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**INVESTIGATION OF COST CONTROL PRACTICES AT THE KENYA
UTALII COLLEGE //**

**BY
ZIPPY KAGENDO NGURE**

A management research project submitted in partial fulfilment of the requirements for the Award of Masters Degree in Business Administration, School of Business, University of Nairobi.

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November 2008

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DECLARATION

I, undersigned, declare that this project is my original work and has not been submitted for a degree in any other university.

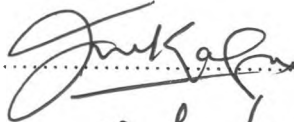
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Date.....17/11/2008.....

KAGENDO, ZIPPY NGURE

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This research project has been submitted for examination with my approval as the University supervisor:

Signed.....

Date.....17/11/08.....

MR. J. KAGWE

Lecturer: Department of Business Administration,
University of Nairobi

DEDICATION

This project is dedicated to my beloved sons, Alvin and Simon, who have been a source of great inspiration in achieving my goal. Thank you for loving and supporting me throughout the course of my studies.

ACKNOWLEDGEMENT

My utmost gratitude is to The Almighty God without whose help and guidance I would not be where I am today. I acknowledge Him in everything I do as it is from Him all good things come.

I appreciate the invaluable input of tireless assistance and support from my supervisor Mr. Kagwe to ensure that this project meets the required standards.

I also appreciate my family for the support and encouragement that they gave me during the entire period.

This project would not have been possible without the cooperation of the Kenya Utalii College management who spared time from their busy schedule to participate in the study. Thank you all.

I also extend my sincere thanks to Wasamba, Atina and all my friends for their useful suggestions and encouragements that they offered me at different stages of this study.

I would also like to thank my classmates and colleagues whose contributions made this research a reality.

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ABSTRACT

The study investigated cost control practices at the Kenya Utalii College (KUC). The main objective of the study was to identify the cost control practices at KUC and the challenges facing cost control practices at KUC. The construction of Kenya Utalii College through assistance from the Swiss government began in 1973 and training commenced at the campus in 1975. KUC is a hospitality training college. The college has so far trained over 30,000 students in both full time and in-service programmes. The KUC derives its mandate from the Hotels and Restaurant Act read together with legal note no. 317 of 1987 as amended by legal notice no. 147 of 2002 and the State Corporation Act. KUC's aim is to train and develop a human resource base for the hospitality industry.

Cost control helps to promote operational efficiency by ensuring that the resources of the establishment are put to their proper use. All forms of wastage and misuse of the establishment's resources must be properly controlled to ensure that the objectives are achieved most effectively and efficiently and encourage adherence to prescribed managerial policy. Control assists in implementing the management policies by establishing the controls necessary for the implementation of such policies.

The study adopted personal interview to collect the data which was recorded by writing the responses. The study identified the cost control practices at KUC and the challenges facing cost control practices at KUC. The collected data was analysed and interpreted in line with this objective using content analysis. This involves the analysis of meanings and implications emanating from respondents' information coupled with documented data regarding strategy implementation. The study found out that the Kenya Utalii College adopts various cost control practice such as following the procurement procedures as laid down by the government, verifies the quality, quantity and price of products during receiving time, ensures that no item is removed out of the stores without an authorized requisition and maintaining proper quality of products in the stores. The study also gave recommendations for further study and policy practice in KUC. Recommendations for further study include: The need for a study to be carried out on the effectiveness of the budgeting process of KUC in order to establish whether the budget drawn is realistic and meets all the necessary requirements.

CHAPTER ONE: INTRODUCTION

1.1 Background

1.1.1 Cost and control

Cost is defined as an expense, a reduction in value of an asset generally for the purpose of increasing revenue (Drury, 2000). It is the price paid to purchase an asset or to pay for goods and services (Coltman (1994)). He states that most revenue in a hospitality enterprise is “eaten” by cost; as much as 90 cents of each revenue dollar may be used to pay for cost. Dittmer and Giffin (1993) define cost as an expense to a hotel or restaurant of goods or services when the goods are consumed or services are rendered. They state that the cost of any item may be expressed in a variety of units: weight, volume, or total value. Different dictionaries define the term control as follows: A means of operating, regulating, directing or testing; an experiment performed to provide a standard of comparison for other experiments; to hold in check. However, the hospitality industry emphasizes the relationship between control and planning. Control is a series of coordinated activities that helps ensure that the actual results of an operation closely match the planned results (Ninemeier, 2004).

Coltman (1994) noted that one way to better manage costs is to understand that there are many types of cost. He stated that if one can recognize the types of cost being considered, then better decisions can be made. These costs include direct costs, indirect costs, controllable cost, joint cost, discretionary cost, relevant cost, sunk cost, opportunity costs, fixed cost, variable cost, semi fixed cost and standard cost. Dittmer and Griffin (1993) notes that the principle causes of excessive costs are inefficiency and waste. Management must guard against excessive cost. The particular methods used to control cost vary from one establishment to another and on the nature and scope of operations, but the principles behind these methods are constant. Control system is the term used to describe that collection of interrelated and interdependent control techniques and procedures in use in a given food and beverage operation. Control must therefore start with planning or setting up the operating standards against which actual results are to be compared to after the operation. This helps in evaluating and regulating the operation.

In a hospitality operation, effective control is only possible if executed through certain basic operating activities, commonly referred to as the control points (Kotas and Davis, 1976). There are a number of control points: menu planning, purchasing, receiving, storing, issuing, production, and serving or selling. Each control point is a mini system on its own with a structure and functions, which has specific objectives, guidelines, standards, and cultural processes which all ultimately contribute to customer satisfaction (Ninemeier, 2004).

1.1.2 The Control Process

Ninemeier (2004) noted that control procedures could help managers; determine whether delegated tasks are being carried out correctly, assess the effect of changes necessitated by the economy market and reactions to competition, identify problems early so they can be resolved before they turn into bigger problems, determine where problems are occurring, identify mistakes and lead to actions to correct these mistakes and lastly determine whether the organisation is meeting its goals. Ninemeier (2004) asserts that the control process follows a series of basic steps. The process begins with establishment of standards. Next, accurate information about the actual results achieved by the operation must be gathered. The food and beverage manager can then compare actual results to standards. If actual results do not conform to the standards, corrective action must be taken. The action taken may be a change in operation procedures or a change in standards.

1.1.3 The Objectives of Control

According to Kotas and Davis (1976) the four main objectives of control in a food and beverage establishment are to: Safeguard the establishment's assets (both fixed and current). All assets must be accounted for; Check accuracy and reliability of accounting data. Management decisions on operations are based on reports supplied to the management. The reports must therefore be based on accurate data; Promote operational efficiency. Control helps to promote operational efficiency by ensuring that the resources of the establishment are put to their proper use. All forms of wastage and misuse of the establishment's resources must be properly controlled to ensure that the objectives are achieved most effectively and efficiently; Encourage adherence to prescribed managerial policy. Control assists in implementing the

management policies by establishing the controls necessary for the implementation of such policies.

1.1.4 Characteristics of Hospitality Industry

According to Lewis (1991), the hospitality industry is diverse. It is made up of large and small hotels, restaurants, resorts, clubs, contracted food services for institutions, in-plan feeding programs and many more variations. Lewis (1991) recognised 4 characteristics of the hospitality industry as explained below.

Competition: Competition in the hospitality industry is stiff. The ability to provide value in the purchased products and service is the challenge confronting all hospitality managers who must control resources, and reduce cost while maintaining quality standards. They must therefore develop skills necessary to motivate employees and work with them in finding effective ways to improve job performance (Lewis, 1991). Competition in the hospitality industry has increased in the 21st century; no longer is it acceptable to merely satisfy the guest. Today, the key to guest loyalty and commitment is exceptional service. The training and development of employees is no longer optional for organisations that hope to be around for the next decade (Gustafson, 2002). Labour cost: it is true labour intensive aspects of the hospitality industry may change as technology changes. Waiting for technology to “catch up” with the industry is not a reasonable way to resolve labour problem today. Managers should strive to raise the skills of employees as they seek for cost effective ways to accomplish labour intensive tasks (Lewis, 1991). Consumer demand: Consumers have become more knowledgeable. They are more aware of good and bad services and products. The hospitality industry needs to perform to the expectations of the customers. Employee training and retraining would meet this to some extent. But these managers must not loose control of labour costs. Training needs and cost: Training can be a costly activity. Training materials are expensive, training requires planning and execution, and true training should be viewed just like any other investment. Training should be planned for and budgeted. Training must be cost effective (Lewis, 1991).

1.1.5 Hospitality Training

Mayaka and Akama (2007) stated that hospitality training plays a big role in securing the future of tourism industry. In order to flourish businesses must invest in their workforce development. Their training and education must reflect the industry needs. Tourism is among the leading employers and a leading contributor to the Kenyan economy. Training can be defined as the process of acquiring and developing skills knowledge and attitudes through instructional activities (Lewis, 1991). It is usually distinguished from education by defining education as a learning that contributes to total growth, while training is limited to acquiring and developing competences that meet specific needs (Lewis, 1991). One of the benefits of training is cost saving. When training is well planned performance can improve cost saving. Other benefits involve increased satisfaction, efficiency and reduction of stress and employee absenteeism.

1.1.6 Kenya Utalii College

The construction of Kenya Utalii College (KUC), through assistance from the Swiss government begun in 1973, and training commenced at the campus in 1975. KUC is a hospitality training college. The college has so far trained over 30.000 students in both fulltime and in-service programmes. The KUC is derived from the Hotels and Restaurant Act read together with legal note no. 317 of 1987, as amended as legal notice no. 147 of 2002 and the State Corporation Act. KUC's aim is to train and develop a human resource base for the hospitality industry (Kenya Utalii College ,2006). The strategic direction of the college in terms of vision, mission and objectives of the strategies are stated in the (KUC , 2006). Its vision is to be the worlds leading centre of excellence in hospitality training. Its mission is to develop a high-qualified human resource base for the hospitality industry through training and research consultancy (The Kenya Utalii College, 2006).

The KUC provides hospitality training for the people of Kenya and other African countries. As per the summary of population per course for the year ended 30th June 2008 KUC trained 773 students comprising of 396 male 377 female. It offers various full time academic courses and part time courses. The strength of the course programmes is that they are hands on giving the graduates of the college a distinct edge over the competitors. They're changing trends in government policy in education

according to session paper 1 of 2005 the government empowered national polytechnics to offer degrees in their respective areas of expertise without changing their mandate. The college has been accredited by the commission for higher education to conduct courses leading to granting of certificates, diplomas and degrees. It has various training facilities which include lecture rooms and theatres demonstration lectures training demonstration kitchen individual training kitchen student hostels laundry facilities transport facilities administration facilities which include a sanatorium health club and administration offices.

The organisation faces a number of challenges to mention a few: it has limited resources set against the background of increasing demand for professional training in hospitality industry. There is insufficient funding by Catering and Tourism Development Levy Trustees (CTDLT) to meet the financial needs of the college (Kenya Utalii College, 2006). It faces competition from other institutions locally and within the continent; some of these colleges are offering similar programs at higher certification. The college has not been able to keep pace with the increasing technology within the hospitality industry. Kenya Utalii College being a key stakeholder in the tourism sector had to formulate a strategic plan that reflects the goals of the industry (The Kenya Utalii College, 2006). Changing trends and practices in the global arena have necessitated the strategic plan. Today's hospitality businesses interact with each other on a global basis, and must stay aware of what is happening around them (Kye-sung, 2000). These changing trends have an impact in the way the organisation of Kenya Utalii College maintains innovation and quality in its products and service delivery

1.2 Statement of Research Problem.

Proper implementation of cost control measures leads to organisation performance, Coltman (1994). Most organisations are faced with the problem of limited resources. Management is concerned with effective utilisation of the available resources. An effective control system is important to ensure attainment of the desired results. It is in this respect that the cost control system plays a critical role in allocation and utilisation of these resources. Therefore a sound cost control system needs to be put in place. The need for effective control is of great importance to KUC. It serves many purposes; to reduce frauds and errors, gives management financial information necessary to make decisions, assist management in the correction of policies, etc. This study attempts to compare the existing control system in KUC with a sound control system.

Faced with competition from mushrooming tertiary colleges and many universities introducing hospitality training, Kenya Utalii College must enhance its operations, improve performance and reduce cost to be able to deliver excellent services. The study will endeavour to review the application of cost containing measures at KUC. The study is focussed on the food and beverage cost control practices the KUC undertakes in the course of offering training. This was prompted by the rising costs of food in Kenya. One of the critical issues was to find a way of dealing with the challenges encountered in the implementation of cost controls. Inadequate cost control measures used to control food and beverage cost can lead to inefficiency. Reliable cost control measures need to be established due to the rapidly changing environment and the college intended collaboration with University of Nairobi in hospitality training. This will lead to increased efficiency and help in generation of revenue.

Mohammed (1983) studied on internal controls. His focus was on the Ethiopian Airlines branch office in Nairobi. He established that the Ethiopian Airlines branch office did practised internal controls, which needed improvement. He concluded that the best control system is that which takes into account both internal and external environments. The findings may not be generalised to this study because it was conducted in a transport industry while this one focuses on Kenya Utalii College, which is under the hospitality industry. Mayaka and Akama (2007) conducted their

study on system approach to tourism training and education in Kenya. The research identified existing deficiencies in tourism education and training. Their findings were that developing countries lack well coordinated tourism-training strategies and educational institutions capable of providing much needed human resource training and capability building especially at supervisory and managerial levels. The researches done have not focussed on investigation of cost control practices at KUC, hence leaving a knowledge gap which this study intends to close.

1.3 Research Questions

- 1) To what extent do the food and beverage control measures offered in KUC meet the organisation objectives?
- 2) What challenges are met in the implementation of cost controls?

1.4 Research Objectives

The objective of the study is to identify the cost control practices at KUC and the challenges facing cost control practices at KUC.

1.5 Purpose of the Study

The study adds knowledge regarding the nature of cost control practices in the pursuit of achieving organization's objectives. The study will be useful for literature and further research. The study will aid KUC management in implementing the cost control measures.

CHAPTER TWO: LITERATURE REVIEW

2.1 Basic Control Concepts

According to Freedman (2003), planning and control systems are where the implementation of strategies is achieved through systems that plan and control the allocation of resources and monitor their utilization. He stated that flexibility in the plans and budgets is needed so as to adapt to what is being achieved. Planning supports strategy in various ways. The cost control system, as defined by Ninemeier (2004), is a series of coordinated activities that helps managers ensure that the actual results of an operation closely match the planned results. Wilson and Gilligan (2005) stated that control is a process whereby management ensures that the organisation is achieving desired ends. It can be defined as a set of organised actions, directed towards achieving specified goals in the face of constraint. Johnson and Scholes (2002) noted that performance targets relates to the outputs of an organization or part of it such as a product quality, prices or its outcomes such as profit. They observed that an organization's performance is judged either internally or externally based on its ability to meet the targets. As Pechlaner and Sauerwein (2002) observed, performance targets are usually measured using performance indicators, some of which are qualitative in nature while the quantitative performance is dominated by financial analysis.

According to Wilson and Gilligan (1993) control can be distinguished between open loop control and closed loop control. The two main forms of closed loop controls are feed forward controls and feed back controls. According to Wilson and Gilligan (2005), the open loop control exists when an attempt is made by an organisation to achieve some desired goal but when no adjustments are made to its actions once the sequence of intended acts is underway. They further noted that in an open loop system errors cannot be corrected as it goes along, whereas likely errors can be anticipated and steps taken to avoid them in a feed forward control system, and actual errors along the way can be identified and subsequent behaviour modified to achieve desired ends in a feedback control system. Wilson and Gilligan (2005) states that our limited knowledge of how organisations' systems operate poses a problem. This reflects the complexity of organisations, uncertainty clouds the likely outcome of our future events. Since we cannot understand fully the organisational processes and we do not

have a perfect ability to predict the future we cannot rely on the open loop systems to achieve the ends we desire.

Currently we must rely on closed loop systems where feedback or feed forward control action is dependent upon the actual or anticipated state system (Wilson and Gilligan, 2005). A feed forward system can be defined as a measurement and prediction system that assesses the system at some future date. It seeks to anticipate and thereby avoid deviation between actual and desired outcomes (Bhaskar and Housden, 1985). A feedback control should ensure self-regulation in the face of changing circumstances once the control system has been designed and installed. For feedback control system to be effective it must be based on a reasonably predictable relationship between inputs and outputs. There must be an adequate degree of understanding of the way in which the organisation functions (Wilson and Gilligan, 2005).

2.2 Control Points

The control points are the basic operating activities that must be performed in a property managed hospitality establishment to achieve its objectives (Ninemeier, 2004). The control points include menu planning, purchasing, receiving, storing, issuing, production and selling. As noted by Ninemeier (2004) the control points from purchasing to selling are referred to as the operating control cycle and divide food and beverage operations into stages of activities involved in providing the necessary products and services to customers.

Menu Planning

Menu planning is a dynamic process that is based on the expectation of the establishment's target market comprising the present and the prospective customers. Keiser and Kallio (1977) saw that it is important to come up with an appropriate food menu and beverage list because it is the foundation for control. The menu affects such important aspects of the establishment such as equipment, staffing, production, service, nutrition, layout and space, the restaurant sanitation, management, income control and cost control (Ninemeier, 2004). A menu card is an important marketing tool; the menu card has to be attractive in terms of appearance, design and arrangements of the names of the menu items.

Purchasing

Purchasing is a very important control point as it triggers the operating control cycle. It ensures that production units are adequately supplied with the necessary materials for efficient preparation of menu items (Odgers, 1994).

The need to purchase originates from the storekeeper in case of store items and from the chef in case of direct items. For effective controls, a purchase requisition note must be filled and forwarded to the purchasing officer, who in turn places orders with the approved suppliers. Before placing the orders, it must be verified that there is need to purchase those items. Good purchasing control techniques demand the use of local purchase order. Mohammed (1983) stated that it is crucial to have control over supplies because of a number of reasons. To prevent uneconomic buying, supplies are subject to many excessive costs but most of them tend to remain hidden unless uncovered through internal control. Purchasing of supplies involves a lot of money. As noted by Neuman (1979) he states with exception of data processing more dollars are spent for consumables supplies than any office products according to US bureau of census . Neuman justified the causes for these high costs to buying an uneconomic quantity, failing to obtain best prices, inappropriate means of transport, overbuying, inaccurate accounting, careless handling and failing to provide adequate protection against access to outsiders. When ordering products items should be ordered on a timely basis considering delivery time, storage capacity and production need. A standard purchase specification should be used to order goods without compromising on quality (Ninemeier, 2004).

Receiving

Receiving is an important control point in the product cost control system. Receiving procedures can make or break the food and beverage establishment. Effective receiving is a process that follows basic steps (Schmidgall, 2002); verify the items against local preface order to ensure that they were ordered for as per quantity delivered and the price charged, verify items against standard purchase specifications to ensure quality and other requirements, .verify the items against standard purchase specifications to ensure quality and other requirements, verify the items against the delivery invoice to ensure that the quantities delivered are what are in the delivery invoice. If all is well, the receiving clerk accepts the items by signing the delivery invoice, and then items should be transferred to proper storage immediately.

Strict control techniques must be employed to prevent any chances of theft during the whole receiving process.

Storing

As a control point, according to Kotas and Davis (1976), storing seeks to achieve crucial objectives such as seeking production units adequately supplied and ensuring that items are safe from theft, while maintaining product quality. For these objectives to be met, there should be proper storage conditions. There should be proper storage for various foods in the right storage areas under the proper conditions. Freshness of perishable foods needs to be checked daily to avoid loss from spoilage. Control of inventory is important. To control inventory, a perpetual inventory must be periodically checked with a physical inventory. The stores must be kept safe by making sure the stores are lockable and only authorised people should be allowed access and even then, only when on official duty. Maintaining quality of products in the stores is crucial

Issuing

As a control point, issuing is a process that ensures adequate supply of the right products to production units within the establishment. Effective issuing procedures are necessary, Ninemeier (2004) outlined the issuing procedures as follows: No items should be removed out of the stores without an authorised requisition. the quantities removed from storage should match actual production requirements, issuing should be done according to a definite time plan that gives the storekeeper enough time to carry out other responsibilities effectively, Issuing should be done on first come first come first served basis. The use of issue requisition is of great importance in issuing

Production

Production is made up of preparing, cooking and holding activities: these activities should be carried out with the target customer in mind, Ninemeier (2004). To undertake production control effectively, the control system the personnel involved should be well trained in production procedures. Recipes should be standardised. Production losses must be checked and controlled to prevent increases in cost due to wasteful preparation methods, Ninemeier (2004). The standard recipe determines portion sizes. The plated portion size must be checked periodically to assure

compliance with portion size standards. The food cost should be calculated after sales. The food cost should be calculated after sales. The food cost calculated must be compared to the standard cost to note any deviations from the standard cost.

Selling

This is the last control point. As a control point, serving should achieve two major objectives; ensure customer satisfaction. Customer satisfaction largely depends on types of service, quality of products on offer, speed and efficiency of service and diversity in methods of payments. The second objective is to take care of interests of establishments in terms of sales revenue. To facilitate effective cost control, Ninemeier (2004) outlined the following requirements; correct orders must be taken and served, orders must be charged at correct prices, all changes must be settled and guest checks properly accounted for. There should be proper communication and coordination between production and service personnel. Revenue control methods must be cost effective, (Ninemeier 2004).

2.3 Control of Hospitality Operation

Effective control mechanisms discourage theft and fraud and help improve your bottom line with competitive environments. They can make the difference between survival and bankruptcy.

Internal Control

According to Geller (1991) internal controls comprise the plan of the organisation and all of the coordinate methods and measures adopted within a business to safeguard assets, check the accuracy and reliability of accounting data, promote operational efficiency, and encourage adherence to prescribed managerial policies.

Internal controls can be subdivided into:

Accounting controls: This will deal with safeguarding assets and ensure accuracy and reliability of accounting data. Administrative controls: which include promotion of operational efficiency and encourage adherence to management. Administrative controls also help in preventing fraud and theft. They entail the set of standard operating procedures (SOPs) that ensure controls are implemented and adhered to. The main objective of internal controls is to remove opportunity of stealing.

Geller (1991) outlined the following as principles of internal control: Division of duties: No one individual should have total control over any transaction. To actuate the principle in hospitality operations is to keep assets controlled by a person separate from record keeping or accountability for those assets in an operation you keep cash handling separate from book keeping. Division of duties is not sufficient by itself to prevent internal control problems. Staff should not be added strictly to accomplish it. When operations are small and effective division of duties may be difficult to cost justify. Fix responsibility with one individual; where practical responsibility for a given activity should always be designated to a single individual in that way a person can be informed of his or her responsibilities. He should be given a set of standard operating procedures and be expected to adhere to them. Limit the number of employees with access to assets. The more people with access to cash or merchandise the greater the risk losses – whether by actual risk or mismanagement. Keep cash and banks to a minimum. This lowers the risk of loss. Make internal controls preventive not detective. With proper prevention there will be nothing to detect. Perform surprise counts by independent employees. Bond employees with access to cash, records and stocks. They should insure all employees handling the above items with an insurance called “fidelity bond” which protects the hotel against losses from employee dishonesty. Schedule mandatory vacation and rotate employees. Conduct frequent external audits. Use cost benefit analysis. The cost of internal control procedures should be lower than their benefits.

2.4 Factors Responsible for Successful Cost Control Implementation

Aosa (1992) argues that strategies are of no value unless they are effectively translated into action. Factors responsible for successful cost control implementation include structure, systems, leadership, resources and people, performance checks, physical controls and adequate forms and records as discussed below.

Organizational structure refers to the shape, division of labour, job duties and responsibilities, the distribution of power and decision-making procedures within the organisation, which influences the types of strategy used by an organization (Okumu, 2003). The structure of an organization should be compatible with the chosen strategy and if there is incongruence, adjustments will be necessary either for the structure or the strategy itself (Koske, 2003). According to Kariuki (2004) organizations

implement their strategies through their organizational structures. There are different departments in an organization; Production, Service, Front Office, Accounts, Human Resources and Purchasing. Employees working in these departments must know and follow chain of command. Policies should reinforce the organization structure, by requiring staff members to discuss their problems first with immediate Heads of department. This will reduce confusion and it's likely to result to greater efficiencies.

Organizations have at least four types of resources that can be used to achieve desired objectives namely: financial resources, physical resources, human resources, and technological resources, David (1997). The operating level must have the resources needed to carry out each part of the strategic plan Harvey (1998). Systems refers to all the procedures, formal and informal; capital budgeting systems; training systems; cost accounting procedures; and budgeting systems that make organization run (Mintzberg and Quinn, 1991).

According to Koske (2003), leadership is considered to be one of the most important elements affecting the organizational performance. The leadership of the organization should be at the forefront in providing vision, initiative, motivation and inspiration (Bryson 1995). The management should activate team spirit and act as a catalyst in the whole strategy implementation process. Leadership is critical in Kenya Utalii College's Internal Control system. Effective policies must be developed clearly communicated and enforced consistently. Each level of management is responsible for ensuring that applicable control procedures are adequate. Exception of policies should be minimized and justified. A policy need to be in place that allows for recruitment of new staff as per requirements of the new business strategy implementation. According to Okumu (2003), this involves recruiting new staff and providing training incentives for relevant employees. Gunnigle and Moore (1994) argue that organizations will experience severe problems in strategy implementation if it is not effectively linked with appropriate personnel-policy choices.

Obulemire (2006) stated that budgeting is a form of control. She defined the budget as a statement that indicates a coordinated plan of activities. A budget provides the basis for utilising scarce resource and directing operations of the organisation to achieving

specific resources. These are necessary for an effective system of internal controls. Budgets help to ensure the financial goals are attained. Reports on the other hand can alert managers on potential operating concerns. Examples of such reports include; daily report concerning sales receipts, weekly reports such as weekly sales reports or weekly food cost report, monthly reports such as income statements of cash flows, annual reports such as cumulative income statement and balance sheet. Attitudes towards reports are directly related to the frequency with which the reports are forwarded (Mohammed, 1983). The frequency provision of the report is the most crucial factor determining whether the managers find the reports useful for control purposes (Mohammed, 1983).

Performance checks help to ensure that all elements in the internal control system are functioning properly. They must be independent; personal doing an internal verification must not be the same person responsible for collecting data initially. They must use external auditors who verify statements, study accounting controls system and test. This system determines how extensive the remaining audit will need to be. The stronger the system of internal control the less extensive audit will need to be. According to Schmidgall (2002) physical controls include; stocktaking in the central stores and selling outlets, periodic inventory checks in the entire establishment e.g. the annual stocktaking establishment of one common entry and exit point for all staff. Information on operations should be presented in formats that are easy to read and interpret. Adequate control forms should be designed, but too many forms may complicate and therefore confuse the controls. Proper records of events (e.g. functions) and transactions should be kept.

In this chapter we have explained the basic control concept, discussed various control points through which food and beverage costs re controlled, outlined various principles of internal controls and explained various factors necessary for implementation of cost control.

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

This section describes research design, data collection and analysis.

3.2 Research Design

The study adopted case study design. The case study method is a form of qualitative analysis and involves careful and complete observation of the institution (Kothari, 2004). The reasons for using the case study method are as follows: It provides in-depth knowledge. The case study enables the researcher to understand fully how far control measures have been practised in KUC.

3.3 Data Collection methods

The study used primary data. Personal interviews guided by structured interview guide were used. The interview guide had two sections; the first section gave the background information of the respondent and the other comprised of the structured questions used during the interview. Standardised techniques of recording were used. The respondents comprised the middle level management of the KUC. The reason for choosing these respondents is that they have the necessary knowledge concerning the control system being practised at KUC. Owing to the positions they hold in the college, they were presumed to have the details concerning cost control practices.

3.4 Data Analysis

The data collected was analyzed and interpreted in line with the objectives using content analysis. This involves the analysis of meanings and implications emanating from respondents' information coupled with documented data regarding cost control practices.

CHAPTER FOUR: FINDINGS AND INTERPRETATIONS

4.1 Introduction

The study adopted personal interviews to collect the data, which was recorded by way of writing the responses. The study intended to identify the cost control practices at KUC and the challenges facing cost control practices at KUC. The collected data has been analysed and interpreted in line with this objective using content analysis. This involves the analysis of meanings and implications emanating from respondents' information coupled with documented data regarding cost control practices. This chapter presents the findings of the study with regard to the objective and discussions of the same. The respondents in this study were drawn from middle level management of KUC, who are involved in cost control practices at the college.

4.2 Cost Control Measures at KUC

Menu planning

On menu planning, the college has various guidelines towards the same in order to control costs. The menu is planned in such a way that the cost of raw materials is considered before deciding on the raw materials to be bought. This costing is done on one person or per plate basis.. Once all the necessary ingredients have been calculated, then the mark up i.e. the profit margin is determined by the prevailing standards of the college. The final stage is the introduction of value added tax (VAT) and service charge into the figure to arrive at the selling price.

Procurement

In procurement, there are control measures within the organisation that oversee this important task and also ensure that the organisation is within the range of the new reformed procurement act. The procurement regulations issued by the government have to be followed during the procurement process. Before any purchase is done into the organisation, a purchase requisition has to be made. The college has a regulation which states that only items budgeted for can be bought. Any item outside the budget can only be bought through approval from relevant authority in the organisation. In order to ensure effective cost control, the college also observes the following control measures: Purchase is done through tendering process, approval of Local Purchase Orders must be done by Audit, Accounting and the Principal. There is a float

available for small emergency purchases that must be authorised by the head of procurement.

Receiving

The college has put in place procedures for receiving commodities that have been purchased. The procedures for receiving commodities are as follows: ensuring that the purchased goods satisfy standard purchase specification. They must correspond with the items specified in the Local Purchase Order, the receiving clerk has to check the invoice to confirm the price and the quantity of the purchased commodities, the chef also verifies the quality of food items to ensure the right supply to the organization. The receiving clerk usually use appropriate weighing machines to verify the weight of the received commodities. Upon successful verification, goods received note and daily receiving records are raised to facilitate payments to the suppliers.

Storage

There are also control measures once the goods are in the store: goods must be stored according to categories. The nature of the good i.e. perishable or imperishable will determine where it will be stored. Goods are stored depending on the appropriate temperatures. For instance there is a cold room for meat, room for vegetables and fruits and groceries are kept at room temperature. Beverages are also kept at appropriate temperatures. There are bin cards that accompany goods in the store. The bin card usually contains information on the movement and balances of every commodity. It also has information concerning the minimum and maximum reorder levels for restocking purposes. To ensure proper records, there is a monthly stocktaking. It helps in establishing the balances of goods in the store. It also helps to identify damaged goods, dead goods and reconcile the records with the perpetual records in the store.

Issuing

Once the commodities are in the storehouse then it is the responsibility of the storekeeper to ensure that the necessary regulations are followed when issuing them. The college has the following procedures that must be followed when issuing commodities from the storehouse to avoid wastage: the concerned department raises a requisition; it is then passed over to control and accounts departments respectively for

approval. Once approved, items are issued according to appropriate issuing procedures such as presenting the issue requisition, issuing out items that come in first, issuing on first come first served basis etc

Production

In order to control costs in the production, the department prepares a standard recipe for the menu items that they prepare. The department also has portioning tools to enable them come up with specific portion sizes. Costing is done per portion basis to establish what a portion will cost. In order to avoid wastage of commodities, the department engages the services of trained and qualified chefs to run the production unit professionally. The department also ensures that they get appropriate quality items to avoid wastage. Any wastage incurred is properly disposed according to the laid down procedures.

Selling/ serving

The KUC takes into account various issues before arriving at the cost of food items they offer to the customers. The major costs that are considered in order to arrive at the final cost per plate include: The cost of the raw materials, addition of the mark up or profit margin according to the standards of the establishment, VAT and finally service charge. The institution has put in place a standard food cost for all the food meant for sales. It helps to ensure profitability. These aforementioned costs are paramount at deriving the final cost per unit that will be sold to customers. For food that is served to the students, there is a weekly budget that helps in keeping the costs to the required standards. In order to control costs when selling an order has to be written before the item is served to a customer. The person presenting the order will be accountable for that particular payment. Receipts must be issued out to customers on every food item that they are served with. These serve as a control measure between the production department and the cashier to ensure that whatever is served is paid for. The quantity of sales from the orders and receipt books should tally with the quantity received from the production department. The cashiers prepare a sales summary report to show what has been sold for that day. The cashiers also prepare a cash report that is verified by the Food and Beverage Control department.

Lastly the existence of a Food and Beverage Control department is very important in controlling of cost as it compiles various reports such as daily, weekly, monthly and yearly food and beverage reports Variance reports are forwarded to management to take corrective action.

4.3 Challenges of Cost Control Practices at KUC

Menu planning

Through the interview it was noted that the institution faces a number of challenges in cost control practices during menu planning. The challenges include: The ingredients may not be available as and when they are required, the changing market trends both in the hotel industry and supply and demand of food items also becomes a big challenge when planning for a menu. The needs of customers are diverse due to differences in tastes and preferences. Therefore satisfying all of them can be a challenge. Identifying the appropriate colour and texture of the menu that will appeal to the customers may pose a big challenge to the planners.

Purchasing

A number of challenges towards cost control practices in purchasing have been noted. It is a concern that most users are not well versed with the procedures of the organisation. For instance a user may request for an item and demand to get it immediately. The other challenges are buying an uneconomic quantity, failing to obtain best prices, inappropriate means of transport, overbuying, inaccurate accounting, and careless handling. Lack of planning has also been cited as a challenge towards cost control in the procurement process of the college. Hiring of incompetent staff that do not understand the procurement procedures also hinders the effectiveness of the cost control measures in procurement of commodities. It is also noted that the workload for the procurement department makes it difficult to effectively manage costs.

Receiving

The receiving area has been classified as inadequate and thus leads to time wastage during this important exercise. The department also lacks enough receiving manpower to do the job and this may lead to overworking those available that may lead to breakage and wastage due to exhaustion. Mishandling items during receiving also

results in high costs since spoiled items must be replaced at a cost. Receiving poor quality items is another big challenge too. For example It is difficult to get original cartridges because one can not open it to verify the quality. This leads to additional replacement costs.

Storage

The storage space is limited and there is congestion of items in the store. This derails location of items in the store and therefore has a negative impact on issuing of items. The existence of old machines too is a hindrance to efficiency and cost control measures. At times errors in record keeping may have a negative impact on the issuing of items. This leads to purchase of items that are sometimes in stock thus incurring unnecessary costs.

Issuing

Challenges of cost control in issuing items from the store include: poor timing when requesting for items and this denies the storekeeper time to carry out other responsibilities, poor planning to avoid inconveniences and lack of cooperation among members of staff.

Production

The production department faces a number of challenges as evident from the findings. They include the following: there is high employee turnover that leads to additional recruitment and training costs of new members of staff. Operations of the department are also derailed in case of delayed supplies due to returned items. This affects the operations of the department and spreads the problem to other departments too.

Selling

The study found out that employing un-competent staff in the department is a cost control hindrance since they cannot discharge duties effectively. Occasionally guests fail to pay their bills this makes the organisation loose revenue that would otherwise have been realised.

4.4 Benefits of Cost Control Measures at KUC

The study wanted to establish the benefits of cost control measures at KUC. A number of responses were received from the participants of the interview. The main benefits as identified from the study include: cost control measures enhances effectiveness and leads to cost reduction, it eliminates double standards in the operations of the organisation, it promotes accountability and responsibility, it reduces fraud in the organisation, it helps in budgeting for various items. it sets out the procedures for handling various activities in the organisation. it reduces misappropriations of funds and reduces wastage hence maximized revenue.

There are however general challenges towards internal cost control systems at KUC that have been highlighted. They include: resistance to procedures by members of staff, time wastage by employees in activities of no value to the organisation in some departments, Some employees ignoring the chain of command, inadequate resources for implementation of cost control measures and complicated reporting procedures.

CHAPTER FIVE:

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

The hospitality industry is diverse. It is made up of large and small hotels, restaurants, resorts, clubs, contracted food services for institutions, in-plan feeding programs and many more variations. Competition in the hospitality industry is stiff. The ability to provide value in the purchased products and service is the challenge confronting all hospitality managers who must control resources, and reduce cost while maintaining quality standards. Cost control systems are very critical for the survival and success of any organization. It is on this basis that the researcher set out to determine the cost control practices of Kenya Utalii College training.

The objective of the study was to identify the cost control practices at KUC and the challenges facing cost control practices at KUC. This chapter presents the summarized findings of the research, highlights the limitations of the study, recommendations for further research as well as recommendations for policy and practice.

5.2 Summary

Cost control measures are an important aspect of any organization. The process of cost control is therefore laden with complexity and challenges. There are seven main control points that are the basic operating activities and must be performed in a properly managed hospitality establishment to achieve its objectives. The control points include menu planning, purchasing, receiving, storing, issuing, production and selling. At these main control points there are control measures that have been put in place to ensure that costs are kept at manageable levels. The following are some of the measures as established from the study:

In menu Planning

- a) Determination of the cost of raw materials before deciding on the raw materials to be bought.
- b) Costing of the meals is done on one person or per plate basis.
- c) Once all the necessary ingredients have been calculated a mark up i.e. the profit margin is determined by the prevailing standards of the college.
- d) The final stage is the introduction of VAT and service charge into the figure to arrive at the selling price per unit.

In procurement

- a) Government procurement procedures have to be followed
- b) Before any purchase is done into the organisation, a purchase requisition has to be made.
- c) Only budgeted items are bought and any item outside the budget must be authorised.
- d) All local purchase orders must be properly approved.

In receiving

- a) Received must goods satisfy standard purchase specification. They have to be the goods indicated in the Local Purchase Order.
- b) The storekeeper has to check the invoice to confirm the prices and quantity of the Purchased commodities.
- c) The chef also verifies the quality of food items to ensure the right supply to the organization. Upon successful verification, a goods received note is raised to facilitate payment to the supplier.

In storing

- a) There should be proper storage for various foods in the right storage areas under the proper condition.
- b) Freshness of perishable foods needs to be checked daily to avoid loss from spoilage.
- c) Control of inventory is important. To control inventory, a perpetual inventory must be periodically checked with a physical inventory.

- d) Stores must be kept safe by making sure the stores are lockable and only authorised people should be allowed access and even then only when on official duty.
- e) Quality of products in the stores must be maintained.

In Issuing

- a) No items are removed out of the stores without an authorised requisition.
- b) Quantities removed from storage must match actual production requirements.
- c) Issuing is done according to a definite time plan that gives the storekeeper enough time to carry out other responsibilities effectively.
- d) Issuing is done on first come first served basis.

The study also established that the specific challenges relating to control points that affect cost control measures include hiring incompetent staff, changing market trends and high rate of employee turnover. There are a number of general challenges noted in the process of cost control which cut across all control units these include: resistance to procedures by members of staff, time wastage by employees in activities of no value to the organisation, lack of clear chain of command, inadequate resources for implementation of the cost control measures.

The study also found out that there are various benefits accrued from internal cost control measures. They include: enhancing effectiveness cost reduction, elimination of double standards in the operations of the organisation, promotion of accountability and responsibility, reduction fraud in the organisation, it helps in budgeting for various items, and it sets out the procedures for handling various activities in the organisation, reduction of wastage and misappropriation of funds.

5.3 Conclusions

Based on the findings, it can be concluded that the Utalii College practices cost control measures to some extent in regards to the seven respective control points. The results on menu planning showed that there are proper control measures put in place in order to develop a menu that is tailored to customer expectations. Despite all these efforts, it was concluded that the institution should put more emphasis on the key challenges in menu planning such as making available the ingredients, addressing market trends as

well as demand issues, tailoring menu to customer expectations and identifying the right colour and texture of the menu that appeals to customers.

The study also revealed that on the dimension of procurement, there are control measures within the organization that oversee that procurement procedures conforms to the new reformed procurement act. It was concluded that the institution follows the appropriate procurement procedures while purchasing any item due to the fact that any item not budgeted for can only be bought through the approval of the relevant authority in the organization. Again this is supported by the fact that purchase is done through a tendering process and approval of local purchase orders must be done by audit, accounting and the principal. From the above findings, we can therefore conclude confidently that there are proper control systems in place in the procurement department.

In regards to receiving, it was concluded that the organization has put into place control measures to improve proper records of items received. For instance, the receiving clerk has to check the invoice to confirm the price and the quantity of the purchased commodities, the chef also verifies the quality of food items to ensure the right supply to the organization.

Based on the findings in as far as storage is concerned, it may be concluded that the organization applies various control measures once the goods are in store. These include; proper storage of items depending on their nature, bin cards also accompany goods in the store to check on the movement and balances of every commodity. It also contains information concerning the minimum and maximum reorder levels of stocking. This is a clear indicator of proper store management.

When it comes to issuing department it was concluded that college follows the right issuing procedures in order to avoid wastage. This is supported by the fact that the when the concerned department raises requisition, it is passed over to control and accounts departments respectively for approval. Issuing is also done based on the first come first served basis. The results on production and selling also indicated that the college practices control measures on the two control points so as to minimise wastage. For instance in regards to production, the department ensures that they get appropriate quality items to avoid wastage and wastage incurred is properly disposed according to the laid down procedure.

5.4 Limitations of the Study

In evaluating the results of this research, the following limitations should be kept in mind:

1. The major constraint to effective conduct of this study was limited time. Whilst information and data sought in the study was obtained from the respondents, not many of the anticipated in-depth discussions took place owing to the fact that respondents are generally busy occupied with office engagements.
2. KUC is the only government multi divisional college considered in the study. No other similar organizations have been considered. Although the findings can be generalized to some extent particularly to organizations of similar size or in the same industry, this may not completely fit with the rest of the organizations. This handicap would have been eased if it had been possible to cover more organizations in the study.
3. The study is restricted to the cost control practices in KUC. It does not include other fields of cost control processes such as budgeting, planning and remedies. Its utility therefore is confined to that aspect cost control systems.

5.5 Recommendations on Cost control practice at KUC

5.5.1 Recommendations for further study

It is generally a truism that no research is an end in itself. Therefore, what this research has achieved in this area can only be considered to be little hence requiring further research work. From the insights gained in the course of the investigation, the researcher offers the following suggestions, which should act as a direction to future researchers:

1. There is need for a study to be carried out on the effectiveness of the budgeting process of KUC in order to establish whether the budget drawn is realistic and meets all the necessary requirements.
2. There need also to carry out a research on the recruitment procedures at the KUC to establish the cause of hiring incompetent members of staff into the organisation.

3. There is also need to carry out a study on the processes of operation in the organisation in order to identify those that are not cost effective and consequently eliminate them.

5.5.2 Recommendations for Policy and Practice Specific to KUC

The study proposes a number of recommendations that may assist in policy and practice at KUC:

1. The organisation should give a clear chain of command to its members of staff to avoid conflicts
2. The college should practice hiring qualified members of staff at all levels of its operations
3. The organisation should eliminate any complicated processes that do not add any value to the business.
4. The storage capacity should be expanded in order to cope with the increased volume of operations.

5.6 Suggestion for further research

There should a similar study in other hospitality establishments to verify the findings.

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APPENDIX

Interview guide

Background of respondents

Name of respondents (optional):.....

Position held:

Time spent in KUC:

Cost control measures

1. What control practices do you use in the following control points? Be as detailed as possible.

a. Menu planning

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b. Procurement

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c. Receiving

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d. Storing

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e. Issuing

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f. Production

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g. Selling

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Challenges of cost control

2. What are the challenges faced in the following control points:

a. Menu planning

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b. Purchasing

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c. Receiving

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d. Storing

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e. Issuing

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f. Production

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g. Serving

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3. How have you addressed these challenges?

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4. Which other control measures do you use?

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5. Are the control measures in various control points ever reviewed?

If yes, by whom and how often?

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Benefits of cost control

5. In your opinion is cost control process in KUC necessary?

Strongly disagree  strongly agree

a) Are internal control measures meeting the organisation's objectives?
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b). What are the benefits of using internal control measures?
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