

**THE EFFECTS OF INVENTORY MANAGEMENT ON THE PERFORMANCE OF  
ORGANIZATIONS;**

**A CASE STUDY OF UNGA MILLERS (U) LTD, KAMPALA**

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**A RESEARCH DISSERTATION SUBMITTED TO THE SCHOOL OF BUSINESS AND  
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THE AWARD OF A BACHELOR'S DEGREE IN BUSINESS  
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KAMPALA INTERNATIONAL  
UNIVERSITY**

**APRIL 2010**

## DECLARATION

I **Kempinduka Imelda** do declare that this work is my original work and has not been submitted in this University before or in any other Institution of higher learning for an academic award and should therefore should not be reproduced without my consent.

Signature:  .....

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Date... 30/06/2010 .....

**APPROVAL**

I do hereby certify that this work has been done under my supervision and do approve it for submission in partial fulfillment of the requirements for the award of a Degree in Business Administration (Accounting Option) of Kampala International University.

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Date: ..... 

## **DEDICATION**

I would like to dedicate this research dissertation to my lovely husband Dons and my kids Lissah and Rinnie for their love and support during my study period in Kampala International University and during the writing of this dissertation.

May God bless you all.

## **AKNOWLEDGEMENT**

I would like to express my sincere gratitude to God and all the people who assisted me towards the successful completion of this research report for their moral support.

I would also like to express my sincere gratitude to my father, whose effort saw me through my studies at Kampala International University

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## **ABSTRACT**

The topic of research was the effects of inventory management on the performance of organizations. One company – Unga Millers (U) Ltd Kampala was identified to form the basis for the research study. The objectives of this study were to establish the effects of inventory management on the performance of Unga Millers (U) Ltd Kampala, to find out the determinants of the performance in Unga Millers (U) Ltd Kampala and to investigate the factors the affecting inventory management in Unga Millers (U) Ltd. Kampala.

To obtain the necessary data, the researcher used descriptive research design, the methods/ instruments used included interviews, questionnaires, books and company journals. These were used to collect both primary and secondary data. When collecting questionnaires, the researcher used interviews to clarify on unclear issues and also get additional information that was not properly captured by the questionnaires. Books and journals were also used to collect information on how other authors and researchers view the subject of inventory management and how it affects the productivities of firms. The researcher selected 25 respondents who were randomly selected from the study population of 75, each department being represented.

The research findings were analyzed basing on the specific objectives and the findings were analyzed using quantitative method and were presented using Tables, Pie Charts, Line Graphs, Bar Graphs and explanations were made after each presentation.

The study established that inventory management and had an effect on the performance of the company and contributed to the downward decline of the company's performance. The researcher concluded that there was urgent need to review the system in use and other systems be looked at. She recommended use of better systems and improvement on the one in existence and full automation of the ordering process.

## **CHAPTER ONE: INTRODUCTION**

### **1.0 Background of the study**

The effectiveness of any organization depends on performance. Organizations measure performance depending on a number of factors such as speed and quality. Performance is the measure of how well a company turns its inputs into outputs.

Inventory management is the method used to ensure that stock of raw materials or other supplies, work in progress is turned into goods kept at levels which provide maximum service level to reduce costs. Inventory exists in three types raw materials, partially complete work in process and finally finished goods. Inventory management help organizations to protect against uncertainty, support a particular strategic plan and to take advantage of economies of scale Schroeder (2004) good inventory management is necessary to successfully operations of most organization and Unga Millers (U) Ltd in particular. Unga Millers (U) Ltd it is a private organization which was established in 2002 in Uganda well known for production of wheat & Maize products. Inventory management in some areas has been ineffective in Unga Millers in that it sometimes affects its performance negatively.

The effectiveness of inventory management is based on the following; system to keep stock or inventory on hand and on order, reliable forecast of demand, knowledge of lead times variability, reasonable estimates of inventory holding costs, ordering costs, storage costs and classification for inventory items.

Good inventory management therefore seems to lead to high performance of the organization while poor inventory management practices may lead to poor performance of the organization.

### **1.1 Statement of the problem**

Inventory management is vital for best performance of any organization. As Unga Millers (U) Ltd is among the organizations it may also be affecting its performance.

Lack of proper inventory management may cause high risks of spoilage and obsolescence of materials, misappropriation of materials, excessive investment in materials. While proper inventory management in an organization may prevent the above problems hence good performance. Inventory management may affect the performance of the organization negatively or positively. This has caused the need for the study to find out how the inventory management affects the performance in Unga Millers (U) Ltd, Kampala

## **1.2 Purpose of the Study**

The purpose of this study is to examine the impact of inventory management on the performance of Unga Millers (U) Ltd Kampala

## **1.3 Objectives**

The objectives of this study are:-

- To establish the effects of inventory management on the performance of Unga Millers (U) Ltd Kampala.
- To find out the determinants of the performance in Unga Millers (U) Ltd Kampala.
- To investigate the factors affecting inventory management in Unga Millers (U) Ltd. Kampala

## **1.4 Research Questions**

The research questions include;

- What are the effects of inventory management on the performance of Unga Millers (U) Ltd Kampala?
- What are the determinants of inventory management in Unga Millers (U) Ltd. Kampala?
- What are the factors affecting inventory management in Unga Millers (U) Ltd Kampala?

### **1.5 Scope Of The Study**

The geographical scope of this study is Unga Millers (U) Ltd Kampala. This area is selected because of its involvement in acquisition utilization, of raw materials (inputs) which are turned into finished output. The researcher thus hopes to collect data on inventory management and the performance of staff.

Due to limited time and scarcity of resources, the study was restricted to Unga Millers (U) Ltd, Kampala for the period between 2001-2008.

The content scope of this study is to examine the effect of inventory management, establish various techniques used in inventory management and factors that affect inventory management in Unga Millers (U) Ltd Kampala in attempt to improve on performance.

### **1.6 Significance Of The Study**

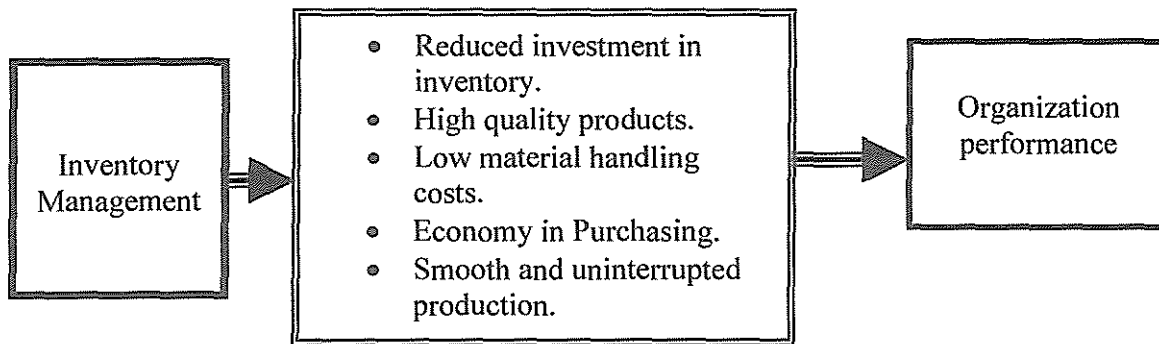
The researcher may collect information which may be useful to the following groups.

- (i) The management of Unga Millers (U) Ltd Kampala the result of the study may help them to improve on the performance by properly assessing the effects of inventory management, establishing the factors affecting inventory management and use proper inventory techniques to increase performance of the organization.
- (ii) The Uganda manufacturers association, Uganda revenue authority, the results may help them to advise small scale industries on inventory management and methods on improving their performance and expansion.
- (iii) The future researchers the results may be useful to them having contributed to content and methodology on the effects of inventory management, techniques of inventory management and factors affecting inventory management.

## 1.7 CONCEPTUAL FRAMEWORK

Independent Variable  
Variable

Dependent



## **CHAPTER TWO: LITERATURE REVIEW**

### **2.1 Introduction**

This chapter contains the conceptual framework, a review of literature under the following sub-headings; meaning of inventory management, determinants of performance and factors effecting inventory management.

### **2.3. Inventory Management:**

Schroeder (2004) observed that inventory management is a key operations responsibility because it greatly affects capital requirement, cost and customer service. Meaning of inventory management

#### **2.3.1 Meaning of Inventory**

Schroeder (2004) observed an inventory as a stock of materials used to facilitate production or satisfy customer demands. Inventories include raw materials, work in progress and finished goods. Jessop et al (1994) revealed on inventory as goods intended for use in connection with production and operating which cover finished products awaiting delivery to consumers.

Saleemi (1990) observed inventory as inputs to be transformed to finished products in cause of manufacturing. Inventory management is the act of ensuring that the acquisition, storage handling and utilization of all types of inventory are properly utilized.

#### **2.3.2 Meaning of Inventory Management.**

William (1986) revealed that inventory management help to meet anticipated customer demand, smooth production measurements, to decouple operations and to take advantage of order cycles.

Schroeder (2004) observed that inventory management helps to protect against uncertainties, allow economic production and purchase cover anticipated changes in demand and supply and also to provide for transit-increased demand implies

increased performance, to improve production and supply. Aquilano et al (1994) observed that organization must make decisions about the amount of safe stock to maintain and to give protection against the stock outs. This helps to ensure effective performance of organization. Inventory management are of great importance in most organizations according to identified system and their improvement on performance.

### **2.3.3 Various techniques used in inventory management and performance.**

Aquilano et al (1994) observed inventory management as a stock of any item or resources used in an organization, while an inventory management as a system set to monitor and control level of inventory management and determine what level should be maintained among others.

A variety of techniques are used in inventory management which are aimed at ensuring that the organization stock are kept at levels minimum and maximum which are aimed at ensuring that organization stock are kept at levels minimum and maximum service levels to reduce costs.

More (1985) revealed that among the techniques of inventory management include MRP which define the terms of production control and inventory control. A MRP specialist, participate in developing master production schedules, plan labor requirements, receive orders to manufacture and determine raw materials requirement for manufactured parts among others.

Schroeder (2004) observed that the major distraction in inventory management is whether demand is independent or dependent, independent demand is influenced by market conditions outside control operations while dependent demand is related to demand for another item and is not independently determined by the market different demand patterns call for different approaches to inventory management.

Moore et al (1985) observed that ABC inventory management analysis is one of the techniques of inventory management as one purpose of inventory control is inventories at the least cost. Some items such as paper clips & rubber bands, are not worth monitoring very closely. As it is supported by A.M. Kelly (1971)



Schroeder (2004) observed one of inventory management techniques as service level and inventory level which is the management of independent demand inventories, one of the key considerations is customer-service level. That, it must be balanced against investment in inventory management since higher customer-service levels requires higher inventory investment.

#### **2.4. Determinants of Organizations performance:**

A. Rosen (1984) defined performance as means the feedback for the pressure and performance tells an employee or organization, how well the organization is doing. That is result of the inputs into outputs that performance of the organization over time any improvement can be noticed.

Theodore. A. Rosen, (1984) is based on four basic concerns which include quality, quantity, timeliness and cost.

- Under quality sites on the aspects of errors, class and novelty.
- Checking for errors & quality companies usually look for deviations from specifications or some standards.
- Quantity; which is an important dimension of most performance. It can be expressed as some of the output of the production.
- Timelines; the concern is one purely related to when performance gets done. That is meeting deadlines.

According to Aquilano Chase Davis (1991 & 1994) observed that all companies have a need to measure performance, but each company has different priorities on things to be measured. Basically focused on some factors such as speed of delivery that is lead time and durability, quality is usually measured by the defect rate of the products produced. Flexibility that is process velocity which is the ratio of the actual throughout time divided by the value added time required to complete the product or service process and Agile manufacturing the ability of the company to produce customized products in a timely manner.

**Performance** refers to output results and their outcomes obtained from processes and services that permit evaluation and comparison relative to goals, standards, past results and other organizations. Performance can be expressed in non-financial service web.

#### **Web: Definition**

Performance refers to the output results and their outcomes obtained from processes, products and service that permit evaluation and comparison relative to goals. Standards, past results and other organizations. Performance can be expressed in non-financial and financial terms.

#### **Measurement:**

Refers to numerical information that quantifies input, output and performance dimensions of process, products, services and the overall organization (outcomes). Performance measure might be simple (derived from one measurement) or composite.

A Rosen (1984) also observed that performance involves counting how often it occurs by determining a number of times.

- Collecting data and have plenty if it, that things are managed by data.
- Using data about performance reduces emotionalism. The employees get upset when they don't understand how they are doing or why? Data gives confidence to make decisions about promotion recommendations. People who have data have more solutions.

Seetharam (2002) observed that financial managers measure performance in terms of costs, since the costs involved are relatively easy to quantify. He considers the costs due to quality, lead time, technical support, on time delivery, payment terms fill rates and responsiveness to demand. The low costs the better (good performance).

Harry (2004) observed that performance measurement can be defined as regular measurement of the results (outcomes) and efficiency of services or programmes. He

continued to observe the importance of performance information is to establish accountability, to develop and then justify budget proposals.

### **2.5 Factors affecting inventory management and performance;**

Inventory management is a major operation because it greatly affects capital requirements costs and consumer service. Organizations are making effort to be more productive and more successful in the global market place.

The factors that affect inventory management include lack of proper tools, this view occurs with Davis (1993) who revealed that inventory is possible in the chain of supply when proper tools are used. Poor control of outputs affects inventory management Jessop et al (1994) observed that inventory management of inputs to the stock and inventory manager has little control over that output since this is a responsibility of the storekeeper which affect alternation of techniques which affect the production levels. Moore (1985) observed that inventory management, people monitor inventories, but there is more to the job than record keeping.

Poor communication affects inventory management and performance Lucy (1996) observed that the responsibility of the store house must be communicated to inventory management for the balances to be adjusted to match the time schedule.

Lack of efficiency and effectiveness affects the inventory management system. Yet Jessop et al (1994) observed that unless there is efficiency and effectiveness in the system the levels and system of inventory management is rendered ineffective.

## **CHAPTER THREE: METHODOLOGY**

### **3.0 Introduction**

This chapter includes research design and area of study, population, size, sample selection and instrument to use, methods of data analysis.

### **3.1 Research design**

The research design in this study is a case study of Unga Millers (U) Ltd Kampala. This enabled the researcher to collect data in details from respondents. This involved the qualitative and quantitative methods of data collection. Qualitative data collection techniques were used to collect data in words. The quantitative techniques were used because of the need to collect data in figures.

### **3.2 The study Population**

The study included the managers and support staff from Unga Millers (U) Ltd Kampala. These enabled the researcher to collect data from respondents in the study. Unga has a total of 75 members.

### **3.3 Sampling Design and size**

#### **3.3.1 Sampling Design**

In order to ensure representatives of the samples from study population was grouped according to departments. Random sampling technique was used in picking the employees on which the data was collected. Thus respondents were then randomly selected from staff in Unga Millers (U) Ltd Kampala. Thus sampling design was preferred to minimize bias in sampling process to achieve maximum precision gave the research constraints of the study, Unga Millers (U) Ltd Kampala's senior management and other staff members were also be interviewed.

### 3.3.2 Sample Size

Considering time and other constraints of the study, the researcher selected 25 respondents who were randomly selected from the study population of 75, each department being represented. This was considered representation of the study population consistent with the research questions in chapter one. The willingness of managers to give information and respondents positions in Unga Millers (U) Ltd were the major factors considered in selecting the respondents sample.

#### Sample Population:

Department	No. of Workers	Sample Size
Managers	6	3
Sales Department	14	5
Stores	7	2
Production	20	5
Purchase	5	3
Distribution	13	5
Supervisor	5	2
Total	75	25

Source: Primary data

### 3.4 Research Instruments;

The methods of data collection include the primary and secondary data collection techniques. The primary methods of data collection included questionnaire method and interview guide. The secondary method of data collection on the other hand included documentary analysis.

#### 3.4.1 Questionnaire

The questionnaire were used in appendix B, the questionnaires used were open and close ended to enable easy collection of enough information from twenty two (22) support staff from Unga Millers (U) Ltd. these were selected using simple random sampling technique was be applied on them to collect just hand information

### **3.4.2 Interview guide:**

An interview guide was conducted with three (3) managers to facilitate easy collection of first hand data on inventory management and performance of Unga Millers (U) Ltd Kampala, this was used in Appendix A.

### **3.5 Procedure**

The study started after the researcher received an introductory letter from the department of Business Administration of Kampala International University which was presented to the manager of Unga Millers (U) Ltd Kampala then give questionnaires through general manager to the support staff for the filling in exercise. The researcher then collected the questionnaires later.

After collecting data the researcher analyzed the results of the study. The findings were then presented in statistical tables and interpreted in chapter four and the results discussed in chapter five.

### **3.6 Data Analysis**

The data collected was analyzed using research objectives, questions and statistical tables. The primary data collected from the filed will be analyzed using tables, frequency percentages and the statistical tables. Quantitative data was analyzed using frequency tables and percentages, while qualitative data was analyzed in words using the research objectives.

## CHAPTER FOUR: DATA PRESENTATION, ANALYSIS AND INTERPRETATION

### 4.0 Introduction

This chapter deals with the analysis interpretation and presentation of the research findings. The analysis and research findings were interpreted and analyzed basing on the research questions. The study was set to investigate the impact of inventory management on the performance of Unga Millers (U) Ltd Kampala. The findings were obtained through the use of questionnaires, interviews, documents and observation from Unga Millers (U) Ltd Kampala which was used as the case study.

### 4.1 Demographic Characteristics

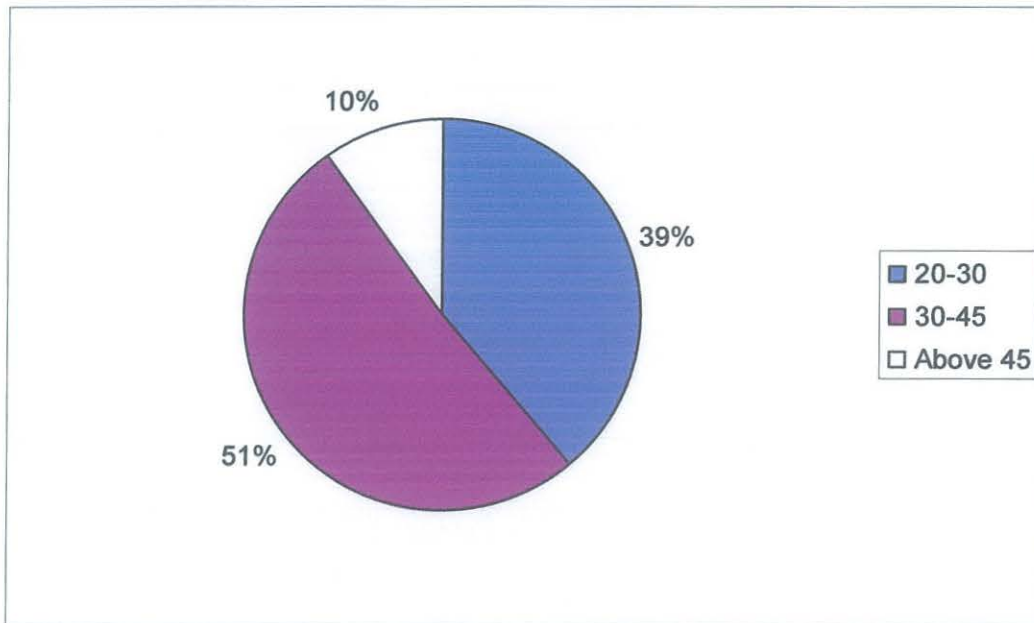
**Table 4.1.1: Table showing the respondent's categorization**

<b>Respondents</b>	<b>Frequency</b>	<b>Percentage</b>
Male	16	64%
Female	9	36%
<b>Total</b>	<b>25</b>	<b>100%</b>

*Source: Primary data*

From table 4.1.1 above it can be seen that the majority of the respondents are male that is 16 respondents representing 64% of the total number of respondents and 9 respondents are female representing 36% of the respondents.

**Figure 4.1.1: Pie Chart showing the Age description of the respondents**



**Source: Primary Data**

From the pie chart (Figure 4.1.1) above, it can be seen that the majority of the respondents are aged between 30 - 45 years representing 51%, followed by 20-30 years representing 36% and lastly the aged above 45 years representing 10%. From the above analysis, it can be construed that majority of the staff of Unga Millers (U) Ltd Kampala are young people and therefore they have an active memory, hence the information obtained from them can be trusted and looked at as a true good representation of the information the researcher was looking for.

**4.1.3 Table showing the Academic Qualification of the respondents**

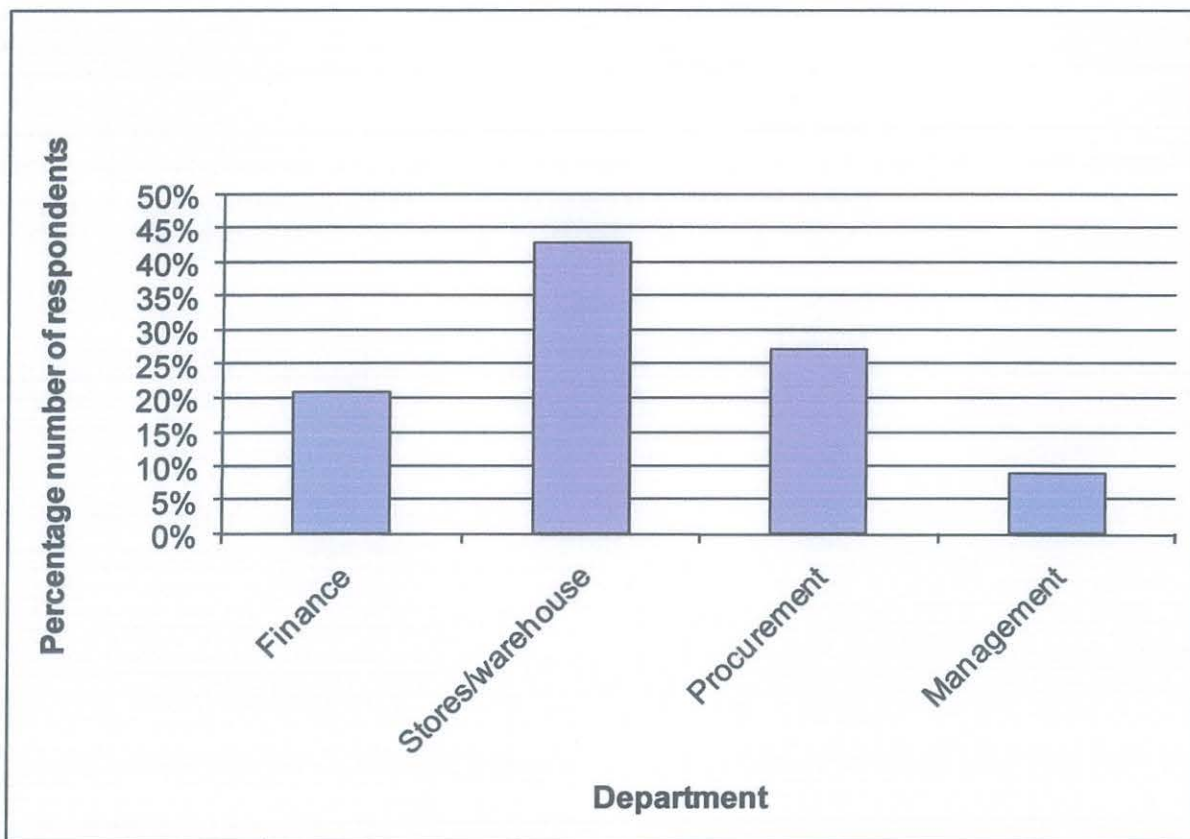
Academic Qualification	Frequency	Percentage
Diploma	5	20%
Degree	16	64%
Post Graduate	4	16%
<b>Total</b>	<b>25</b>	<b>100%</b>

**Source: Primary data**



From table 4.1.2 above it can be seen that the majority of the staff of Unga Millers (U) Ltd Kampala are degree holders representing 64%, followed by diploma holders at 20% then Postgraduate holders at 16%. This implies that the staff of Unga Millers (U) Ltd Kampala are well educated and therefore the information obtained from them can be relied upon for the purpose of this study.

**Figure 4.1.2: Bar Graph showing the Percentage Number of Respondents Per Department**



**Source: Primary Data**

From the Bar Graph (Figure 4.1.4) above, the majority of the respondents were based on the stores around 43% since the study was set to investigate inventory management and this is a major function of the stores department followed by procurement 27%, then finance department 21% and finally management 9%.

#### **4.2 The effects of Inventory Management on the Performance Of Unga Millers (U) Ltd Kampala**

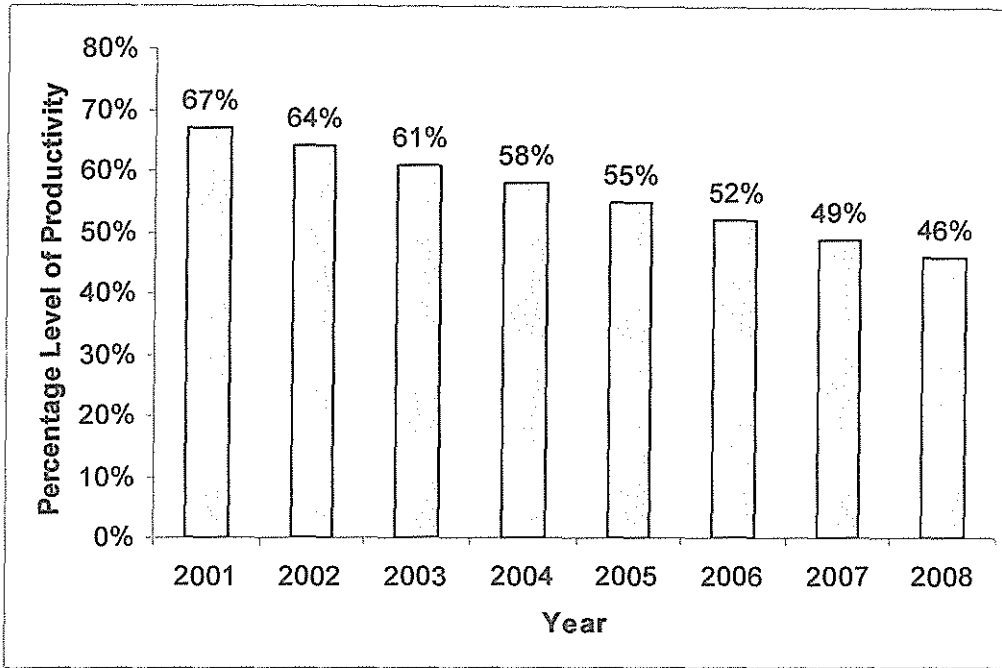
The inventory management system in use at Unga Millers (U) Ltd Kampala that is the Periodic Review Management was incorporated into the company's inventory management policies and procedures in 1999.

Though inventory management cannot be solely responsible for the company's current state of affairs that is low performance, the study established that it has played a role in contributing to the declining performance of the company; the parameters that make the system work have taken too long in being reviewed and as changes occurs especially in the manufacturing industry, these factors cease to work efficiently and do not produce the desired results since their estimates are not as accurate as they were when the system was first put into use. Some of the factors that are making the system at Unga Millers (U) Ltd Kampala not work as efficiently as required include:-

- Non-availability of raw materials as a result of stock out occasioned by the use and exhaustion of the safety stock during the lead time. The safety stock level is low to cope with demand and also the lead time is long leading to occasional stock outs.
- Close review periods that is the duration between two successive review periods at which replenishment orders are initiated, is too small hence more expenses are incurred.

To the question "what are the effects of inventory management on the performance of Unga Millers (U) Kampala?" the response was that Inventory Management has contributed an average of 3% in the decline of the organization's performance and this is shown by the bar graph below:

**Figure 4.2.1: Bar Graph showing the Percentage level of Performance of South Unga Millers (U) Ltd Kampala**



**Source: Secondary Data**

The bar graph above (figure 4.2.1) shows that the performance level of Unga Millers (U) Ltd Kampala has been on a decline at an average rate of 3% per year since 2001 to 2008. It has dropped from a high of 67% in 2001 to a meager 42% in 2008.

#### **4.3 The determinants of inventory management at Unga Millers (U) Ltd Kampala**

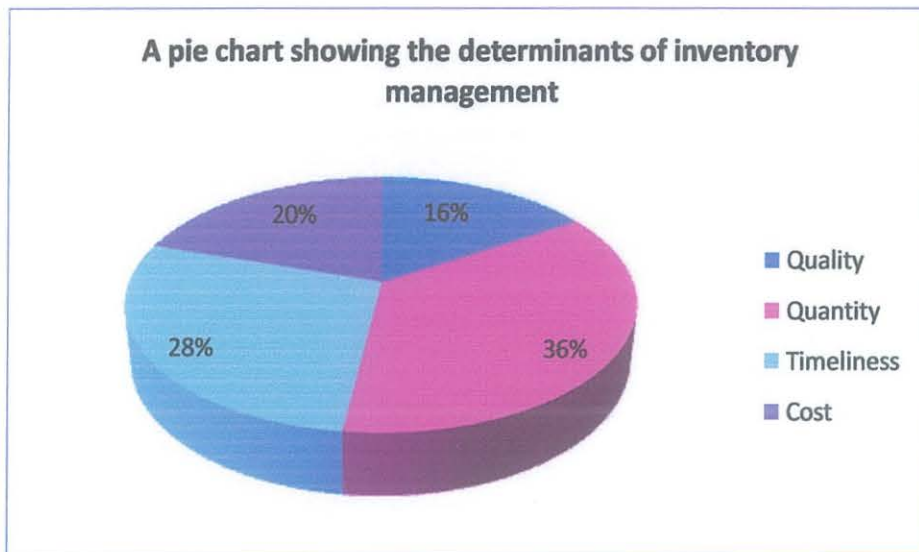
The response to the research question 'what are the determinants of inventory management at Unga Millers (U) Ltd Kampala?' is shown in the table and pie chart below:

**4.3.1 A table showing the determinants of inventory management at Unga Millers (U) Ltd Kampala**

Determinants	Frequency	Percentage %
Quality	4	16
Quantity	9	36
Timeliness	7	28
Cost	5	20
<b>Total</b>	<b>25</b>	<b>100</b>

Source: secondary data

Figure 4.3.1



Source: primary data

According to the table above 9 respondents representing 36% agreed that quantity is a major determinant of inventory management. This, they said, is because quantity is associated with the space of storage and the subsequent need of the products. Only 4 respondents representing 16 % agreed that quality is a determinant of inventory management. Cost and timeliness of the products were agreed upon as determinants of inventory management by 5 and 7 respondents respectively representing 20% and 28% respectively.

#### 4.4 The factors affecting inventory management at Unga Millers (U) Ltd Kampala

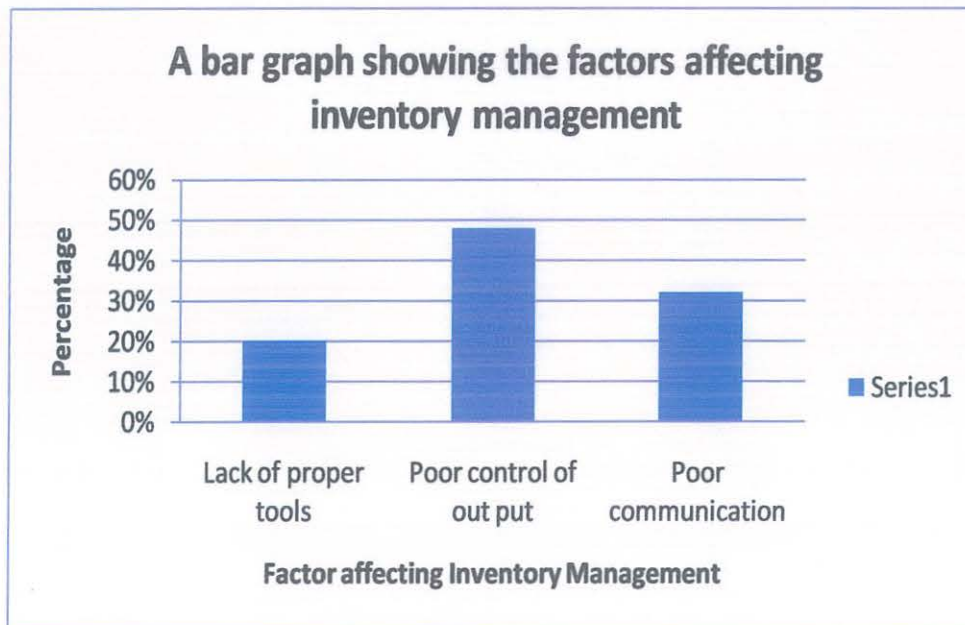
The researcher also wanted to find out the factors affecting inventory management at Unga Millers (U) Ltd Kampala. The findings were as stipulated in the table and bar graph below.

##### 4.4.1 A table showing the factors affecting inventory management at Unga Millers (U) Ltd Kampala

Factors	Frequency	Percentage
Lack of proper tools	5	20 %
Poor control of out put	12	48 %
Poor communication	8	32 %
<b>Total</b>	<b>25</b>	<b>100</b>

Source: primary data

Figure 4.4.2



Source: primary data

The table and the bar graph above shows that 48% of the respondents believe that poor control of out put affects inventory management while 32% of the respondents think that poor communication is a major factor affecting inventory management. Only 20% of the respondents agree that lack of proper tools affect inventory management.

## **CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATIONS**

### **5.0 Introduction**

This chapter presents the summary, conclusions and recommendations made based on the study findings. They were made basing on the research questions. It also gives areas of further study.

### **5.1 Summary**

This section presents the summary of the findings which were based on the research questions.

#### **How has Inventory Management affected the performance of Unga Millers (U) Ltd Kampala**

The study established that even though inventory management was not solely responsible for the low performance of the company, it was established that it contributed to an average of 3% decline in the overall performance of the company and this was shown by the bar graph – Figure 4.2.1.

#### **What are determinants of inventory management at Unga Millers (U) Ltd?**

The study found out that at Unga Millers (U) Ltd, inventory management is mostly determined by the quantity because of the inherent association to space that is attached to the quantity.

Timeliness is the second determinant followed by cost and finally quality as elaborately shown by table 4.3.1

#### **What are the factors affecting inventory management at Unga Millers (U) Ltd Kampala**

The study found out that poor control of output is a major factor that affects inventory management at Unga Millers (U) Ltd Kampala with a whopping 48% of the respondents giving their view in favor of that followed by poor communication. As stipulated in figure 4.4.1

### **5.2 Conclusions**



Some conclusions were drawn after the analysis of the data collected during the study concerning inventory management at Unga Millers (U) Ltd Kampala. These conclusions were based on the research questions of the study:

**How has Inventory Management affected the performance of Unga Millers (U) Ltd Kampala?**

The study findings established that indeed inventory management played a significant role in affecting the performance of the company. Most of the respondents especially those in the store felt that if less stringent measures were put in place regarding the ordering procedure, then this would go a long way into streamlining inventory management and issues like stock outs and increased procurement costs would be eliminated and hence go a long way into improving the performance of the company. The researcher therefore concluded that there as need for urgent review of the existing system and ways of incorporating other systems be looked at.

**What are determinants of inventory management at Unga Millers (U) Ltd?**

The study findings established that the major determinant of inventory management at Unga Millers (U) Ltd is quantity. This is because for proper inventory management system to be maintained, there has to be enough space which actually is impossible to determine without knowing the quantity involved. Therefore, quantity is a major determinant.

**What are the factors affecting inventory management at Unga Millers (U) Ltd Kampala?**

According to the study findings, poor control of output is a major factor that affects inventory management at Unga Millers (U) Ltd Kampala. This was seen because the production department of the firm is more active than the sales department and the production department does not have proper sales forecast to rely on while producing. Therefore, lack of proper control of output is a major factor affecting the management of inventory.



**APPENDIX 2: TIME FRAME**

<b>NO</b>	<b>ACTIVITY</b>	<b>SCHEDULE</b>
1	Proposal	April 2010
	Righting and typing the proposal	May, 2010
2	Data collection	June, 2010
3	Dissertation writing	June , 2010
4	Submission	July , 2010