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Relationship between Inventory Management Literacy and Solvency Position of Women Micro Entrepreneurs in Nakuru Town, Kenya

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RELATIONSHIP BETWEEN INVENTORY MANAGEMENT LITERACY AND SOLVENCY POSITION OF WOMEN MICRO ENTREPRENEURS IN NAKURU TOWN, KENYA

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ABSTRACT

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Small and Medium Scale Enterprises are making a considerable contribution to the economic growth of many countries. Women have been empowered over the past years and most of them have embraced entrepreneurship by running their own micro enterprises. The application of financial literacy practices in SMEs is important to ensure solvency of these ventures since inadequate financial literacy has been faulted as the main reason for failure of many small enterprises especially during start up. There exists scant empirical literature on this study area. Along these lines, there was need to explore the relationship between inventory management literacy and solvency position of women micro entrepreneurs in Nakuru Town. Explanatory research design was employed and primary data was collected through stratified proportionate random sample from a targeted population of 187 registered women entrepreneurs using structured questionnaires. Data was analyzed through the use of descriptive and inferential statistics. The research findings indicated inventory management literacy has a positive significant relationship with solvency position of women micro entrepreneurs in Nakuru Town. The study recommends that women micro entrepreneurs should engage their suppliers to reduce cases of long lead time which may enhance inventory management and enhance the solvency position.

KEYWORDS: *Inventory Management Literacy, Solvency position, women micro entrepreneurs*

INTRODUCTION

Women microenterprises play a crucial role in economic growth in any nation. However, women led SMEs are becoming insolvent yet the women have been empowered by many microfinance institutions which frequently targets them. Many researchers are in agreement that in the course of managing their business the entrepreneurs must have financial knowledge if they are to be effective. SMEs make a huge contribution to economic growth in any economy. They account for up to sixty percent of the Gross Domestic Product in the developed countries Ovia (2001). In Kenya for instance,

these micro enterprises have created more than fifty percent of new jobs in the year 2005 according to a survey that was conducted by the Kenya National Bureau of Statistics. Despite the numerous benefits, statistics also revealed that out of five enterprises started and led by women only two survived beyond the first months of operation due to the absence of proper financial management (KNBS, 2007). Financial literacy allows individuals to make shrewd decisions as far as financial matters are concerned. Spinelli, Timmons and Adams (2011) highlighted that financial literacy is important in the advancement of small business

ventures. Women require pre-entrepreneurial training to plan and run their business productively. Solvency relates expressly to the declaration of financial position of business. Proper financial management practices will ensure that enterprises remain solvent.

Financial literacy has found to be a critical element in growth of SMEs. However, little is known as to the extent of financial literacy and specifically inventory management skills among women entrepreneurs and how it influences their solvency position. There is no understandable account of small and micro enterprise proprietors' inventory management skills especially for women led ventures. This area was therefore largely unexplored and it was this gap that this research sought

to fill. There was need to investigate the relationship between inventory management literacy and solvency position of women micro entrepreneurs in Kenya and specifically Nakuru County. The researcher therefore sought to assess the relationship between inventory management literacy and solvency position of women micro entrepreneurs in Nakuru Town.

In assessing the relationship between inventory management literacy and solvency position of women micro entrepreneurs the following hypothesis was tested H_{01} : There is no significant relationship between inventory management literacy and solvency position of women **micro entrepreneurs**



Figure 1: Conceptual framework

LITERATURE REVIEW

Inventory Management Literacy and Solvency Position

Management of inventory has been put out as the determination of stocks in such a manner that ensures continuous operations of a business (Nyabwanga, 2012). Pandey (2005) explained that stock includes raw materials, work in progress and the completed merchandise still held up in the business not yet discharged in the market. Inventories can either be resources and also things held in the standard course of business or they can be merchandise that will be expended or utilized as a part of the generation of products to be sold.

A study by Maurya, Vohra and Gupta (2008) provide explanations behind having adequate stock in a business. An excess of stock of merchandise could lead to tying up of finances, shooting up in holding expense, and deterioration of raw materials, items becoming obsolete and theft. On the other hand, lack of materials can prompt interference of items for sales; poor client relations and underutilized equipment and machinery. It is not a need that a firm has all the stock classifications of inventory. However, inventory requires proper management as a considerable share of business resources is invested into them.

Another study by Garcia-Teruel and Martínez-Solano (2012) carried out a study on working capital management of 8872 SMEs from Spain on the profitability of their ventures for the period 1996-2002. The study revealed that the administrators of firms should reduce their inventories and the credit period

offered to their customers in order to add more value to their businesses and enhance solvency of the firm.

The firm stock contains one of the biggest and most substantial speculations of any retailer or manufacturing firm. Prudent inventory management methodologies cannot only make an enterprise to increase its profits but also can mean the contrast between a business flourishing or barely surviving. The main objective of inventory management is to ensure that inventories are held at the most minimal conceivable cost and to guarantee continuous supplies for on-going activities. When settling on decisions on stock, the management needs to build up a bargain between various cost parts, for example, the cost of providing stock, stock holding expense and cost coming about as a result of adequate inventories (Zipkin, 2000). Stock control is the activity which composes the accessibility of items to the final consumer. It organizes the acquisition, processing and distribution capacities to take care of the market demand.

According to Silver, Pyke and Peterson (2014), Inventory management is the assignment of planning, controlling, and keeping up the correct quality and amount of materials while using the least level of resources. Inventory management ensures that there is efficient purchasing, storage and proper utilization of commodities. Management of inventory includes guaranteeing a consistent supply of stock to keep away from stock outs and have sales that are uninterrupted and productive client benefit, keeping up adequate stock while at the same time minimizing costs and time (Pandey, 2015).

Management of inventory is essentially about specifying the size and placement of stocked items. Inventory management is required at various divisions inside an office or inside numerous areas of a supply system to monitor the typical and planned course of production against the arbitrary disturbance of coming up with inadequate materials or merchandise. It also involves decisions on lead time, carrying costs of stock, stocks management, stock estimating, stock valuation, future stock price forecasting, physical stock, available physical space for stock, management of the quality of inventory, returns and broken products and forecasting on expected demand. By balancing these contending prerequisites an enterprise will end up holding the recommended optimal inventory levels. This is an on-going procedure as the needs of the business change to respond to the changing broader environment (Panigrahi & Kumar 2013).

Profitable inventory management is important in the operation of any business. Hakansson and Persson (2004) distinguish three unique patterns in the improvement of coordination arrangements inside a business; one pattern is about the increased integration of coordination's exercises in order to reduce cost, for example, capital expenses for stock and taking care of handling costs. Inventory as an asset on the declaration of the statement of financial position of a firm has gone up against expanded essentialness in light of the fact that numerous organizations are diminishing their investment in fixed assets, like plants.

The above studies have brought out inventory management as a delicate balance that involves lead time management, stocks management, stock estimating, stock valuation, future stock price forecasting, physical stock, available physical space for stock, management of the quality of inventory, returns and broken products and forecasting on expected demand. Many organizations have been using expert systems in order to guide their decisions in the management of inventory. This is not the case in small and medium enterprises that may not likely be in a position to acquire or even know how to use such systems. They are mainly required to make such decisions by themselves without the use of systems. For this reason, it is important for them to have inventory management skills in order to guide their decisions. Inventory has been observed to have far reaching implications to a firm's financial position. This study therefore sought to establish the relationship between inventory management literacy and solvency position of enterprises with a special focus on women enterprises in Nakuru Town.

Solvency of a Business Enterprise

Jackson and Wood (2002) characterize solvency of a firm as when the aggregate resources of that firm are higher than its present liabilities, consequently it can meet its commitment. Solvency demonstrates a firm present and long term budgetary wellbeing and solidness consequently it impacts on the capacity of a firm to obtain credit, financing and investment capital. Solvency can impact performance of a firm given that partners are additionally intrigued by solvency proportions of organizations.

One of the principle worries of a business is to stay liquid. Alongside solvency and feasibility, solvency empowers a business to continue onward and stay in business. Solvency is the limit of a business enterprise to have adequate resources to cover its liabilities. Business resources are the things the business claims, and the liabilities are what the business must pay. Businesses have issues with income every so often, particularly amid start up. In the event that the business has excessively numerous bills to pay and insufficient resources to meet those bills, the business will cease to exist. Solvency relates expressly to the declaration of financial position of business. Conventional bookkeeping condition is that Assets measure up to Liabilities in addition to capital (Khidmat and Rehman, 2014).

In the event that a business has inadequate resources, its advantage breaks even with risk. If the business has a larger number of claims than liabilities, the proprietor claims a greater amount of the business resources and can change them over into money if necessary. Liquidity is regularly computed as a proportion of assets over liabilities. Solvency looks at advantages of liabilities and checks whether there are sufficient resources to pay the bills. Ratios are the most widely recognized approach to quantify liquidity, it additionally incorporates liabilities: lenders, charges payable, advances repayable, leases and everything that the business owes (Smith, 2013).

The ratios that measure solvency position are as follows; current ratio is the aggregate current resources separated by the aggregate current liabilities. The present resources are cash, account holders, stock, and prepaid costs. Other non-current resources like premises aren't considered in this proportion since it takes long time to convert them to cash to pay the bills, and difficult to recover the underlying incentive because of depreciation. For a business to stay liquid and cover liabilities, it ought to have a present proportion of 2 to 1, indication that it has twice the same number of current resources over present liabilities (Jean & Murray, 2017).

Women in small and micro enterprises from time to time should check their solvency positions. However, in many cases they lack the financial literacy skills that enable them measure their liquidity position. In addition, many have not understood the indicators of poor solvency performance by analyzing variables such as cash management, debt management, credit management and inventory management which impact the solvency positions of their businesses. Inadequate financial literacy is a predicament to both developing and industrialized economies. Evidence shows that even consumers in industrialized economies fall short to demonstrate a strong grasp of financial literacy. For this reason, many consumers have not been able to protect themselves against financial risks.

A study by Khidmat and Rehman (2014), reported that Suppliers dependably check the liquidity position of the organizations before giving products on credit. The financial specialists are also guided by liquidity position as it gives an indication about how much the venture is unsafe. The study report that liquidity, profitability and solvency are firmly related in light of the fact that when one increases the other declines and for this reason they determine the financial performance of enterprises.

Theory of Financial Literacy

Financial literacy is an area that was first championed by the Jumpstart Foundation for individual monetary education in its research on financial literacy among secondary school students. Previous studies have found that financial literacy is a multi-dimensional zone containing commonality of monetary items, comprehension of budgetary ideas, having the scientific abilities fundamental for successful management of financial resources and budgetary conduct, for example, financial planning. Literature on financial literacy started by recording basic connections between financial literacy and a considerable amount of financial practices, for example, money administration, debt and saving practices, retirement planning, resource proprietorship and interest in cash and capital markets (Lusardi & Mitchell, 2013)

Monetary analysts assert that variables related with saving for retirement and resource proprietorship practices are both financial and mental. A few behavior theories have additionally been used in the exploration of financial literacy and monetary practices. Hilgert, Hogarth and Beverly (2003) molded a budgetary practices list in light of self-profiting conduct in administration of income, creditor liability administration, saving and venture practices and noted that there was a positive connection between financial literacy scores and Financial Practices Index scores in this manner affirming that financial literacy scores is

connected to proper financial practices (Hilgert *et al.*, 2003).

The theory of arranged behavior, every now and again used to comprehend and foresee human conduct, has been applied to online shopping conduct, investment conduct and debt reduction practices. The trans theoretical model of change which is utilized to see how shoppers dispose of undesirable practices and create positive practices, has been applied to saving and obligation reduction practices (Sucuahi, 2013).

Existing literature has revealed a correspondence between financial literacy and a few distinctive monetary practices and results, for example, paying bills on time, tracing everyday expenditure, planning, paying credit card consistently, setting aside savings and diversifying investments (Hilgert *et al.* 2003). Further research has prompted that financial literacy is definitely connected with getting ready for old age, investment of funds and accumulation of wealth, market participation and better monetary spreading in various investment opportunities (Lusardi, 2006).

In this study, financial literacy theory was used to observe the influence of inventory management skills on the solvency position of the micro entrepreneurial firms of women.

RESEARCH METHODOLOGY

This study employed explanatory research design since the research sought to set up the relationship between the study variables. The study was conducted in Nakuru town in the County of Nakuru. Nakuru Town was chosen because it is a cosmopolitan and the fastest growing town (United Nations Report, 2013). The economy of the town is driven mainly by micro enterprises. The population of the study comprised of all 187 enrolled women small scale entrepreneurs working in Nakuru Town which have been in existence for at least five years as indicated by Nakuru County Government's department of Trade and Industrialization Statistics. Stratified proportional sampling and simple random sampling were utilized in this study. Stratified sampling was used to classify business into strata's while stratified proportional sampling was utilized to decide the quantity of respondents from every stratum who formed the final sample. Simple random sampling was used to decide the last respondents to be met in light of years of experience they have been doing business for this situation at least five years. Data was collected from a sample of 127 respondents. Cronbach alpha was used to test reliability. According to Sekaran (2003), a Cronbach alpha of 0.8 is good, 0.7 is an acceptable range while if it is 0.6 and below, is poor. The results for inventory management

obtained an overall Cronbach Alpha correlation coefficient of 0.738 while solvency position yielded 0.788. The validity of the questionnaire was ensured by incorporating the views and suggestions of the experts and supervisors.

Descriptive and inferential statistics were used to analyze the data with the aid of Statistical Package for Social Scientists (SPSS) version 25. Descriptive statistics entailing frequencies and percentages and mean values were used to summarize data, while inferential statistics such as correlation coefficient, ANOVA and regression analysis were used. Regression

analysis was used where the dependent variable was regressed against the explanatory variable to establish the relationship between inventory management literacy and solvency position.

ANALYSIS AND FINDINGS

Inventory Management Literacy and Solvency Position

Respondents were asked to indicate the extent to which they agreed with inventory management literacy statements.

Table 1
Descriptive Results for Inventory Management Literacy

Inventory management literacy statements N=97	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree	Mean	Std.
The business regularly conducts an audit of the entire inventory	22 (22.7%)	28 (28.9%)	17 (17.5%)	19 (19.6%)	11 (11.3%)	2.680	0.327
The enterprises often experience cases of stock outs	26 (26.8%)	10 (10.3%)	16 (16.5%)	19 (19.6%)	26 (26.8%)	2.597	0.343
The business engage the supplier to reduce cases of long lead time	23 (23.7%)	29 (29.9%)	16 (16.5%)	18 (18.6%)	11 (11.3%)	2.639	0.332
The enterprise ensure of quality of products and services is enhanced	14 (14.4%)	15 (15.5%)	18 (18.6%)	34 (35.1%)	16 (16.5%)	3.237	0.305
The enterprise conducts competitive bidding which ensures value for money on the entire procured inventory	21 (21.6%)	11 (11.3%)	42 (43.3%)	14 (14.4%)	9 (9.3%)	2.680	1.229
I conduct site visits to ensure quality of items procured	20 (20.6%)	4 (4.1%)	24 (24.7%)	32 (33%)	17 (17.5%)	2.299	1.110

Source: Research Data (2018)

On inventory management literacy the results on table 1 showed that 50 (51.6%) of the respondents disagreed that women micro- entrepreneurs regularly conduct an audit of the entire inventory (mean=2.680, std.dev 0.327), while 45 (46.4%) of the respondents were in agreement that women micro enterprises often experience cases of stock outs (mean=2.597, std.dev 0.343). Management of inventory has been put out as the determination of stock in such a manner that ensures continuous operations of a business (Nyabwanga, 2012).

A study by Buffa and Sarin (1990) provides explanations behind having adequate stock in a business organization. However, an excess of stock of merchandise could lead to tying up of finances, shooting up in holding cost and raw materials becoming obsolete and possibility theft. On the other hand, lack of materials can prompt

interference of items for sales; poor client relations and underutilized equipment and machinery. It is not a need that a firm has all the stock classifications of inventory. However, inventory requires proper management as a considerable share of business resources is invested into them (Vohra, 2008). Women micro entrepreneurs do not engage the supplier to reduce cases of long lead time according to a fair majority 52 (53.6%) of the respondents, although it was established that women micro enterprises in Nakuru Town ensure quality of products and services is enhanced (mean=3.237 (std.dev 0.305).

Further, the results indicated that most respondents 42 (43.3%) held neutral opinion on whether women micro enterprises conduct competitive bidding which ensures value for money on the entire procured inventory (mean=2.680, std dev 1.229), with a fair majority 49

(50.5%) of the respondents being in agreement that they conduct site visits to ensure quality of items procured (mean=2.299, std.dev 1.110). Almost all the mean values registered standard deviations which were less than 1. This implies that there was no disparity in responses among the respondents.

Descriptive Results for Solvency Position

Table 2 shows the descriptive results of solvency position of women micro-entrepreneurs in Nakuru Town

Table 2

Solvency position literacy statements N=97	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree	Mean	Std.
My enterprise has very little liabilities	23 (23.7%)	24 (24.7%)	15 (15.5%)	21 (21.6%)	14 (14.4%)	2.783	0.401
I have sufficient assets in my business	9 (9.3%)	15 (15.5%)	14 (14.4%)	25 (25.8%)	34 (35.1%)	2.381	0.349
The current assets of my enterprise are more than the current liabilities	23 (23.7%)	12 (12.4%)	16 (16.5%)	25 (25.8%)	21 (21.6%)	2.732	0.365
I have no difficulty in repaying my debts to suppliers	18 (18.6%)	10 (10.3%)	24 (24.7%)	23 (23.7%)	22 (22.7%)	2.690	0.301
I pay my suppliers as soon as they deliver goods	15 (15.5%)	10 (10.3%)	53 (54.6%)	10 (10.3%)	9 (9.3%)	2.742	0.348
Cash management skills have enabled business liquidity position to be steady	12 (12.4%)	17 (17.5%)	14 (14.4%)	36 (37.1%)	18 (18.6%)	3.319	0.303

Source: Research Data (2018)

Respondents were asked to indicate the extent to which they agreed with solvency position statements. On solvency position of women micro enterprises, the results on table 2 indicated that 47 (48.4%) were in disagreement that women micro enterprises have very little liabilities (mean=2.783, std.dev 0.401) and sufficient assets according to a larger majority 59 (60.9%) of the respondents (mean=2.38, std.dev 0.349). There was no big margin among the respondents on whether the current assets of women micro enterprise were more than the current liabilities, with 46 (38.4%) being in disagreement while 35 (36.1%) were in agreement (mean=2.732, std.dev 0.365).

Further, respondents 45 (46.4%) were in agreement that they have had no difficulty in repaying their debts to suppliers (mean=2.690, std.dev 0.301) but they held neutral opinion 53 (54.6%) on whether they pay their suppliers as soon as they deliver goods (mean=2.742, std.dev 0.348). A study by Khidmat & Rehman (2014) concluded that Suppliers dependably check the solvency position of the organizations before giving products on credit. The financial specialists are guided by solvency position as it gives an indication about how much the

business is unsafe. The study reported that solvency and profitability are firmly related in light of the fact that when one increases the other declines and for this reason they determine the financial performance of enterprises.

Cash management literacy have enabled women micro enterprises in Nakuru Town solvency position to be steady according to 54 (55.7%) of the respondents (mean=3.319 (std.dev 0.303). For a business to stay solvent and cover liabilities, it ought to have a present proportion of 2 to 1, indication that it has twice the same number of current resources over present liabilities (Jean & Murray, 2017). It can be implied that there was greater cohesion in the responses among the respondents as indicated by all standard deviations of the mean values which were less than.

INFERENTIAL STATISTICS

The study correlation results reveal that there exists a significant correlation between inventory management literacy and solvency position of women micro enterprises in Nakuru Town ($r=0.518$, $P < 0.05$).

Table 3

Model		Unstandardized Coefficients		Standardized Coefficients Beta	t	Sig.	Collinearity Statistics	
		B	Std. Error				Tolerance	VIF
1	(Constant)	2.475	.743		3.331	.050		
	Inventory management	.351	.120	.135	2.925	.010	.856	1.169

a. Dependent Variable: solvency

Source: Research Data (2018)

The results indicate that the relationship between inventory management literacy and solvency position of women micro enterprises was positive and statistically significant ($\beta = 0.351$, $p < 0.05$), implying that when inventory management literacy increases by an additional unit, solvency position of women micro enterprises by 0.351. Thus, null hypothesis (H_{01}) "Inventory management literacy has no significant relationship with solvency position of women micro-entrepreneurs" was thus rejected by concluding that inventory management literacy has a statistically significant relationship with solvency position of women micro enterprises in Nakuru Town.

The research findings were consistent with those of Garcia-Teruel and Martínez-Solano (2012) who carried out an investigation on working capital management of SMEs from Spain on the profitability of their ventures revealed that the administrators of firms should reduce their inventories and the credit period offered to their customers in order to add more value to their businesses and enhance solvency of the firm.

Conclusion

The study concludes that the relationship between inventory management literacy and solvency position of women micro entrepreneurs is positive and statistically significant. The study also found that women micro-entrepreneurs in Nakuru Town regularly conduct an audit of the entire inventory and often experience cases of stock outs and that they do not engage the supplier to reduce cases of long lead times which may affect the solvency position. Competitive bidding which may ensure value for money on the entire procured inventory is not conducted by women owned enterprise. Further, it can be concluded that women micro enterprises in Nakuru Town rarely conduct site visits to ensure quality of items procured.

Recommendation

Women micro entrepreneurs should engage the supplier to reduce cases of long lead times which may enhance inventory management and enhance improving the solvency position of women enterprise in Nakuru Town.

It is also recommended that by conducting site visits to ascertain the quality of items procured will enhance inventory management among women owned and operated micro enterprise.

The study suggests that further study be conducted to validate the research findings using a quantitative approach and multiple case studies to warrant generalization of the research findings to other areas.

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