

INVENTORY CONTROL AND MANAGEMENT AS EFFECTIVE AND EFFICIENT TOOLS IN ACHIEVING ORGANISATIONAL GROWTH IN NIGERIA: A CASE STUDY OF ETERNIT LIMITED, SAPELE, DELTA STATE

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ABSTRACT

The link between Efficient Inventory Management and Organizational Productivity and by extension Profitability was surveyed using Eternit Limited as a case in point. The study spotlighted the objectives of inventory control, characteristics of good inventory control and symptoms of poor inventory control. A well structured questionnaire was designed and used as instrument for data collection. The population of the study comprised 216 member of staff out of which 140 respondents were randomly selected. Two hypotheses were formulated. Table, Simple Percentage and Chi- Square were the statistical tools adopted for sata analysis and interpretation. The findings revealed among others that there is significant relationship between inventory control and profitability; as well as a significance relationship between inventory control and cost of production. It was therefore recommended among others that inventories should be properly indentified and adequate storage facilities provided in addition to maintenance of proper records with regard to the units and volume of inventories.

Keywords: *Inventory, control, Management, organization, Eternit Limited*

INTRODUCTION

Many companies have failed because their inventories tied up too much capital (funds), or the items in inventory became obsolete, impaired or lost. It is therefore not unnecessary to have an appropriate set of policies concerning the items to carry in inventory, the level of inventory control and management of stocks. It is pragmatically evident that the profitability of any business organization depends largely on the ability of management (of the concerned industry) to exercise effective purchasing and efficient materials control.

However, the problem of most companies is the lack of "know-how" in this area of business operation. This has been attributed to many business failures. Furthermore, most Organizations have difficulty in maintaining the right quantity of inventory for optimal productivity, growth and profitability due to poor vision, inadequate market forecast and effective planning. The result has been either under or over -capacity utilization which often spell doom on the corporate existence of

such organization. Any industry that fails to observe the rule of Inventory Control and Management is heading towards a doom. However, excess or shortage of it is equally dangerous. It plays a very important role in determining the profitability of a business. Inventory policies relating to stock purchasing and inventory control require a decision of frame-work and an administrative structure to implement the decisions. When expectations occur they should be handled by an experienced person.

Inventories constitute the most significant part of current assets of a large majority of organizations in Nigeria. On average, inventories are approximately 60 percent of current asset of organizations. Because of the large size of inventories maintained by organizations, a considerable amount of funds is required to be committed to them. It is therefore, absolutely imperative to manage inventories efficiently and effectively in order to avoid unnecessary investment. A firm neglecting the management of inventories will be jeopardizing its long-run profitability and may fail ultimately. Eni (2001) defines inventory control as the problems of verifying the quantity, the value and the balance of the entire range of materials held in Stock, so that it would be easy and possible to give the exact quantities of Materials in the Store at any given time. It helps the store-keeper (or the inventory controller, as the case may be) to tell how much was ordered (requested for), how many have been used, what is remaining and when to place the next order so that the enterprises would not lack Materials to work with at any point in time.

Similarly, Sharma (2004) views inventory control as the means by which Materials of the correct quantity and quality is made available as at when required with due regard to economy in terms of storage and costs (both ordering and working Capital). He also opines that inventory control is the systematic ways of locating; storing and recording of goods in such a way that desired degree of service can be made to the operation shops at minimum ultimate cost. Inventory control aims at providing the following information to the business organisations for effective Decision Making: (i) information on the accuracy of stock records and physical quantities, (ii) evidence in support of the value of stock shown in the balance sheet and profit and loss statement; (iii) reveal any weakness in the method of inventory keeping; (iv) disclose any loss, fraud, or theft in the process of material handling; and identifying deterioration, obsolescence, slow movement and redundancy in the stocks on hand.

Ahuja (2002) and Martand (2009) have identified the objectives of inventory control to include: (i) to minimize the costs involved in purchasing, stocking and issuing of the supplies, (ii) to reduce the frequencies of ordering for stock items, (iii) to decrease pilferage, waste and over stocking; (iv) to minimize the investment and fluctuations in Inventories while at the same time providing prompt order filling services for customers, (v) to integrate and deploy within the logistical system the minimum amount of inventory consistent with desired delivery capability and total cost expenditure; (vi) to ensure adequate supply of products to customer and avoid shortages as far as possible, (vii) to provide a scientific base for both short term and

long term planning of materials, and (viii) to provide a reserve stocks for variations in lead of delivery of materials.

According to Arora (2000), the factors to be considered in Inventory Control include, procurement costs, inventory carrying costs, cost of spoilage and obsolescence, cost of running-out of stock and set-up cost. A good inventory control system minimize the possibility of delays in production that are caused by lack of materials, permits a company to exercise economics in purchasing, essential for an efficient accounting system is deterrent to people who might steal materials from factory is desirable to expedite the production of financial statement; allows for possible increase in output; insure advantage of quality discount, creates buffer between input and output; insures against scarcity of materials in the market and avoid inventory build-up (Carter, 2002).

Poor inventory control has the following symptoms: high rate of order cancellations, excessive machine downtime due to material shortage, large scale inventories written down because of price decline, distress sales, widely varying rate of inventory losses, large writing down at the time of physical inventory taking, continuous growing inventory qualities; liabilities to meet delivery schedules and even production rate (Menon, 2006).

Classification of Inventories

According to Pandey (2005), inventories can be classified into raw materials, work-in-progress and finished goods. Raw materials inventories are those items in their natural forms. They required additional processing after it had been received at the plant before packaging or converted into finished products. Work-in-progress inventories refers to partly finished goods and materials which are between manufacturing stages. In other words any materials which have been processed half way but is yet to take the shape of finished goods. While the finished goods inventories are perfectly completed goods ready for sale or distribution. Finished goods could be described as those outputs from the production process.

Inventory Control System

The control of materials kept in the store for future use is referred to as stock control. Any management team that hopes to succeed must as a matter of necessity pay attention to materials. Inventory management involves material planning and control. The objective of material planning control is mainly to avoid economic consequences of stock-out and overstocking. Inventory control is very useful in the operation of many businesses. In most manufacturing organizations, inventories of raw materials allow companies to operate somewhat independently of their sources of supply. Operations on a daily basis do not critically depend on deliveries from supplies since stocks of the necessary materials are maintained and used when needed. Inventory of finished goods are also used by producers to smooth out production schedules.

The thrust of every business organization is to relate material acquired to the desired output in order to maximize profit and minimize cost. In trading organizations, the word stock or inventory is used to describe goods or merchandise purchased and kept in the store for the purpose of resale or further production as in the case of a production outfit. There has been little acceptance till date as to how effective and efficient utilization of inventory could assist in achieving organizational objectives. Hence it has become imperative to identify and enlighten management on the proper use of inventories. Therefore, the broad objective of this study is to examine how efficient and effective use of inventories could help in achieving organizational objectives in Nigeria. Specifically, it aims at:

- i Examining the factors that can hinder effective use of inventories.
- ii Determining the extent to which poor inventory management could affect organizations operation.
- iii Assessing the extent to which incompatibility of organizational policy could affect inventories management.

Two Research propositions were formulated in null forms to guide the study. Thus:

- 1 There is no significant relationship between inventory control and profitability.
- 2 There is no significant relationship between the management and control of inventory and cost of production.

METHODOLOGY

This study adopted a single case approach survey survey Eternit Limited, Sapele in Delta State of Nigeria. The population of this study comprises 216 members of staff of the organization. The staff were selected because they work directly with the organization's inventory. Structured questionnaire and personal interview schedules were administered on 140 respondents randomly selected from the employees of the company. The Responses are prepared based on a five point Likert Scale of SA - Strongly Agree, A- Agree, U- Undecided, D- Disagree, SD- Strongly Disagree. Treating the responses from the self-administered questionnaire to the selected Staff of Eternit Limited, Sapele helped to verify the assumption drawn from the questionnaire. According to Abbey (2010), that treatment also enhanced the possibility of capturing and identifying the unique elements of findings existing in the data from different respondents, thus adding rigour and richness to the emerging knowledge. Therefore, the data for this study were gotten through the primary source. Since this study adopted both case study and survey research design, the data analysis techniques were mainly tabulations, simple percentage and chi-square statistics to test the significance of the study hypotheses at the alpha level of 5%.

RESULTS AND DISCUSSION

Table 1: Inventory Control and its significant relationship with profitability

Question	SA	A	U	D	SD	Total
1 Inventory control and management ensure that sufficient goods are available to meet anticipated demand	67 (47)	49 (35)	4 (2.8)	6(4.3)	14 (10)	140 (100)
2 In an organisation, inventory and management enable production process to flow smoothly and efficiently	64 (45.7)	51 (36.4)	2 (1.4)	12(8.6)	11(7.8)	140(100)
3 Lack of inventory control and management will help meet possible shortages in the future.	15 (10.7)	5 (3.5)	4 (2.8)	81 (957.9)	35 (25)	140 (100)
4 For effective and efficient management of an organizational inventory the firm should always avoid inadequate or non- existent of stock records.	54 (38.6)	61 (43.6)	4 (2.8)	13 (9.3)	8 (5.7)	140 (100)
Total	200	166	14	112	68	560

Source: Fieldwork, 2011

Figures in parentheses indicate the percentage, SA - Strongly Agree, A- Agree, U- Undecided, D- Disagree, SD- Strongly Disagree.

The calculated and table value of Chi-square of the above table are 55.8 and 21.026 respectively. The Decision is that if the Chi- square calculated is greater than the critical value reject null hypothesis. Since the calculated chi-square is greater than the table value the null hypothesis that there is no significant relationship between inventory control and profitability is rejected. It is therefore, concluded that there is a significant relationship between inventory control and management and profitability.

Table 2: Inventory control and its significant relationship between costs of production

Question	SA	A	U	D	SD	Total
1 Inventory control is an important area of financial control which cannot affect the cost of production.	5 (3.5)	31 (22)	6(4.3)	38(27)	60(42.9)	140(100)
2 The overall objective of inventory control and management is to maintain stocks(raw materials) which will later reduce the cost of production.	55(39.3)	30(21)	2(1.4)	20(14.3)	33(23.6)	140(100)
3 A production control department of an organisation may not have control over stock of Finished goods.	28(20)	25(17.9)	2(1.4)	54(38.6)	31(22)	140(100)
4 For a firm to survive in a competitive market more emphasis should be placed on the management and control of inventory.	52(37)	43(30.7)	3(2)	14(10)	28(20)	140(100)
Total	140	129	13	126	152	560

Source: Fieldwork, 2011

Figures in parentheses indicate the percentage, SA - Strongly Agree, A- Agree, U- Undecided, D- Disagree, SD- Strongly Disagree.

Similar to what were obtained on table 1, chi-square summary of the table 2 showed that the calculated chi-square is 24.78 while the critical value is 21.026. Hence, the null hypothesis that there is no significant relationship between the management and control of inventory and cost of production is therefore rejected. This implies that inventory control has significant relationship with cost of production. The study examined effects of effective and efficient inventory control and management in business organisations. The results of the study reaffirm the fact that one of the important tasks of management in any organisation is to effectively control and manage inventories. The organization's inventory should not be uncontrolled;

this can totally consume all the profits of the organisation thereby lead the organisation to suffer a great loss, which may eventually lead to the folding up of the business.

CONCLUSION AND RECOMMENDATIONS

From the above discussion, the study clearly revealed that inventory control has contributed immensely to the growth and survival of organisations, helping to improve on their profitability, reducing cost of production, creating buffer between input and output and avoidance of inventory build-up. In the light of the above findings, the following recommendations are necessary for effective and efficient inventory control in organisations.

1. There should be proper co-ordination of the inventory control system with other departments in the organisation.
2. There should be proper control over the Receipts and issuance of materials.
3. Materials should be properly identified and adequate storage facilities should be made and maintenance of proper records with regards to the units and values of inventories.
4. There should be well-trained and competent personnel who should be entrusted with the responsibility of implementing policy issues of organizations bothering on the control and management of inventories.

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