



International Journal of Business and Management 1 (2): 182-188, 2017  
e-ISSN: 2590-3721  
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DOI: 10.26666/rmp.ijbm.2017.2.28



## Examining Food Wastage, Cash Handling and Cost Control Practices: The Case of Food and Beverage Outlets in Malaysia

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**Abstract:** Background: The food and beverage industry in Malaysia is foreseen to have a bright future as increasing new comers emerge in the market. As competition is getting intense, there is a growing need to understand how food and beverage outlets make profits through an important aspect, but seldom neglected academically, which is cost control measures. Objective: This paper addresses one business strategy to making profit that is by minimising costs, via imposing cost control measures through daily operations. In particular, issues regarding controlling of food and beverage costs are the prime concern in the paper. Little research has been done in understanding cost control issues, particularly in the case of food and beverage outlets in Malaysia hence, an exploratory study is deemed feasible to investigate cost control measures being practiced in their daily operations. What are cost control practices being applied needs exploration whilst other areas that need further investigation includes food wastage and cash handling procedures. Qualitative approach via semi-structured interview protocols are being conducted on 30 foodservice outlet managers around the northern part of Malaysia. Results: The findings revealed that the majority of managers acknowledge that there were awareness on cost control measures in their daily operations however these are based on the routine experience of running their operations. The implementation of control procedures are still unbalanced and require improvements. Conclusion: This exploratory study has surfaced the need to cultivate the correct application of cost control measures in food and beverage outlets' operations in order to remain competitive in the business.

**Key words:** *cost control practices, food and beverage, food wastage, cash handling*

### INTRODUCTION

The food and beverage industry in Malaysia is foreseen to have a bright future as customers nowadays are becoming more adaptive to new advancements that the industry brings about. Day to day, the industry witnesses new comers in the market which signifies the adaptive trends that customers would consider. This has led to a more competitive environment which resulted in attracting and retaining consumers in the food and beverage service outlets being more challenging. Customers are more demanding and are prone to make comparisons in the quest for a more value-for-money spending. In turn, food service outlets should take this opportunity to serve customers with quality food, beverages and services to retain their business in the long run thus maximising their profits.

In general, businesses make profit through two main strategies that is either by maximising sales or by minimising costs [1]. Maximising sales would require extra efforts to be done in terms of planning, promoting and marketing products and services which involves various external factors. However, minimising costs are actions that can be taken by the operation which do not involve outside factors [2,3]. According to Riley [4], food cost and control is an activity that looks easy but hard in practice. As competition in the food and beverage industry is getting intense, there is a growing need to understand how food and beverage outlets make profits through an important aspect, however seldom neglected academically, that is via cost control measures. Little research has been done in

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understanding cost control issues particularly in the case of food and beverage outlets in Malaysia.

This paper aims to investigate whether the food and beverage outlets in Malaysia practice cost control measures in their daily operations. In addition, issues on control measures such as food wastage and cash handling procedures are deemed important and needs further investigation. Current information and data available are limited in identifying whether these outlets practice control measures in their daily operations. Therefore it is very significant to obtain a detailed information on the control measures to enhance their operations to retain and maximise profits in the long run.

Hence, this study embarks on the following objectives

- i. To determine how food wastage is avoided in the food and beverage outlets' daily operations
- ii. To determine cash control handling practices in these outlet
- iii. To identify cost control measures being practiced in these outlets

## LITERATURE REVIEW

Control is defined as a process used by business operators to direct, regulate and restrain the actions of people in order to achieve the established goals of a business [5]. Food and beverage cost control is the process whereby managers attempt to regulate costs and guard against excessive costs in order to keep costs within acceptable bounds, to account for revenues properly and make profits. It is a continuous process that involves every step in the chain of purchasing, receiving, storing, issuing and preparing food and beverages for sale, as well as scheduling the personnel involved [6]. Attention is centered on the particular methods and procedures used by foodservice managers to direct, regulate, and restrain the actions of people, both directly and indirectly, to keep costs within acceptable bounds, to account for revenues, and to earn a profit [7,8].

There is a growing need to understand how food and beverage outlets make profits as competition in the food and beverage industry is getting intense. The food and beverage business can be characterised as one that involves raw materials purchased, received, stored, and issued for the purpose of manufacturing products for sale. Therefore each stage of the operation should institute control in order to prevent various problems which in turn will result in excessive costs. Cost is defined as the expense to a foodservice establishments for goods or services when the goods are consumed or the services are rendered [9]. Control means exercising governing power over events and situations such that an outcome can be achieved or presented [9]. In the

food and beverage industry, control means controlling people rather than things. Exercising control means that there is some human involvement. Humans either take some form of action or prevent others from taking an action in order to achieve an outcome. If a business is to operate profitably and reach its financial goals, people's action must be managed, or limited, in some cases.

Hospitality industry is an industry which relies heavily on human asset. Therefore, cost control in the hospitality industry often starts with human resources, since employees represent a costly and often uncontrollable resource [10]. Thus, control means controlling people rather than things. The ultimate objective of cost control is to eliminate excessive costs for food, beverage and labor to ensure that the establishment will operate at a profit hence each stage of the food and beverage operation should institute control.

Among the advantages of imposing control measures will undoubtedly result in having low labor turnover, a more effective and efficient operation system which ultimately lead to financial success in the long run. The common basic control procedures employed by foodservice managers to operate profitably is by focusing on establishing control over costs and sales in food and beverage operations.

Based on literature, two of the principal causes of excessive costs are inefficiency and waste which will result in reduction in profits. Therefore, management must take steps to guard against such excessive costs. Cost control is critically important to the profitable operation of any business apart from sales control. Responsibility for every aspect of any food and beverage enterprise which includes controlling process rests with management. The nature, size and scope of operations help determine the extend to which managers can exercise direct control or on the other hand, delegate to subordinates.

There are a variety of ways to institute control in the food and beverage establishments. The particular techniques selected for use in a given situation depend on the nature of the material or service requiring control and on the degree of difficulty inherent in instituting such control. Some control technique include establishing standards, establishing procedures, training employees on the proper ways to institute control measures, the management setting examples, observing and correcting employee actions, requiring records and reports, disciplining employees and preparing and following budgets [11].

Later, Dittmer & Keefe [9] further supported DeFranco and Noriega's suggestion by stating that the control process consists of four steps which are establishing standards and standard procedures for operations, train all individuals to

follow established standards and standard procedures, monitor performance and compare actual performance with established standards and finally take appropriate action to correct deviations from standards. Based on literature, two of the principal causes of excessive costs are inefficiency and waste which will result in reduction in profits.

### **Cost Control Measures in Daily Operation**

Mohsin [5] assessed the practice of internal control in restaurants and cafes in Hamilton, New Zealand. According to the author, employee thefts in catering establishment occurs in many ways and among them are stealing of hard cash, consumption of luxurious food and beverage, serve free of charge and generous portions to family and friends eating in the establishment. There should be an internal control to prevent employee thefts. Internal control involves accounting measures and all matters relevant to operational efficiency of business and administrative controls in general. Without internal control the catering business is more likely to have a short life-span. Despite catering business vulnerability to theft and pilferage, the author discovered that little efforts are made by owners and operators to implement internal control and it also depends on the size of the catering establishment. As an example, Burger King has a well-defined systematic internal control compared to the other private small catering businesses.

There are several measures in instituting internal control. According to Mohsin [5], internal control process includes separation of duties which means monitoring performance, whereby all staff members have identified duties. Others include defining responsibilities where employees have their standard procedures and expected standards for each tasks. This makes measuring accountability easier. Apart from that, to limit the number of those with access to cash or assets. Chances of pilferage is reduced when the number of employees with access to cash, inventory and other assets is limited. Further, minimizing the amount of cash or assets on hand also tend to reduce the chances of pilferage when there is only the required amount of cash, inventories and assets on hand.

Further, Mohsin [5] mentioned physical protection of assets which is to keeping assets under lock and key or in a safe and assets and inventory count on regular basis discourages theft attempts. Awareness of cost/ benefit analysis relationship that is relationship between the costs incurred and the benefits of savings through projections and evaluations of all costs, and strict waste control where everything is accounted for at the end of the day. By bond employees with insurance could reduce loses when theft case has

been identified. Rotating employees through positions could avoid from leaving matters in the hand of one or two employees. An attempt to steal by one employee will be traced by another who replaced him or her. This helps improve the accountability of all employees. Lastly, external audit is required to assess the control performance of an establishment and evaluated the establishment's current practice.

### **Wastage Control**

Food wastage is defined as all food produced or purchased that is discarded by humans during the stages of processing, distribution, acquisition, preparation and consumption. Food processing wastes occurs when edible and inedible portion is removed. Edible and inedible portion differs between nations. In western nation inedible portion is usually comprised of peels, bones, blood, skins and eyes and substandard items. In Malaysia, the standard of items varies depending on the type of catering premises. While the upscale catering premises discard blemish or small products, the lower scale perceived it as edible. Waste that is caused by improper food handling, packaging and transportation, spoilage, unsellable items, over stocking and insufficient stock rotation, plate scraps and wastage due to big portion sizes.

Therefore, there is a clear need for control in every phase of food and beverage operations. Control is one key to successful food and beverage management and must be established if success is to be achieved.

### **RESEARCH METHOD**

This study is an exploratory study in nature with the intention to investigate cost control measures that food and beverage outlets apply in their daily operations. In particular, what are the cash handling and wastage control procedures being implemented by these operations. In addition, this study will explore whether the food and beverage service outlets in Malaysia do practise having cost control procedures in their daily operations and if they do, what are the cost control practices being implemented. As control measures is a less researched area, little research was found pertaining this issue. Limited information has gave rise for an exploratory study to be considered. This study will adopt a qualitative approach as rich data need to be gathered to answer the research questions. Therefore a structured interview is deemed suitable to be applied to the identified food and beverage outlet managers.

A pre testing stage was done where the first round of questionnaires were distributed to a sample of food and beverage outlets' personnel to verify whether the meanings and wordings are

understandable and make sense to answer the research questions. The refined questionnaire was developed based on the modification of the pre-testing stage. Population of the study were the food and beverage outlets in the northern part of Malaysia which covers the areas of Kedah, Penang and Perlis due to costs, accessibility and time limitations. The sample were the managers operating these food and beverage outlets. Data was collected during March 2014 until May 2014. Initial contact were being made in advance to get approval for interviews to be conducted. Personal interview are more appropriate as this is an exploratory study with the advantages in terms of eliciting greater detail in gathering the data and the researcher would simplify and validate the answer given at the point of time. As a qualitative stance is applied in the study, content analysis will be conducted based on the structured interviews performed as the data analysis means.

## **FINDINGS AND ANALYSIS**

During the data collection stage, 30 respondents whom were managers or owners of the food and beverage establishments were interviewed. The interviews took place during March and April 2014 and each interview lasted between forty minutes to one hour, depending on the time the interview took place. The food and beverage establishments were profiled as seven franchisees, four chain restaurants and 19 sole proprietary premises. All the outlets were located in the northern parts of Malaysia comprising areas around Kedah and Penang state. Three main semi-structured questions were being asked together with the background of the establishments. Below are the descriptions of the answers given to answer the research objectives.

The first research question is to determine how these food and beverage outlets avoid food wastage in their operations. Several themes have been derived based on content analysis being done on the feedback received. This includes controlling of raw material purchased, internal operations control and staff training. These are explained below.

### **Controlling Of Raw Materials Purchased**

By controlling the raw materials purchased, the establishments are in the right track to control its costs. Some mentioned the supervisor or manager controls the amount of ingredients need to be used, according to the time of the day. For example, during lunch time when it is peak hours in a restaurant which serves rice and different types of dishes, ingredients are utilised to the maximum when preparing foods, however during less peak hours, for example late afternoon, the manager will

control on what dishes need to be replenished or otherwise.

Majority of respondents mentioned that purchasing activities are controlled based on previous normal sales trends, food cooked to order, standard recipee, etc. In terms of purchasing raw items based on previous sales trends, the outlet has already a certain history of what needs to be purchased, based on operations on weekdays or weekends, or even time of the day. However, forecasting measures also have been applied when buying food items especially when it relates to certain function or events for example during convocation period or public holidays where there are lots of customers around. Respondents also mentioned that they buy the raw items according to menu list or chef's order.

A la carte outlets seemed to have a more standardised list of items to be purchased as the menus are set beforehand as compared to restaurants which serves rice and different kind of dishes. In a la carte menu, there is a standard number of food items to be served according to time of the day (breakfast, lunch or dinner) which assist in simplyfying the purchasing exercise. By this way, operators may learn which menu is the least preferred and vice versa and make measures to prepare and acquire necessary raw items needed. After some time, the least preferred menus could be replaced with something more in demand to achieve maximum profit as possible. In this way, perishable items are not stored more than being needed in addition regular trips to get fresh materials will ensure the coking ingredients are always consistent and fresh. Example include:

“I (the manager) control certain amount of ingredients to cook, according to time of the day”  
(Respondent 29)

### **Internal Operation Control**

Secondly, most of the outlets also indicated that they have internal operations control in terms of storing and issuing practices. This comprise of checking and receiving correct quality and quantity of items ordered via purchase order. They also have a proper storage although they vary depending on the size of establishments, and some been labelled. In a situation where things ordered were not the same quantity or quality as requested, the managers or person in charge would change it accordingly and upon agreement of the delivery items, the supplier and the consumer will endorse by signing the delivery note or invoice.

A few even mentioned handling control processes by having a proper storage area, checking wastage at table and kitchen, or even reuse or recycle certain foods. An interesting feedback by one respondent even mentioned recycling the used

oil for frying chips for cooking a la carte orders. Another interesting findings were the practise of giving away leftover foods to staff or local community as a part of the social responsibility obligations. Standardised recipee was being used as a guide to control raw items to be purchased. In addition, standard weights and measures are also applied when serving and portioning as a means of controlling food cost items. Example include:

“Storing done according to temperature, labeling date of received, sanitation of storage area...non-perishables stock away from wet areas, etc” (Respondent 20)

Another theme was staff training whereby proper training were given to staff from time to time. This is apparent in franchise and chain outlets as these outlets normally have standard procedures of controlling food, beverage and labor costs. Example of excerpt from the respondents in answering question two:

“Franchise and chain outlets normally have standard procedures of controlling food, beverage and labor costs” (Respondent R10)

The second research objective is to determine cash control handling practices in these outlets and surfaced three themes that occur regularly in the answers. The emerged themes are specified personnel to handle cash, operational daily practices and strong internal control procedure by franchisor. The themes are specified as follows:

#### **Specified Personnel to Handle Cash**

The first theme dwells on having a specified personnel to handle cash during daily operation hour in these outlets. Most of the outlets agree that this is a very important routine as it involves monetary concern thus only specified personnels are being given the authority to handle cash. Based on the interviews, the most common emerged position handling cash are the cashiers and the managers themselves. Some outlets only have two appointed cashiers who will take turn to access the cashier cash machine when the other is off or on break. Some mentioned that although the waiter or waitresses were given the authority to collect payment from customers, however the cashiers will count the monies first during cash hand –in by the waiters and will spell it out loud during counting and giving back the change. Clearly the cashier position is very important and critical. The managers or the owners are the ones who will recount the closing account and bring the money to be deposited to the bank. Example include:

“There are two cashiers and they are responsible for collecting cash, twice daily” (Respondent 11)

#### **Operational Daily Practices**

This consists of the normal operations practise being applied daily in these food and beverage operations. This include comparing food and beverage order receipts with cash sales received, having a closed-circuit television (CCTV) in place especially at the cashier counter, counting petty cash float balance whether matching the opening and closing operations, customers themselves pay at the cashier counter for certain outlets, comparing invoice with amount charged for credit card payments, etc. The point-of-sale (POS) system is also utilised especially for franchise outlets as a means of controlling sales and receipts. Example include:

“CCTV is being used in the restaurant to control people’s movement”( Respondent 5)

#### **Strong Internal Control Procedure by Franchisor**

There is also strong internal control procedure especially by outlets which are underfranchise agreements and chain restaurants. They practise standard operating procedures inthe daily operations cycles such as ordering, receiving, storing, issuing and food preparation. Strong internal control regulations set by the top management adhered by the employees was agreed to have minimised the wastage of food, beverage and other items. Example include:

“The top management always monitor the internal control process applied by their franchisees” (Respondent 3)

The third research objective is to investigate whether the food and beverage outlets practice cost control measures in their daily operations. It was found that in majority all of the food and beverage outlets understand the meaning of “cost control” and mentioned having some kind of cost control practices at hand in their daily operations. However, some of them do not posit a clear understanding on the cost control practices and procedures, with just some general rational thinking way of having cost control measures in operating their businesses. Some mentioned the owners who were more concerned about control issues as the owner and is responsible of the running of the operations to keep cost to the minimum. Some mentioned on the steps of cost controlling such as purchasing, receiving, storing, etc which shows the respondents do acquire some knowledge on internal operational control

processes. Outlets with a parent company (franchise) do obtain their own standard operating procedures in terms of cost control processes as being set by the franchisor which comes with the rules that these franchisees need to comply. For these franchisees, their suppliers are being set by main office thus having to follow own set of controlling measures.

In terms of storing and issuing goods, majority of the outlets mentioned first-in-first-out (FIFO) and last-in-last-out (LIFO) practices being applied in their operations. This practise depends heavily on perishables and non-perishables items purchased by each operation. Perishables include raw materials such as fresh fruits and vegetables which can easily decay or spoil for example raw meat, seafood and ripe fruits while non-perishables comprise of items which do not spoil or decay easily such as canned foods, preserved fruits, etc. FIFO system is applied to most perishable items as they tend to spoil easily and on average the respondents mentioned having only a two day storage procedures for these items before being discarded. Some mentioned storage areas are being controlled by an assigned person or the manager himself in order to prevent pilferage among staff members. It was seen that about fifty percent of respondents had merely mentioned that they follow cost control practices however were not sure to elaborate the practices when being asked further. This reflects there is a sign of misunderstanding or unclear on what cost control really means.

R19 - "Receiving person have to check the quality and quantity delivered whether accurate or not"

R5 - "Staff is not permitted to move things in the store to ensure specified items are used on time"

## DISCUSSION

The data collection has surpassed some interesting findings to answer the research objectives. Based on the findings and analysis performed, it was seen that outlets with a parent company do have standard operating procedures in terms of cost control processes, following requirements set by the headquarters. Further, the suppliers are being set by main office as well. Most of the outlets mentioned FIFO and LIFO practices being applied in their operations. Some mentioned storage areas are being controlled by an assigned person or the manager himself in order to prevent pilferage among staff. This supported Mohsin's [5] internal control procedures.

However, some of them are not so clear on the cost control practices, with just some general rational thinking way of having cost control

measures in operating their business. Some even has merely mentioned that they follow cost control practices however were not sure to elaborate when being asked further. This shows a sign of misunderstanding or unclear on what cost control consists of or really means. Food wastage issues are reasonably addressed during the interviews. Most of respondents agree that wastage will cause profit loss therefore were aggressively conveying measures to prevent wastage in their daily operations. Rich data on food wastage procedures were collected from the interview. This shows that respondents are serious in handling the issue although some problems are reported with regards to wastage problems. Even a few respondents mentioned they recycled the cooking oil (for frying chips,etc) after two days of use to cook a la carte menus. Another interesting finding was the mentioning of leftover foods being given or donated to local community or for staff takeaways to compensate wastage controls in the operations. In a way, this contributes as social responsibility rather than being regarded as wastage.

In terms of cash control, majority mentioned it is always the owner or manager who closes the business and bank in the sales monies the next morning. POS system was being used in certain outlets as a controlling measure. Training of certain staff to handle cash and credit cards are also reported which coincides with internal control measures at hand. Others also applied the application of CCTV in most premises as a monitoring device. All these measures supported Mohsin's [5] stance. The problems addressed such as insufficient working personnel, storage problems, and pilferage all relate to lack of compliance in instituting internal control.

## CONCLUSION

This exploratory study which was conducted qualitatively has surpassed some issues on the need of cost control measures to be applied in the daily operations of food and beverage outlets. It was found that awareness on cost control measures are acknowledged, though needs further enhancement. However, the implementation on the control procedures are still unbalanced and require improvements. This study has surfaced the need to cultivate the correct application of cost control measures in food and beverage operations. Trainings and courses on cost control issues need to be introduced to these food and beverage operators to enhance their understanding of the critical need of instituting control measures to maximise profit in the long run.

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