

Impact of Cost Cutting on Financial Performance: A Study Using Ratio Analysis in Al Ayam Newspaper

¹Fatema Abdulla Saeed Jaafar Alaali & ²Dr. Mary Benita Jegan

¹MBA Student, AMA International University-Bahrain

²Assistant Professor, AMA International University-Bahrain

ARTICLE DETAILS

Article History

Published Online: 16 Feb 2020

Keywords

Ratio Analysis, Newspaper, Financial Performance

ABSTRACT

The primary purpose of the research is to analyze the impact of cutting cost on the financial performance of M/s. Al Ayam Publication Establishment B.S.C. (c) publishers of "Al Ayam Newspaper" in the kingdom of Bahrain. Hence forth referred to as "Al Ayam Newspaper Company". This concept is popularized not only in Bahrain but also worldwide especially with the current economic recession and financial crisis. To maximize the whole performance of the company the managers and employees should be fully aware of this strategy.

The purpose of this study is to find the impact of cost cutting strategies on the financial performance for the small and medium businesses like this newspaper firm. The present research is conducted to analyze the financial performance using the method of "ratio analysis". The methodology used is collecting the secondary data from Al Ayam Audited financial statements from 2014 to 2018 then, using the financial Ratio analysis method, the result is implemented to the current year's cost cutting strategies. The major study findings of cost cutting strategies are that by moving digitally, reducing the total cost, minimizing the distribution return quantities and reducing of production wastage, will have a positive impact on financial performance. The study analyses the obstacles of the higher cost and provides suggestion and recommendation for small and medium companies in solving the difficulties that employers face in the kingdom of Bahrain.

1. Introduction

Presently the global economic crisis has hurt all business sectors and moved their financial positions negatively. Hence, the organization has to decide whether to reduce their cost or improve the sales or keep it both balanced in a proper way. With the wide spread competition, it becomes very difficult to stay strong and ascertain your own price (Kinkel, 2012).

It is easier to apply reduction cost phenomena rather than increasing the sales. It will focus on unnecessary expenses that will not affect the production process and will improve the profit simultaneously. In a recession period the organization tries to keep the business operational, by conserving their capital and controlling expenses in different areas, like minimizing marketing cost, IT spending, traveling, training cost, cutting inventory purchasing, and freezing salary and eliminate unnecessary staff (Pearce & Michael, 2016).

The focus of the research is to explore and to study the impact of cost cutting strategy on financial performance using Ratio Analysis in Al Ayam Newspaper. The present research, will do an analysis on cost cutting strategy that is implemented in Al Ayam Newspaper Company (Private Sector) in the kingdom of Bahrain and its impact. This research will further analyze the efficiency of digitalization in reducing the cost.

The newspaper was a vital tool for media to publish the news and promote the advertising for the previous two decades, while as a product it reached the peak and began to move to the declining phase, with the new web and social media. The right strategy to implement the analyzing of cost cutting is, can survival of this product go forward to introduction stage with innovation (Sridhar & Sriram, 2015).

2. Statement of the Problem

Cost cutting strategy is an important element in the growth of the business especially in small and middle segment. As Al Ayam Newspaper is a SME business in the Kingdom of Bahrain that has been established since 1989, when the press and journalism were a mass media and have a high loyalty by audience. It became the most popular newspaper in the Kingdom of Bahrain.

The main problem faced by the organization is that they didn't go dynamically with the market changes to reach the target audience for marketing and advertisement sales in harmonized manner. Hence the sales started dropping down slowly from 2012 to 2015 because of political situation in the region, but more sharply in the last three years because of economic crisis in the whole country and the widespread usage of new media (like the web and social media) other Medias have retreated. Consequently, the company struggled to increase their sales of advertisement in the conventionally published newspaper pages against the innovative web site with the lower cost (Paprocki, 2015).

3. Research Questions

The study aims to find out financial strategy on cost cutting and the impact of implementing it in Al Ayam Newspaper in kingdom of Bahrain. Specifically, the proposed research shall endeavor to answer the following questions:

1. What impact does moving digitally have on financial performance?
2. How the strategy of reducing the total cost, will affect the financial performance?

3. What is the impact of minimizing the distribution return quantities on the financial performance?
4. What is the impact of minimizing production wastage on the financial performance?

4. Conceptual Framework

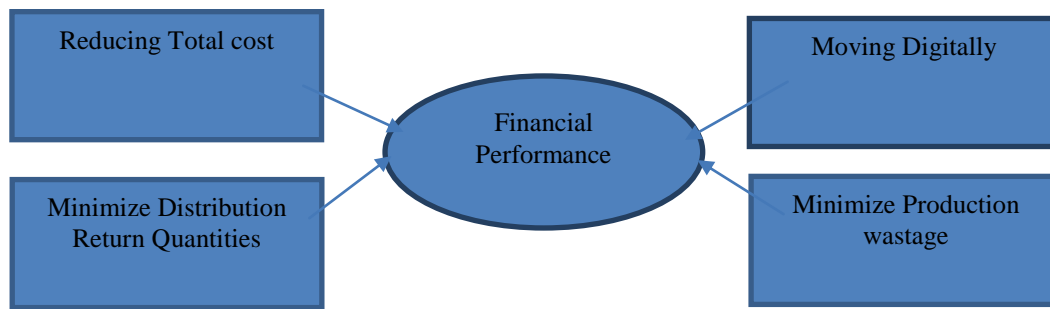


Figure 1.2: Conceptual Framework

The conceptual framework is based on Independent and Dependent Variables. The independent variables are moving digitally, reducing total cost, Minimize the distribution quantity returns and the production wastage while the dependent variable is financial performance of the organization which is illustrated in figure below.

Cost cutting strategies are started with non-essential costs used, manage how to control it or stop using it by evaluating it and plan to provide less expensive product or services. In the Newspaper and press company the main cost comes from production waste and distributing the newspaper with high number of returns. Plus, presently the people get the news easily from the web and media rather than classic and costly method by paper. So, if the organization controls these costs and be more innovative by developing a website to present the news and using social media like Instagram and twitter, then the effect will be positive on the financial performance. It will increase the financial performance of the organization which is measured by high profitability Ratio, Turnover Ratio, Cost Benefit Ratio and Gross Profit Margin.

5. Literature Review

There are many different definitions given for the cost cutting strategy, but the most suitable one measure implemented by company is to reduce the expense and increase the profit. It may include laying off employees, closing facilities, streamlining the supply chain, downsize to smaller office or moving to less expensive building, reducing and eliminating outside expense (Sarkar, Chaudhuri & Moon, 2015).

Rio Tinto is a big company in Western Australia for Iron Ore, they expand their annual production to 290 million tons by reducing the cost. They reduce the flight cost, challenging the need to fly, they used WebEx for meeting, renegotiating contract with airlines, increasing the passenger numbers on charter flight and prioritizing the volume to lower cost airlines. By following these strategies, the cost saving was around \$10 Million in 2013 and the international flight reduced by 50% in the first half of 2013. The contractor cost was reduced by \$70 Million while consultant cost reduced by \$33 Million in the first half of 2013. This significant reduction was achieved by decreases in contractor rates. The contractor costs were reduced by 20% from 2012 to 2013 through minimizing the supplier per site from 330 to 180. The price of track pads and truck trays reduced by around 50% over current supplier, by

reducing the reliance on original equipment and emerging market opportunities. With optimizing the maintenance, the productivity increased by 18% (Malik, et al., (2014, 2017a,b&c, 2018, 2019a,b&c). In the same time the maintenance cost reduces to 19% because they improve the driving time on tool, reduce the staff levels. All these cutting cost strategies expect to result \$30 Million saving in 2013. The \$16 Million was achieved in the first half and led to operating efficiency. They focused on agility and flexibility of workforce. They redesigned the mobile maintenance program with reducing number of team that saved \$5 Million. During 2013 RIO Tinto is building organization with greater value for shareholders and position for long term success. The saving in support cost was \$12 Million and \$40 Million in right sizing (Qasim et al., 2018; Raza et al., 2018; Ullah et al., 2016).

As one solution for cost cutting strategy related to the newspaper field is moving content to digitalization, the study will concern on the importance of why we should digitalize the newspaper. The newspaper contains very sensitive and important information, so it will be the original source of information to the public and organizations. The newspaper is an easily readable medium connected with the historical events and it has a huge amount of biographical data and more creditable reports. We have to focus on important points that the newspaper consists of acidic ink, paper, which will be destroyed in the future. So digitalizing Newspaper mean keeping a record about the communication infrastructure in minority to play an important role in prevent the culture of heritage (Weber, 2016).

According to our government in Bahrain the Minister of Finance Sheikh Salman Al Khalifa is looking to close the deficit by following cost cutting controls to reduce the budget which used to drive the economic growth. The Bahrain Deficit reduced by 35% last year and planned to close it in 2022.

As well as Alba (Aluminum Bahrain) implemented Cost Reduction Program Project to reduce cash cost by \$60 for metric ton of aluminum and increase the capacity of production to 1,000,000 by the end of 2018. So, they agree that by reducing the operation cost they will add value to revenue and enhance the production (Trade Arabian News, Manama, 2018). The cost cut will Support Alba also with competition, especially with cheap aluminum from China to drop in price realization plus the downsizing of employees in the drive for cost cutting. The cost management program, innovative training and

development initiatives are the three major indicators to embrace the upcoming challenges and overcome all the difficulties (Pathi, A. 2016; Khan et al., 2015; Mehtab et al., 2012; Qamri et al., 2015).

Cutting employees cost should come through reduction in the salary of employees rather than laying them off or downsizing them. then give the employee increment depending on their performance. It seems that reducing staff number will minimize the cost but will not significantly boost the profit. Therefore, it is better to focus on enhance revenue with cutting the cost control (Adeniyi, S., Patrick, E. 2017; Akram, 2017; Ashraf et al., 2017).

“How small newspapers are innovating online“ a thesis presented by Justin Paprocki in May 2015. This study seeks about how this small newspaper can be innovative by moving to the new digital world. This study recommended that the newspaper should become more visual by adding more photos and videos gallery. The newspaper should be connected for audience with the social media and fully benefit from it. Also, it can get more readers by providing content in the social media like asking readers to provide some photos via website. Finally think beyond tradition, sure the internet gives the newspaper the best tool to connect with the readers and give them place not only to read but also to share their information and enjoy using reading it (Akram et al., 2017, 2019).

Australian Newspaper publish digitized news as a technology format and still a higher calling form. They need digital infrastructure and high computer hardware and server cost to deliver the news on computer screen and mobile devices. It is called as “New journalism”. This digital innovation transfers the newspaper to the higher degree that it can be accessed shortly. Moreover, the digital media will not have more circulation, production and distribution cost like: ink, paper, presses and delivery charge (Montgomery, BJ 2009).

The study prepared by Mathew David Wilson on Chattanooga Times and Free Times press seeks to find the effect of using internet and being digital upon established publication. Also, pre versus post internet news content during 20 years from 1986 to 2006. This study concludes that there is a lot of difference between both but the most important thing that in the pre-internet period the newspaper was distributed locally only with high effort and charge, while in post-internet period it became international newspaper and can be read externally in ant country via the website with less effort and charges of distribution. As well the style of news is changed between paper and website with immediacy of news source by internet. The website displays the news with graphics and videos to be attractive to the readers than paper (Wilson, 2009; Abbas, et al., 2018).

The main goal for organization is to achieve higher profit and maximizing shareholder wealth. To attain maximum profit, the organization should put adequate cost structure (Robert, 2007). The profit and cost reduction are the main drive for all organizations. The clear understanding of profit drive as a cost will result in high profit (Adeleke, 2014; Abrar et al., 2012; 2015; 2016). Obviously, these cost cutting strategies will have a positive impact on financial performance as determined by (Caroline, Gichuki 2014) that there are two types of performance- financial and market performance. The market performance is concerned with customer behavior, increase sales quantity and customer loyalty. However, the financial

performance is related to net income, sales amount, investment and achieving growth goals. All business organizations aim on achieving highest profit with the lowest cost.

One method to cut cost in the printing industry is waste reduction. It will benefit the company and the environment in the same time. It will reduce the uses of paper, ink, chemical and plate. A study of printing house in Ghana about press waste finds that the more you are aware of storing and inventory, it resulted less waste and cost which will cause high financial performance with increase efficiency, productivity and profitability (Chea, 2009; Abrar et al., 2017a&b).

As per literature review, researchers observe the majority of researches focus on the way of cost cutting strategy by definition and process, but they missed to evaluate the impact of implementing this strategy on the financial performance to give us a valuable research. Also, for the Newspaper business segment mostly they concern on one point only which is the digitalization as a strategy of cost reduction, while there is another important point they have to draw attention on like minimize the variable cost, production and distribution expense. This study will cover this gap and try to illustrate the impact of it on the financial performance by using actual analysis ratio figures pre and post adopting the cost cutting strategy from different side, not only the effect of digitalization. Also, this study will be a one of its kind from very little studies in the Kingdom of Bahrain that focus on cost cutting Strategy on the Newspaper media business Sector, all other local literatures and studies for the same subject is on other business segments.

6. Methodology of the study

Research Design

The quantitative approach to research contains the numerical data and most appropriate for numerical analysis, while the qualitative once involves textual data (Abrar et al., 2019a&b). Some studies contain both qualitative and quantitative methods. This study adopted ratio analysis study design. The research analysis is based on quantitative analysis. The quantitative data will be collected by cost cutting related ratio analysis.

Research instruments and Techniques

The main tool used in this study is done through ratio analysis through the Al Ayam Newspaper Financial statements for last five years and comparisons between different ratios in these years. In this research data collection technique only secondary data is used. The secondary data is collected by the researcher itself like using the previous audited income statement and balance sheet to make a financial analysis by using the ratios.

Table 3.1: Cost cutting related variables

Independent Variable	Area for Data Testing
Moving Digitally	Ads at Newspaper
	Website ADS
	IT Expense
Reduce of Total cost	Maintenance
	Training cost

	Staff Salary
	Tel. Expense
	Depreciation Exp.
Minimize Dist. RTN QTY	Cost of circulation
	QTY Distribute
	QTY Return
Minimize Prod. Wastage	Cost of printing
	Waste
	% of waste

These four variables will be tested with below listed Ratios to find the impact of it on the financial performance for the five years from 2014 to 2018: Return on Assets, Return on Equity, Margin Ratio, and Profit to Sales Ratio, Total Asset Turnover, Variable cost Ratio, Quick ratio & Current Ratio.

Data Gathering Procedures

The secondary data is the core information collected during the period of research by studying whole company records and company's statements (Balance sheet & Income statement). It was extracted from the company's annual reports and financial statements for the five-year period from 2014 up to 2018. The period was selected because continuous financial data was available for the firm over the entire period. This was obtained from the Audited financial report to make a financial ratio analysis and identify meaningful patterns in data.

Validity of the Research Instruments

The data was obtained from the Audited financial report. The data extracted from the financial statements included the following: Total Assets, Total liability, Total Revenue, Gross

Profit, Net Profit and Total cost. The collected figures for the Ratio were from audited financial statement. It makes the research installment valid, accurate and dependable to the subject matter (Abrar et al., 2018a&b).

Data Processing and Statistical Treatment of Data

The collected data was appropriately analyzed and organized as well as interpreted by the statistical tools such financial ratios. It was utilized to find the relation with respondent. The Return on asset ratio, return on equity ratio, gross profit margin ratio, and net profit to sale ratio, total asset turnover ratio, variable cost ratio and quick ratio analysis will be applied in the study. The most important analysis will be by comparison of ratio for the different five years adopting reducing different strategy of cost cutting between the year of 2015 and 2016 and the impact of it on the financial performance comparing it with previous year of 2014 and subsequent years of 2017 and 2018.

7. Results and Discussion

In this section the study will present the data which is gathered from Audited Financial Statement of AI Ayam Newspaper Company to be used in next section for analysis for the five years from 2014 to 2018. The data collected is from the Audited Income Statement, Balance Sheet and other related information for sub account in more detailed in the Audit Report. All data is approved and signed by the company and the auditors (KPMG Fakhro) in qualified reports. It is a trusted audited company from big fours.

Table 4.1: AI Ayam Publication Establishment Audited Income Statement

	2014	2015	2016	2017	2018
Revenue	4,667,887	5,218,255	5,413,447	4,711,600	4,438,235
Cost of Sales	-3,375,703	-3,079,748	-2,891,106	-2,712,970	-2,815,378
Gross Profit	1,292,184	2,138,507	2,522,341	1,998,630	1,622,857
Expense	-2,106,605	-2,997,121	-2,835,742	-2,629,495	-2,226,128
Operating Income	522,508	486,779	507,079	171,775	128,942
Result from Oper.	-291,913	-371,835	193,678	-459,090	-474,329
Other Exp. / Income	-229,870	983,058	-112,943	170,998	133,056
Net Income	-521,783	611,223	80,735	-288,092	-341,273

Table 4.2: AI Ayam publication Establishment Audited Balance Sheet

	2014	2015	2016	2017	2018
Total Non-Current Asset	6,882,170	6,154,424	5,944,146	5,737,735	5,514,252
Total Current Asset	2,400,907	2,214,899	2,189,553	2,083,869	2,021,112
Total Asset	9,283,077	8,369,323	8,133,699	7,821,604	7,535,364
Total Equity	4,160,005	4,876,886	4,957,621	4,629,077	4,045,161
Total non-current Liability	1,889,389	338,091	857,901	793,149	699,740
Total Current Liability	3,233,683	3,154,346	2,318,177	2,399,378	2,790,463
Total Liability	5,123,072	3,492,437	3,176,078	3,192,527	3,490,203

Total Equity & Liability	9,283,077	8,369,323	8,133,699	7,821,604	7,535,364
-------------------------------------	------------------	------------------	------------------	------------------	------------------

In addition to the income statement and balance sheet more data is needed to show that the period of implementing the cost cutting strategy as related to the variables in the previous conceptual framework in chapter one. The data shows the exact period where the related expense is reduced and the strategy is implemented from ledger account and the audited reports. The moving digitally variable will be fully explained with

website advertising sale and IT expense point. The reducing cost variable will explain with different points as staff salary, Telephone expense, Repair, maintenance, staff welfare and training. However, the variable of minimizing Distribution returns quantity, measure with the cost of circulation. Finally minimizing the production waste will be illustrated with cost of printing and production waste.

Table 4.3: Other Data and Related Expense

		2014	2015	2016	2017	2018
Moving Digitally	Ads at Newspaper	3,395,605	2,877,433	2,681,956	2,255,754	2,058,369
	Website ADS	27,776	44,849	42,329	46,517	44,292
	IT Expense	79,240	78,261	80,418	51,890	38,826
Reduce of total cost	Maintenance	69,114	60,730	60,646	56,185	28,275
	Training cost	66,162	37,488	8,975	11,365	7,108
	Staff Salary	2,205,846	2,261,749	2,083,190	2,030,830	2,030,038
	Tel. Expense	24,233	22,934	18,426	16,779	12,971
	Depreciation Exp.	493,866	288,463	297,729	294,111	280,120
Minimize Dist. RTN QTY	Cost of circulation	485,926	445,843	438,002	429,145	417,783
	QTY Distribute	2,054,490	1,932,149	1,715,318	1,709,678	1,421,591
	QTY Return	1,675,141	1,456,092	1,220,720	830,213	706,912
Minimize Prod. Wastage	Cost of printing	784,203	562,743	665,206	596,247	544,074
	Waste	102,302	74,273	71,211	64,298	62,833
	% of waste	27.10%	17.60%	17.02%	15.24%	15.16%

Moving Digitally

From previous table 4.3 for other data and related expense it is found that the moving to digitally to online media and upgrading for instant website was started in 2015 to reach the website advertisement sales of BD 44,894 with increasing in the IT related expense for the website requirement. In the same time the sales of advertisement at newspaper dropped down from BD 3,395,605 in 2014 to 2,058,369 in 2018 because of the reduction in the audience demand. This was as a point of transition related to the organization to move digitally for reducing the cost of printing newspaper with lower demand. The harmony between the online sale and IT cost was in 2018 for BD 39,292 sales and BD 38,826 cost.

Reduce the Total cost

Reducing the Total cost contains different points, first one is minimizing the maintenance cost which was implemented by reducing the number of days for cleaning the glasses of windows from monthly to twice time yearly which is semi-annually. Also, by reducing the number of outsourcing cleaners with security guards from 20 to 9 persons. Finally employ one-part time person to do all maintenance works in the organization instead of dealing with companies. That is clear all

these decisions were implemented starting in 2015 to reduce the maintenance cost from BD 69,114 in 2014 to BD 60,730 in 2015. Finally, a big drop resulted in the Maintenance expense was in 2018 to BD 28,275 around 50% less than 2014.

The other policy that adopted to reduce the total cost was the reducing of the training cost from BD 66,162 in 2014 to BD 37,488 in 2015 for around 50% less. The strategy is contentious to reduce it for about 75% less in 2018 for BD 7,108. Again in the year of 2016 a big downsizing to manpower was taken. Especially for part time employees, also some allowances were revoked therefore; the staff salary declined to BD 2,083,190 for around 10% less than previous year. Telephone expense start decline for the little in the year of 2015 from BD 24,233 in 2014 to BD 22,934 and get to lowest of BD 12,971 in 2018. That was because of applying some policy like suspending overseas calls unused internet networks lines. Finally, a major reduction in the total cost was in the Depreciation expense account by changing the useful life of Building from 20 to 40 years and some Machinery from 20 to 30 years. This new policy adopted by new Finance Manager reduced the depreciation expense to half from BD 493,866 in 2014 to 288,463 in 2015.

Table 4.4: Total variable cost from 2014 to 2018

Reduce Variable cost	2014	2015	2016	2017	2018
Total	2,859,221	2,671,364	2,468,966	2,409,270	2,358,512

The greater value for total of reducing variable cost is on 2018 to BD 2,358,512.

Minimize Distribution Cost

The minimizing of distribution cost decision came from reducing the printing of number of Al Ayam Newspaper because of big percentage of return quantities for about 50% of distributed newspaper. So the organization agree to reduce Al Ayam daily quantity from 12,000 at 2014 to 10,000 at 2015 to 7,000 copies at 2016 till now. Therefore, the quantity distribution cost reduced from BD 485,926 in 2014 with the distributed quantity of 2,054,490 copies and return quantity of 1,675,141 copies to BD 417,738 in 2018 with the distributed quantity of 1,421,591 copies and return quantity of 706,912 copies.

Minimize Production Wastage

Production wastes contain paper, plate and ink. The waste started declining in the year of 2015 for amount of BD 74,273 due to repairing Tensor printing machine. As a part of new cutting cost strategy management decided to hire a consultant

from Germany to modify the process of production and evaluate the efficiency of printing machine in order to reduce the waste. Additionally, as mentioned in the minimizing distribution point the quantity of printing the newspaper is reduced so the cost of printing reduced from 784,203 in 2014 to 562,743 in 2015.

According to previous data collected, the study analyzes the numerical data by using financial Ratio analysis to link the impact of reducing variables of cost cutting strategy with the effect on organization financial performance. Different Financial Ratios are used. The Financial Ratio can be defined as a tool to compare the relation of variables in the statement and interpret the situation of organization as historical performance and financial condition. It explains the relation in better meaningful way to give the manager the hint for right decision taking. In this study the figure of Ratio represented as below analyzed from previous financial statements.

Table 4.5: Al Ayam Publishing Establishment Ratio Analysis from 2014 to 2018

RATIO	2014	2015	2016	2017	2018
Return on Asset (ROA)	-5.62%	7.30%	0.99%	-3.68%	-4.53%
Return on Equity	-12.54%	12.53%	1.63%	-6.22%	-8.44%
Gross Profit Margin Ratio	27.68%	40.98%	46.59%	42.42%	36.57%
Net Profit to Sales Ratio	-11.18%	11.71%	1.49%	-6.11%	-7.69%
Total Asset Turnover	50.28%	62.35%	66.56%	60.24%	58.90%
Variable cost Ratio	72.32%	59.02%	53.41%	57.58%	63.43%
Quick Ratio*	36.80%	34.35%	56.09%	50.94%	39.10%
Working Capital	4,992,781	5,816,333	5,086,245	4,944,586	4,814,512
Current Ratio	74.25%	70.22%	94.45%	86.85%	72.43%
*Cash	71,120	43,686	54,198	20,553	42,304
*Account Receivable	1,118,827	1,039,798	1,246,168	1,201,763	1,048,760

The Return on Asset Ratio is known as the Net Income to Total Asset. The formula to calculate this ratio is:

$$ROA = \text{Net income} / \text{Total Asset}$$

Table 4.6: Al Ayam Publishing Return on asset Ratio from 2014 to 2018

Ratio	2014	2015	2016	2017	2018
Return on Asset	-5.62%	7.30%	0.99%	-3.68%	-4.53%

The Return on Equity Ratio is a profitability Ratio calculate the effect of profit from the investment of shareholder or capital. It calculates as below formula:

$$ROE = \text{Net Income} / \text{Equity}$$

Table 4.7: Al Ayam Publishing Return on Equity Ratio from 2014 to 2018

Ratio	2014	2015	2016	2017	2018
Return on Equity	-12.54%	12.53%	1.63%	-6.22%	-8.44%

Profit Margin Ratio or Gross Margin Ratio is a probability ratio measures the amount of Gross income according to each sale. The formula for Margin Ratio is as below:

$$\text{Profit Margin Ratio} = \text{Gross Profit} / \text{Sales}$$

Table 4.8: Al Ayam Publishing Profit Margin Ratio from 2014 to 2018

Ratio	2014	2015	2016	2017	2018
Profit Margin Ratio	27.68%	40.98%	46.59%	42.42%	36.57%

Profit to Sales Ratio is a profitability financial Ratio measures the relation of Net income to Sales and calculates as below:

Profit to Sale Ratio = Net Income / Sales.

Table 4.9: AI Ayam Publishing Profit to Sale Ratio from 2014 to 2018

Ratio	2014	2015	2016	2017	2018
Profit to Sales Ratio	-11.18%	11.71%	1.49%	-6.11%	-7.69%

The Variable cost to sale Ratio measures the amount of variable expense stated as a portion of net sales. The formula for calculating this ratio as below:

Variable cost Ratio= Variable cost / Net sales

Table 4.10: AI Ayam Publishing Variable Cost Ratio from 2014 to 2018

Ratio	2014	2015	2016	2017	2018
Variable cost Ratio	72.32%	59.02%	53.41%	57.58%	63.43%

Total Asset Turnover Ratio measures how the company's asset ability to generate sales. The formula will be as below:

Asset Turnover= Net Sales / Assets

Table 4.11: AI Ayam Publishing Total Asset Turnover from 2014 to 2018

Ratio	2014	2015	2016	2017	2018
Asset Turnover	50.28%	62.35%	66.56%	60.24%	58.90%

Liquidity Ratio measure how the company will pay the obligation that come from current transactions as below:

Quick Ratio = Cash + Account Receivable / Current Liability

Table 4.12: AI Ayam Publishing Quick Ratio from 2014 to 2018

Ratio	2014	2015	2016	2017	2018
Quick Ratio	36.80%	34.35%	56.09%	50.94%	39.10%

Finally working capital is measures of company liquidity, operational efficiency and health for short term of period. If the current ratio is positive, it is mean the company still can grow and invest.

Working Capital = Current asset – Current Liability.

Current Ratio = Current Asset / Current Liability.

Table 4.13: AI Ayam Publishing working capital Ratio from 2014 to 2018

Ratio	2014	2015	2016	2017	2018
Working Capital Ratio	74.25%	70.22%	94.45%	86.85%	72.43%

Interpretation of Data

Four questions were addressed in this study; a quantitative research method was adopted to answer these questions. By having Ratio analysis linked with the changing variables to find out the impact of cost cutting of these four variables on the

financial performance of the organization over the year. That compared the financial ratios in the two years of implementing cost cutting strategies which is 2015 and 2016 with the previous year of 2014 and next years of 2017 and 2018.

Table 4.14: Optimalratio for AI Ayam Publication Establishment from 2014 to 2018

RATIO	Percentage	Year
Return on Asset (ROA)	7.30%	2015
Return on Equity	12.53%	2015
Profit Margin Ratio	46.59%	2016
Profit to Sales Ratio	11.71%	2015
Total Asset Turnover	66.56%	2016
Variable cost Ratio	53.41%	2016
Quick Ratio	56.09%	2016
Current Ratio	94.45%	2016

1. What is the impact of moving digitally on financial performance?

The year of implementing cutting cost strategy by moving digitally in the year of 2015 resulted higher financial performance and got best Return on Asset (ROA), Return on the Equity (ROE), and Net profit to Sales ratio. Therefore, the

moving digitally has a positive impact on the financial performance.

2. How the financial strategy of reducing the total cost will affect the financial performance?

Reducing total costs were attained in between the year of 2015 and some for more reduction 2016 which are

maintenance cost, training cost, staff salary, telephone expense and depreciation expenses have a positive impact with the financial performance for Return on Asset (ROA), Return on the Equity (ROE), Net Profit to Sales in 2015 and Gross Profit Margin Ratio, Total Asset Turnover, Variable Cost Ratio, Quick and Current Ratio in 2016.

3. What is the impact of minimize the distribution quantity return process on financial performance?

The reducing of distribution quantity returns and distribution cost started in 2015 from 1,675,141 copies in 2014 to 1,456,092 in 2015. Therefore, it has a positive relation between the variable of reducing distribution quantities and financial performance for reaching the best ratios of Return on Asset (ROA), Return on the Equity (ROE), Net Profit to Sales in 2015. And that continued to subsequent years that we get optimal ratios of Gross Profit Margin Ratio, Total Asset Turnover, Variable Cost Ratio, Quick and Current Ratio again in 2016.

4. What is the impact of minimizing production wastage on financial performance?

The minimizing production wastage strategy was implemented in the year of 2015 for total amount of waste BD 74,273 and percentage of 17.6% compared with the previous year of 2014 for total waste of BD 102,302 and percentage of 27.1% as reason of repairing the machine and follow the engineer instruction to reduce the production waste cost. Therefore, the reducing of production cost has positive impact on the organization financial performance.

Finally, the previous ratio figures illustrate that the higher performance results were between the year of 2015 for some ratios as Return on Asset (ROA), Return on the Equity (ROE), Net Profit to Sales and 2016 for other ratios as Gross Profit Margin Ratio, Total Asset Turnover, Variable Cost Ratio, Quick and Current Ratio.

These two years of 2015 and 2016 were the years of implementing cutting cost strategies. Therefore, that obviously approved that the validity of these strategies and the positive impact of it on the financial performance. Since all ratio went up in these two years this evident that all cutting cost variables are affecting the financial performance of the company.

Later on, the figures show that the ratios are dropped down in the next years of 2017 and 2018 with persistence of applying same cost cutting strategies. That was due to reducing the advertisement sales from BD 3,395,605 in 2014 to BD 2,058,369 because of bad market situation and economic crisis. Even though the figures show that the declining in the ratios in 2017 and 2018 is still better and less than previous year which is 2014. So, implementing these strategies tempered and reduced from the collapse of the firm's bad financial situation.

8. Conclusion and recommendation

Cost cutting is an essential strategy for business to increase the profit and effect the earning at any point of time. The purpose of this master thesis is to identify the variables of cost cutting strategy and find the impact of it on the financial performance for small and medium company at the Kingdom of Bahrain. The findings of the research are outlined. It was uncovered that up to this point, reducing the cost by moving digitally, reducing the total cost, minimizing distribution return

quantity and minimize production waste have positive significant impact on the financial performance in the year of implementing these strategies while it shows no relation later because of different factors of dropping down in the sales.

Conclusion

After the findings of the research, it is concluded that the cost cutting strategy has a big impact on the financial performance, include moving digitally, reducing total cost, minimize distribution quantity return and production waste. These strategies have positive impact on Return on Asset ratio, Return on Equity ratio, Net Profit to Sale ratio, Gross Profit Margin, Total asset turnover ratio, Variable cost ratio, current and quick ratio. This investigation has additionally shown in which areas of the organization can reduce the cost and effectively control costs. Reduction of cost have a positive impact on financial performance especially in the profit.

Recommendations

It is recommended to innovate the newspaper as being more visual, more popular media adding more gallery and videos and think beyond traditional role. The internet has given the newspaper valuable tools to communicate with readers. Comparison studies between print and website newspaper confirm that the internet has affected the printed newspaper. With more reader audiences for Web newspaper, the classic once will have more cost of printing, raw material, distribution and storage. Ultimately while there is difference between print newspaper and website newspaper both of it do not represent the full product without each other's. The relation between web and print newspaper assuredly affected news content on the whole.

Al Ayam publication claims of the growing circulation cost. I think the outsourcing of distribution and minimize the printed copy will eliminate that problem. In order to improve the efficiency, the company should take care with reducing the variable cost especially for rightsizing the employee scale. The expatriate employee at circulation and distribution charge the company high cost for accommodation, their vehicle acquisition cost, and maintenance and depreciation expense.

Furthermore, they have to focus on printing web to be more commercial with trends of market demand. With higher operation efficiency and quality of machine the wasted paper shall be reduced. One best way to reduce the consumption printing ink is GMG software.

Also, the company can benefit from the big building size to find more tenants to get more revenue and contribute with company in paying electricity expense.

It is similarly suggested that future researchers on similar theme to amplify different respondent characteristics from this study in order to help the newspaper firms to lower their cost and financial problems, such as concern on digital news, local content and marketing. The strategy of hiring qualified managers who will have new ideas to operate the company in the effective manner and support in reducing the cost. More researches need to be done in order to find more solution for cost cutting strategies in the newspaper firm.

Reference

1. Abbas, N., Ashiq, U., & Abrar ul haq, M. (2018). Gap between acquired and required English learning objectives for the primary school students: Empirical evidence from Sargodha (Pakistan). *Cogent Social Sciences*, 4(1), 1457421.
2. Abrar ul haq, Jali, M. R. M., & Islam, G. M. N. (2018a). Assessment of the role of household empowerment in alleviating participatory poverty among rural household of Pakistan. *Quality & Quantity*, 52(6), 2795-2814.
3. Abrar ul haq, M, Jali, M.R.M. (2016c). Determinants of Rural Poverty in Pakistan: A Micro Study. *Journal Governance and Development (Universiti Utara Malaysia press)*, 12(2): 53-66.
4. Abrar ul Haq, M. A, Nawaz, M. A., Mahtab, N., & Cheema, A. K. H. (2012). Determinants of Wage Growth: An Empirical Analysis of Private Formal Sector in Bahawalpur Division. *Business and Economic Research*, 2(1).
5. Abrar ul Haq, M., Akram, F., Ashiq, U., & Raza, S. (2019a). The employment paradox to improve women's empowerment in Pakistan. *Cogent Social Sciences*, (just-accepted), 1707005.
6. Abrar ul haq, M., Jali, M. R. M., & Islam, G. M. N. (2017a). Empowering rural women in Pakistan: empirical evidence from Southern Punjab. *Quality & Quantity*, 51(4), 1777-1787.
7. Abrar ul haq, M., Jali, M. R. M., & Islam, G. M. N. (2017b). Decision-Making Ability as a Source of Empowerment Among Rural Women of Pakistan. *Global Social Welfare*, 4(3), 117-125.
8. Abrar ul haq, M., Jali, M. R. M., & Islam, G. M. N. (2019b). Household empowerment as the key to eradicate poverty incidence. *Asian Social Work and Policy Review*, 13(1), 4-24.
9. Abrar-ul-Haq, M., Jali, M. R. M., & Islam, G. M. N. (2015). Factors affecting small and medium enterprises (SMEs) development in Pakistan. *American-Eurasian Journal of Agricultural & Environmental Sciences*, 15(4), 546-52.
10. Abrar-ul-Haq, M., Jali, M. R. M., & Islam, G. M. N. (2018b). The Development of Household Empowerment Index among Rural Household of Pakistan. *Pertanika Journal of Social Sciences & Humanities*, 26(2).
11. Abrar-Ul-Haq, M., Jali, M. R., & Islam, G. M. (2016b). A role of household empowerment to alleviating poverty incidence and participatory poverty: Qualitative insights from the literature. *Journal of Economic & Management Perspectives*, 10(4), 645-654.
12. Abrar-ul-Haq, M., Jali, R. M., & Islam, G. N. (2016d). Measuring the socio-economic empowerment of rural households in Pakistan. *Journal of Governance and Development*, 12(1), 107-122.
13. Abrar-ul-haq, M., Shah, S. W. A., & Ghulam, M. Q. (2016a). POVERTY PROFILE AND CORRELATES OF POVERTY IN PAKISTAN: EVIDENCE FROM DISTRICT VEhari. *Science International*, 28(1).
14. Akram F, Abrar ul Haq, M., and Umrani, W. A. (2019). *Assessing the Effect of Managerial Power on Firm Performance through the Perceptual Lens of Executive Remuneration*. *Pertanika Journal of Social Sciences and Humanities (University Putra Malaysia Press)* 27 (1): 293 - 309
15. Akram, F. (2017). Innovation as Mediator between Corporate Governance and Firm Performance: A Theoretical Perspective. *International Journal of Innovative Knowledge Concepts*, 5(11).
16. Akram, F., Murugiah, L., & Arfan, A. (2017). Cultural Aspects and Leadership Effectiveness of Women Leaders: A Theoretical Prospective of Saudi Arabia. *Pakistan Journal of Humanities and Social Sciences*, 5(1).
17. Al Ubaidly, O. (2019, April 10). Bahrain's Path to a Balanced Budget. Retrieved from <https://agsiw.org/bahrain-path-to-a-balanced-budget/>
18. Ashraf, S., Abrar-ul-Haq, M., & Ashraf, S. (2017). Domestic Violence against Women: Empirical Evidence from Pakistan. *Pertanika Journal of Social Sciences & Humanities*, 25(3), 1401-1418.
19. Bahrain looks to cut costs to help cut budget deficit. (2019, February 11). *Bahrain Looks to Cut Costs to Help Cut Budget Deficit*. Retrieved from <https://www.arabnews.com/node/1450071/business-economy>
20. Berry, T. (2017, May 10). 3 Strategies to Consider for Strategic Cost Cutting. Retrieved from <https://www.americanexpress.com/en-us/business/trends-and-insights/articles/3-strategies-to-consider-for-strategic-cost-cutting/>
21. BNA. (n.d.). Retrieved from <https://www.bna.bh/en/ABOUTBNA.aspx?cms=q8FmFJgiscL2fwlzON1+Dra77vtwIR6u>
22. Chea, A. C. (2009). Causes and Sources of Waste in the Printing Industry in Ghana: A Study of Printing Houses in the Cities of Accra and Kumasi. *International Business Research*, 1(3). doi: 10.5539/ibr.v1n3p22
23. Chen, X., & Koebel, B. M. (2017). Fixed Cost, Variable Cost, Markups and Returns to Scale. *Annals of Economics and Statistics*, 52(127), 61. doi: 10.15609/annaeconstat2009.127.0061
24. Cost cuts help Bahrain's Batelco maintain profit trend. (2015, February 16). Retrieved from <http://english.alarabiya.net/en/business/telecoms/2015/02/16/Cost-cuts-help-Bahrain-s-Batelco-maintain-profit-trend.html>
25. Danielson, J. (2016, August 2). 3 Ways to Reduce Operational Costs. Retrieved from <https://www.business.com/articles/3-effective-ways-to-reduce-operational-costs-for-your-small-business/>
26. Egbunike, P. A., & Adeniyi, S. I. (2017). Cost Reduction Strategy and Firm Profitability during Recession Period: Nigerian Banking Industry Experience. *International Journal of Accounting Research*, 3(2), 32-36. doi: 10.12816/0041760
27. ET, R. (2019, February 4). Organizational performance. Retrieved from https://en.wikipedia.org/wiki/Organizational_performance
28. Fisher, sam. (2018, August 6). How to mitigate increased newsprint costs. Retrieved from https://ohionews.org/aws/ONA/pt/sd/news_article/172175/_PARENT/layout_details/false
29. Gichuki, C. (2014, November). BY D63/76293/2012 A RESEARCH PROJECT SUBMITTED IN PARTIAL ... Retrieved from https://chss.uonbi.ac.ke/sites/default/files/chss/CAROLINE_GICHUKI_FINAL_PROJECT.pdf
30. Hayes, A. (2019, April 11). How the Benefit-Cost Ratio Works. Retrieved from <https://www.investopedia.com/terms/b/bcr.asp>
31. Howell, R. (2016, August 11). How to Turn Your Cost-Cutting Strategy into a Growth Strategy. Retrieved from <https://www.forbes.com/sites/strategyand/2016/08/11/how-to-turn-your-cost-cutting-strategy-into-a-growth-strategy/#52cec5c57fc6>
32. Ithmaar implements key cost cutting measures. (2014, March 30). Retrieved from http://www.tradearabia.com/news/BANK_255098.html
33. Jung, K. S., Dawande, M., Geismar, N., Guide, V. D. R., & Sriskandarajah, C. (2014). Supply Planning Models for a

- Remanufacturer under Just-in-Time Manufacturing Environment with Reverse Logistics. *SSRN Electronic Journal*, 240(2), 533–581. doi: 10.2139/ssrn.2427326
34. Kenton, W. (2019, June 30). How Working Capital Turnover Works. Retrieved from <https://www.investopedia.com/terms/w/workingcapitalturnover.asp>
 35. Khan, R. E. A., Rehman, H., & Haq, M. A. (2015). Determinants of rural household poverty: the role of household socioeconomic empowerment. *American-Eurasian J. Agric. & Environ. Sci*, 15(1), 93-98.
 36. Kinkel, S. (2012). Trends in production relocation and backshoring activities. *International Journal of Operations & Production Management*, 32(6), 696–720. doi: 10.1108/01443571211230934
 37. Lynch, R. (2015, May 6). Ten top strategies for reducing costs. Retrieved from <https://www.global-strategy.net/ten-top-strategies-for-reducing-costs/>
 38. Maarof, M. G., & Mahmud, F. (2016). A Review of Contributing Factors and Challenges in Implementing Kaizen in Small and Medium Enterprises. *Procedia Economics and Finance*, 35(7), 522–531. doi: 10.1016/s2212-5671(16)00065-4
 39. Malik, H. A. M., Abid, F., Gilal, A. R., & Raja, A. S. (2017c). Use of cloud computing in Hajj crowd management and complex systems. In *2017 4th IEEE International Conference on Engineering Technologies and Applied Sciences (ICETAS)* (pp. 1-5). IEEE.
 40. Malik, H. A. M., Abid, F., Kalaicelvi, R., & Bhatti, Z. (2018). Challenges of Computer Science and IT in Teaching-Learning in Saudi Arabia. *Sukkur IBA Journal of Computing and Mathematical Sciences*, 2(1), 29-35.
 41. Malik, H. A. M., Abid, F., Mahmood, N., Wahiddin, M. R., & Malik, A. (2019a). Nature of Complex Network of Dengue Epidemic as a Scale-Free Network. *Healthcare Informatics Research*, 25(3), 182-192.
 42. Malik, H. A. M., Abid, F., Wahiddin, M. R., & Bhatti, Z. (2017a). Robustness of dengue complex network under targeted versus random attack. *Complexity*, 2017.
 43. Malik, H. A. M., Mahesar, A. W., Abid, F., & Wahiddin, M. R. (2014, November). Two-mode complex network modeling of dengue epidemic in Selangor, Malaysia. In *The 5th International Conference on Information and Communication Technology for The Muslim World (ICT4M)* (pp. 1-6). IEEE.
 44. Malik, H. A. M., Mahesar, A. W., Abid, F., Waqas, A., & Wahiddin, M. R. (2017b). Two-mode network modeling and analysis of dengue epidemic behavior in Gombak, Malaysia. *Applied Mathematical Modelling*, 43, 207-220.
 45. Malik, H. A. M., Mahmood, N., Usman, M. H., & Abid, F. (2019b). Un-weighted Network Study of Pakistani Airports. In *2019 2nd International Conference on Computing, Mathematics and Engineering Technologies (iCoMET)* (pp. 1-6). IEEE.
 46. Malik, H. A. M., Mahmood, N., Usman, M. H., Rziwan, K., & Abid, F. (2019c). Analysis of Airport Network in Pakistan Utilizing Complex Network Approach. *network*, 10(1).
 47. Mehtab, N., Khan, T. & Abrar ul haq, M. (2012). Gender disparity in economic returns to higher education: evidence from private formal sector of Bahawalpur (Pakistan).
 48. Montgomery, & Bj. (1970, January 1). Hold the presses: the vision unsplendid for Australian newspapers. Retrieved from <https://eprints.utas.edu.au/20938/>
 49. Murray, T. (2018, January 24). Alba launches programme to cut costs, raise output. Retrieved from http://www.tradearabia.com/news/IND_335884.html
 50. Paprocki, J. (2015). How Small Newspaper Are Innovating Online. *Journal of Artifacts*, 86(13), 70-74.
 51. Pathi, A. (2016). Al Bayan. *Journal of the Newsletter of Aluminum Bahrain* (42)2, 8-14.
 52. Pearce, J. A., & Michael, S. C. (2016). Strategies to prevent economic recessions from causing business failure. *Business Horizons*, 49(3), 201–209. doi: 10.1016/j.bushor.2005.08.008
 53. Peavler, R. (2019, September 2). How Gross Profit Margin Reveals a Company's Financial Health. Retrieved from <https://www.thebalancesmb.com/what-is-the-gross-profit-margin-393201>
 54. Pokorná, J. (2016). Impact of Activity-Based Costing on Financial Performance in the Czech Republic. *Acta Universitatis Agriculturae ET Silviculturae Mendelianae Brunensis*, 64(2), 643–652. doi: 10.11118/actaun201664020643
 55. Profitability Ratios - Calculate Margin, Profits, Return on Equity (ROE). (2019). Retrieved from <https://corporatefinanceinstitute.com/resources/knowledge/finance/profitability-ratios/>
 56. Qasim, M., Haq, M. A. U., Hussain, T., & Roshan, C. (2018). Does Women Well-being Matter for Demand and Development of Children?. *Ekoist: Journal of Econometrics and Statistics*, 14(29), 169-197.
 57. Raza, S., Minai, M. S., ul Haq, M. A., Ismail, A. I., & Zain, A. Y. M. (2018). Entrepreneurial Network Towards Small Firm Performance through Dynamic Capabilities: The Conceptual Perspective. *Academy of Entrepreneurship Journal*, 24(4), 1-9.
 58. Sarkar, B., Chaudhuri, K., & Moon, I. (2015). Manufacturing setup cost reduction and quality improvement for the distribution free continuous-review inventory model with a service level constraint. *Journal of Manufacturing Systems*, 34, 74–82. doi: 10.1016/j.jmsy.2014.11.003
 59. Seamans, R., & Zhu, F. (2017). Repositioning and Cost-Cutting: The Impact of Competition on Platform Strategies. *SSRN Electronic Journal*, 2(2), 83–99. doi: 10.2139/ssrn.2942511
 60. Sridhar, S., & Sriram, S. (2015). Is online newspaper advertising cannibalizing print advertising? *Quantitative Marketing and Economics*, 13(4), 283–318. doi: 10.1007/s11129-015-9160-3
 61. Su, Z., & Tang, J. (2016). Product innovation, cost-cutting and firm economic performance in the post-crisis context: Canadian micro evidence. *Journal of Centrum Cathedra*, 9(1), 4–26. doi: 10.1108/jcc-08-2016-0009
 62. Ullah, S., Abrar-ul-haq, M., & Shah, S. W. A. (2016). GOVERNANCE AND EXCHANGE RATE IN PAKISTAN: A TIME SERIES ANALYSIS. *Science International*, 28(1).
 63. Walsh, Samuel Maurice Cossart, (born 27 Dec. 1949), Chief Executive Officer, Rio Tinto plc, 2013–16. (2013). *RT Cost Saving Cost Study*. doi: 10.1093/ww/9780199540884.013.u257786
 64. Wawak, s. (2019, September 5). Kaizen costing. Retrieved from https://en.wikipedia.org/wiki/Kaizen_costing
 65. Weber, A. (2016, March 9). Why we should digitize historical newspapers – theses on their importance for minority heritage. Retrieved from <https://minorecs.hypotheses.org/495>
 66. Webster, M. (2001). Digitization. Retrieved from <https://newmedia.fandom.com/wiki/Digitization>
 67. What is the Variable Cost Ratio? - Definition: Meaning: Example. (2019). Retrieved from <https://www.myaccountingcourse.com/accounting-dictionary/variable-cost-ratio>
 68. Wilkenson, J. (2013, July 24). Controlling costs Archives • The Strategic CFO. Retrieved from <https://strategiccfo.com/tag/controlling-costs/>