A new decade for social changes
The Effects of Proper Inventory Management on the Profitability of SMEs

Genesis Gyasi Sah¹, Judit Füredi-Fülop²
¹²University of Miskolc, Hungary

genesissah@yahoo.com, judit.furedi-fulop@gmail.com

Abstract. A business must have or be able to generate enough cash and cash equivalent to meet its short-term liabilities if it is to continue and grow in business. Therefore, working capital management which helps an entity to, efficiently and effectively control current assets and liabilities is a key factor in the company’s long-term success; without working capital, the non-current assets will not function. The greater the extent to which current assets exceed current liability, the more solvent or liquid a company is likely to be. This paper observes the relationship between working capital management practices of small and medium enterprises (SMEs) and the performance and profitability of these businesses in the Kumasi Metropolis, to evaluate inflows and outflows of inventory to determine the rate at which certain goods are purchased in relation to others. This practice will also help ascertain seasons and times during which certain products experience higher demand and vice versa. This will reduce their over and/or under investment in inventories. The implication of the findings is that the government of Ghana should pursue policies aimed at encouraging training and improving the managerial skills of SME owner/managers as well as creating the enabling environment for the development of improved modern technologies to transform the business processes of these vital industries.

Keywords. small medium enterprises, working capital, profitability, Ghana, Inventory

Background of the study
An organization’s financial performance has usually been measured with its ability to gain surplus revenue over expenditure or profit for the period. In most performance standards, a successful organization is usually deemed as the one with the higher profit (or profit on capital employed ratio). Simply generating profit cannot be the only motive for engaging in business activities as profit in itself does not guarantee the availability of liquid resources to finance further business operations. Considering that revenue and profits can be recognized as earned when cash has not yet been received, companies may record high profits and still have to contend with liquidity problems in the form of inability to provide cash and cash equivalents to finance operating activities. This has created the awareness of the need for organizations to adopt policies and programmed toward the management of their working capital since the organizations’ success of both long- and short-term decisions depend on it.

There are a lot of factors that are considered in relation to working capital management; Definition, Management of Inventories, Management of Debtors, Management of Cash,

But this paper seems to focus on the use of Inventory management. The chapter also looked at Definition, Role and Effects of Inventory to SMEs Profitability.

The needs to ensure zero error quality productivity with respect to quantity of product to be produced so as to establish growth-oriented organizations cannot be over emphasized in today’s competitive business world. According to Goldsby, T., & Martichenko, R. (2005) logistics is all about managing inventory, whether the inventory is moving or staying, whether it is in a raw state, in manufacturing, or finished goods. The authors also stressed that, logistics professionals are often repeat to deliver the right product to the right place, at the right time, in the right quantity condition, and at the right cost. The profitability of any business organization depends largely on the ability of management to exercise effective purchasing and efficient material control. Wilfred, I.Ukpere (2014) reported that, in most organizations both analysts and manager have been relatively unsuccessful in convincing top management to give inventory management the due consideration that it logically deserves. The concept of inventory management has been visualized differently by different authors, academicians and researchers. According to Kolter P (2007), inventory management refers to all the activities involved in developing and managing the inventory levels of raw materials, working in progress and finished goods so that adequate supplies are available and the costs of over or under stocks are low. If firms wants to increase demand visibility on their production and inventory, then there’s a need to for proper planning, organising and controlling the flow of raw materials they have for their production. Proper inventory management on a particular assets in the firm’s production unit enables the firm to an increase in the total value of all assets of the organization such as human and material resources. Therefore, the general goal of inventory management is minimization of stock-out. According to Boyer, S and Stock, J. (2009), Supply chain management concept is a concept that goes along with the theory of relationship in marketing. It is a all-inclusive method to demand, sourcing and procurement, production and logistics process management.

Provision for proper product to proper customer at the proper time with the proper cost that will be beneficial to the firm is the focus supply chain management. According to Mogaji, B.J.(2020), the potential benefits of supply chain management include: increased customer service and responsiveness, improved supply chain communication, risk reduction, reduced product development cycle time processes, reduction in duplication of inter-organizational processes, inventory reduction and improvement in electronic trading. E.&Zain, S. (2007), established in their work that, the execution of supply chain management (SCM)practices could deliver benefits to SMEs in terms of reduced inventory level, reduced lead time in production, increased flexibility, forecasting accuracy, cost saving and accurate resource planning. SMEs need to use the economic order quantity (EOQ) model as one that order quantities which minimize the balance of cost between inventories holding costs and re-order costs.

Introduction

Working capital management plays an important role and has a large area in every activity of Small and Medium Scale Enterprises (SMEs). Obviously, a reasonable and logical working capital management will help SMEs increase profitability and therefore will aid them to pass the obstacles. Working capital management in SMEs is noticed by many researchers.
However, many previous studies about Working capital management still have some limitations such as financial management, factors affecting working capital management, financial objective function, while there are not many studies focus on the impact of Working capital management on the profitability of SMEs.

A business ought to be able to breed an adequate amount of cash and cash equivalent to meet its short-term liabilities if it is to carry on and develop in business. For that reason, working capital management which helps an entity to, efficiently and effectively manage current assets and liabilities is a key factor in the company’s long-term success; without working capital, the non-current assets will not function. The better the degree to which current assets exceed current liability, the more solvent or liquid a company is likely to be. The management of a business’ working capital is therefore necessary for the achievement of any business and must not be underestimated in meeting long-term corporate goals.

**Inventory Management**

The word inventory simply means the goods and services that businesses hold in stock. However, inventory is an important component of current assets because it is considered as liquid asset since it can be converted into cash quite easily. It comprises raw material, work in process and finished goods. Companies want to keep the inventory at a level which maximizes the profit and this level is known as optimal level. A firm can hold high level of raw material inventory in order to avoid delays associated with supply that might affect production. Therefore, the firm should have enough inventories to meet the unexpected rise in demand but the cost of holding this inventory should not exceed its benefit (Brealey & Myers, 2006, p.821).

Similarly, firm can reduce its finished goods inventory by reducing the production and by producing the goods only to meet the current demand but such a strategy can also create trouble for the company if the demand for the product rises suddenly. Such a situation might cause the customer dissatisfaction and even a loyal customer can switch to the competitors brand. In order for the firm to avoid excessive holding and ordering cost, it should have optimal level of inventory that will maximize profit. Holding cost involves utility bills, insurance, security expenses, and warehouse expenses among others. In short, carrying cost involves all the expenses which firms have to bear for on handling inventory. However, ordering cost is a cost that is associated with procuring raw material inventory. It includes clerical expenses, management time and telephone expenses, etc. Ordering cost is a fixed cost and its effect can be reduced by ordering a big lot but big lot will increase the carrying cost.

On the other hand if a finance manager saves the carrying cost by ordering twice or thrice rather than one big lot then ordering cost will increase. In both cases profitability is directly affected. So, in order to find an optimal level managers have to find a balance between cost and benefit associated with different inventory levels. However, inventory is commonly up of three components such as raw materials, work-in progress (WIP) and finished goods (Arnold, 2008; Gitman, 2009; Cinnamon, Helweg-Larsen, & Cinnamon, 2010).

**Raw Materials**

Raw materials can be seen as goods that have not yet been taken into the production area for conversion process but have been conveyed by the supplier to the warehouse of the purchaser (Cinnamon et al., 2010). The reduction of the raw materials is perfect in this important aspect of working capital. However, this must balance the economic order quantities accessible from suppliers.
Work In Progress (WIP)

Work in progress is explained as the period when the goods have been taken from the raw material storage area, until it is affirmed for transaction and transported to customers. In this process the working capital must be regarded in terms of decreasing the buffer stocks, abolishing the production process, decreasing the overall production cycle time. The raw materials and finished goods must be reduced in the production area. WIP must be cautiously scrutinized to substantiate how long it takes for products to be cleared for sale. This stage is normally carried out by the quality control (QC) procedures (Cinnamon et al., 2010; Birt et al., 2011).

Finished Goods

Finished goods is defined as the stock kept in the warehouse waiting for sale and distribution to customers. They could be kept in the warehouse or on the shelf for quite some time. It is the responsibility of the owner/manager of the business to look for what possibilities are available to dispose off the long awaited items. If the stock is repacked or recycled, and sold at lower discount prices, sales and operations planning can lessen or remove the need for finished goods. The best example of stock management is car manufacturing. The manufacturers usually adopt the Just in time system to distribute finished products. When this happens they reduce or remove both raw material stock and work in progress, as the stock is now in finished goods (Brealey, Myers, & Allen, 2006; Van Horne & Wachowicz, 2008; Cinnamon et al., 2010).

Inventory Management Techniques

The management of an inventory is very vital to an enterprise since it is custom-made to reducing costs or proliferating profits while satisfying customer’s demands by guaranteeing that balanced items of stock are sustained at the right quality, quantity, and that are obtainable at the right time and in the right place. This section will review the literature on the techniques used in inventory management.

Just in Time Technique

The JIT technique is a Japanese philosophy, rationality associated with assembling which comprises having the right things in the right quality and amount in the correct place and at the opportune time. Utilization of JIT technique brings about the increment in quality, profitability, and effectiveness, enhanced correspondence, and abatements in expenses and squanders. Hutchins (1999) characterizes JIT as a process that is prepared for moment response to the request without the necessity for any overstocking, either in the desire of the application being approaching or as a concern of improvident characteristics all the while.

Hutchins (1999) additionally concentrated on that the prime objective of JIT technique is the accomplishment of zero stock, not simply inside the bounds of a single association at the end of the day all through the whole production network. It can be connected to the assembling procedure inside any organization as it is additionally being adjusted inside administration associations.

The components of JIT technique incorporate consistent change, taking out the seven sorts of squanders among others. The fundamental reason of JIT is to have as of late the proper measure of stock, whether rough materials or finished stock, open to meet the solicitations of your creation strategy and the solicitations of the enterprise’s end customers. The less a firm spends to store and pass on the stock, the less obsolete quality it has to markdown. Finally, this all culminates into saving the company’s honest to goodness money.
Vendor Managed Inventory

Vendor Managed Inventory is a streamlined way to deal with inventory management and request satisfaction whereby the merchant is completely in charge of the recharging of stock in light of opportune point of all data to the purchasers (retailer). This idea builds the client responsiveness by lessening the free market activity hole consequently giving the fulfillment to end client by benefiting the coveted item when required. Store network accomplices must share their vision of interest, necessity, and requirement to set the regular destinations. Kazim (2008) identifies that upstream information exchanged to suppliers such as the current stock level and precise deals conjecture is the most vital element for the effective usage of Vendor Management Inventory.

ABC Analysis

The ABC stock control technique relies on that the decision a little bundle of the things may usually address the weight of money estimation of the total stock. It is used as a part of the era method, while a tremendous number of things may happen from a little part of the money estimation of stores. Accordingly, to manage stock control high regard things are more solidly controlled than low regard things. ABC examination is an essential action method that follows the Pareto Principle concerning an organization’s arrangement of stock. Most organization attempts and oversights are depleted on managing A things. C things get the base thought, and B things are in the centers. The

ABC approach ranks using the following criteria: A things represent 70–80% of the firm’s annual consumption approximation and just 10–20% of aggregate stocked items. B things represent 15–25% of annual use esteem and 30% of aggregate the stock, and C things characterize 5% of the annual application of esteem and half of total stocked items.

Research methodology introduction

The previous chapter opened a way to identify the theoretical and literary works of people in relation to working capital management. This chapter however moves a step further by showing the ways in which the relevant data and its collection methods have helped prove that indeed working capital management is necessary for retail and manufacturing enterprises. Here the researcher will perceive working capital management practices and its impact on firms performance of 340 Ghanaian manufacturing and retail firms listed on Kumasi for a period of Five years from 2015–2020. This discussion covers the types of data to be collected, the mode of data collection and data analysis, the possible limitations and dissemination of the research.

These are essential to the research because it gives a breakdown of the various research methods and strategies that will be implemented in conducting the research.

Results And Discussion

Demography of Respondents

This part presents and discusses the preliminary data which consists of the background data of the respondents for the study. The characteristics will provide understanding to readers as to the category of workers who were involved in the study in relation to their level of maturity and experiences. The characteristics are the sex of the respondents, age, educational level, type of business ownership and number of years in business. The results of the characteristics of the respondents are presented in Table 1.
The results in Table 1 displays the sex, age, level of education, type of business ownership and number of years the respondents have being in the business. The male workers dominated (n = 294, 86.5%) the study. As indicated in Table 1, only 46 of the respondents were female workers representing 13.5%. The dominance of the male workers in the study has been a usual phenomenon experienced in the manufacturing sectors. From time immemorial, male workers have always been seen working in the manufacturing companies because of the nature of the job. It requires workers with the strength since production and storage are done daily. However, what is seen in our societies is that more of the male workers establish their own business due to the increasing number of male workers found in the manufacturing companies compared to that of the female workers.

In terms of age, the majority (n = 183, 53.8%) of the workers were within the age range of 31-40 years, followed by those in the age range of 41-50 years (n = 109). Only a few (n = 48) workers were found to be more than 60 years. Results on the varying ages show that the workers, by implication, may come with different learning experiences when found working together and each worker might have the opportunity in tapping the ability of each other in the company. This would be seen as a healthy and expected experience as a vivid simulation of teams in the world of work is being practiced in our manufacturing companies.

Again, with respect to the level of education of the workers, the majority (n = 254, 74.7%) of the workers had secondary education. Workers who had tertiary education (n = 86, 25.3%) were least presented. It is not surprising because the manufacturing of good and services involves the use of sophisticated equipment hence, requires some level of intelligence from workers. The implication is that more and quality goods and services would be produced due to the workers’ high level of educational attainment.
Further, the majority (n = 174, 51.2%) of the respondents practiced sole proprietorship as the type of business ownership. The selected manufacturing companies surveyed were owned and managed by a single individual although they consisted of multiple people operating the business. This current study has confirmed the fact that sole proprietorship is the most common and simplest type of business entity. The second highest type of business ownership in the selected companies was partnership (n = 104, 30.6%). These companies were being owned and managed by two or more people, hence, share management and profit together. Only a few (n = 62, 18.2%) of the selected businesses were limited liability type. These types of businesses combine aspects of partnerships and corporations and as such benefit from the flexibility and flow-through taxation of partnership and sole proprietorships while maintaining the limited liability status of corporations.

Finally, the majority (n = 153, 45.0%) of the respondents had been in the business for the period of 1-5 years. This indicates that most of the workers are in the early years in their businesses. Other workers (n = 146, 42.9%) had also work for 6-10 years signifying stable years in their business career while the remaining 41 representing 12.1% were least presented.

**Inventory Management Practices Used in SMEs**

Research Question Two: How effective are inventory management practices in SMEs? In order to address this research question, workers at the selected SMEs were asked to respond to a number of statements relating to the effective use of inventory management practices by the SMEs by indicating their level of agreement (mean ranging from 3.5 to 5.0) or disagreement (mean ranging from 1.0-2.4) to the statements. An agreement indicates that the types of inventory management practices used by the SMEs to increase performance and a disagreement indicates otherwise. The results are summarized in Table 3.

<table>
<thead>
<tr>
<th>Statements</th>
<th>Mean</th>
<th>SD</th>
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<tbody>
<tr>
<td>The firm achieves optimal inventory.</td>
<td>4.19</td>
<td>.94</td>
</tr>
<tr>
<td>The firm holds stock in raw form as well as finished goods</td>
<td>4.28</td>
<td>.78</td>
</tr>
<tr>
<td>There is timely response to ensure stock availability.</td>
<td>4.23</td>
<td>.86</td>
</tr>
<tr>
<td>The firm has mechanisms in place to ensure inventory accuracy.</td>
<td>4.20</td>
<td>.85</td>
</tr>
<tr>
<td>There is accurate demand forecasting to determine stock coverage.</td>
<td>4.00</td>
<td>.86</td>
</tr>
<tr>
<td>The firm optimizes utilization of its capacity.</td>
<td>3.85</td>
<td>.99</td>
</tr>
<tr>
<td>There is a proper material handling in cases of stock out.</td>
<td>3.79</td>
<td>1.00</td>
</tr>
<tr>
<td>I find it easy to hold inventories</td>
<td>3.78</td>
<td>.95</td>
</tr>
<tr>
<td>Mean of Means/Average Standard Deviation</td>
<td>4.01</td>
<td>.90</td>
</tr>
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</table>


Inventory management is key in facilitating the firms’ efficient operations. Dwelling on the means and standard deviation values, the results in Table 3 give evidence to believe that generally, inventories are properly and effectively managed in the selected businesses to improve performance. This was evident when the workers’ responses scored a mean above the mean of means (4.01) and the average standard deviation (.90). Precisely, most (mean = 4.28,
standard deviation = .78) of the respondents affirmed that the firm holds stock in raw form as well as finished goods. This finding is in line with that of Cinnamon, Helweg-Larsen (2010), who pined that inventory is commonly comprised of components like raw materials, work-in-progress and finished goods. Pandey (2010), also found that Inventories are the stocks work in process, finished goods and supplies hunting organization to facilitate operations manufacturing process. Another empirical evidence is provided by Green and James (2005) that Inventories can either be assets as well as items held in the normal course of business or they can be goods that will be consumed or used in the production of goods to be sold.

Interestingly, the majority (mean = 4.23, standard deviation = .86) of the workers indicated that firms make timely response to customer references to ensure stock availability. This again confirms the earlier finding that a manager should make a timing effort to consider ordering costs, carrying costs and stock out costs of inventory in defining the inventory level of a firm (Mohammad, 2014). Finding also confirms that of Azhagaiah (2009) that Inventory levels in an organization are linked to employee training, customer needs and references as well as the concerned industry.

Further, according to Mbonyane (2006), keeping excess inventory consumes physical space, creates financial burden, and increases the possibility of damage, spoilage and loss. By contrast, too little inventory often disrupts operations and increases the likelihood of poor customer service, which damages an entity’s reputation (Rajeev, 2008). Therefore the main goal of sound inventory management is to strike a balance between the conflicting objectives of not wanting to keep excessive stock that ties up capital and incurs costs such as storage, spoilage, pilferage and obsolescence, and the desire to avoid stock-outs (Chikán & Whybark, 1990).

Again, the majority (mean = 4.20, standard deviation = .85) of the students agreed that firms have mechanisms in place to ensure inventory accuracy. This is where apparently effective control mechanism are being instituted so as to be accurate in managing inventories. This is why Pandey (2010), argued that a firm needs a control system to effectively manage inventory and the system it adopts must be the most efficient and effective. Vedran (2009), further opined that poor inventory control leads to obsolete inventory which is a cost and has a negative effect on financial performance of a firm. Studies by Salla (2013) also revealed that the success of inventory management is highly dependent on technological and managerial resources. Meyer et al. (2006) and Josin (2010) advocate for tight policy measures and resources which can categorize customers for credit extension and product requirements.

In conclusion, the finding has revealed that inventory practices are effectively used and managed in the selected businesses to increase production. This is because Inventory plays a decisive role in the growth and survival of an organisation in the sense that failure to an effective and efficient management of inventory meant that the organization had failed to meet its objectives. According to Goldsby (2003), customers’ desire has always been a vital issue in a company not only to maintain sales but also to survive as a company. Kotler (2002), points that inventory management refers to all the activities and organizations involved in maintaining inventory for their operation so that adequate supplies were available and the costs of over or under stocks were low. Inventory should then be managed well in order to facilitate operations.

Sound inventory management is important for Small, Medium Scale Enterprises (SMEs) because the mismanagement of inventory threatens these entities’ viability (Kruger, 2005). Although the importance of sound inventory-management practices in enhancing the survival of SMMEs is well recognized in theory, in practice most SMMEs in South Africa appear not to have embraced these practices (Mbonyane, 2006). It is therefore not surprising that the failure rate of SMMEs in the country is estimated to be between 70% and 80%, and is
one of the highest in the world (Mbogo, 2011; Pheny, 2011). Indeed, Mbonyane (2006) partly attributes the high failure rate of SMEs to the ineffective use of or a lack of sound inventory-management practices. Given the importance of SMEs in alleviating unemployment and inculcating entrepreneurial skills, it is imperative that these entities adopt practices that enhance their survival rates, such as sound inventory-management practices.

Influence of Inventory Management on Firm Financial Performance

Research Hypothesis Two: Is there a statistically significant influence of inventory management on firm’s performance? Multiple Linear Regression (MLR) was deemed appropriate for the analysis. MLR was utilised to show the direction and magnitude of the effect and relationship between the predicted variable (Inventory Management) and the firm financial performance. MLR was performed at $p$-value $= 0.05$ (two-tailed) level of significant. Prior to conducting MLR analysis test, preliminary analyses were performed to ensure no violation of the assumption of normality, linearity and homoscedasticity. Table 6 presents the results of the multiple regression analysis.

<table>
<thead>
<tr>
<th></th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>t.</th>
<th>Sig.</th>
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<tbody>
<tr>
<td>(Constant)</td>
<td>-30.083</td>
<td>-30.083</td>
<td>-5.654</td>
<td>0</td>
</tr>
<tr>
<td>Inventory Management</td>
<td>1.436</td>
<td>1.436</td>
<td>1.598</td>
<td>.010</td>
</tr>
<tr>
<td>R</td>
<td>.85475</td>
<td>.85475</td>
<td></td>
<td></td>
</tr>
<tr>
<td>$R^2$</td>
<td>.73059</td>
<td>.73023</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Adjusted $R^2$</td>
<td>.73023</td>
<td>.73023</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Std. Error of the Estimate</td>
<td>.349345</td>
<td>.349345</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Regression Sum of Squares</td>
<td>12.42419</td>
<td>12.42419</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Residual Sum of Squares</td>
<td>.491738</td>
<td>.491738</td>
<td></td>
<td></td>
</tr>
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</table>

Source: Field Data (2021).

The results in Table 6 presents the coefficients model for the significant effect of inventory management on firm performance. The results showed a very strong influence ($r = .85475$) between inventory management and financial performance. This suggests that any difference in inventory management is linked to a very strong difference in financial management among the selected businesses. This influence explained in 73.1% influence of inventory management on financial performance as per (Adjusted $R^2 = .73023$). This implies that inventory management has a very strong influence on financial performance, which leaves room for a small portion of financial performance that is explained by other factors that could not be captured in this model.

To further prove the very strong influence of inventory management on financial performance among the selected businesses, (sig. $= .010 \leq 0.05$), which suggests that inventory management is key in accounting for the differences in financial performance. This is further confirmed by the (regression sum of squares $= 12.42419$) which is higher than the (residual sum of squares $= .491738$). This further highlights the fact that inventory management is significant in accounting for the level of differences in financial management.

The study revealed a strong positive influence of inventory management on firm performance. This finding is in line with several empirical evidence (Blazenko & Vandzezande,
The results from these studies revealed a significant and direct influence of inventory management on firm financial performance. Another empirical evidence from Mogere, Oloko and Okibo (2013), found out that the use of material requirement planning, distribution planning, and vendor managed inventory had a positive influence on operations efficiency and by extension on organizational performance.

Similarly, Mukopi and Iravo (2015), analyzed effects of inventory management on performance from a sugar sector perspective. Using ANOVA the study established that learn inventory systems related strongly with inventory management and hence firm performance. Kitheka and Ondiek (2014), also assessed how automation in the management of inventory impacts on performance of super markets operating in Western Kenya. Regression analysis results revealed that automation of inventory management had a direct linear impact on performance of the supermarkets. Kimaiyo and Onchiri (2014) examined the role inventory management in new Kenya cooperative creameries plays on its performance. Using the descriptive research design, the study established that inventory management by way of holding stocks and ordering costs tended to increase performance of the firm.

Also, Chen et al. (2005) examined how the market values the firms with respect to their various inventories policies, and reported that firms with abnormally high inventories have abnormally poor stock returns, firms with abnormally low inventories have ordinary stock returns while firms with slightly lower than average inventories perform best over time. Blazenko and Vandezande (2003) who show a significantly positive coefficient on gross margin regressed as a determinant of finished goods inventories argue that their results are consistent with the fact that profitability is deterrent to stock outs. In support of this, Anichebe and Agu (2013) investigated the effects of inventory management on organizational effectiveness in selected organizations in bottling company in Enugu State. The Findings indicated that there is a highly positive correlation between good inventory management and organizational profitability. This means that the entire profitability of an organization is tied to the volume of products sold which has a direct relationship with the quality of the product.

In addition, Kamau and Assumpta (2008) carried out a study on the influence of inventory management on organizational competitiveness, with a particular focus on Safaricom Ltd Kenya. The study found that inventory shrinkage, inventory investment, and inventory turnover affects the competitiveness of Safaricom Ltd. The study concludes that inventory management practices are very vital to the competitiveness of organizations.

On the other hand, findings discovered disprove the findings of Tunc and Gupta (2003); Demeter (2003); Vastag and Whybark (2005); and Boute et al. (2006) who found no direct connection between inventory management and firm performance. Deloof (2003), also documented a significant negative relation between gross operating income and the number of inventories days for a sample of non-financial Belgian firms during the period 1992-1996, suggesting that managers can create value for their shareholders by reducing the number of inventories days to a reasonable minimum. Additional evidence from Belgium is provided by Boute et al. (2004), who found no overall decrease of inventory ratios despite any increased focus on inventory reduction and who concluded that companies with very high inventory ratios have more possibilities to be bad financial performers.

Moreover, Vastag and Whybark (2005) by means of an international group of manufacturing companies found no significant relationship between inventory turnover and performance. Edwin and Florence (2015) also studied the effect of inventory management on
profitability of cement manufacturing companies in Kenya. The results provide a negative relationship between inventory turnover, inventory conversion period and storage cost with the profitability of the company. The study recommends that the Cement manufacturing firms in Kenya should strive to ensure that the right stock is kept in their warehouses to hedge against excessive holding cost and stock-outs.

It has been revealed through this study that inventory plays a significant role in the growth and survival of an organization in the sense that ineffective and inefficient management of inventory will mean that the organization loses customers and sales will decline. Prudent management of inventory reduces depreciation, pilferage, and wastages while ensuring availability of the materials as at when required (Ogbadu, 2009). Inventory management is critical to an organization's success in today's competitive and dynamic market. High levels of inventory held in stock affect adversely the procurement performance out of the capital being held which affects cash flow leading to reduced efficiency, effectiveness and distorted functionality (Koin, Cheruiyot, & Mwangangi, 2014). Strategic management of inventory contributes to business profitability. Hence, the selection of right inventory management practice is a must for a company’s inventory management performance. Ruichao (2013) concluded that knowing how long each item of stock remains before being sold and knowing how quickly the stock is moving is key to manage inventory.

References


