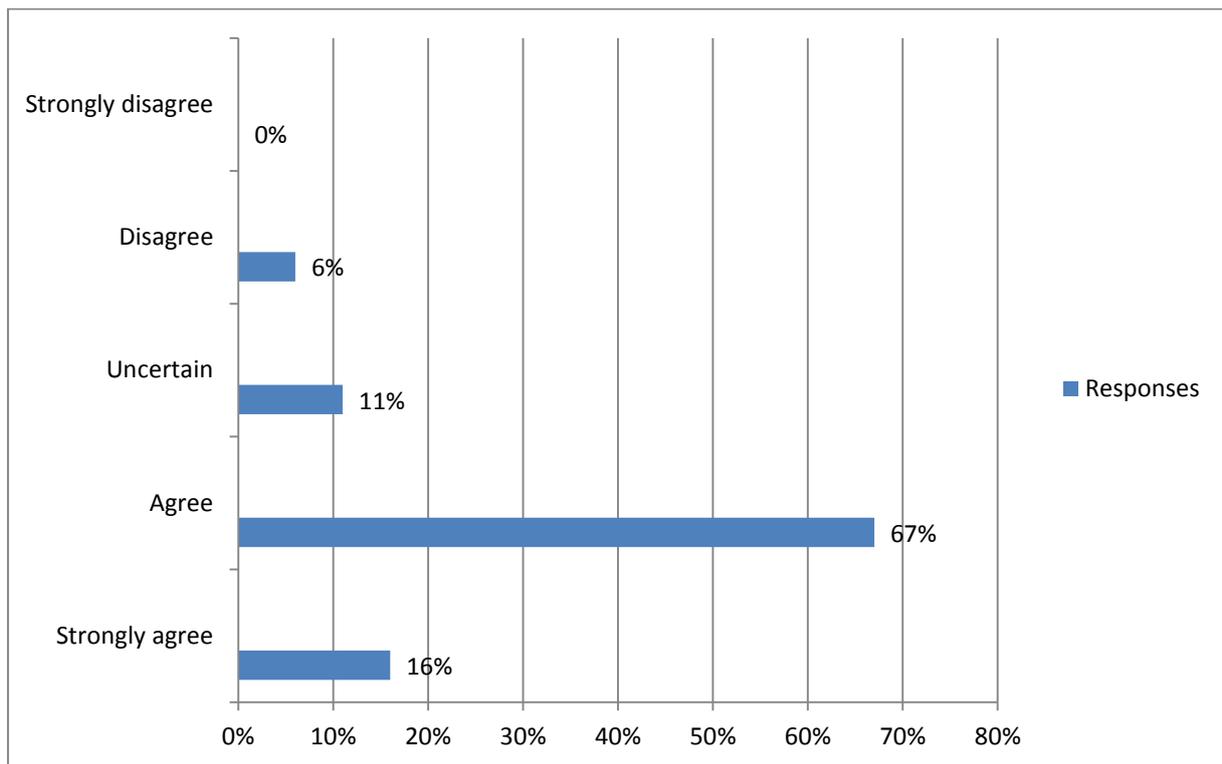


Fig 4.12, shows that 16% (6/36) of the contributors strongly agree that cost cutting at ZETDC has led to increased supervision with other 67% (24/36) agreeing also. According to Fig 4.12, 11 % (4/36) of the respondents were uncertain on whether there is increased supervision due to the cost cutting measures. 6% (2/36) disagreed while none of the respondents strongly agreed that there is increased supervision due to the cost cutting.

In summary, 30/36 of the respondents (6 strongly agreed and 24 agreed) confirms the existence of increased supervision at ZETDC while there were other 4/36 individuals from the IT department who were uncertain hat there is increased supervision at ZETDC. (2/36) respondents disagreed that the increased supervision at ZETDC increases productivity and these are individuals who might have been demotivated by being closely monitored.

Since there is no evidence of a decrease in productivity at ZETDC the researcher therefore concludes that cost cutting positively affects the financial performance of an organization through increase in productivity which emanates from the close supervision of employees. This is further emphasized by Win (2014) when he said that, workers will only offer their best if they are closely monitored than when they are left alone

### 4.13: Cost cutting and expenses

The question sought to investigate if cost cutting enhances the financial performance of an organization through increase in profits emanating from the reduction in expenses. The responses can be shown by a tabular elastration as shown below

	Strongly agree	Agree	Uncertain	Disagree	Strongly disagree
Respondents	26	9	0	0	0

The table was used to draw the graph shown below

**Fig 4.13: Cost cutting and expenses**

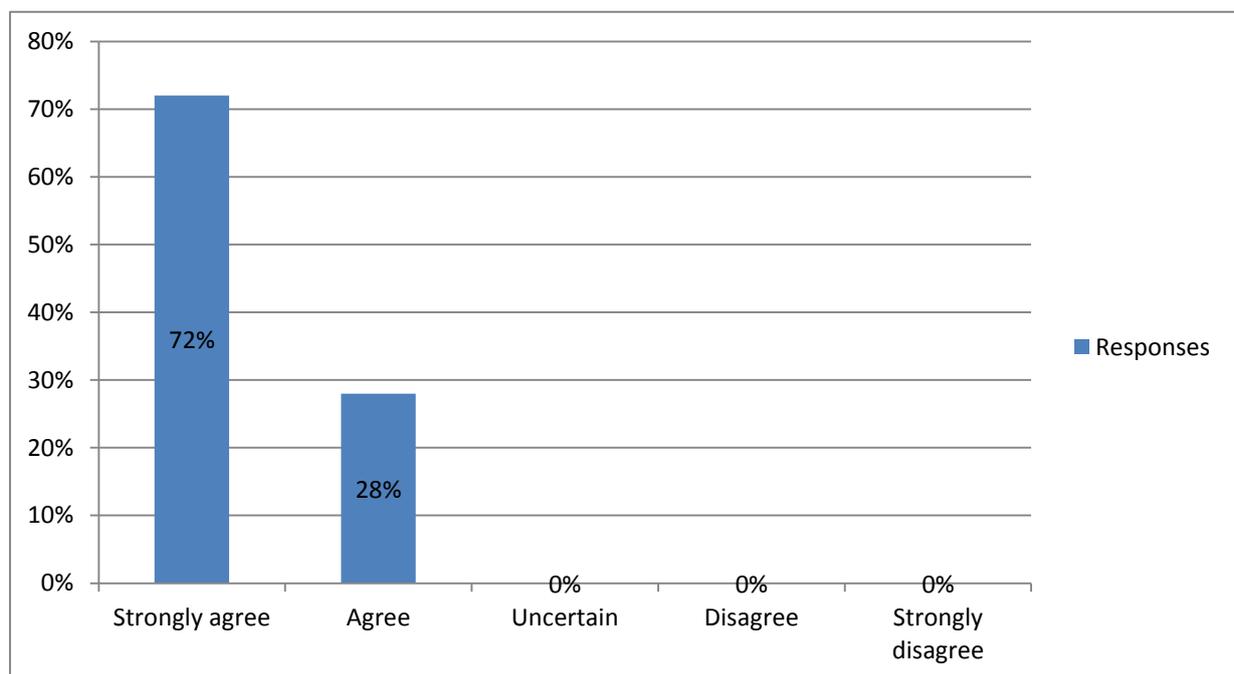


Fig 4.13 shows that 72% (26/36) respondents strongly agreed that cost cutting measures at ZETDC results in a decrease in total expenses which improves financial performance through increase in profits. According to Fig 4.13, 28% (9/36) respondents also agree that cost cutting measures at ZETDC results in a decrease in total expenses which improves financial performance through increase in profits.

In aggregate, all the 36 respondents at ZETDC agreed that cost cutting measures at ZETDC resulted in a decrease in total expenses which improves financial performance through increase in profits. Neither was there any respondent who disagreed or who was not certain. This view is supported by Watkins (2014) who posited that increasing revenue is not the only way to increase profitability but the reduction of cost associated with the production of that revenue will also result in an increase in profitability.

#### 4.14: Cost cutting and proper utilization of resources

The purpose of the question was to analyse if cost cutting results in efficient utilization of resources and the responses can readily be illustrated using a table as shown below

**Table 4.14: cost cutting and proper utilization of resources**

	Strongly agree	Agree	Uncertain	Disagree	Strongly disagree
<b>Respondents</b>	10	22	2	2	0

This raw data was used to come up with the pie chart given below

**Fig 4.14: Responses on proper utilization of resources**

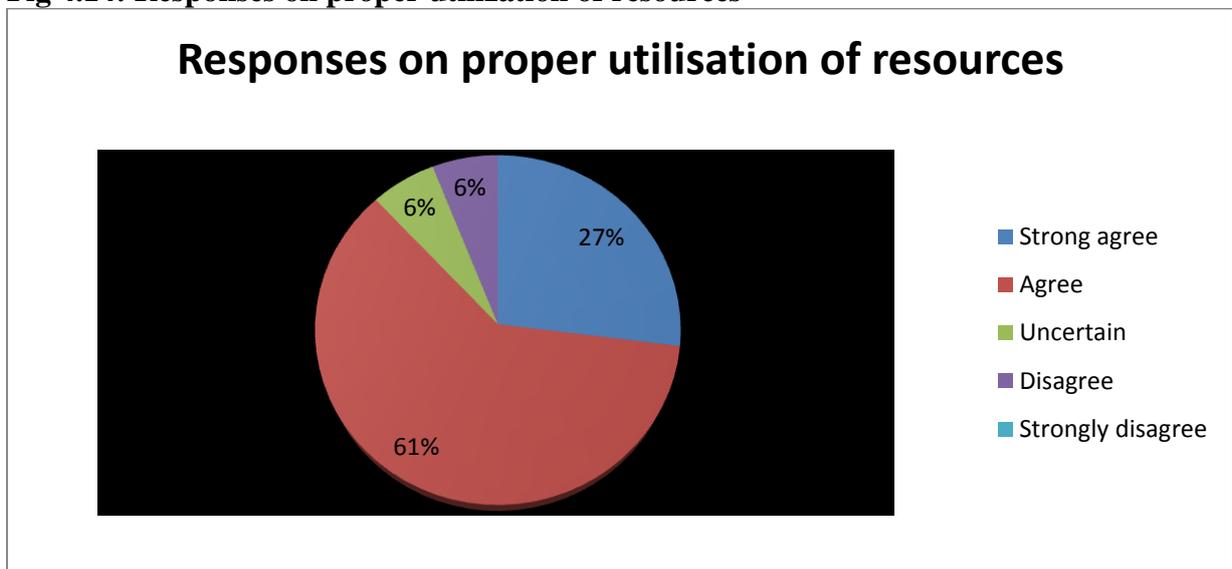


Fig 4.14 above shows that 27% (10/36) of the respondents strongly agreed while other 61% (22/36) of the respondents agreed that cost cutting positively affects financial performance of ZETDC through proper utilization of the available scarce resources. According to Fig 4.14 6% (2/36) of the respondents were uncertain if the cost cutting has led to proper utilization of the available scarce resources while the remaining 6% disagreed that cost cutting leads to proper utilization of scarce resources

In aggregate, 32/36 (88%) of the respondents (27% strongly agreed and 61% agreed) confirms that cost cutting at ZETDC gas led to the proper utilization of the available resource scarce resources. The results above are supported by Garvey et al (2013) who highlighted that the implementation of cost cutting measures ensures that the available assets are employed in a way which ensures the maximum benefit while at the same time limiting wastages as much as possible.

## Challenges faced in the implementation of cost cutting

### 4.15: Cost cutting and management support

The purpose of this question is to see if the management of ZETDC does not support the implement cost control in the organization and the responses are presented using a tabular illustration as shown below

**Table 4.15: cost cutting and management support**

	<b>Strongly agree</b>	<b>Agree</b>	<b>Uncertain</b>	<b>Disagree</b>	<b>Strongly disagree</b>
<b>Respondents</b>	0	10	8	16	2
<b>%</b>	0	28	22	44	6

According to table 4.15, none of the respondents 0/36 (0%) strongly agreed while only 10/36 (28%) agreed that management are not giving full adequate support to the cost cutting measures. Table 4.15 also displays that 16/36 (44%) of the respondents disagreed while 2/36 (6%) strongly disagreed that full support is given by the top management at ZETDC. 8/36 (22%) were uncertain whether there is lack of support or not.

In aggregate only 10/36 respondents (0 strongly agreed and 10 agreed) view as there is inadequate support from the top management and 18/36(50%) respondents agreed that top management at ZETDC give support of the implementation of cost cutting measures at ZETDC.

### 4.16: Cost control and the existence of cost control knowledge

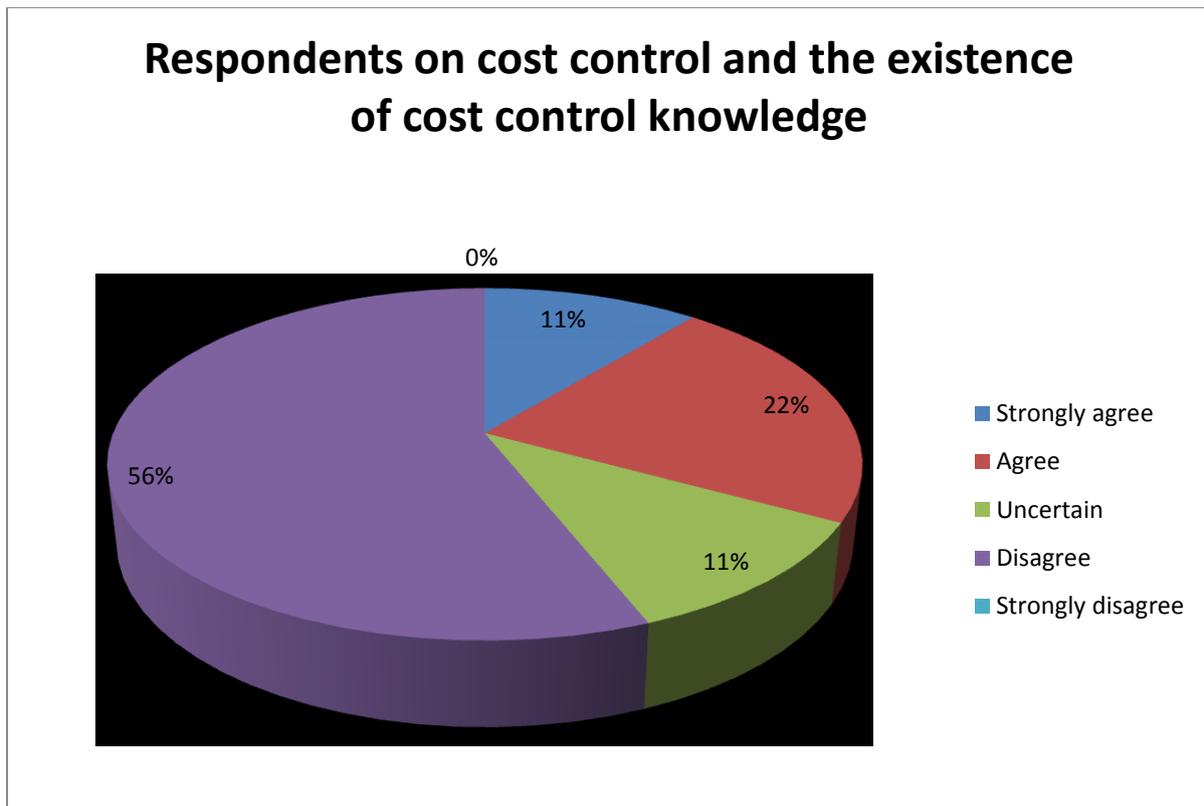
This question intends to analyse if there is a challenge of insufficient knowledge of cost control techniques.

**Table 4.16: Cost control and the existence of cost control knowledge**

	<b>Strongly agree</b>	<b>Agree</b>	<b>Uncertain</b>	<b>Disagree</b>	<b>Strongly disagree</b>
<b>Respondents</b>	4	8	4	20	0

This raw data was used to draw the diagram below

**Fig 4.16: Responses on cost control and the existence of cost control knowledge**



In line with fig 4.16, 11% (4/36) of the respondents strongly agreed that the organization has insufficient knowledge about cost cutting techniques so as to enhance the financial performance of ZETDC. 22% (8/36) also agreed that there insufficient knowledge within the organization while only 11% (4/36) were uncertain if there is insufficient knowledge.

Fig 4.16 also shows that 56% (20/36) disagreed that there is insufficient knowledge of cost cutting in the organization, however none of the respondents strongly disagreed that there is insufficient knowledge of cost cutting in the organization.

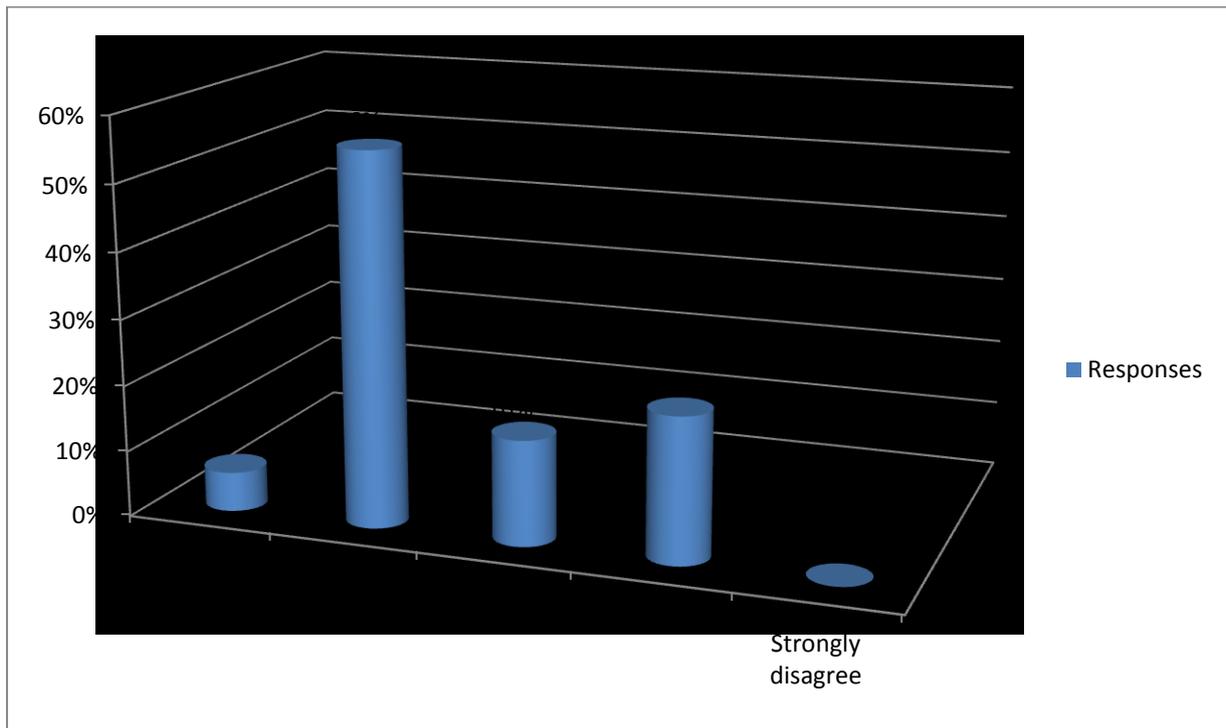
#### **4.17: Non-compliance to set policies and procedures**

The question sought to investigate if there are none compliances to set police and procedures of cost cutting at ZETDC and the responses are given in the table below.

#### **Raw data: cost cutting and compliance to set policies and procedures**

	<b>Strongly agree</b>	<b>Agree</b>	<b>Uncertain</b>	<b>Disagree</b>	<b>Strongly disagree</b>
<b>Respondents</b>	2	20	6	8	0

**Fig 4.17: responses on compliance with set policies and procedures**



As shown above by fig 4.17, 6% (2/36) of the respondents strongly agreed that there is none compliance with set policies and procedures while 56% (20/36) agreed that there is none compliance with set policies and procedures. According to fig 4.17, 16% (6/36) of the respondents are uncertain that there is none compliance with set policies and procedures. The remaining 22% (8/36) respondents disagreed and but none of the respondents strongly disagreed that there is none compliance with set policies and procedures.

The 6/36 respondents who were uncertain are; an accounting clerk in the revenue department, accounting officer in the billing department and one IT personnel. These individuals probably do not have policies and procedures that directly affect them hence there hence they might not even be aware that there are policies and procedures.

In aggregate it can be noted that 62% (6% who strongly agreed and 56% who agreed) agreed that there is none compliance with cost cutting policies within the organization and this often leads in the ineffectiveness of cost cutting measures in the organization. This is supported by Adeniji (2011) who posited that cost control will be efficient if there are policies well known in the organization and they are adhered to

#### **4.18: Interview responses**

The responses from the interviews were analyzed using emerging themes. Emerging themes are the main points that were highlighted by the interviewees during the interviews. The emerging themes are explained below.

##### **4.18.1: Effects of cost cutting on financial performance**

Majority of the respondents emphasized on the relationship that exists between costs and profits hence financial performance. The respondents highlighted that there exist an inverse relationship between costs and profits hence if costs fall, this will be followed by an increase in profits and on the other hand if costs increase this will be followed by a fall in profits. The respondents were coming to the fact that cost cutting plays a part in ensuring that costs are reduced or stabilized so as to influence profits consequently financial performance of ZETDC. This notion is supported by Watkins (2014) who posited that increasing revenue is not the only way to increase profitability but the reduction of cost associated with the production of that revenue will also result in an increase in profitability. The respondents also mentioned the fact that employing cost cutting brings efficiency and proper utilization of resources that are idle and not productive, hence not contributing to the enhancement of financial performance as they will be identified and removed. The respondents further explained that cost cutting ensures that only costs that are associated with the production of revenue are incurred and those costs which are not contributing to the enhancement of financial performance are identified and removed.

Minority of the respondents pointed out that cost cutting improves the allocation of scarce resources towards projects that are only profitable and resources being removed from those projects that are not contributing towards the enhancement of financial performance. They also spoke of cost consciousness saying that the implementation of cost cutting measures inserts the cost consciousness in the individuals within the organization such production will be made using the least cost methods. Also mentioned was the adherence to policies and procedures of cost cutting in the organization and they pointed out that cost cutting policies at ZETDC such as those in the procurement section which require all purchases of materials to have at least three quotations from different suppliers so that the cheapest materials are

bought, ensures that costs are kept at their minimum possible hence positively affecting profits

#### **4.18.2: Effectiveness of cost control techniques used in enhancing financial performance of ZETDC**

The respondents highlighted the importance of standard costing and explained that it has been one of the major techniques they used in cost cutting while carrying out their projects. They highlighted that it has been effective in comparing standard costs against actual costs and variances will be analyzed. The respondents also mentioned the use of downsizing as effective in cutting labor costs. They highlighted that over 20% of ZETDC employees are on contracts and in 2015 some of the employees contracts were not renewed and some permanent employees were retrenched so as to cut costs and this was deemed as effective as another respondent highlighted that the wage bill fell by close to 15%.

The last respondent spoke of job cost and standard costing and highlighted that these cost cutting techniques are effective in cost cutting but sometimes the desired results are not obtained because of non-compliance to set policies and procedures. The respondent highlighted that ZETDC engineers often end up not adhering to cost cutting policies due to the need to meet targets and deadlines.

#### **4.18.3: Other cost cutting techniques to employ at ZETDC that enhance financial performance**

The majority of the respondents were of the view that the current cost cutting techniques were sufficient to enhance the financial performance of ZETDC and there is no need to look for other techniques to use but rather they emphasized on the need to comply and follow the set cost cutting procedures and policies. However, the important point highlighted by other 2 respondents was the issue of transfer pricing. It was highlighted that ZETDC buys electricity from ZPC, another subsidiary of ZESA, at a transfer price but the prices set by ZPC were deemed higher than what ZETDC is willing to pay and ZPC has also been suggesting to further increase the price of its electricity. The respondents pointed out that there is a need for

renegotiating current contracts such as that of ZETDC and ZPC to ensure that ZETDC engages in contracts which are mutually beneficial.

#### **4.18.4: Challenges in the implementation of cost cutting techniques**

One of the key points highlighted by the respondents was that ZETDC has been installing prepaid electricity meters in Zimbabwe and this is regarded as a cost cutting tool as this will reduce the labor required computerized systems increases efficiency. However the main challenge was that ZETDC lacks funds to continue with the installation of prepaid electricity meters as its debtors and are not settling their balances. The respondents also pointed out that users of electricity who are still using the conventional billing system and not the prepaid system have been using electricity but not paying their bills hence leaving ZETDC without funds to fund their cost cutting projects.

Another point highlighted was that project engineers often do not follow the cost cutting policies and procedures at ZETDC. They highlighted that the engineers are more focused on the completion of projects than costs of the projects and this results in costly projects that contain costs which are more than those budgeted.

#### **4.19: Summary**

This chapter mainly dealt with data presentation and analysis. The research validity is stated at the beginning to show that there is no bias in the research findings. The primary data was collected through interviews and questionnaires which in turn were illustrated and explained

## Chapter 5

### SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

#### 5.0: Introduction

This chapter intends to confer meaning to data presented in the previous chapter. Therefore having had discussed the research objectives and questions in chapter one, this chapter will now draw conclusions from the taken research study. After concluding this study, the chapter will make recommendations to Zimbabwe electricity transmission and distribution company pertaining to possible course of action that the organization might undergo.

#### 5.1: Executive summaries

The research study focused on analyzing the effects of cost cutting measures of the financial performance of an organization using case of ZETDC. Chapter one focused mainly on the background of the study and outlined the research problem. It also gives the problem statement, objectives of the study and justification of the study. The chapter concludes by definition of key terms which are those terms regarded as complex and technical ending with a chapter summary which focuses on the details covered.

Chapter two gave a comprehensive discussion on the effects of cost cutting measures on the financial performance of an organization. To obtain relevant data numerous sources were reviewed pertaining the use of cost cutting measures. Findings were discussed by relating to literature sources and information in relation to the nature of cost cutting measures, effects of cost cutting measures and challenges faced in the implementation of cost cutting measures.

Chapter three concentrated on the research methodology used for data collection and analysis. The researcher used a case study approach and the research is descriptive in nature. The researcher used a sample of 41 respondents employing both convenience and purposive sampling. In order to obtain relevant information, questionnaires were distributed and interviews were steered together with the use of other relevant secondary information. In this chapter, the plan of the study was provided with well-versed support on the reliability and validity of the research findings.

Chapter four focused on presenting the research findings and to give a detailed analysis of the findings. This chapter tells that 41 questionnaires were distributed and 36 were successful giving a response rate of 88%. The data was presented using bar graphs, pie charts and tables.

## **5.2.0: Major research findings**

### **5.2.1: Nature of cost cutting at ZETDC**

From the research findings, ZETDC employ job costing and standard costing as cost cutting techniques and they are highly rated in the organization as very useful in enhancing the financial performance of ZETDC. There is also the reduction of wages and incentives coupled with retrenchments

The research findings also reveal that ZETDC regard the implementation of prepaid electricity meters as a cost cutting technique as prepaid electricity result in the reduction of costs and this reduce the amount of labor required, however, the major limitation in implementing this cost cutting technique is that ZETDC has large amounts outstanding and not being paid by its debtors and hence ZETDC is lacking funding to fund the projects of implementing prepaid electricity meters country wide.

### **5.2.2: Effects of cost cutting on financial performance**

The research show that cost cutting measures will positively affect the financial performance of ZETDC through the reduction of expenses which will consequently result in the increase in profits; however ZETDC profitability is being adversely affected by other factors such as government restrictions. The government restricted ZETDC from increasing its tariff per Kilo watt as ZETDC wanted to increase the unit price of electricity so as to solve the problem of incurring loses.

Another finding is that ZETDC cost cutting measures like downsizing will enhance the financial performance of ZETDC in the long run than in the short run as the company. In the short run they may even worsen the profitability than improve as cutting costs through retrenchment will result in the company paying legal fees and retrenchment costs.

Another finding was that employees at ZETDC are demotivated with the nature of cost cutting measures as they include reduction in wages and cutting incentives and overtime

### **5.2.3: Challenges faced in the implementation of cost cutting**

The research showed that there is none compliance with set policies and procedures at ZETDC and this has contributed to the inefficiency of the cost cutting measures.

The study also revealed that ZETDC has been engaged in unsustainable contracts with other subsidiaries of ZESA which are costly to the organization and this makes it difficult for cost cuts to affects financial performance as transfer prices continue to increase

### **5.3.0: Recommendations**

ZETDC should not only focus on the quantitative factors of cost cutting such as the cutting of costs so as to increase profits but should also look at the qualitative aspect of cost cutting for example cutting cost through reducing wages reduces the morale in the organization which consequently reduce productivity and in the end financial performance, hence ZETDC should introduce incentives and bonuses so as to motivate the employees.

ZETDC should organize a cost cutting committee that operates within the organization, monitoring that cost cutting controls, Policies and procedures are being adhered to. Also a cost cutting committee helps to give understanding and knowledge about cost cutting in the organization.

Cost reduction should be considered as a continuous process and not seen as a once off activity. The organisation should continuously review and take corrective action where necessary on the cost reduction initiatives it implements. This was supported by Bragg (2010) who highlighted that management should stop considering cost reduction as a once off event, but costs should gradually be removed through capitalization of cost saving opportunities.

ZETDC should consider renegotiating contracts they have with other ZESA subsidiaries and aim at negotiating mutually beneficial transfer prices.

### **5.5.0: suggestion for further research**

ZETDC management can further research on the suitability and effectiveness of activity based costing in the power industry. Further research on the effects of target costing on the financial performance of power companies should be undertaken.

### **5.6: Summary**

The summary of all chapters was given in this chapter, giving the major research findings of this research and the conclusion. The chapter ended with suggestion for further research to be done in the future

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## **APPENDIX 1**

### **(Cover letter)**

Midlands State University  
Faculty of Commerce  
Department of Accounting  
P. Bag 9055  
Gweru

10 April 2017

ZETDC head office  
25 Samora Machel Avenue  
Harare  
Zimbabwe

Dear Sir/Madam

### **RE: Application for permission to carry out an academic research**

My name is Francis Matongo final year student at Midlands State University. I am seeking permission to carry out a research titled “Analysis of the effects of cost cutting measures on the financial performance of an organization”. The research is carried out in partial fulfillment of Bachelor of Commerce Honours Degree in Accounting at Midlands State University

Information obtained will be kept confidential and will be used for academic purposes only.

Your cooperation is greatly appreciated.

Yours faithfully

**Francis Matongo**

**R136806V**

## Appendix 2

### Questionnaire for ZETDC employees and management

This questionnaire was designed by Francis Matongo a Midlands State University student, aimed at gathering data on the effects of cost cutting measures on the financial performance (A case of ZETDC). Data gathered is purely for academic purposes only and confidentiality is guaranteed.

#### Instructions

- *Do not write your name on the questionnaire.*
- *Show response by ticking the respective answer box and fill in the relevant space provided*

#### Questions

##### Personal questions

1) Gender      Male       Female

2) Age    Up to 30years     30 - 40     40 - 50     over 50

3) State Department in which you are engaged

Finance       Audit     HR     IT     Engineering

4) Your highest academic qualification

Up to A level     Diploma     Degree     Masters     Doctorate

Any other specify .....

The following relates to the nature of cost cutting at ZETDC:

5) Cost cutting at ZETDC reduced wastage of resources

Strongly agree  Agree  Uncertain  Disagree  strongly disagree

6) Cost cutting measures at ZETDC involve the cutting of wages

Strongly agree  Agree  Uncertain  Disagree  strongly disagree

7) Since the implementation of cost cutting measures, incentives and overtime were cut

Strongly agree  Agree  Uncertain  Disagree  strongly disagree

8) The implementation of cost cutting measures resulted in retrenchments

Strongly agree  Agree  Uncertain  Disagree  strongly disagree

The following relates to the effects of cost cutting:

9) Cost cutting measures at ZETDC reduce staff morale which result in decrease productivity

Strongly agree  Agree  Uncertain  Disagree  strongly disagree

10) Cost cutting lead to increased staff supervision which resulted in increase in productivity

Strongly agree  Agree  Uncertain  Disagree  strongly disagree

11) Cost cutting measures at ZETDC resulted in a decrease in total expenses which improved financial performance through increase in profits

Strongly agree  Agree  Uncertain  Disagree  strongly disagree

12) Cost cutting has improved financial performance through proper utilisation of resources.

Strongly agree  Agree  Uncertain  Disagree  strongly disagree

13) Cost cutting improved decision making which resulted in the improvement of financial performance

Strongly agree  Agree  Uncertain  Disagree  strongly disagree

The following relates to the challenges faced in the implementation of cost cutting measure:

14) There is resistance to change

Strongly agree  Agree  Uncertain  Disagree  strongly disagree

15) Lack of support from top management

Strongly agree  Agree  Uncertain  Disagree  strongly disagree

16) Non-compliance to set policies and procedures

Strongly agree  Agree  Uncertain  Disagree  strongly disagree

17) Any other comments (Specify)

.....  
.....  
.....

**Thank you for your cooperation**

## **Appendix 3**

### **Interview Guide**

*I am kindly seeking your views and comments to the following questions relating to the RUJDQLD's cost cutting measures. Information and views given is treated in strictly confidential and is used for academic purposes only. Your utmost assistance is greatly appreciated.*

- 1) How effective are the cost cutting initiatives in enhancing the financial performance?
- 2) How does the cost cutting affect financial performance?
- 3) When implementing cost cutting measures, what challenges are being faced by ZETDC?
- 4) In your own opinion, what other measures should be adopted to ensure effective cost cutting measures.