
Evaluating effect of Inventory controls on financial performance of Small and Medium Enterprises in Eldoret Town, Kenya

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Abstract:

Inventory management is essential for maintaining optimal stock levels and minimizing costs, which ultimately affects a firm's overall financial performance. This study focuses on the impact of inventory controls on the financial performance of small and medium enterprises (SMEs) in Eldoret town. Inventory controls are measured through various dimensions, such as inventory levels, inspection, auditing, and management systems. Previous research has shown that effective inventory management can increase a firm's profitability by reducing unnecessary stock holding costs and avoiding stockouts. To investigate this further, a descriptive research design was employed, and data was collected from 171 SME owners/managers through self-administered questionnaires. Descriptive statistics and regression analysis were used to analyze the data. The results revealed a significant positive relationship between inventory controls and the financial performance of SMEs. Specifically, the inventory controls explained 11.5% of the variance in financial performance. These findings suggest that SMEs that implement efficient inventory management practices tend to experience better financial outcomes. Therefore, it can be concluded that effective inventory control mechanisms are crucial for enhancing the competitiveness and growth of SMEs. Consequently, this study recommends that SME owners implement robust inventory control systems to maximize their financial performance.

Keywords: Inventory controls, financial performance, SMES, Inventory Control Systems, Inventory Management Practices

1. Introduction

Inventory management is the art and science of maintaining stock levels and incurring the least cost consistent with other relevant targets and objectives set by management (Jessop, 1999). The managers in an organization that deals with inventory should have in mind the objective of satisfying customer needs and keeping inventory costs at a minimum level. Holding costs, ordering costs, and shortage costs are the components of stock costs (Drury, 2004). Performance of a firm is the ability to achieve the results that are planned as measured against its intended outputs. SMEs performance may be measured using objective, subjective, or operational measures (Sshayek, 2011). The goal approach measures performance using financial (objective) and non-financial (subjective) measures. The results of a firm's operations in monetary terms are referred to as financial measures. Financial measures of performance are derived from the accounts of a firm, the profit and loss statement, or the balance sheet. They are also referred to as objective measures because they can be individually measured and verified (Kellen, 2003).

The world economy has undergone rapid industrialization, and other development goals of a nation can be realized through the SMEs. The success of SMEs is due to increased efforts by governments and stakeholders to ensure they continue to exhibit high birthrates and high death rates (Abor & Biekpe, 2006). A lot of attention and importance has been placed on the SMEs internationally in the past few years due to their significant contribution to the economies of both the developed and developing countries (Asiedu, 2006).

Wealth generation, employment creation, and poverty reduction are due to the recognition of the SMEs sector, which hence facilitates economic advancement (Kithae et al., 2012). SMEs play a very important role in furthering growth, innovation, and prosperity; hence, they are a fundamental part of the economic fabric in most developing countries (Dalberg, 2011). SMEs, in the new millennium, have accounted for 95% of firms and 60-70% of employment creation in majority countries in the world (OECD, 2000). Nurturing SMEs is hailed for their pivotal role in promoting grassroots economic growth and equitable sustainable development, which has resulted in increased entrepreneur activities in the SMEs sector in developing countries (OECD, 2000).

Recognizing the importance of the SME sector, governments have undertaken a variety of measures to support SMEs. These measures range from reforming existing legal barriers, taking actions to develop the SME finance market broadly, and intervening in

the market directly to jumpstart lending to SMEs (Beck, 2013). In Kenya, for instance, the government enacted the Micro and Small Enterprise (MSE) Act aimed at providing an enabling policy and legal environment for SMEs (GoK, 2012). In Kenya, significant numbers of SMEs engage in commerce, with 74% and 66% in urban and rural areas, respectively (Liedholm, 2002). This study on accounting control practices, firm size, and financial performance of SMEs will assist in promoting growth and competitiveness of the SMEs sector.

2. Literature Review

2.1 Theoretical Framework

Stakeholder Theory

A stakeholder's perspective-based performance on firm performance is derived from the value a firm creates through its activities. It is based on the core ideas that all of the firm's legitimate stakeholders have customer-like power to engage or not engage with a firm and that the utility is created for one stakeholder is dependent, in part, on the behavior of the firm's other stakeholder's (Barney et al., 2011).

Firm performance for much of the business and economics literature is focused on providing financial returns, return on investment (ROI), economic rents, or shareholder returns (Barney et al., 2011). From a stakeholder perspective, financial performance metrics are important and have an impact on the success or failure of a firm (Asser & Kamau, 2024). Measuring performance through tangible and intangible factors that are important to core stakeholders' wants and needs helps the firms form new ideas about how firms will perform in the future.

2.2 Empirical review

Inventory Controls

Inventory controls is the process of making sure that the correct level of inventory is maintained to be able to meet demand while keeping the costs of holding stock to a minimum (Atrill, 2006). Inventory is an integral and major component of a firm's working capital; it should therefore be managed well in order to facilitate the firm's operations. Inventory is classified into raw materials, work in progress, finished goods, and spare parts (Hopp & Spearman, 2000). Raw materials are the stocks that have been purchased and will be used in the process of manufacture, while work in progress represents partially finished

goods. Finished goods, on the other hand, represent those items of stock that are ready to be monetized (Nkwankwo & Osho, 2010). The control measure would be maintaining a detailed stock register with the following columns: item code; date of purchase; quantity received with specifications; items issued; and balance at the end of a certain period. Stock registers must be handled by responsible employees, whereby there is segregation of duties between stock handling and payment of suppliers. A regular stock-taking process is necessary to ensure that all items in stock are systematically counted and recorded. Stock control includes the recording and monitoring of stock levels, forecasting future demand, and stock replenishing. Choosing the most adequate inventory management model is essentially an empirically-based decision that may involve the use of simulation, scenario analysis, and incremental cost analyses (Wanke, 2011).

Inventory management involves a set of decisions that aim at matching existing demand with the supply of products and materials over space and time in order to achieve specified cost and service level objectives, observing product, operation, and demand characteristics. In recent years, many of the firms have raised the bar yet again by keeping in touch with other firms in their supply chains. For instance, instead of responding to unknown and variable demand, they share information so that the variability of the demand they observe is significantly lower. At any level of a firm, inventory is among the largest investments made and therefore logically deserves to be treated as a major policy variable, highly responsive to the plans and style of top management. However, to date in most organizations, both analysts and managers have been relatively unsuccessful in convincing top management to give this area the due consideration that it logically deserves (Wanke, 2011).

Lack of financial management skills within SMEs often creates problems in managing stock in an efficient and effective way. The owners or managers of SMEs are not always aware that there are costs involved in holding too much stock and that there are also costs involved in holding too little. An effective stock management system is made up of a good planning and budgeting system; hence, there should be reliable sales forecasts or budgets available for stock ordering purposes (Atrill, 2006). When the level of inventory is large, the financial manager has to put into consideration the ordering cost, carrying cost, and stock-out cost of the inventory in determining the inventory level.

In the management of inventory, the firm is always faced with the problem of meeting two conflicting needs: maintaining a large size of inventory for efficient and smooth production and sales operations and maintaining a minimum level of inventory so as to maximize profitability (Pandey, 2008). Both excessive and inadequate inventories are not desirable. The dangers of excessive inventories are that stock holding costs are too

high, and as a result, the firm's profitability is reduced. Managers can create value for shareholders by means of decreasing inventory levels. However, maintaining an inadequate level of inventory is also dangerous because ordering costs are too high. It may also lead to stockout costs. There are advantages to maintaining an ideal level of inventory. This includes economies of scale to be gained through quantity and trade discounts, fewer risks of deterioration and obsolescence, and a reduced cost of insurance, among others. In the study of SMEs, it was found that they often prepare inventory budgets and review their inventory levels (Nyabwanga et al., 2013). These results were in agreement with the findings of Kwame (2007), which established that the majority of businesses review their inventory levels and prepare inventory budgets. Enhancing the management of inventory enables businesses to avoid tying up excess capital in idle stock at the expense of profitable ventures. Good performance is positively related to efficient inventory management.

A firm needs a control system to effectively manage its inventory. There are several control systems in practice that range from simple to very complicated systems. A firm must ensure that the system it adopts is the most efficient and effective. Small firms may opt to adopt simple two-bin systems, and the very large firms may choose to adopt very complicated systems such as ABC inventory control systems or Just in Time (JIT) systems (Pandey, 2008). A study carried out by Grahamlowsky (2005) found that only large firms had established sound inventory control systems for determining inventory reorders and stock levels. The firms used quantitative techniques such as EOQ (economic order quantity) and linear programming to provide additional information for decision-making.

The EOQ model is an inventory control model and is based on minimization of costs between stock holding and stock ordering. It requires the determination of EOQ, which is the ordering quantity at which stock holding costs are equal to stock ordering costs (Saleemi, 1993). It suggests that the optimal inventory size is the point at which stock ordering costs are equal to the stock holding costs. This model helps an organization to put in place an effective stock management system to ensure reliable sales forecasts to be used in ordering purposes (Atrill, 2006).

In order to ensure the applicability of the EOQ model, several assumptions must be taken into consideration. First, the usage of stored products is assumed to be steady. Second, ordering costs are assumed to be constant, i.e., the same amount has to be paid for any order size. Third, only one product is produced; hence, annual demand requirements are known and are reasonably constant. Fourth, lead time does not vary; therefore, each order is received in a single delivery, and there are no quantity discounts. Finally, the carrying costs of inventory, which are composed of the costs of storage, handling, and insurance, are assumed to be constant per unit of inventory and per unit of time. The EOQ

model therefore merely takes variable costs into consideration, although it can easily be extended so as to include fixed costs.

Maintaining optimal inventory levels reduces the cost of possible interruptions or loss of business due to the scarcity of products, reduces supply costs, and protects against price fluctuations (Nyabwanga et al., 2012). The lean production principle was pioneered by Womack et al. (1990). This principle was linked with reduced inventories. The argument is that as inventory is reduced, there will be profit improvement due to interest savings as well as a reduction in storage fees, handling, and waste. These savings have been estimated by literature to be in the range of 20–30 percent (Brigham & Gapenski, 1993).

The elements of JIT include shared product design with suppliers and customers, movement towards single sourcing proximate suppliers, reduced machine set-up times, and total preventive maintenance. It is an inventory strategy that is implemented to improve the return on investment of a business by reducing inventory and its associated carrying costs. In order to achieve JIT, the process must have signals of what is going on everywhere within the process. JIT can lead to dramatic improvements in a manufacturing organization's return on investments, quality, and efficiency. It emphasizes that production should create neither items that arrive when needed, nor earlier nor later (Atrill, 2006).

Quick communication of the consumption of old stock, which triggers new stock to be ordered, is key to JIT and inventory reduction. This saves warehouse space and costs. The basic philosophy of JIT is that inventory is defined as waste. The technique was first used by Ford Motor Company. It was subsequently adopted and publicized by Toyota Motor Corporation of Japan in the 1950s. MRP systems are defined as product-oriented computerized technology aimed at minimizing inventory and maintaining delivery schedules. It relates the dependent requirements for materials and components comprising an end product to time periods over the planned horizon on the basis of forecasts provided by marketing and sales and other input information (Lysons & Gillingham, 2003). This system is based on the recognition that demands for an item may be dependent on the demand for other inventory items. The emphasis is on the end product into which related parts are incorporated. The inventory quantities required are specified on the basis of future demand. The demand for inventory items is precisely determined from the master production schedule for the end products. The operation of a lean inventory system such as JIT and MRP results in relatively low inventory levels. The warehousing costs and material handling costs are significantly reduced. This increases return on assets through decreased conversion costs (Atrill, 2006).

Financial Performance

Return on assets indicates how profitable a business is relative to its assets and gives how well the business is able to use its assets to generate earnings calculated. Return on assets (ROA) must be positive, and the standard figure for return on assets is 10%–12%. The higher the ROA, the better because the business is earning more money on the capital invested (Nyabwanga et al., 2013). SMEs are characterized by a low fixed asset base and rely to a large extent on accounts payable to fund their gross working capital. Thus, a comprehensive measure of profitability is best captured by computing the return on total assets, which is equal to the total liabilities of the firms, made up mainly of equity capital and current liabilities (Ngari & Kamau, 2022). ROA has proved to be a very useful number for comparing competing companies in the same industry. The number will vary widely across different industries. For example, capital-intensive industries (like railroads and steel structures) will yield a low return on assets since they have to own such expensive assets to do business. Labor-intensive companies (like software and job placement firms) will have a high ROA since their asset requirement is minimal (Padachi, 2006).

Profit is determined by deducting expenses from the revenue incurred in generating that revenue. The higher the profit figure, the better it is seen as the business is earning more money on capital invested. Profits of a business enterprise enhance its capacity for growth, hence beneficial for its survival. However, a business cannot shut down its doors simply because it has made a loss in a single financial year, but when the firm makes losses continuously in consecutive years, this jeopardizes the viability of that business. Profit is used as a measure of the financial performance of a company as well as a promise for the company to remain a going concern in the world of business (Agha, 2014).

Performance measures provide a mechanism for the organization to manage its financial and non-financial performance. Accountability is increased and enhanced, ensuring that projects support the organizational strategy and that better services and greater satisfaction are provided to a customer. Whittington and Kurt (2001) found out that objective performance measures include indicators such as profit growth, revenue growth, and return on capital employed. Financial consultants Stern Stewart and Co. created Market Value Added (MVA), a measure of the excess value a company has provided to its shareholders over the total amount of their investments (Chasha et al., 2024). This ranking is based on some traditional aspects of financial performance, including total returns, sales growth, profit growth, net margin, and return on equity. Dwivedi (2005) argues that other financial measures should include the value of long-term investment, financial soundness, and use of corporate assets. Chasha et al. (2024) discussed accounting-based performance using three indicators: return on assets (ROA),

return on equity (ROE), and return on sales (ROS). Each measure was calculated by dividing net income by total assets, total common equity, and total net sales, respectively. The study assessed SMEs financial performance using the following indicators as used by the various scholars discussed in previous studies: profitability in this study entails net profit.

2.3 Critique

In the study conducted by Pillai (2014), which was an exploratory study of Indian machine tool SMEs. The study focused on the factors discriminating inventory management performance. The study employed a survey research design and focused on a maximum number of 80 SMEs in the sector. Primary data was collected through a semi-structured questionnaire. Data was analyzed by both descriptive and multiple regression analysis. The results indicate that non-technology factors have an influence over inventory management performance.

Eneje et al. (2012) investigated the effects of raw materials inventory management on the profitability of brewery firms in Nigeria using cross-sectional data from 1989 to 2008, which was gathered for the analysis from the annual reports of the sampled brewery firms. Measures of profitability were examined and related to proxies for raw materials inventory management by brewers. The Ordinary Least Squares (OLS) stated in the form of a multiple regression model was applied in the analysis. The study revealed that the local variable raw materials inventory management designed to capture the effect of efficient management of raw material inventory by a company on its profitability is significantly strong and positive and influences the profitability of the brewery firms in Nigeria. They concluded that efficient management of raw material inventory is a major factor to be contained by Nigerian brewers in enhancing or boosting their profitability.

Munyao et al. (2015) examined the role of inventory management practices in the performance of the production department in Mombasa County. It also determined the level of performance of production departments of manufacturing firms and finally determined whether computerized inventory management influences the performance of the production department. The study adopted the descriptive research design. The target population was textile, rolling mills, and food and beverage manufacturing firms in Mombasa County. A survey was conducted that adopted stratified random sampling technique. Out of 150 manufacturing firms, a sample size of 45 manufacturing firms was used. A questionnaire was used as a data collection instrument. Reliability of research instruments was tested using the Split Half Reliability Test. The study found that manufacturing firms used various inventory management techniques, such as action-level

methods, just-in-time, periodic review techniques, material requirement planning 1, and economic order quantity. The study found that despite the fact that MRP 1 was most effective in contributing to the performance of the production department, most organizations in the manufacturing industry used the action-level method.

Nyabwanga and Ojera (2012) highlighted the association between inventory management practices and business performance of SMEs in Kisii Municipality, Kisii County, Kenya. They used a cross-sectional survey study based on a small sample size of 79 SMEs. The empirical results disclosed that a significant positive relationship existed between business performance and inventory management. The study suggested that by following effective inventory management practices, business performance can be enhanced.

Lwiki et al. (2013) examined the impact of inventory management practices on the financial performance of sugar manufacturing firms in Kenya. The study adopted a descriptive survey research design on all eight (8) sugar manufacturing firms. The factories were West Kenya, Soin, Kibos, Mumias, Chemilil, Nzoia, Muhoroni, and Sony. The first three are entirely privately owned. Mumias Sugar was privatized in 2001, though the government holds majority shares. The rest are wholly government-owned. The population of the study constituted all eight operating sugar manufacturing firms in Kenya. Since the number of firms was small, a census survey was conducted in all eight sugar firms. Primary data was collected using structured and semi-structured questionnaires. Secondary data was obtained from the publications of the Kenya Sugar Board and from the annual performance statements available in the yearbook of sugar statistics. The results showed that the performance of sugar firms is a function of their inventory management practices.

3. Methodology

The target population of the study was 300 SMEs owners/managers with between 0 and 50 employees who were beneficiaries of the Equity FIKA program operating in Eldoret town registered with the Ministry of Trade of Uasin Gishu County. Data collection methods. Data was collected from the stratified sample of 171 SME owners/managers. Primary data was collected through the use of self-administered structured questionnaires. Cooper and Schindler (2011) support the use of self-administered questionnaires in descriptive studies because they cost less. Saunders et al. (2007) argue that self-administered questionnaires are usually completed by the respondents' electronically using the internet, posted to respondents who return them by post after completion, or delivered by hand to each respondent and collected later. In this study, the

drop and pick method was used to administer the questionnaires. This method was convenient to use, cheap, easy, and quick to administer. It was also highly convenient for the respondents, as they completed the questionnaire during their spare time when their work load was manageable. In the recent past, the drop-and-pick administered questionnaire method was used in Bangladesh by Rahman (2011) to collect primary data on working capital management and profitability in the textile industry.

4. Research Findings

4.1 Descriptive statistics on Inventory Controls

The objective of the study was to examine the influence of inventory controls (as an accounting control practice) and the financial performance of small and medium enterprises in Eldoret town. Inventory control was operationalized along the following dimensions: inventory level, inventory control system, inventory inspection, inventory audit, inventory review, inventory cycle costing, and inventory management systems. The statements were anchored on a five-point Likert-type scale. The respondents were asked to indicate the extent to which they agreed to the statements.

Table 1: Distribution of the response across the inventory controls

Inventory Controls		SD(1)	D(2)	U(3)	A(4)	SA(5)
The firm has adequate inventory to meet demand at all times hence improvement of the business.	Count	6	6	33	64	47
	Raw %	4%	4%	21%	41%	30%
There are times when the firm is under-stocked	Count	9	6	25	72	44
	Raw %	6%	4%	16%	46%	28%
The firm keeps accurate inventory records hence improvement in performance of the SME.	Count	6	15	23	54	58
	Raw %	4%	10%	15%	35%	36%
The firm has installed an inventory control system.	Count	8	10	18	55	65
	Raw %	5%	6%	12%	35%	42%
The firm uses Economic Order Quantity (EOQ) each time to make orders.	Count	3	5	21	72	55
	Raw %	2%	3%	13%	47%	35%
There are times when the firm is overstocked hence improving the performance of the SME.	Count	15	18	20	60	43
	Raw %	10%	12%	13%	38%	27%
There are controls over security and authorization of inventory.	Count	10	20	16	71	39
	Raw %	6%	13%	10%	46%	25%
The firm uses accounting ratios in monitoring inventory to enhance performance of the SME.	Count	6	13	45	55	37
	Raw %	4%	8%	29%	35%	24%
The system used in controlling inventory movement is effective.	Count	13	16	28	43	56
	Raw %	8%	10%	18%	28%	36%

The firm reviews inventory levels periodically.	Count	9	8	42	67	30	
	Raw %	6%	5%	27%	43%	19%	
Average score of Inventory Controls							
	N	Mean	%Mean	SE	SD	CV	Skewness
	156	4.3021	72%	0.0594	0.7423	0.1725	0.9103

The respondents’ aggregate score of inventory controls was computed as the simple average of the respective sub-concept scores, and the pertinent results are as shown in Table 1 above. The results reveal that the mean score for the ten statements used to assess inventory controls was 4.3021. The average mean score of 4.3021 (agree) implies that the respondents generally engage in proper inventory management practices and have a general understanding of the inventory control aspects of the enterprise. The average score for standard error (SE) was 0.0594, while the average score for standard deviation (SD) was 0.7423, and the average score for coefficient of variation (CV) was 0.1725. The average score for skewness was observed in the study as positively skewed (0.9103) and greater than zero, which indicates that the constructs are asymmetrical. The results imply that the SME owners and managers that were surveyed have adequate knowledge of the inventory control principles.

4.2 Regression model for inventory controls

The results of model as shown in Table 2 indicate that inventory controls had a statistically significant contribution in the prediction of the financial performance of SMEs (B = 0.619; r = 0.582). The results of the zero-order correlation in Table 4.15 indicate a significantly strong positive correlation between inventory controls and financial performance (B = 0.619; r = 0.582). Squaring the part correlation coefficient (in the model 2 coefficients results of Table 2) indicates the unique contribution of inventory controls to the total coefficient of determination (R squared). Inventory controls had a part correlation coefficient of 0.339, thus it uniquely explains $0.339^2 = 11.5\%$ of the variance in financial performance of SMEs.

Table 2: Regression model for inventory controls

Model Summary ^c									
Model	R	Adjusted R Square	Std. Error of the Estimate	Change statistics					
				R Square change	F change	.df1	.df2	Sig.	F change
1	.713 ^a	.509	.507	.01	.002	186.341	2	153	.000
a. Predictors: (Constant), Inventory Controls									
c. Dependent Variable: Financial Performance of SMEs.									
ANOVA ^a									
Model		Sum of Squares	Df	Mean Square	F	Sig.			
1	Regression	7921.736	2	3960.868	79.198	.000 ^b			
	Residual	7651.882	153	50.012					
	Total	15573.618	155						
a. Dependent Variable: Financial Performance of SMEs.									
b. Predictors: (Constant), Inventory Controls									
Coefficients ^a									
Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.	Correlations		
		B	S.E.				Beta	Zero order	Partial
		1	(Constant)	.511	.068		3.412	.000	
	Inventory Control	.619	.071	.582	9.802	.000	.587	.413	.339
a. Dependent Variable: Financial Performance of SMEs									

4.3 Discussion of research findings

The results of model 2 as shown in Table 2 indicate that inventory controls had a statistically significant contribution in the prediction of the financial performance of SMEs ($B = 0.619$; $r = 0.582$). Therefore, we reject the null hypothesis and conclude that inventory controls have a significant influence on the financial performance of SMEs. The results of the zero-order correlation in table 4.15 indicate a significantly strong positive correlation between inventory controls and financial performance ($B = 0.619$; $r = 0.582$). Squaring the Part correlation coefficient (in the model 2 coefficients results of table 4.15) we get an indication of the unique contribution of inventory controls to the total coefficient of determination (R squared). Inventory controls had a part correlation coefficient of 0.339, thus it uniquely explains $0.339^2 = 11.5\%$ of the variance in financial performance of SMEs.

The interaction plot indicates that SMEs whose firm sizes have a small capacity with high inventory controls are likely to experience high financial performance compared to those with firm sizes with large capacity with high inventory controls. At low inventory controls, firm size seems to have a higher moderation effect on the relationship between

inventory controls and financial performance as compared to when the inventory controls are high, as shown in Appendix V. The moderation effect becomes much lower as the inventory controls tend to increase.

The results are consistent with studies by Eneje et al. (2012), Nyabwanga and Ojera (2012), Lwiki et al. (2013), Pillai (2014), and Munyao et al. (2015), which revealed a significant positive relationship.

5. Conclusions and recommendations

The study had proposed the null hypothesis, H₀: There is no significant relationship between inventory controls and the financial performance of SMEs in Eldoret town. Inventory controls had a statistically significant contribution in the prediction of the financial performance of SMEs ($B = 0.619$; $r = 0.582$). The results of the zero-order correlation indicated a significantly strong positive correlation between inventory controls and financial performance ($B = 0.619$; $r = 0.582$). Therefore, the hypothesis was rejected and concluded that inventory controls have a significant influence on the financial performance of SMEs.

Inventory controls is the process of making sure that the correct level of inventory is maintained to be able to meet demand while keeping the costs of holding stock to a minimum (Atrill, 2006). To achieve this objective, inventory controls were measured by inventory level, inventory control system, inventory inspection, inventory audit, inventory review, inventory cycle costing, and inventory management systems.

The study concluded that inventory controls play a significant role in the financial performance of SMEs. Effective management of inventory, including practices such as inventory level monitoring, inspection, auditing, and systemized inventory management, has a direct positive impact on profitability. The results demonstrated that inventory controls explained a considerable portion of the variance in financial performance, highlighting their importance in reducing costs and enhancing overall efficiency. SMEs that adopt robust inventory management systems are better equipped to meet demand without incurring excessive holding costs, leading to improved financial outcomes.

Based on these findings, it is recommended that SMEs implement comprehensive inventory control systems to ensure optimal stock levels, efficient monitoring, and timely audits. Additionally, SMEs should invest in technology that supports inventory management, such as computerized systems, to enhance accuracy and efficiency. Regular staff training on inventory control practices should also be conducted to ensure that these processes are consistently applied. By focusing on inventory management, SMEs can boost their competitiveness and sustainability in the market.

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