OBAFEMI AWOLOWO UNIVERSITY

STRATEGIC INVENTORY MANAGEMENT AND OPERATIONAL PERFORMANCE OF SMALL-SCALE MANUFACTURING COMPANIES IN NIGERIA.

BY

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TO

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CERTIFICATION

This is to certify that this study was carried out by AKINOSUN, OlusegunMicheal in the Department of Management and Accounting, ObafemiAwolowo University, Ile-Ife, Nigeria.

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DEDICATION

This thesis is dedicated to the Corner Stone, Jesus Christ, my Comforter, the Giver of wisdom and strength, my All in All for His guidance and protection over my life before, during and after the completion of this research. May all glory, honor and adoration be to His Holy name.

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Abstract

This study determined the level of awareness of inventory management at operational level among small-scale manufacturing companies in Nigeria and examined the availability and applicability of inventory management tools in the small-scale manufacturing companies. It also determined the best method of managing inventory among small-scale manufacturing companies, and examined the effect of strategic inventory management on operational performance of small-scale manufacturing companies in Nigeria. These were with view to provide information on the strategic inventory management and operational performance among small-scale manufacturing companies in Nigeria

The study adopted a descriptive survey design, and used primary data to obtain necessary information from selected firms. The population size included 331 small-scale manufacturing organizations situated in Lagos. A simple random technique was used to select 31 firms from the population. Copies of questionnaire were administered on 220staff in production, marketing and administration departments of the selected organisations.Data collected were analyzed with descriptive statistical tools like tables, and weighted average. Chi-square statistical tool was used to test the hypothesis formulated for this study.

Findings showed that there is awareness of inventory management practices among small-scale manufacturing companies with weighted mean of 4.32 (in a scale of 1-5, with 1= Never and 5= Always). The administration, production, and marketing staff departments are familiar with inventory management tools such as two-way bin, ABC, EOQ, quantity discount, and EPLS models. The level of agreement on usage of inventory tools like two-way bin, ABC, EOQ, quantity discount, and EPLS models among small-scale manufacturing companies was ascertained with weighted mean of ($\bar{x}$= 1.28), ($\bar{x}$= 1.38), ($\bar{x}$= 1.63), ($\bar{x}$= 1.71) respectively.

Strategic inventory policies adopted by the small-scale manufacturing companies affect their operational performance variables like production cost, product quality, material wastage, delivery time, and customer satisfaction. Findings also showed that firms that have stock-taking policy had increasing operational performance index with average mean of 3.53 (in a scale of 1-5, with 1= Decreasing Steadily and 5= Increasing Steadily), and firms that did not have stock-taking policy had a static operational performance index with average mean of 2.81. The Chi-square result showsthat there is significant relationship (, $\chi_t = 21.226$, $\chi_c = 63.51$, $P < 0.05$) between strategic inventory management and operational performance among small-scale manufacturing .

The study concluded that strategic inventory management is one of the feasible and viable strategies for improving operational performances among small-scale manufacturing companies through the use of inventory management tools, and policy.

CHAPTER ONE

INTRODUCTION

1.1 Background to the Study

Inventory Management is useful in commercializing work ideas and implementations successfully. Therefore, it could be fatal for companies to ignore the importance of good Inventory Management, (Lawal, 2012). Many companies have failed because their inventories tied up too much capital (funds), or the items in inventory became obsolete, impaired or lost, (Amogu, 2005). It is evident that the profitability of any business organization depends largely on the ability of management to exercise effective purchasing and efficient material control. However, the problem of most companies is the lack of "know-how" in this area of operations. This may be among the reason why many businesses fail. According to Omolaja (2009), Inventory Management is the overseeing and controlling of the ordering, storage and use of components in the production of the items. A business inventory is one of the major assets and represents an investment that is tied up until the item is sold or used in the production. Inventories that are mismanaged can create significant financial problem for a business, whether the mismanagement results in an inventory glut or an inventory shortage. In today's business world,cost-efficiency by organizations can aid their long-term survival and competitive advantage. Inventory management, if properly done, would be a means of ensuring cost-efficiency among organizations.

Strategic inventory management deals with inventory control system design for a long period (Ajibefun, 2009). It involves analysis, decisions, and actions that organizations undertake for the management of their stock. Strategic inventory management is the inventory policies made by organization in order to create and sustain competitive advantages, (Wikipaedia, 2014). The definition captures two main elements that are central to the concept of strategic inventory management. Firstly, strategic inventory management of an organization entails three ongoing processes: *analysis,decisions*, and *actions*. That is, it is concerned with the *analysis* of strategic goals (vision, mission, and objectives) along with the analysis of the internal and external environment of the organization. The leaders must make strategic decisions about their stock holding policy. These *decisions*, broadly speaking, address two basic questions: What quantity of stock should we hold for the long run and when should we hold them? Inventory management has traditionally been viewed and treated more as an operational rather than strategic function in companies (Lawal and Asikhia, 2011). Strategic inventory management focus on decisions related to analyzing and selecting stock to hold for a long period of operation and how to reduce the tying down of capital on those stocks.

Small-scale enterprises are called small businesses. Fabayo (2009)defines a small-scale enterprise as a business that employs a small number of workers and does not have a high volume of sales. Such enterprises are generally privately owned and are operated by sole proprietorships, corporations or partnerships in some instances. The legal definition of a small-scale enterprise varies by industry and country. The U.S. Small Business Administration states that, small-scale enterprises generally have fewer than 500 employees within a 12-month period in non-manufacturing industries. A company must consider any individual on its payroll as an employee. In Australia, a small-scale enterprise is one that has fewer than 15 employees on payroll, as defined by the Fair Work Act (2014). The Small Business Act for Europe states that small enterprises are those that have 250 employees or less. Small-scale enterprises in Asian countries generally have 100 or fewer employees, while small-scale African enterprises hire 50 or fewer workers. In Nigeria, Small-scale Business has a minimum of 10workers and maximum of 50. The definition of a small-scale enterprise is bound by financial measures in some countries such as net profits, balance sheet totals, the value of assets and annual sales. In the United States, for example, a non-manufacturing small-scale enterprise is one that does not earn more than $7 million in a year. Financial measures can vary by industry, as annual receipts may be higher for industries that have higher overhead costs to operate, (Johnson, 2008). In general, small-scale enterprises are businesses that do not dominate their respective industry. Small-scale enterprises exist in almost every industry. Small-scale enterprise can be privately owned restaurants, law firms, inns, bakeries, architectural and engineering firms, dry cleaners and construction contractors. They are the backbone of all economies and their importance as an impetus to economic development especially in developing economies cannot be over-emphasized, (Cooper, 1998). Inventory of small manufacturing companies often represents as much as 40% of total capital (Moore, Lee and Taylor, 2003). It may represent 33% of company assets and as much as 90% of working capital, (Sawaya Jr. and Giauque, 2006). Since Inventory constitutes a major segment of total investment, it is crucial that good inventory management be practiced by companies to ensure a good performance in their operations. Small-scale manufacturing organizations may need to consider long term means of controlling their inventory holding to avoid under stocking and causing the organizations to stay off production, thereby resulting to organizational ineffectiveness.

Many companies would strive to be the best in the market and never succeed if operations are not done properly. Some even succeed on a temporary basis and subsequently lose their position through misunderstanding of how they got there and what is needed to stay there.Thus, high performance of a company may not have much to do with goodness of management. This study intends to solve problems associated with strategic inventory management by small-scale manufacturing companies and their operational performance which act as a fundamental concept behind the present study.