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Cost minimization through effective stock management in private organizations: Challenges and recommendations

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Abstract

Efficiency of stock management has and remains to be a thorny issue in most Kenyan organizations which are both privately and publicly owned. Most managers in these organizations do not effectively apply the appropriate stock management techniques in their day to day affairs of handling stock in the respective organizations. Stock being an invaluable investment in any successful organization today it needs to be appropriately and effectively managed to safeguard an organization's long term survival. Therefore with the increasing mismanagement and loss of stock the question of effective control and management is highly critical. This journal reports on the data from a study that sought to explore the efficiency of the stock management techniques adopted by private organizations and the recommendations to enhance effective stock management in organizations. Data was collected from May to November 2012 from 350 junior employees of private organizations and 100 management staff using structured questionnaires. It was found that private organization did not have competent and professionally qualified staff to effectively manage their stock and training requirements are not taken into account to fit the staff to the organization's routine requirements. The study recommends that these organizations should recruit informed, competent and professionally qualified people to manage their stocks. Equally the organizations should embrace the a regular stock management training policy to equip the employees with the latest skills for controlling and monitoring stock movement for these organizations and ensure long term survival of the entities.

Keywords: Efficiency, Management, Cost minimization, Long term survival

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1. Introduction

Different groups of management scholars have referred stock management affecting various organizations in different ways. In effect a number of these organizations have devised various policies that in their own understanding fit their organizations requirements of the time (Jessop and Morrison, 1994). Stock management policies are formulated to achieve efficiency in stock handling, safeguarding of the organization's resources, long term survival of the organization or a combination of these objectives to suit the intentions of the policy makers (Lonergmane, 2001). This article focuses on the private organizations common intention for formulating an appropriate stock management policy.

2. Literature review

According to the research carried out in Kenyan private organizations stock was found to be composed of Raw Materials, Work-in-Progress, Finished Goods and other consumables like stationery and equipment. It is evident that stock facilitates production and sales operations of an entity. Stock management processes therefore ought to be efficient and effective to avoid stoppage of operations and inadequacy of supply of products or irregularity in the supply chain (Robert and Taylor, 2009). The effect of these is that the customers will not have the products they need at the right moments and the quality of the product may be compromised at times thus translating to loss of customer royalty to the company brand. It's clear that stock serve as a link between production and consumption of the goods by the consumers. Dobler and Burt (1994) proposition holds the view that supplies are materials which do not enter directly into the production process but are necessary in the production process and eventually the selling process generating revenue for an organization. However on holding stock a number of costs have to be incurred by an organization which includes insurance costs, maintenance costs, order preparation costs, stationary costs, postage, processing costs, wages for the staff handling the stock, inspection costs and cost for processing payment of invoices (Saleem, 1997). The essence of effective stock management is therefore to minimize the total inventory costs and avoid the occurrence of the stock-out costs. In the event of stock-out the production operations stops, labor becomes unproductive, underutilization of machine capacity results, the organization losses goodwill and eventually customers opt to purchase products from competitors (Saxena, 2003).

Some organizations prefer the Just-in-Time technique of managing stock while other prefer to accumulate the products to hedge against future changes in product price or to serve their customers within the shortest time possible when they demand the products. Organizations which prefer Just in Time technique are faced with the challenge of exactly matching the daily usage requirements with the economies of scale associated with buying or manufacturing large quantities (Lucy, 1996). As such they cannot take advantage of such situations when they arise. Equally matching the customer requirement at any particular future time with the availability of the materials and cash to acquire such material is a daunting task. This technique is not largely preferred by many Kenyan organizations due to fear for uncertainty on the supplier side and loss of customers to potential competitors.

On the other hand operational risks require holding of stock to guard against the breakdown or the program likely changes. Ready stock can quickly be supplied to the market to take advantage of the arising market opportunities particularly with regard to changes in market price levels (Julius, 2001). It is indeed real that most private organizations in Kenya rarely do the stock forecasting to manage their future stock requirements. This failure has led to potential future crisis in terms of meeting customer demands, tastes and preferences thus causing frustration to customers and loss of loyalty to the organization's products. An organization that can accurately forecast demand for its products can plan its stock requirement much in advance necessitating continued operations and product supply (Lysons, 2003). An appropriate demand forecast should use historical data to ensure that the results are accurate. This should also take into account of the fact that the future conditions may change and make provisions within the estimates (Farrington and Lysons, 2006). The forecast should be done for over short term, medium term and long term periods for this will guarantee to a large extent the customer loyalty.

3. Statement of the problem

The increasing need to cut cost in organizations has compelled many organizations to look for appropriate strategies of minimizing cost and maximizing returns. Part of these strategies is effective stock control to ensure continued operation and generating of revenue to those organizations. Some organizations have been unable to apply stock management techniques effectively to their advantage and as such they have been forced into receivership. Equally failure to adopt and apply regularly appropriate stock management techniques has caused organizations loose customers due to out of stock finished goods, decline in profit levels of organizations, waste of the organization's human resource and eventually the collapse of the organizations. It is for the foregoing reasons that this research was carried out to determine the impact of stock management techniques on cost minimization in organizations.

4. Methodology

This study utilized ex post facto and survey designs (Orodha, 2003). The ex post facto analysis involved examination of the relevant documents to the study. The information obtained was useful in interpreting results from survey questionnaires. The sample size comprised of 350 junior employees of private organizations and 100 management staff.

5. Results and discussions

5.1. Existence of competent staff

Competency of staff is constituted of the skills and experience of the organization staff accumulated over a period of training and through hands on job. Some private entities prefer employing blood relatives or their clones to manage their stock regardless of their skill and competence level. The researcher asked employees for their opinion on whether the existing employees in private organizations have the requisite skill and experience that the particular stock handling activities demands. The results indicated that 69.053% believed that the employees were competent while 30.947% believed that the employees did not have the requisite skill and experience but are linked to the management by blood or through common interests. This points out that some of these organizations are poorly managed through use of non professionals resulting to increment in operational costs and minimum net returns to the organizations.

5.2. Control and monitoring system

Most privately owned organizations in Kenya adopt an independent control and monitoring system which they deem appropriate in their existing circumstances of operations (Van Horne and Wacholics, 1995). However other such organizations do not adopt a control and monitoring system to keep track of their flow of stock. In essence this happens to be a system that ensures that appropriate quantities of stock are purchased and the correct classification for the items of stock is done to ensure organizational resources are highly guarded.

Analysis was done on the existence of a control and monitoring system in private organizations. The results indicated that 65% of the private organizations have a particular control and monitoring system while 35% do not have such a system. The interpretation is that those with such a system have not implemented it effectively or the system adopted is inappropriate to their functions. Equally the 35% who do not have any control and monitoring system either do not know whether such exists or have ignored it deliberately. In either way the cost of stock cannot be effectively managed. While the junior staff perceive a control and monitoring system as an oppressing way of managing things in the organization, management staff consider tracking of stock items an unnecessary extension of their management mandate.

5.3. Ratio of staff to volume of work

In the Kenyan private organizations its evident that employees do a lot of work for little pay. Their capacity is overstretched and meagerly compensated for by private employers. The ratio of staff to volume of work is often high. This is the case because these organizations on their verge to cut their expenditure level on employees chose to engage a few people who may not be necessarily qualified to handle respective duties. This same people are assigned numerous tasks most of which are not inscribed in their appointment letters. According to the gathered response from employees of private organizations in Kenya it was found that 72% of the employees do extra duties while 28% carry out the particular duties described in their appointment letters. Majorly those who carry out the extra duties happen to be junior employees in these organizations while the management carries out the mandates as contained in their appointment letters. This tendency has demoralized most junior employees a great deal, cutting down their operational efficiency.

5.4. Management criteria

The management of some private enterprises in Kenya in Kenya is routine and dictated by the owners or proprietors rather than professional and contingent approaches. The proprietor dictates how events or activities should be conducted in their organizations and pays little or no attention to the realities on the ground. The response on this issue received contravening outcomes from the two categories of respondents. While 70% of the junior employees perceived that management style is determined, dictated and directed by the owners, 30% believed that it was professionally conducted. On the other hand 65% of the management staff believed that management is professional 35% of these management staff perceived that management was directed by the proprietors notwithstanding the realities on the ground. The researcher confirmed that indeed management is more proprietor dictated than reality based demeaning the contingency management concept. Basically bureaucratic management technique is applied in all organizational areas including the management of stock and as such make work complex by sticking to the old routines and procedures of work.

5.5. On job training

Most private organizations have a training policy within their organization structures but have not effectively implemented it to the advantage of the particular organizations. This is so because they view training as an unnecessary cost to an organization because its benefits may not be realized immediately or measured directly. Therefore rarely do these organizations send their workers for extra training to improve operational skill, resulting to poor service delivery or poor quality products to customers. According to the received responses on this issue 80% of the employees believe that up to date training on emerging events in the respective areas of operation will improve delivery and quality a great deal and competitively put the organizations at an advantage against their potential competitors. Also 20% of the employees believed that training is a waste of the organization's resources. Despite these responses employees of all cadres agreed that most organizations have the training policy mainly in documentation but not in action.

5.6. Stock management techniques

While most private organizations prefer to stock large volumes of stock items, little has been done to ensure that appropriate quantities are purchased and minimum stock levels are maintained under favorable conditions (Wacholics, 1995). Other private entities in a bid to reduce stock holding and carrying costs adopt the just in time technique. According to this research 53% of the employees belief that most private entities will be better off in cost reduction strategy by stocking items of stock in their warehouses while 47% prefer to use the just in time method as the best way of cutting stock handling cost. Essentially the method of handling stock adopted by an organization depends on the nature of the routine activities carried out by the organization and the quality of the output expected from the entire process. The techniques of handling stock were confirmed to be dictated by the proprietors in most private entities in the country and they may not be necessarily the most suitable ones to the situations at hand.

5.7. Supply chain management

The procedure involved in acquiring items of stock is of critical value to stock management efficiency. If the procedure is complex there is a likelihood of wasting valuable time (Balunywa, 1995). If the suppliers are also unreliable it causes delays and stoppages of production operations and eventually delayed supply of products to customers. On the views obtained 65% of junior employees and 40% of management staff confirmed that complex and inappropriate supply chains exist in some of the private organizations and hamper effectiveness in managing stock.

6. Recommendations

The management of organizations should cross examine the profiles of the potential applicants aspiring to work in the organization and critically determine the level of their skill and competency. This should to translate to selecting a person with the required skill and experience for the relevant duty. A person who has handled similar tasks of stock management and displayed success on the process should be granted priority over fresh graduates. Secondary all organizations should establish and use a tight control and monitoring system. This system should be able to track the inflow of the items of stock and the issues of such items from the store. This should be authorized and approved by a responsible individual. Equally every individual handling stock items should be given an independent task and held responsible for any fault in that line of duty. For instance the person placing an order for acquisition of stock should be different from the one receiving and recording the stock. The one preparing invoices should be different from the one paying the suppliers. This will go along way in protecting the organization's resources both stock and cash. Before an appropriate stock control system is installed in the organization there is need for a feasibility study to determine the technical , economical and operational viability of the system to the existing organization activities. The same system should allow for future operational changes as triggered by both internal and external environments. Thirdly the ratio of staff to the volume of work should fairly be reasonable and commensurate with the pay. Any extra duties should be compensated for at an equitable basis. In case the volume of work increases beyond the existing staff capacity it is prudent for the management to increase the number of employees. This in itself motivates employees to give their best in the areas of duty. Finally the management style should provide humble room for the recruited personnel to exercise their skill and experience while they are undertaking their duties. These personnel should manage the affairs of the organization in the light of mission and the vision of the organization as outlined. Equally it is incumbent upon the management to embrace the latest stock management techniques to ensure that vices like stock theft, misuse and waste are highly minimized. Finally the supply chain should be simple and clear for anyone to understand the flow of goods into the organization and the existing staff should be trained at short regular intervals to ensure that the handling process is updated every time.

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