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Midlands State University



FACULTY OF COMMERCE

DEPARTMENT OF ACCOUNTING

***AN INVESTIGATION INTO THE EFFECTIVENESS OF COST REDUCTION
TECHNIQUES, A COST BENEFIT ANALYSIS CASE OF PLUS FIVE
PHARMACEUTICALS.***

By

BRENDA CHASWEKA

R142426Q

This dissertation is submitted in partial fulfillment of the requirements of the bachelor of commerce honors degree in accounting in the department of accounting at Midlands State University

APPROVAL FORM

The undersigned certify that they have supervised Brenda Chasweka in the dissertation entitled “An investigation into the effectiveness of cost reduction techniques on cost benefit analysis; Case of Plus Five Pharmaceuticals Ltd” The dissertation is submitted in partial fulfillment of the requirements of the Bachelor of Commerce Honors Degree in Accounting at Midlands State University.

.....

.....

Supervisor

Date

.....

.....

Chairperson

Date

.....

.....

External examiner

Date

RELEASE FORM

NAME OF STUDENT : Brenda Chasweka

DISSERTATION TITLE : Effectiveness of cost reduction techniques on cost benefit analysis. Case of Plus Five Pharmaceuticals

DEGREE TITLE : Bachelor of Commerce Honors Degree in Accounting

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Signed: -----

Date -----

**Permanent address : 6343 Western Triangle
Highfield
Harare
Zimbabwe**

DEDICATION

This piece of work is dedicated to my family who believed in my dreams and made boundless effort for me to reach this level, my friends for their unwavering support and encouragement. My dedication also goes to my lecturers and teachers for their diligence and inspiration to be where I am today.

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ABSTRACT

This research study was undertaken to analyze the effectiveness of cost reduction techniques on cost benefit analysis at Plus Five Pharmaceuticals. The researcher observed that cost reduction techniques implemented were actually resulting in increased costs which triggered the need for this research. The research therefore aimed to identify the current cost cutting measure adopted, to establish necessary controls to validate the implementation of the identified cost reduction techniques and to discuss the impact of other cost reduction measures on Plus Five Pharmaceuticals. Also targeted by the research were the challenges encountered in the execution of the suitable cost reduction techniques before concluding to determine the cost reduction techniques which Plus Five Pharmaceuticals could adopt to improve on its profits. The researcher concluded that that cost reduction improved profitability thus a benefit on the cost benefit analysis. Although some techniques were not implemented correctly, the occurrence of the expenses differ depending with the period. The researcher rolled down the curtain by recommending that the company should have stiff rule of measure facilitating costs control to achieve the goal of cost reduction techniques. Training and workshops alerting the employees about the controls are necessary as they educate the workers on the aim of cost reduction, reasons for the implementation and the possible outcome if the procedures are not followed.

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CHAPTER ONE

1.0 INTRODUCTION

This chapter provides a full set of information regarding the background of the study, statement of the problem, (being the summary to the background of the study), main research question, and research questions, guiding the study. It also provides sub-objectives, limitations and the delimitations to the study, the assumptions and significance of the study.

1.1 Background of the study

Shreya (2014) defines cost reduction to be the process of achieving perpetual reduction of costs in goods produced without decrease or change their intended use. In a research for the effectiveness of cost reduction techniques, Sikka (2013) and Brumbaugh (2014) agreed that profitability amongst others is the essence of any business hence there is need to implement cost reduction techniques in order to achieve targets and set standards. Likewise Obara (2014) also said the effectiveness of cost reduction techniques requires the setting of standards and maintenance of performance and failure of this may lead to inefficiency of the techniques.

However lack of full knowledge of cost reduction techniques can lead to the failure in achieving its goals when management embark without proper knowledge. Sani (2012). In a research done in UK, Kantharaj (2015) argued saying that cost reduction may not permanent because of reasons which reduced them initially and cost can go the initial level. When these temporary settings which caused the costs to decrease are no longer available, inefficiency can be evidenced. He further on indicated that budgeting is of paramount important for the success of cost reduction techniques.

Additionally Kenyatta et al (2014) and Basu P et al (2012) agreed that in order for cost reduction to be effective, management need to focus on production department more than other areas. Furthermore in researches done in USA pharmaceutical industry Galitsky C (2015) concluded that the pharmaceutical industry is severely regulated because of its direct impact on consumer health and wellbeing, hence there is need to adhere to cost standards set by regulatory offices otherwise cost reduction can ultimately be a mere failure.

The differences in the conclusion of the above researchers shows there is still no consensus in providing some cost reduction techniques which will be effective in reducing costs and achieving their goal and ultimately maximizing profit hence proving a gap persists uncovered. This current study will seek to analyze the effectiveness of the cost reduction techniques in pharmaceutical firms and to find ways and conditions to make them effective.

Below is a table showing the trend of costs and revenue for +5 pharmaceuticals from year 2014 to year 2016

TABLE 1.1 PLUS FIVE PHARMACEUTICALS FINANCIAL STATEMENTS

Years	2014	2015	2016	Variances 2014-2015	Variances 2015-2016	
Costs	\$197,265.00	\$204,887.00	\$290,100.00	(\$7,622.00)	(\$85,213)	Cost increase
Revenue	201,789.00	190.546.00	\$132,200.00	\$11.243.00	\$58, 246	Revenue decrease

SOURCE: PLUS FIVE PHARMACEUTICALS FINANCIAL STATEMENTS

Despite +5 Pharmaceuticals implementing cost reduction techniques like JIT costing ABC costing, wage cutting, retrenchment among other techniques from 2014 to 2016, the costs kept on rising and resulting in diminishing profits. The techniques have not been permanent as evidenced by continual rise in cost from 2014 to 2016 as shown in the table above. There was a significant rise of costs from 2014 of \$197,265.00 to \$290,100.00 in 2016 and a decrease in revenue from 2014 of 201,789.00 to \$132,200.00 in 2016. Due to the rise in costs, it led to the rise of unit costs of goods and this led to the passing on of the costs to the consumers.

Increase in costs daily hindered the organization goal of maximizing profits. There was also need to maintain a standing figure within the pharmaceutical manufacturing industry, avoiding spoliation of the organization reputation. Due to this, the firm implemented cost reduction techniques in order to maximize its profits but in turn costs kept on rising.

1.3 Statement of the problem

Despite the implementation of cost reduction techniques, the cost at Plus Five Pharmaceuticals were not reduced rather they kept rising. Problems are still ongoing in trying to foray a balance between costs and liquidity of the company. It still remains a challenge even after enactment of cost decrease techniques to manage the risks associated with these techniques.

1.4 RESEARCH QUESTIONS

MAIN RESEASCH QUESTION

What is the effectiveness of cost reduction techniques on cost benefit analysis at Plus Five Pharmaceuticals?

SUB RESEACH QUESTIONS

- What are the current cost reduction techniques that were implemented by Plus Five pharmaceuticals?
- What are the necessary controls to validate the implementation of the identified cost reduction techniques?
- What are the challenges faced in the execution of the suitable cost reduction techniques?
- What is the impact of cost reduction techniques on Plus five Pharmaceuticals?
- What are the cost reduction techniques that Plus five pharmaceuticals can adopt to improve its profits?

1.5 Objectives of the study

- To identify the current cost reduction techniques adopted by Plus Five Pharmaceuticals.
- To establish necessary controls to validate the implementation of the identified cost reduction techniques.
- To outline the challenges encountered in the execution of the suitable cost reduction techniques
- To discuss the impact of cost reduction techniques on Plus Five Pharmaceuticals.
- To determine the cost reduction techniques which Plus Five Pharmaceuticals can adopt to improve its profits.

1.6 SIGNIFICANCE OF THE STUDY

TO THE RESEARCHER

- The research will educate the researcher on cost reduction techniques in manufacturing firms.
- The research will provide a platform to the researcher when linking between theory and practice.
- The research will enhance the researcher's knowledge and skills on how to carry out researches, analyses and present data.
- The research will assist the student in assessing the relevance of the theory learnt at college and link it with practice.
- The research will form part of the researcher's curriculum vitae's material.

TO PLUS FIVE PHARMACEUTICALS

- This research will serve as a reference on the effectiveness of cost reduction techniques on cost benefit analysis.
- Furthermore, the research will propose on various ways of improving and evaluating the cost reduction techniques to implement.
- Lastly, the research paper will assist management and decision making department in implementing various techniques.

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- The research can be used as secondary data on future researches on the same subject

1.7 Assumptions of the study

Plus Five Pharmaceuticals group is a going concern and it will operate for the foreseeable future. The information gathered from primary data sources is believed to be true and accurate and the information collected from the secondary data sources is believed to be accurate. Conclusion was reached from analysis of results and recommendations resulting from these conclusions.

1.8 Delimitation of the study

- The research is going to focus on cost reduction techniques implemented at +5 Pharmaceuticals group.
- The focus population of the research is the production workers, the sales and distribution workers and the management.
- The research will be limited between period 2014 and 2017.
- The research will be conducted at the head office of +5 pharmaceuticals in Harare and the production site in Bulawayo.

1.9 Limitations of the study

- The research only focused on cost reduction techniques implemented at +5 Pharmaceuticals hence providing information that have limited accuracy.
- The research focused on the limited range of workers at +5, limiting the scope of info to be collected.
- Due to focusing on a limited time frame, this limited the scope of findings.

- Also the research focused on the head office and production leaving out other areas where information could have been collected contributing to the research.

Definition of terms

- +5 Plus Five Pharmaceuticals
- ABC Activity based costing
- JIT just in time

1.10 Summary

This chapter was composed of the introduction, the back ground to the study, the statement of the problem, the study objectives, and research questions. Limitation and delimitations to the study were also included. The following chapter dwells on the review of literature.

CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction

Literature review is the selection of material in consideration of information that is important and less important to the study Tracy (2013). Literature was reviewed in this chapter the aim of the review was to identify the cost reduction ways which were implemented by the firm, to establish controls needed in the implementation analyses the impact of adopted cost reduction and determining some cost reduction was which the firm can implement..

2.1. The current cost reduction techniques adopted by Plus Five Pharmaceuticals.

Cost reduction is defined as the elimination of unnecessary expenses with the objective of increasing profits without diminishing or affecting product quality or services delivered McMahon (2014). It is not always certain that extra income will be obtained and returns are not easy to predict. Bragg (2013) contributed that reduction in costs may be controlled within the organization, whereas revenue might not be controllable. Organizations usually decide to implement sub contraction, activity based costing, just in time costing, reduce wages and salaries, value analysis and supplier consolidation analysis as cost reduction techniques.

2.1.1 Activity based costing

Walker (2013) defines Activity-based costing as a method where costs are allocated as a result of the cause and effect relationship between costs and the activities that drive these costs. Moreover, Institute of Management Accounting (2016) said ABC approach is generally applicable across the whole company functions and not limited to the factory. ABC establish the links between performing certain activities and the demands they make on firm's resources

hence it can give managers a clear picture on how the company's activities generate revenues and consume resources Scheid (2012). The profitability picture that arises from the ABC helps managers to focus their attention and resources on improving activities that increase profit and reduce on areas that increase costs. Lombardo (2015) and Feinberg (2012) agreed that ABC assigns costs to activities in relation to resources used. Determining salary costs in relation to work done and time spent on each activity is another advantage of ABC. It is always healthier to develop and disregard some work rather than assigning more accurate cost on not necessary work to products delivered or to customers Tsai (2016).

However, Scheid (2013) argued that ABC is complex, costly and time consuming which is caused by data collection and entry process thereby increasing costs the firm ultimately. Naseba (2016) said in cases where overheads costs of organisations only occupy a small portion of costs, cost reduction cannot be effective as mostly costs are high because of volume. Lombardo (2014) and Agarwal (2016) further argued that ABC has different level of usefulness for organisations such as large manufacturing firms can view it more useful compared to smaller firms. Drury (2014) added that the level of technology and manufacturing environment prevalent in firms can affect the application of ABC.

2.1.2 Value Analysis

Value analysis is of help to the firm when placing a value on costs and identifying unnecessary expenditure Feinberg (2012). Management must embark on evaluation of benefit gained from particular expenditure. Rajan (2012) contributed saying by analysing value of certain activities and cost centres, firms can reduce cost and increase profits at the same time. Value analysis

improve the value of activities or process by considering the constituent components inclusions and their related costs. Institute of value engineers (2016) said it then tries to locate some improvements on the components by either reduction in their costs or by an increase in the value within the function. When looking for cost saving areas to determine components that may be optimized, value analysis helps in determining and refining the value of a product or process by assessing functions of the items identified Khera (2014). By replacing products not satisfying the specific requirements and contributing more costs when manufacturing, the firm eliminates excess costs hence reducing costs and increasing profits Singh (2014).

However Bicheno and Gage (2014) argued that value analysis stands as a long and requires quite some work, time consuming and takes time in pointing the problems in different parts within the manufacturing. Moreover, there is need to analyse the competitor strategy so as to the cope up with completion and increase in production for consumers to meet their needs Norton (2013). Due to the fact that costs and assets to be useful in value analysis are usually calculated limited to a single period using the present financial information of the organisation, in the long run decision change might lead to variations in cost arrangement, investments in capital and working capital Macmillan (2015).

2.1.3 Subcontracting

Subcontracting is the passing on of contractual duties or responsibilities to a subcontractor being a different party Huber (2013). Firms usually sub contract complex projects like information technology and construction as they usually require expertise work Kilicaslan (2013). Although organizations usually hires subcontractors, the overall control remains a duty of the hiring firm. Subcontracting assist in cases where firms cannot manage multiple and complex tasks.

Brodzinski (2012) pointed out that flexibility and taking advantage of rewards paid by other firms if they are less comparing to their wages are mainly the benefits of subcontracting. Other firms' productivity is improved through subcontracting through cutting or spreading costs Bususu (2014).

The findings of Sandal (2015) also supported that, focusing on core business activities, improvement quality of services as well as managing internal resources are some of the advantages experienced in firms through subcontracting. Myers (2015) said despite paying a higher hourly rate compared to that of their own employees when sub-contracting for labor or specialized service firms, firms are not accountable for the employee benefits which include employers share on social security, medical care and unemployment taxes. Hiring firms are not obligated to train the sub-contractor hence making hiring sub contactors less expensive than finding or training employees from the firm. Gholami and Rashidi (2012).

However Institute Of Costs and Works (2014) agued saying that due to the fact that firms do not handpick ,regularly asses, reward performance and train subcontractors the way they want them trained, loss of control to the sub contactor is experienced . Wickford (2016) supported saying though the subcontractor will be working for the firm and representing the company to the customer, guarantee to the quality of their work and loyalty to the customers cannot always be expected of the sub contracted employee. Datar (2015) emphasized the need for verification that the sub-contractor carries his own liability insurance because in the event of an accident the firm can be liable for mistakes of the sub contactor.

2.1.4 Just In Time costing

Hong-Mo Yeh (2014) said that Just In Time is a technique of cost reduction when material and all the necessary requirements are ordered or produced just in time when they are desired. This technique enables quick and smooth movement of materials between the suppliers and the organizations, hence improving the process of manufacturing. Just in time costing aims to improve and change the manufacturing process progressively within organizations Barlow (2015). When firms are quickly responding to customers, having improved communication among departments, improved flexibility amongst suppliers and achieving better quality of products, firms ultimately reduce product cost and overall costs Shreya (2013)

Drury (2013) contributed that JIT avoid drawbacks of stock holding which include production inefficiencies, over production ,maximized waiting times , increased transport costs and increased capital in tied up in stocks ,by its characteristic of not producing goods and supply customers from stock .JIT process focus on producing exactly the quantity required at precisely the time it is need by the customers Kokemuller (2013) .Barlow (2015) said JIT is ideal for small companies which do not have funds available to purchase large amounts of stocks at once and ordering when stocks are needed helps to maintain a healthy cash flow.

However, just in time costing exposes the organization to various jeopardies especially those within the chain of supply. In situations where disruptions and problems in purchase supplies, the organization can be forced to temporarily stop production process and a bigger problem is faced because there will be no stocks to fall back on .Kaplan (2016). The use of Just in time

costing opens the firm to risks of running out of stock when need of stock arises at the time when the stocks are not available, leading to the loss of customers and sales .Horngren (2014)

2.1.5 Reducing wages and salaries.

Jonathan (2016) alluded that due to the economic problems many firms are facing, cutting and slashing of salaries have been the order of the day in most firms and in turn it is increasing profitability of the organizations. Marshalli (2014) said companies across the nation have acknowledged the need to adopt some sort of technique to contain the costs of labor, both skilled and unskilled and maximize the firm's flexibility in these trying economic times. Habib (2015) further contributed that firms have embarked in those cost reduction measures like furloughs, reduced working hours, reduced wages, and job sharing in order to maximize profits.

However in situations when cost reduction are improperly implemented, legal costs are affected and it may compromise the professions of many people .Drury (2013).compliance with the fair labour act is of paramount significance when implementing cost reduction by means of wage and salary cutting . In addition Collins (2013) said it was noted that there is great tension between management and its employees when cost reduction is implemented by means of wage cut, hence the reason why firms should follow proper procedures because organizations can be sued as it is administered by several restrictions legislative boards. Shreya (2014)

2.1.6 Supplier consolidation analysis

Phil (2013) said that if firms can maximise on consolidation of orders, they can reduce some costs as the areas of purchases contribute much on costs in the financial statements. Organisation can benefit from bulk buying which is enhanced by merging of purchases, resulting in an

effective cost reduction Collins (2015). It was noted that same goods can be purchased on different prices within the same organisation, hence consolidation of supplies can enhance significant cost savings Rajan (2012). Furthermore Bragg (2012) highlighted that merged purchases expands the volume or purchase when buying from different suppliers hence less is paid and ultimately cutting costs.

However, Drury (2015) argued saying bulk buying in consolidating purchases can lead to obsolete stocks due to large quantities being ordered and some stocks will be ordered when they are not needed just because the firm needed to consolidate orders with different ordering dates and leading to cost increase. This will also increase in storage costs Nel (2015).

2.1.7 Retrenchment

Retrenchment is the layoff of employees from the business resulting from employee redundancy or insignificance of the position held by the employee Constitutional laws (2012). Retrenchment helps organisations in cost reduction through elimination of salaries and wages of some workers who contribute less to the company and reducing on the number of workers per area of work being done. The process of retrenchment also involves consolidation of work and less workers will be need thereby the less significant worker will be retrenched Marlene (2013).

However Thomas (2012) alluded that retrenchment requires that employees be informed within ten days to allow them to react to the decision. Failure to do so can invite legislative action against the organisations. South African Board for People Practices (2014). Retrenchment should

be restored to as the last option as a cost reduction techniques because it has a tendency of risking firms to losing qualified experienced and skilled workers Marlene (2013).

The above researches show that there is no consensus as to the effective cost reduction techniques which should be implemented for effective cost reduction techniques thus leaving a gap to be researched by the researcher.

2.2 Establishing necessary controls to validate the implementation of the identified cost reduction techniques.

Control strategies are of great importance when introducing some cost reduction measures because they motivate employees towards a culture of cost control and cost reduction within an organization. It was also discovered that for effective results to be obtained, various methods must be used and good working environment facilitates the effectiveness of them Fobers (2012).

2.2 .1 Employee Involvement

Fabozzi and Drake (2013) contributed that the involvement of some workers from various work levels must be taken into consideration in fundamental leadership procedures in an organisation set up for it encourages motivation and therefore creating a work place that is favourable. Workers tend to increase knowledge and abilities on assigned work by taking part on decision making. Top management's support is required when including the workforce in decision making so as to guarantee the enjoyment of cost reduction rewards Isa et al (2014).Through worker involvement, there are slimmer chances of worker resistance and management is there to take part in the advancement of flow of information evenly within the organisation Huynh (2015). Moreover. Boris (2014) alluded that involvement of employees and management helps

wen implementing some changes within the organisation and helps on making informed decisions.

2.2.2A change in organizational culture

Spring (2016) said for the effectiveness of cost reduction process, firms are required to question the cultural way they have been doing things and be bold in developing alternative ways of doing business. Ingram (2013) contributed that departments should look beyond traditional organizational boundaries and introduce a system view in order to maximize the opportunities to operate more efficiently across delivery network in implementing cost reduction techniques. It is essential to include management and front line employees for maximization of change process itself, behavior, and mindset will follow. Thomas (2013) said this is why organizations usually try to change mind sets of the workforce and behavior by communicating values and putting them in glossy brochures. Changes to key behaviors which are measurable tangible, repeatable, actionable, and observable, are indeed a good starting point.

However Oelschlegel (2012) argued saying that firms should work with their current cultural situations. Deeply rooted cultures cannot be replaced with mere upgrades or even with major efforts nor can the organizational culture be exchanged by the enactment of a new ones so easily. Institute of global culture and change (2014) further argued that the current cultural situations contains components that provide advantages that are natural to companies as and components that may act as brakes .Stephen (2013) also said that there are few situations where a culture is all bad or all good. For firms to work with their culture efficiently they must understand it first,

recognize which traits are outstanding, consistent and evaluate the types of conditions these traits are likely to be of help or hindrance Spring (2016).

2.2.3 Accountability

National audit office (2015) said the management board must hold management answerable for strategic choices, for implementations chosen on cost reduction techniques within an effective control environment and producing results. Payne (2013) said departments should improve relationships and provide the required oversight ways to ensure cost reductions are achieved throughout the system. Reducing costs means deviating away from traditional way of thinking Motouschek. (2014) That role requires accountability and recommendations have to come with compact facts supporting them and alternatives need to be explored together with support coming from the highest level.

2.2.4 A focus on realization

Vigario (2013) said that cost reduction techniques need to focus on realizing the savings through identifying, delivering quantifying and, measuring the actual cost reductions. Need also arose in taking account in the cost approach, inclusion of staff time and IT infrastructure or initial training needed. This will determine the real cost savings and will be an important factor in the audits of cost reduction strategy McDonnell (2012). Firms need to be in aware of the cost reduction areas and introduce cost reduction which are capable of producing results anticipated Thomas (2014).

2.2.5 A business as usual approach.

Cost reduction programs must not only be undertaken responding to budgetary constraints but instead should be built within the organization as a usual way of conduct with ways for cost

reduction , unremitting improvement stimulated, tested, introduced and evaluated continually Maeder (2012). Staff should be assessed and given incentives to identify and also implement strategies which include term value for money. Cost management, steady benchmarking, and the adoption of wider practice should be part of the core business and supported by strong leadership and relevant information Iles (2013). Organizations experience continual struggle realizing value of their increasing and complex investments in organizational change Yao (2015). Furthermore the use of benefits management act as key discipline to address this problem , but is too often viewed as a discretionary add on, and limited to project management Conner (2014). In order to address this challenge, firms must embark on a holistic approach and ensure that the benefits management discipline is embedded in all the significant processes across the organization Hawkins (2012).

In the researches done on the necessary controls to validate the implementation cost reduction techniques, there is no agreement as to controls which can be effective to the success of these techniques.

2.3 The challenges encountered in the execution of the suitable cost cutting techniques.

Slocumb (2012) said that cost reduction program do not have a steady record of positive results despite consistent application within the organizations by the use of customary strategies. Cost reduction techniques usually restrain the positive impacts and hence crush value.

2.3.1 Inconsistency in application of the techniques

Bragg (2012) mentioned that the cost reduction techniques selected by the organization should be applied consistently to all business operation and also be customized when needed. This is done to suit the activities of the organization in all times, not as a reaction after experiencing recurrent losses and reduced revenues Lehman (2013). In addition Sahu (2015) further alluded that in situations of uncertain events like economic downturn, permanent and continuous cost reduction facilitates the quick stabilization of firms. The cost reduction program must be implemented consistently within the organization so as to make sure that the strategy functions well Burbige (2014).

2.3.2 Improper cost management and control

Schawk (2014) Firms must embark on education and training before implementing cost reduction techniques. There is need for using techniques like benchmarking in order to gain knowledge .The benefits of cost reduction are only gained when the techniques are properly introduced with full knowledge of them. Suer(2013).Firms need to embark on cost reduction engineering and make use of some professional persons on the program .However due to the fact that firms need to employ proper control, cost can in turn increase due to the training and hiring of persons required prior to the implementation Simaria(2014).

2.3.3 Resistance to change by employees.

Resistance to change was defined by Collins (2014), as the negative reaction to change by employees as a result of feeling inferior or useless as a result of the change. During the implementation of cost reduction techniques ,the workforce may be reluctant to participate in the program if they feel that the change brought in by the management is making them useless to

the organization .Resistance is dominant in situation were change is introduced by top management without consulting the work force and line managers Lawrence (2015). The resistance can spread to management if the change was introduced by directors without informing them, thereby creating a dangerous environment of resistance from management down to the employees Adenle (2013).

Form the challenges found by the above researchers, there seem to be no coherence and consensus as to the challenges faced in implementing cost reduction techniques hence the gap to be researched.

2.4The impact of cost cutting technique on organizations.

Cost reduction affect the organization both positively and negatively.

2.4.1Positive impact

Cost reduction is defined by Bragg (2014) as a system introduced by the organization in order to increase profits through reduction of costs. Rafel (2015) and Drury (2014) highlighted that the cost reduction program helps the firm in driving and working towards long term growth, assists the organization in achieving its long term objectives and provide an improved cash flow within the organization .When the program is nailed in as a culture, profits will increase in the long run.

2.4.2Negative impacts

Wong (2013) contributed saying cost reduction can present unfavorable results if it is improperly implemented .The firm can end up experiencing deprived service deliveries and products of poor quality . If these are deployed into the market, the firm can end up having a tarnished image because of compromised service deliveries. Bragg (2013) further alluded that improper cost reduction implementation can result in firms having a poor reputation .Cost reduction program

usually eliminates staff training and investment in to projects, this in turn hinder the organization long term growth Damodaran(2013).

Form the researches above on the impact of cost reduction techniques on organization, there is no harmony as to the extent of their impact to firms, which is a gap to be filled by the researcher.

2.5 The cost reduction techniques for Plus Five Pharmaceuticals to improve its profits.

Grant (2013) said that restructuring cannot always be the upgrade of structure and process, but can also be viewed as a progression of composed activities in enhancement of business production and having a big impact in execution of deliberate and skilful arrangements. Marimuthu (2012) asserted that business restructuring is normally the company's initiative that can be run using financial restructuring. The other methods include going paperless and management audits. Yawson et al (2012), organizational restructuring can either be "internal" or "external" with internal restructurings done via several methods including asset restructuring.

2.5.1 Asset restructuring

In trying to regain momentum in business firms can engage in restructuring of assets with the aim of improved business routine and increasing profits and cash flow. Asset restructuring is the sale of most of the assets belonging to a company Finance (2012). Furthermore asset divestment enables firms to get rid of unwanted non-profit generating assets and selling off none core assets helps in raising cash and ease financial dis comfort Brumbaugh (2014).

2.5.2 Downsizing

The usual used way when restructuring is downsizing. The process involves the re arrangement of the workforce by the use of layoffs and reduction in organizational operations with an

objective of reducing costs Waweru (2014). Due to financial crisis and poor performance, firms usually opt for corporate downsizing. Arora (2013) said the process of downsizing requires the recognition of some alternatives resulting in layoffs of workers and this is usually driven by the diminishing demand of the firms' services and products.

2.5.3 Go paperless

Lerberg (2014) illustrated that organization should consider the introduction of electronic communication like the use of power point and slides as a way of business conduct. In going paperless, the use of mail can be done when distributing informative documents like company magazines thereby resulting in reduced costs due to elimination of printing expenses in link with information. Loberg (2013) further alluded that organizations can reduce costs by replacing the use of printed documents as proof of payment. In the end, organizations become more efficient environmentally. Due to this, organizations increase efficiency and effectiveness environmentally. Christensen (2014).

2.5.4 Assess benefits package and administration

Employees are not willing to let go benefits like pension packages as it beef up their benefits packages. Firms can opt for cutting on employee benefits by reducing their packages. Fenberg (2013) .Nearly all organizations prefer the reduction of pension savings in comparison to reduction of pay or cut in employment with workers Loberg (2012). Assessment of employee benefit procedures helps in ascertaining that funds are paid to entitled personnel, thereby saving costs. Employers are not compelled by law to offer benefits such as health insurance coverage, pension plans and paid vacations. These types of benefits can be quite costly especially for small business and these small firms must manage expenses and cash flow wisely. Firms can cut or reduce in these benefits as a way of reducing costs. Collins (2014) Rossheim (2015) said some

benefits which are not a mandatory to firms such as health, housing and school fees packages can be reduced or eliminated as a way of cutting costs and ultimately increasing profits.

2.5.5 Cut off transport facility

Osborne (2014) said that management and employees can be provided with transport facilities by the organization. Companies can save a vast amount of funds when they suspend the facilities because these facilities raise costs involved in the repairing and maintenance of motor vehicles used by worker Institute of works (2015). Management can offer commuter transport to transport their workers to and from work rather than giving them incentive money for transport. Stapleton (2014) further supported that the management can cut transport facilities to employees who does not uses company vehicles for the direct benefit to the company as a way of reducing costs for the organization.

2.5.6 Management Audits

Management audits are regarded as performance audits. They are usually used in the facilitation of cost reduction in both profit and non-profit organizations Bragg (2013) Management audits aims to help management in operating efficiently through identification of inefficiency and wastages and providing solutions to these problems. This ultimately can reduce firm's costs as the cost increase areas will be focused upon and worked on. Management audits helps in decision making areas which include make or buy, closing of units which are not profitable to the organization, and thereby reducing costs Wilkowsky (2016). Management audits helps in assessing the efficiency of the executives, suggests ways to utilization of resources for the organization effectively and improves coordination in the functioning of various departments so that they work together effectively towards the achievement of goals of cost reduction and profit maximization Myers (2015).

2.6 Summary

This chapter reviewed literature with the objective of detecting cost reduction techniques introduced, establishment of controls, impact of these techniques, challenges faced in implementation of the techniques and cost reduction techniques to be adopted by Plus Five Pharmaceuticals.

CHAPTER THREE

RESEARCH METHODOLOGY

3.0 Introduction

This chapter describe the methods to be used during the survey. It includes the research design to be used, population sample, as well as research instruments employed.

3.1 Research Design

Wyk (2012) said research design is the plan which link the research problems with important and also attainable observed study. For effectiveness of answering the research question, there is need for proper arrangement of data and the methods in the research design. Saunders et al (2012) contributed that three research designs which incorporates exploratory research, descriptive research and causal research. For this research descriptive research design was used

3.1.1 Descriptive Research Design

Addressing a specific population within a stipulated time period despite it being fixed or variable if the initial objective of descriptive design. This is done to cater for situations where comparisons are needed Burns (2012). The method includes both data which was obtained through telephone interviews and observations. Therefore descriptive survey suits this research due to the fact that restriction was not only limited to observations by sight. Furthermore, Saunders et al (2012) contributed that descriptive research design intents to provide its concern

in determining the frequency of events occurring determine extent which two variables might vary. Considering these factors, the researcher made use of descriptive research design.

3.1.2 Case study

A case study provides some detailed information of the study, hence the researcher saw it worthwhile to use a case study. It was ascertained by Cooper and Schindler (2012) who said the use of case study is suitable when using descriptive research design. Which made the researcher to use Plus Five Pharmaceuticals as a case. A clear and accurate understanding was obtained by focusing on a specific group of study. This case study served as a conformational point to the research conclusion as supported by Yue (2013).

3.2 Research Population

Population is described as a group of persons, items from which examples are used for research purposes. Shandu (2012). Twenty four (24) Plus Five Pharmaceuticals employees were the population target. And all were accessible from the organisation.

3.2.1 Sampling Procedures

Sampling is defined by Bird and Cassel (2013) as a careful selection of a number of persons to provide data which will be used as assumptions of a larger group to which that sample represent.

To enable selection of participant in the survey, the researcher used the payroll of the people employed and recognised by Plus Five Pharmaceuticals.

3.2.2 Stratified Random Sampling

Saunders et al (2012) mentioned that probability sampling guarantees an even and equal chance of every member within the target population to be selected. Therefore, in an attempt to fairly select individuals for this study sample; a stratified random sampling method was used. This is a technique of sampling that enables distribution of the sample into separate categories then individuals are selected from each category on a random sampling origin Bragg (2013). This method of sampling enabled fair representation of respondents and allowed a clear investigation of each stratum. This was achievable as the staff has distinct levels as follows: management, accountants, accounts clerks' sales and administration and production workers.

Table 3.1 Population and sample

Sample elements	Target population	Target sample	% of population
Management	3	2	67
Accountants	3	2	67
Accounting officers	2	2	100
Accounting clerks	2	2	100
Administration person	3	3	100
Production	10	5	50
Sales and distribution	8	8	100
Total	31	24	83

Source: Survey

3.3 DATA SOURCES

The researcher utilized both Primary and Secondary data in this study.

3.3.1 Primary Sources of Data

Primary data can be data collected right from the field by the researcher precisely for the research Arens et al (2012). Such kind of data succeeds to be most appropriate for this research topic as its dependability and accuracy is most likely to be guaranteed due to a direct hand on by the researcher. The researcher acquired the current views from the participants during the research concerning the effectiveness of cost reduction techniques on cost benefit analysis, through administering questionnaires and conducting interviews. In an attempt to curb time consumption on collecting primary data, the researcher sent first in advance the questionnaires and did some follow ups before finally visiting for collection Arens et al (2014).

3.3.2 Secondary Sources of Data

Secondary data serves certain purposes and is historical in nature. The researcher analyzed existing documents which provided information seen to be more sensitive by respondents and was also used as an analytical view by the researcher and aid to primary data obtained through interviews and questionnaires Shindhu (2012). Secondary data is however usually out of date and sometimes difficult to agree with current changes in the research environment. To solve this problem of using outdated data during the research, more recent documentation was used in this research Cassell (2015).

3.4 Data collection procedures

Appointments were made and agreed upon with the interviewees and completed as per planned dates. The researcher distributed questionnaires prior the interview using both email and hand delivery, these were collected after the completion of the interviews. Follow ups for the

unanswered questionnaires were done to maximize response rate and address any obscurity in questions.

3.5 Research Instruments

Research instruments are tools useful in data collection processes. The use of interviews and questionnaires was employed in this research as every instrument is suitable in a particular area of work and the use of various instruments is beneficial to the data collection process Godfred (2013). The process of using various instruments in a survey, which is called triangulation as used in this survey for confirmatory reasons and making sure the intended results are displayed Scheurich (2012). As each instrument bears its strengths and weaknesses, the use of various instruments was done so that the instruments complement each other's weaknesses and strengths.

3.5.1 Questionnaires

A questionnaire was defined by Hague et al (2013) saying it is when a researcher creates certain questions in order to collect data for conclusions to be drawn from it. In this research, closed-ended questionnaires were used. The questionnaire contained questions and some options to be viewed as responses by participants. The provision of options acts as a guide for the respondents according to a particular subject. The opinions were shown by the use of ticks. The researcher simplified the questionnaire by a Likert scale which is a designed rating of responses relating to participants' observations using some provided statements. The use of an ordinal scale was adopted in order to ascertain the level of agreement to the relating questions. The Likert scale was easy to use and it provided a simplified scale to be completed by respondents facing minimal challenges Hague et al (2013).

3.5.2 Interviews

A personal interview is a two-way dialogue created by the interviewer so as to gather wanted data from the interviewee(s) Sindhu (2012). Interviews can be conducted on an individual or group setup, Face to face interviews were conducted during the survey in order to get an in depth understanding of the effectiveness of cost reduction techniques on cost benefit analysis at Plus Five Pharmaceuticals.

Face to face interviews were done by the researcher in order to solve problems of ambiguity or misunderstanding and also as a complementing way to questionnaires Boddy (2016). Misunderstandings to the research questions were immediately solved hence proving the strengths of conducting interviews. During the interviews the researcher adapted the questions as required, clarified uncertainties and ensured that the questions were correctly understood by repeating and rephrasing the questions which and in turn enhanced the validity of the responses. Five (5) interviews were scheduled to 5 Plus Five pharmaceuticals staff.

3.6 DATA VALIDITY

Data is believed to be valid if it manages to address correctly the study objectives, questions and reflecting a clear picture of the research. Furthermore, validity confirms accuracy of the research instruments used in reaching to the final suggestions Weathington et al (2012). The researcher ensured that questions asked in both the interviews and questionnaires exhausted the initial reason of the research objectives and made sure the objectives were clearly explained to ensure validity Boddy (2016). He further on stated that unclear questions destroy the initial validity of the research instruments hence the researcher made sure that all the questions included in the questionnaires were complete and brief.

3.7 DATA RELIABILITY

Boddy (2016) defines reliability as the measure to which data obtained from the research study can be regarded and viewed as free from error. In summary, reliability is the consistency of the research instruments in bringing up similar results where the same research is repeated. To ensure validity the researcher conducted a pre-test with few copies of closed ended questionnaires and selected employees with vast knowledge and experience in cost reduction and costing Kumar (2013).

3.8 DATA ANALYSIS

Data analysis is a process of evaluating and transforming raw data into information which can provide meaningful interpretations and helps in drawing up conclusions Weathington et al (2012). The researcher made use of content analysis to qualitatively analyze data and analyzed other literature related to this research as the beginning point. Incorporation of content analysis allowed the researcher to make inferences as well as to have a closer analysis to content of responses acquired through questionnaires and interviews as supported by Gusukuma (2012).

Descriptive statistics were used for the analysis of quantitative data by means of mode and relative percentages. .

3.9 DATA PRESENTATION

Data presentation refers to the way of converting collected data into useful information and displaying using understandable illustrations Kumar (2013). The researcher made use of graphs, and data tables to depict clearly the results of the research to allow easy interpretations. Diagrams used in data presentations show a clear picture to the readers enabling them to easily interpret and compare research findings, as also supported by Mills (2015).

3.10 ETHICAL CONSIDERATION

Ethical consideration are actions used by the researcher during the research which are considered acceptable ethically. To ensure that there was ethical consideration, the researcher valued works of the respondents and negotiated with them on their flexible times and conducted research after the respondents' job commitments. More so, data obtained during the research was treated with maximum integrity and kept confidential using it only for the purposes of the research. Secondary data utilized by the researcher was properly acknowledged using citations and references. Conclusively, important consideration was used to ensure objectivity by not allowing the researcher's opinions to influence the information gathered and the conclusions reached.

3.11 SUMMARY

The chapter highlighted features of research methodology incorporated for the purpose of this study as well as procedures made for data gathering. The research design, population and the related sample considered by the researcher, validity and reliability of data was deliberated and also how the data was to be presented in the next chapter before finalizing the chapter on the ethical considerations to the research. The following chapter centers on data presentation and analysis.

CHAPTER FOUR

DATA PRESENTATION AND ANALYSIS

4.0 Introduction

The aim of this chapter is to present conclusions using the findings obtained from the survey. Different methods explained in chapter three are used in this chapter.

4.1 Questionnaire response rate and Interview response rate

Collection of data was done using the issue of 24 questionnaires to the workforce at Plus Five Pharmaceuticals and 22 of the questionnaires were returned showing 92% percentage that is acceptable in trying to reduce bias of gathered information Data Analysis Australia (2013). 100% response rate was obtained from the 5 who were interviews and they included management, accountants and clerks.

4.2. The company's costs are increasing

In order to confirm the organization increase in costs, the researcher asked this question and below is a table showing the responses for the participants

Table 4.1 The Company costs are increasing

Problem	Yes	No
Company costs are increasing	20	2
Percentage%	91	9

The conclusion that the company costs are increasing was reached using the modal statistics 20/22(91%). This was because 20/22(91%) said yes and 2/22(9%) said no to the question whether the company costs were increasing. The conclusion was supported by Julian (2014) who said that increase in costs has been a serious burden in small to medium companies.

4.3 Reduction in profit being experienced

The researcher asked this question to verify if Plus Five Pharmaceuticals profit was decreasing. The response from the survey are displayed in a table below.

Table 4.2 reduction in profits being experienced

Problem	Yes	No
Reduction in profit being experienced	21	1
Percentage	95	5

On the question whether there was reduction in profits at Plus five Pharmaceuticals, 21/22(95%) said yes whilst a trifling 1/22(5%) said no leading to a conclusion that there were reduction in profits. This was reached using the mode which is 21/22 (95%). Collins (.2014) supported the conclusion saying every Company focuses on maximizing profits, and then the opposite start happening, growth in business is hindered.

.4.4 Liquidity and cash flow problems being experienced

From the question whether the company is experiencing liquidity and cash flow problems, the researcher asked this questions and the responses are displayed on a table below.

Table 4.3: liquidity and cash flow problems being experienced

Problem	Yes	No
Liquidity and cash flow problems being experienced	20	2
Percentage	91	9

From the survey conducted, 20/22(91%) said yes and 2/22(9%) said no to the question whether there were liquidity and cash flow problems being experienced at the firm. The researcher concluded that in deed these problems existed using the mode which is 20/22(91%). The conclusion was consistent with Brumbaugh (2013) who said for firms to function well there is need for cash for injection in the business.

In conclusion it was confirmed that Plus Five Pharmaceuticals indeed were experiencing reduction in profit, liquidity and cash flow problems and increase in costs.

4.5 Cost reduction techniques which were implemented by the organization.

On the question about the cost reduction implemented by the organization the responses obtained are displayed on fig 4.1 below.

Figure 4.1: Cost reduction techniques implemented

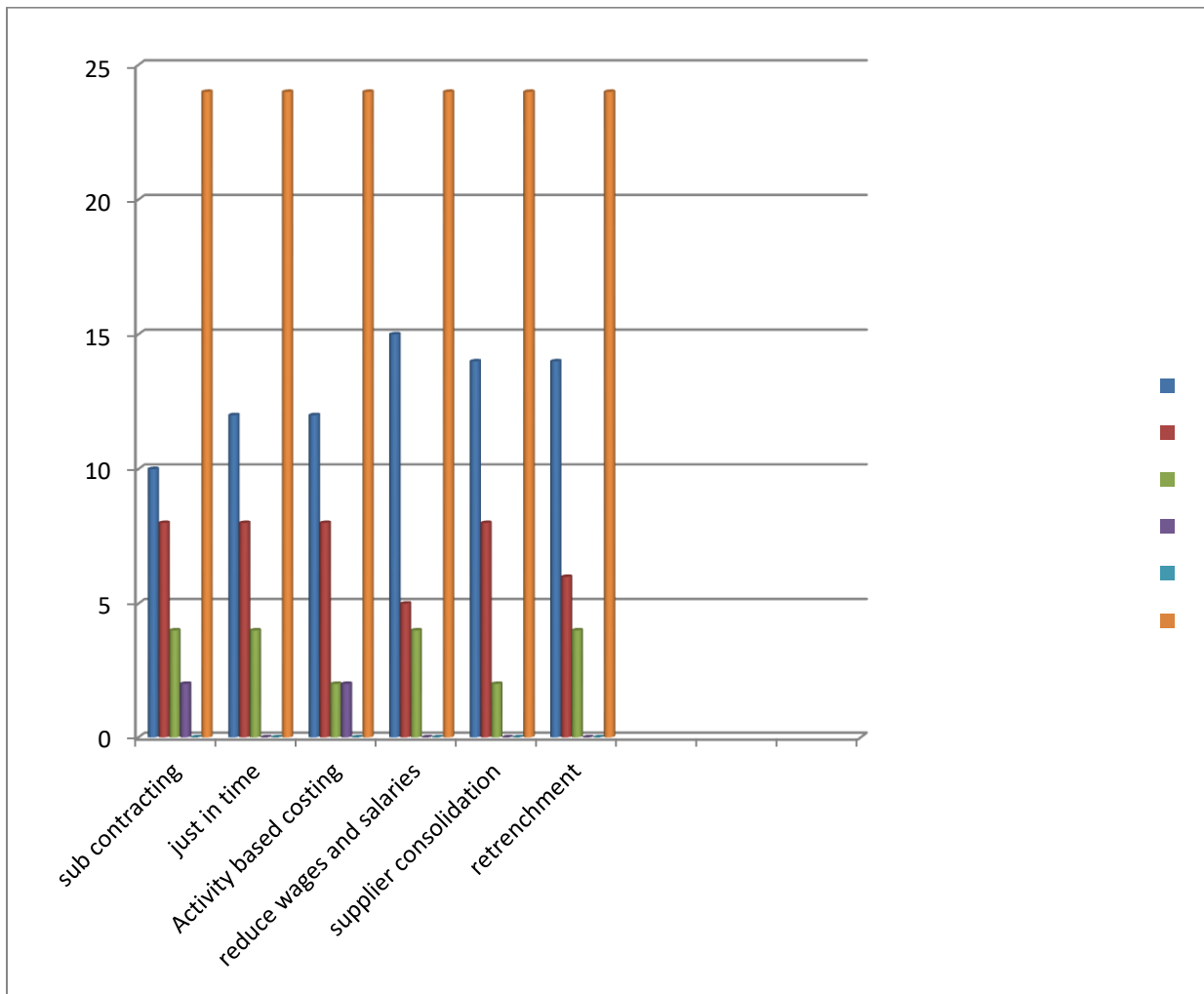


Figure 4.1 above represents the responses of cost reduction techniques implemented by the organization as viewed by participants under survey.

4.5.1 Subcontracting

Figure 4.1 shows that 10/22 (45%) strongly agree, 7/22 (32%) agree, 3/22(14%) of the respondents were uncertain, 2/22(9%) disagree while none strongly disagree that subcontracting was implemented as a cost reduction technique. From the above analysis, it can be deduced that 17/22 (77%) of the respondents agreed that sub-contracting was implemented by Plus Five Pharmaceuticals as a cost reduction technique while a trifling 5/22 (23%) disagree to that view. The researcher utilized the modal statistic to conclude that subcontracting was implemented. Taymaz and Kilicaslan, (2013) supported the conclusion saying subcontracting helps firms to reduce on their costs and also improves flexibly.

4.5.2 Just in time costing

From the survey conducted,10/22(45) strongly agreed,8/22(36%) agreed,4/22(18%) were uncertain and none disagreed nor strongly disagreed that just in time costing technique was implemented by Plus Five Pharmaceuticals. The researcher deduced that 20/22 (82%) of the respondents agreed in comparison with an insignificant 2/22(9%) who disagreed that just in time was implemented. The mode was used to conclude the findings. Drury (2013) was consistent with the conclusion when he said that JIT improves production efficiency and competitiveness by preventing over production, reduce the time in waiting, costs of transport and also reduction in tied up capital stocks and decrease product defects.

4.5.3 Reduce wages and salaries

In accordance with the survey, 5/22(23%) agreed whilst 13/22(59%) of the participants strongly agreed to the fact that Plus Five Pharmaceuticals reduced the salaries and wages whereas 4/22(18%) were in disagreement. The modal statistics being 20/22(82%) agreed saying indeed

wages and salaries were reduced. The conclusion was supported by Jonathan (2012) who said firms globally tend to reduce on wages and salaries in cost reduction times.

4.5.4 Supplier consolidation analysis

From the survey conducted, 12/22(55%) of the respondents strongly agreed. 2/22(9%) were uncertain, and 8/22(36%) only agreed to this cost reduction technique. The modal number 20/22(91%) in the survey of the came to the agreement that consolidated supplies were being carried out within the organization. Bragg (2013) supported the conclusion when he said merged purchases helps in saving as the firm benefit from volume purchase

4.5.5 Retrenchment

Regarding retrenchment as a cost reduction technique implemented, 6/22(27%) of the population agreed, 12/22(55%) strongly agreed and 4/22(18%) were uncertain. The modal statistical participants which is 18/22(82%) in the research agreed in concluding retrenchment as implemented by the firm. However the conclusion was not consistent with South African Board for People Practices (2014) who discouraged retrenching saying it should be the last resort when dealing with cost reduction.

4.5.6 Activity based costing

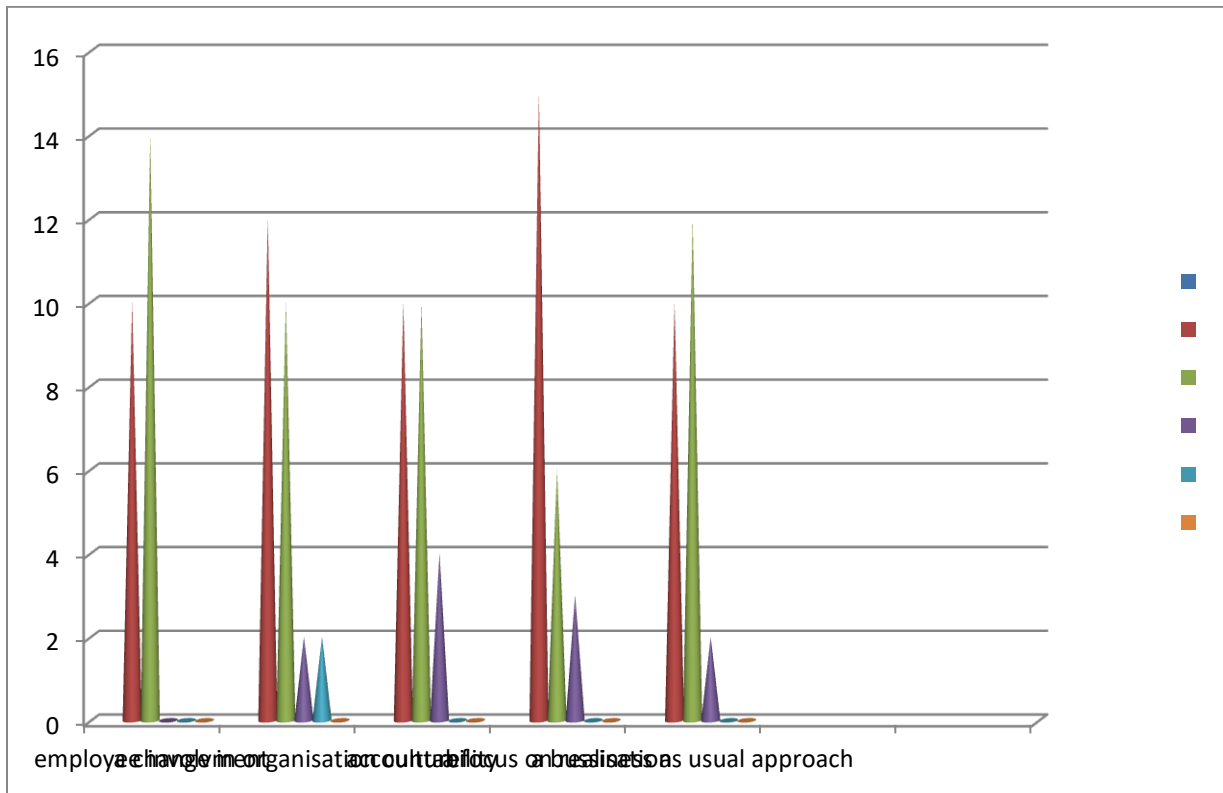
On a survey conducted, 10/22(45%) strongly agreed, whilst 8/22(36%) agreed, 2/22(9%) were uncertain and 2/22(9%) disagreed that activity based was implemented as a cost reduction technique. In analysis of the findings the mode 18/22(82%) whilst an immaterial 4/22(18%) led to the conclusion that ABC was implemented by Plus Five Pharmaceuticals. Julian (2012) supported the findings saying that Activity Based Costing aims to specifically reduce costs through improvement of methods and procedures or use of substitute materials.

In conclusion, the researcher found out that indeed the company introduced, activity based costing, retrenchment, supplier consolidation analysis, reduced wages and salaries, sub contraction and just in time costing as cost reduction techniques

4.6 The following factors are controls to the implementation of cost reduction techniques

The question on the controls needed for the implementation of cost reduction was asked by the researcher and the responses are displayed below in fig 4.2

Figure 4.2: Controls to the implementation



Source: Survey 2017

4.6.1 Employee involvement

Relating to the controls to the implementation of cost reduction techniques, 10/22(45%) strongly agreed, 12/22(55%) agreed and no one was uncertain nor disagreed. The modal statistics

22/22(100%) implies that it is a necessary control to the implementation of cost reduction techniques. The conclusion was unswerving to the findings of Fabozzi and Drake (2013) who said that worker involvement create a good working environment at workplaces.

4.6.2A business as usual approach

From the survey conducted, 8/22(36%) strongly agreed, whilst 12/22(55%) agreed and /2/22(9%) were uncertain about focusing on business as usual as a control as a necessary on validation on cost reduction techniques. The mode being 20/22 (91%) purported that business as usual is indeed necessary cost reduction techniques. The conclusion was in alignment with findings of Franklin (2015) who said cost reduction techniques should be built within the business rather than being undertaken when responding to budgetary problems and there must be continuous improvement encouraged in cost reduction.

4.6.3A change in organizational culture

On the necessity of changing organizational culture as a control, 8/22(36%) strongly agreed, 10/22(45%) agreed whilst/2/22(9%) were uncertain and /2/22(9%) disagreed. The researcher analyzed that the modal statistics 18/22(82%) agreed whilst a trifling 4/22(18%) disagreed. The mode being 18/22(82%) led to the conclusion that change in organization culture is a control necessary for the validation of cost reduction techniques. Spring (2016) supported the conclusion said that the cost reduction programs brings out a challenge which need the management to question their usual way of business conduct and evaluate the need to develop alternative way which are favorable to the business.

4.6.4A focus on realization

According to the survey, 13 /22(87%) strongly agree 6/22(27%) agreed and 3/22(14%) were uncertain on the necessity of focusing on realization as a control for validation of cost reduction techniques. The conclusion that focusing on realization was necessary in validating cost reduction techniques was reached after a significant number 19/22(86%) being the mode agreed whilst an unimportant number being 3/22(14%) disagreed. Vigario (2013) supported the findings saying by realizing the important aspects of cost reduction, firms can achieve goals of cost reduction.

4.6.5Accountability

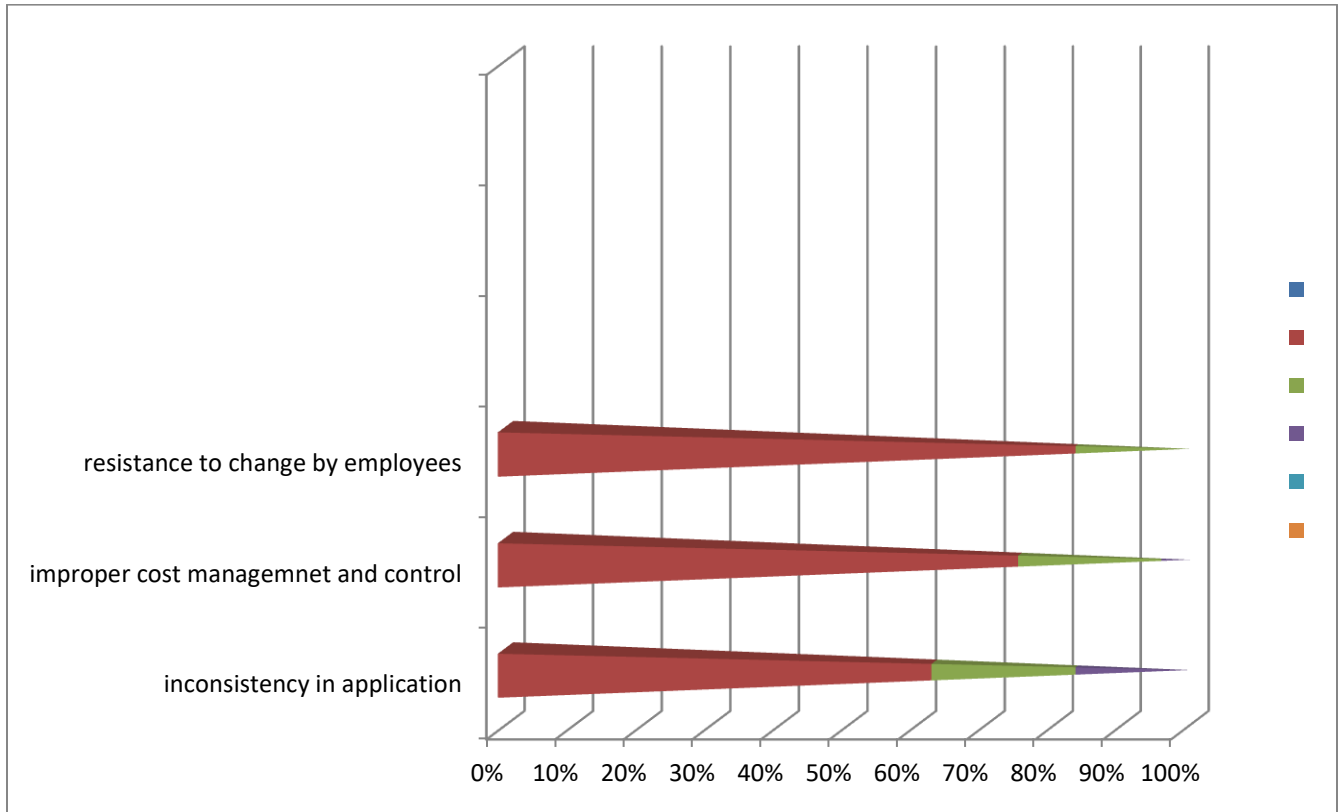
On the question whether accountability was a control necessary to the validation of implementing of cost reduction techniques,8/22(36%) strongly agreed, 10/22(45%) agreed and 4/22(18%) were uncertain .The mode 18/22(82%) concluded that this was necessary .National audit office (2015) was in support with the conclusion when they said the management board should hold management and front line employees accountable for strategic decisions, when introducing some chosen cost reduction ways within an effective control environment and, ultimately, for delivering results.

In conclusion, it was found that controls including, accountability, focus on realization, change in organization culture, a business as usual approach, and employee involvement are controls necessary for validation of the cost reduction techniques.

4.7 Challenges encountered in the implementation of cost reduction techniques.

With regard to the question on the challenges faced in the implementation of cost reduction, the participants' responses are shown in fig 4.3 below.

Figure 4.3: Challenges to implementation of cost cutting techniques



The above Figure 4.3 represents responses obtained and presented as well as the comments by the researcher.

4.71 Improper cost management

In accordance to the survey, 13/22(59%) strongly agreed, whilst 4/22(18%) agreed and 4/22(18%) were uncertain that improper cost management is a challenge when introducing cost reduction techniques. The researcher deduced that 17/22(77%) agreed in comparison to 5/22(23%) was in disagreement and tis led to the conclusion that indeed it is a challenge. The conclusion was in alignment with Schawk (2013) who said that most organizations put much effort on operational and administrative expenses neglecting some long term costs which will be necessary on business expansion

4.7.2 Inconsistent application

According to the respondents, 16/22(73%) strongly agree, 5/22(23%) agree, 1/22(5%) were uncertain that inconsistent application was a challenge. The modal statistic being 21/22(95%) came to the agreement that inconsistent application proves to be challenge. The researcher concluded that inconsistent application was a challenge. This was supported by Bragg (2013) who said the cost reduction programs must be consistently applied for desired results to be achieved.

4.7.3 Employee resistant to change

It was noted that 18/22(82%) strongly agreed and 4/22(18%) agreed that resistance by employees in regard to change is a challenge on the implementation of cost reduction techniques. Using the modal statistic 18/22(82%), it was concluded that employee resistance to change resistance is a challenge to the implementation of cost reduction techniques. Adenle (2013) supported the conclusion when he said the resistance can spread to management if the change was introduced by directors without informing them, thereby creating a dangerous environment of resistance from management down to the employees.

In conclusion the participants agreed that the company experienced employee resistance to change, inconsistent application and improper cost management as challenges to cost reduction techniques.

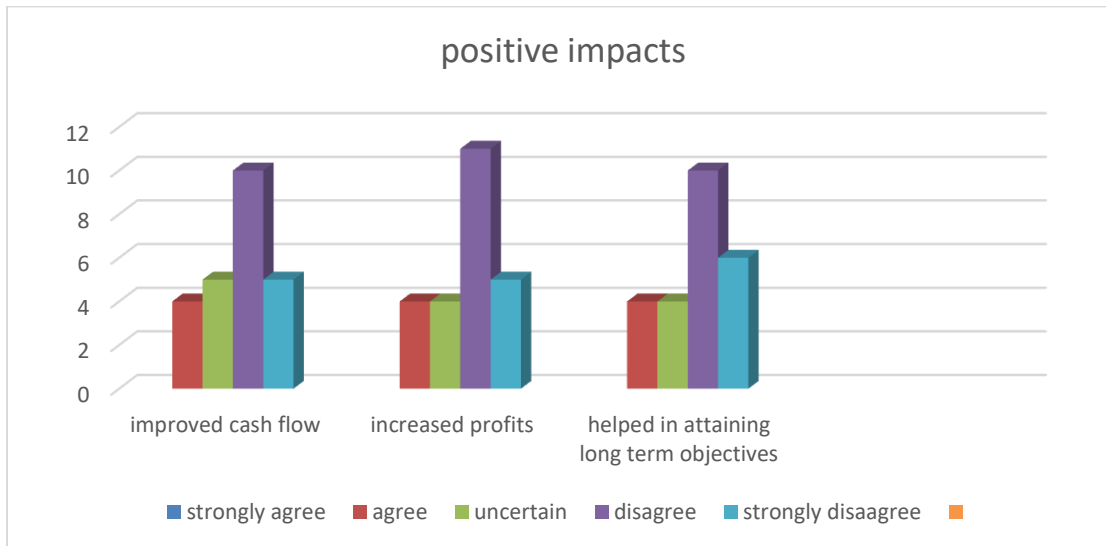
4.8. Impact of cost reduction techniques

On the question of impacts of cost reduction techniques which are positive, the researcher asked this question and the results are presented below.

4.8.1 Positive impacts

On the question of the positive results obtained from cost reduction, the participant's responses are displayed in fig 4.4 below.

Figure 4.4 positive impacts of cost reduction techniques



4.8.1.1 Improved cash flow

On the positive impacts of cost reduction techniques, 4/22(18%) agreed 5/22 (23%) were uncertain 8/22(36%) disagreed 5/22(23%) strongly disagreed that they result in improved cash flow. 13/22(59%) being the mode disagreed that they result in improved cash flow. Therefore, it can be concluded that cost reduction techniques do not result in improved cash flow. The conclusion reached was in agreement with Rafel (2015) who said that if cost reduction techniques are not properly carried out they cause cash flow cash flow problems.

4.8.1.2 Increased profits

Cost reduction techniques does not result in increased profits. This was concluded because 4/22(17%) agreed, 4/22(17%) were uncertain, 9/22(46%) disagreed and 5/22(21%) strongly

disagreed that no increased profits were experienced. The mode which is 14/22(63%) led to the conclusion. Drury (2014) supported the findings saying that firms are failing to implement cost reduction techniques and the results are not usually favourable.

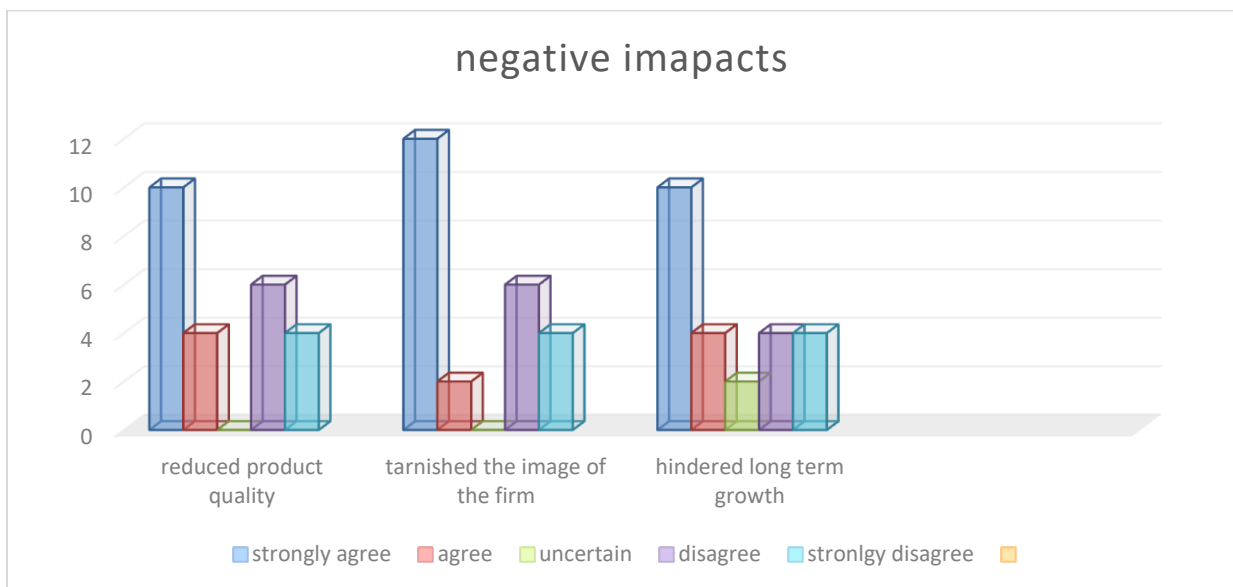
4.8.1.3 Helps in attaining long term growth

On the impact of helping in attaining long term objectives, 4/22 (18%) agreed, 4/22(18%) were uncertain 6/22(27%) disagreed and 6/22(27%) strongly disagreed. The mode 16/22(54%) led to the conclusion that cost reduction techniques does not help in attaining long term growth. This conclusion was in alignment with Collins (2015) who said cost reduction techniques need proper strategies and managers need proper education for them to be effective.

4.8.2 Negative impacts

From the question on the negative impacts gained from cost reduction, fig 4.5 show responses by the participants as per question by the researcher.

Figure 4. 5 negative impacts of cost reduction techniques



4.8.2.1 Reduced product quality

On the impact of reduced product quality, 8 /22(36%) strongly agreed 4/22(18%) agreed /6 /22 (27%) disagreed and 4/22(18%) strongly disagreed that cost reduction techniques have a negative impact of reduced product quality. Researcher concluded that in deed they reduce product quality using the mode 12/22(55%). Wong (2013) supported the conclusion saying poor service delivery and defective quality can be evidenced as negative effects of cost reduction techniques.

4.8.2.2 Tarnished the image of the firm

In the survey conducted, 12/22(55%) strongly agreed, 2/22(9%) agreed 6/22(27%) disagreed and 4/22(18%) strongly disagreed. the mode14/22(64%) led to the conclusion that cost reduction techniques lead to tarnished image of the firm. Shreya (2014) supported the findings saying firms need to implement cost reduction techniques efficiently or else the image of the firm will be tarnished.

4.8.2.3 Hinders long term growth.

The conclusion that cost reduction techniques hinder long term growth was reached after the mode 12/22(55%) agreed. This was because 8/22(36%) strongly agreed 4 /22(18%) agreed 2 /22(9%) uncertain 4/22(18%) disagreed and 4/22(18%) strongly disagreed during the survey. Damodaran(2013) was in support with the conclusion by saying cost reduction program usually eliminates staff training and investment in to projects, this in turn hinder the organization long term growth .

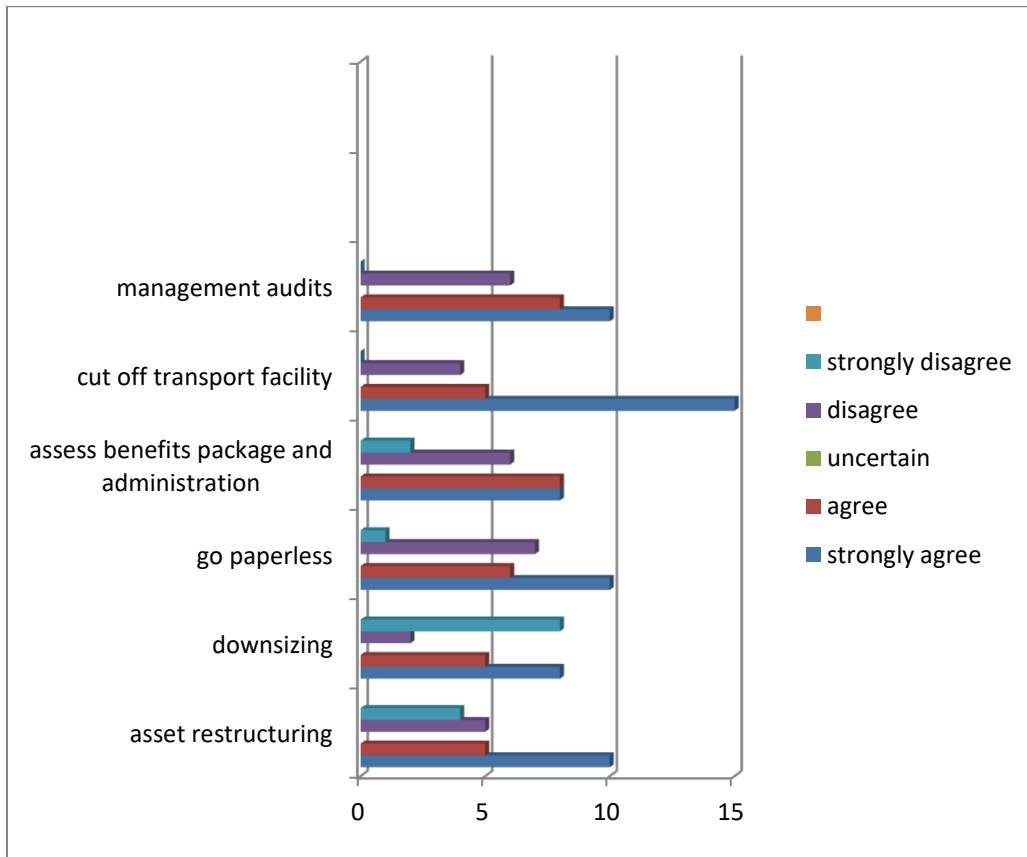
In conclusion the company agreed that they did not experience benefits of cost reduction techniques which include improved cash flow, increased profits and help in attaining long term growth. On the other hand, they agree that indeed some negative results on cost reduction were

experienced which include, hindered long term growth, tarnished the image of the firm and reduced product quality.

4.9 Cost reduction techniques that improve profitability when adopted by the organisation

With regards to the question on cost reduction techniques which helps Plus Five Pharmaceuticals in improving profitability, fig 4.6 below displays the responses.

Figure 4.6: Cost reduction techniques that can be adopted



4.9.1 Asset restructuring

According to the survey, 8/22(36%) strongly agreed /5 /22(23%) agreed 5/22(23%)/ disagreed and 4/22(18%) strongly disagreed that asset restructuring is a technique that Plus Five Pharmaceuticals can implement .13/22(59%) being the mode supported that asset restructuring

improves the company profitability when adopted. Therefore as per the results analyses, it can be concluded that asset restructuring can improve and enhance the profitability of the organisation. The conclusion was supported by Mbogo and Waweru (2014) who said diversifying assets can help in removing unnecessary expenditure.

4.9.2 Downsizing

In relation to the research, 8/22 (36%) strongly agreed 5/22(23%) agreed 3/22(13%) disagreed 6/22(27%) strongly disagreed that downsizing. The Mode agreed that downsizing improves profitability of the business when introduced. The conclusion that downsizing enhances cost reduction program was reached. This conclusion was in line with Cascio (2013) who said that the economic downturns are pushing organizations to introduce restructuring to reduce costs.

4.9.3 Cut off employee transport facility

Relating to cut off employee transport facility 13/22(59%) strongly agreed. 5/22(23%) agreed 4/22(18%) disagreed and the mode which is 18/22(82%) agreed that if employee transport facility is cut, then profitability is achieved. This was supported by Osborne (2012) who said that if firms remove employee transport facility they save on maintenance and repairs costs.

4.9.4. Go paperless

14/22(63%) being the mode agreed that going paperless improve profitability when implemented by firms. This is because 8/22(36%) strongly agree, 6/22(27%) agreed, 7/22(32%) disagreed 1/22(5%) strongly disagree none were uncertain. This implies that when this technique is adopted profits improve in the organisation. Lorberg (2013) supported that firms might save a vast amount of funds by using to electronic mail in comparison to printed documents.

4.9.5 Management audits

In relation to management audits as a cost reduction technique, 8/22(36%) strongly agree, 6/22(27%) agree 6/22(27%) disagree and none were uncertain. The modal statistics being, 14/22 (63%) agreed that the implementation of management audits can improve the profitability of the organisation. In support with the conclusion, Bragg (2013) said that when management audits are tend to push management to operate efficiently because they will be audited.

4.9.6 Assess benefits package and administration

In relation to the assessment of benefits package and administration as a cost reduction, 8/22(36%) strongly agreed, 6/22(27%) agreed whilst 6/22 (27%) disagreed and 2/22(9%) strongly disagreed that the firm can improve profitability if they implement it. The conclusion that assessing benefits and administration package can act as a cost reduction was reached after the modal statics being 14/22 (64%) agreed to it. The conclusion was supported by Collins (2014) who said firms can maximize and reduce some of the employee packages in order to reduce costs.

In conclusion, it was agreed that the firm can implement management audits Go paperless, down size, cut of transport facilities asset restructure and assess benefits package as cost reduction techniques to improve profitably.

4.10 Interviews

4.11 Interview response rate

The researcher scheduled five interviews for the purposes of data collection and all were successful. The interviews were scheduled on the management and accountants of the firm. The response rate was 100%.

4.12 INTERVIEW RESPONSES

What are the current cost reduction techniques that were adopted by Plus Five pharmaceuticals?

From the interview conducted, 3/5(60%) pointed out that the firm employed some cost reduction techniques. They said the firm employed Just in time costing as a way to reduce costs, they also mentioned the use of supplier consolidation where they said the purchasing department had embarked in purchasing goods for a certain time in bulk. The respondents also pointed out that the firm has retrenched some of the workers as a way to reduce costs. Reduction in wages and salaries was also mentioned in the responds. One of the interviewees 1/5(20%) contributed that the firm did not embark on mentionable cost reduction techniques as they were not implemented well and were not worthy recognizing as implemented yet. On the other hand, the last interviewee 1/5(20%) said the company implemented some cost reduction including activity based costing. He said the firm is analysing the real nature of cost behaviour and reducing costs and identifying activities which do not add value to the products.

What are the necessary controls to validate the implementation of the identified cost reduction techniques?

From the interviews conducted, 4/5(80%) of the interviewees pointed out that the firm need to embark on involving everyone in implementing these cost reduction techniques. They further contributed that everyone need to be part and be accountable for the results to be noticed. The interviewees also said that the organization need to put corrective measure as controls to caution those who will not be participating. They also said cost reduction techniques need to be taught to everyone so that when implementing them it won't be a problem. The also brought out a point of changing the way things were used to be done before the cost education and said that the organization need to have a cost reduction culture nailed in the staff s minds. On the other hand,

the other interviewee 1/5(20%) said the firm need to include cost reduction in everyday day business. He further said cost reduction can be valid is it becomes a daily routine and in the long run costs will be reduced.

What are the challenges encountered in the execution of the suitable cost reduction techniques?

4/5 (80%) of the interviews contributed that the firm implemented some cost reduction techniques but they were challenges hindering the results they said that despite the organization introducing these techniques. They contributed saying that the employees were not participating. They said the employees were leaving the cost reduction to the management as they believed it had nothing to do with them. Employees were also resistant to change. They also highlighted that the techniques were not being implemented consistent as people were not participating when demotivated hence hindering result to be seen. The other interviewee 1/5(20%) said staff were not participating in proper cost management as the believed it was the firm's duty to cater for the costs. And the staff had individual interests and not interests in the development of the company.

What is the impact of other cost reduction techniques on Plus Five Pharmaceuticals?

The interviewees contributed that the cost reduction implemented by the firm impacted the firm positively and negatively.3/5(60) said that there were some positive results which come from these techniques. The contributed that the cost reduction techniques reduced the costs of the firm at a certain time. When these techniques were being consistently implemented, results were seen. The interviewees further postulated that the company experienced some improved cash flows and they were able to invest some of the money. However, 2/5(60%) of the interviewees agued saying that cost reduction techniques have not been of much help to the company. They said the company have lost a lot of customers due to just in time costing. They added saying that these

techniques have led to poor products being sent to the market and ultimately losing sales. Loss of sales led to the increase of costs hence much benefit has not been driven out of these techniques.

What are the cost reduction techniques that Plus five pharmaceuticals can adopt to improve its profits?

The interviewees contributed that the company can implement cost reduction techniques and benefit from them. 5/5(100%) said that the company can retrench some of the workforce which are redundant. They said this helps in bringing in new blood into the firm and teach them a culture of cost reduction. They also added that the firm should cut of employee benefits such as transport money and fuel to the employees. The interviewees further contributed that if the workforce was taught rigorously about cost reduction, much benefit could be made. They also contributed that a committee needed to be put in place to monitor the cost reduction program.

4.13 Summary

This chapter helped the researcher to conclude on the effectiveness of cost reduction techniques on cost benefit analysis .data was gathered using the methods discussed in the previous chapter.

CHAPTER 5

CONCLUSION AND RECOMMENDATIONS

5.0 Introduction

This chapter helps the researcher to draw conclusion in regards to the research objectives. The results obtained depends on the findings and analysis in chapter four .these findings will help in drawing conclusions and recommendations to Plus Five Pharmaceuticals

5.1 Summary of study

The purpose of the research was to analyses the effectiveness of cost reduction techniques on cost benefit analysis at Plus Five Pharmaceuticals with limitation between 2014 and 2016 .the trigger to the research was that the company introduced cost reduction techniques with the aim of reducing costs but rather the costs kept on increasing. The chapter had the introduction, background to the study, research question, objectives limitations ad delimitation to the study.

Chapter two reviewed literature which related to the topic. The literature reviewed the effectiveness of cost reduction techniques which was broken into the identification of cost reduction techniques, the impact of these techniques, the challenges encountered in execution and the cost reduction techniques which improve profitability.

Chapter three described the methods which was used during the research. These included the reach design and the population used for the survey. The chapter also described the data collection ways and merits of the use of the elected ones. Descriptive research design was employed in the research

Chapter four shows the conclusion drawn by the researcher on the effectiveness of cost reduction techniques on cost benefit analyses. Instruments discussed in chapter three were used. Data was gathered, analysed and conclusion were reached.

5.2 Major findings

From the research on the effectiveness of cost reduction techniques on cost benefit analysis at Plus five pharmaceuticals, it was confirmed that the organization indeed was experiencing reduction in profit, liquidity and cash flow problems and increase in costs. Furthermore, the researcher found out that indeed the company introduced, activity based costing, retrenchment, supplier consolidation analysis, reduced wages and salaries, sub contraction and just in time costing as cost reduction techniques. Also it was found that controls including, accountability, focus on realization, change in organization culture, a business as usual approach, and employee involvement are controls necessary for validation of the cost reduction techniques. The participants also agreed that the company experienced employee resistance to change, inconsistent application and improper cost management as challenges to cost reduction techniques. In addition, the company agreed that they did not experience benefits of cost reduction techniques which include improved cash flow, increased profits and help in attaining long term growth. On the other hand, they agree that indeed some negative results on cost reduction were experienced which include, hindered long term growth, tarnished the image of the firm and reduced product quality. The participants agreed that the firm can implement management audits go paperless, down size, cut of transport facilities asset restructure and assess benefits package as cost reduction techniques to improve profitably.

5.3 Conclusions

The research concluded that cost reduction techniques were implemented and a result of recurring losses, however the necessary control were not being adhered to as confirmed from the interviews and also some challenges were affecting the proper implementation of these techniques this led to the firm experiencing negative results of cost reduction techniques. The cooperation of the participants in interviews and questioners made the research easy and the researcher managed to obtain all the data which was required for the conduction of the study, hence making it a success.

5.4 Recommendations

The researcher noted that employees sometimes do not follow the procedures in cost reduction techniques. The researcher recommends that the company employ stiff rules for these techniques to be followed. There is need for management to include their employees in all the procedures in cost reduction. There is also need for consistent in the implementation for results to be seen. Training and workshops need to be done in order to educate employees on cost reduction techniques as they are the ones who do much of the implementation of these techniques. Furthermore disciplinary measures like dismissal and suspension need to be introduced so as to enforce the culture of cost reduction. In addition Plus five Pharmaceuticals need to implement other cost reduction techniques like downsizing, asset restructuring and management audits in order to maximise of cost reduction.

5.4 Suggestions for further study.

The research study intended to investigate mainly on the impact of cost reduction techniques in cost benefit analysis of the company. The researcher for that reason advocates that researches further targets effects of reducing costs in relation to service deliver.

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APPENDIX I

COVER LETTER



Midlands State University

P Bag 9055

Gweru

30 august 2017

The Senior Accountant

Plus five Pharmaceuticals

No 2 Brodie street

Harare

Dear Sir

RE: APPLICATION TO CONDUCT A RESEARCH AT YOUR ORGANISATION

I am a final year student at Midlands State University studying Bachelor of Commerce Accounting Honours Degree and currently undertaking my industrial oriented research with your organization as my case study. My topic is “*an investigation into the effectiveness of cost reduction techniques, a cost benefit analysis of PLUS FIVE PHARMACEUTICALS PVT LTD*”. The research will be conducted through the use of questionnaires and short interviews. I therefore kindly request your permission to conduct the research at your organization. All information obtained will be treated with confidentiality as the research is strictly for academic purposes only. Your assistance will be greatly appreciated.

Yours Faithfully

Brenda Chasweka (R142426Q)

APPENDIX II

QUESTIONNAIRE

DEAR RESPONDENT

My name is Brenda Chasweka, a Bachelor of commerce Accounting Honours Degree undergraduate at Midlands State University (MSU). I am carrying out a research on the effectiveness of cost reduction techniques, a cost benefit analysis of Plus Five Pharmaceuticals am using Plus Five Pharmaceuticals as a case. It is with great pleasure that I involve you in my research and hear your views as well as your opinions. Information will only be used for academic purposes in partial fulfilment of my degree program and confidentiality is guaranteed.

INSTRUCTIONS

1. Do not indicate your name.
2. Tick in the relevant box of your choice for your response.
3. Give your opinion in the blank space below where applicable.

QUESTIONNAIRE

Are the costs at Plus Five Pharmaceuticals increasing?

 YES

 NO

Has Plus Five Pharmaceuticals been experiencing reduction in profits between 2014 and 2016?

 YES

 NO

Are there liquidity and cash flow problems at Plus Five Pharmaceuticals?

 YES

 NO

3.1The following are the cost reduction techniques

implemented by Plus Five Pharmaceuticals

	Strongly agree	Agree	Neutral	Disagree	Strongly disagree
3.1.1Activity based costing					
3.1.2Value analysis					
3.1.3Subcontracting work					
3.1.4 just In time costing					

3.1.5reduction in wages and salaries					
3.1.6 supplier consolidation analysis					
2.1.7Retrenchment of employees					

3.2The following are the controls are employed at your organization for cost reduction purposes.

	Strongly agree	Agree	Neutral	Disagree	Strongly disagree
3.2.1Employee involvement					
3.2.2A change in organizational structure					
3.2.3 accountability of management and employees					
3.2.4A focus on realization					

3.3The following are the challenges encountered by Plus Five pharmaceuticals in executing the suitable cost cutting techniques

	Strongly agree	Agree	Neutral	Disagree	Strongly disagree
3.3.1 Inconsistency in application of these techniques					
3.3.2 improper cost management and control					
3.3.3 resistance to change by employees					

3.4.1 The following positive results were experienced by Plus Five Pharmaceuticals after introducing cost reduction techniques.

	Strongly agree	Agree	Neutral	Disagree	Strongly disagree
Improved cash flow					
Increased profits					
helped in attaining long term objectives of the firm					

3.4. 1 The following negative results were experienced by Plus Five Pharmaceuticals after introducing cost reduction techniques.

	Strongly	Agree	Neutral	Disagree	Strongly

	agree				disagree
Reduced product quality					
Tarnished the image of the firm when they failed.					
Hindered long term growth					

3.5The following are the cost reduction measures that Plus five Pharmaceuticals should implement to improve its profits.

	Strongly agree	Agree	Neutral	Disagree	Strongly disagree
3.5.1Asset restructuring					
3.5.2Downsizing and restructuring					
3.5.3Going paperless					
3.5.4Assess benefits package and administration					
3.5.5Cutting off transport facility					
3.5.6Conduct management audits					

INTERVIEW GUIDE

Interview Questions

1. In your opinion, what are the cost reduction techniques implemented by Plus Five Pharmaceuticals to increase profits?
2. What are the controls that are necessary to implement these cost reduction techniques?
3. What are the challenges that were encountered in executing these cost reduction techniques?
4. What is the impact of cost reduction techniques on Plus Five Pharmaceuticals?
5. What are the cost reduction techniques that Plus Five Pharmaceuticals can implement to improve its profit?