

**THE IMPACT OF INVENTORY MANAGEMENT
TOWARD SMEs**

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DECLARATION

“I declare that this project is the result of my own research except as cited in the references. The research project has not been for any degree and is not concurrently submitted in candidature of any other degree”

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DEDICATION

For beloved parents, lecturers and friends.

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Alhamdulillah. I would like to express my deepest gratitude to all my family members and friends who were always supporting me and encouraging me with their best wishes. I am so grateful to the Faculty of Technology Management & Technopreneurship at Universiti Teknikal Malaysia Melaka (UTeM) for making it possible for me to study here.

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ABSTRACT

This study will be conducted at Melaka, Malaysia. The objectives of this study are to identify whether optimize warehouse had improved SME's inventory management, (2) determine relationship between SME's inventory management and all independent variables, and (3) to investigate the most significant impact that enhances SME's inventory management. The impact of inventory management toward SMEs are prevent shortage, optimize warehouse, inventory level in real time and purchase order management. Data collection is important to complete this study and basically there are two types of data collection which are primary data and secondary data. For the primary data in this study, the researcher used questionnaire to make a survey and this questionnaire is set to be answered by respondent. Secondary data is from other resources that already exists such as articles, journals, book references and internet source study. The questionnaires were prepared in English language and then were translated into Bahasa Malaysia language so the certain inconveniences and communication barriers were avoided. The questionnaire will be distribute in Melaka and Kuala Lumpur state and 100 SMEs with 20 respondents for pilot test and 80 respondents for data analysis for this study and after that, the data will be analyze using SPSS software to interpret data.

Keywords: Inventory Management, Impact, SMEs, Warehouse

ABSTRAK

Kajian ini akan dijalankan di Melaka, Malaysia. Objektif kajian ini adalah (1) Objektif kajian ini adalah untuk mengenal pasti sama ada mengoptimumkan gudang bertambah baik pengurusan inventori SME, (2) menentukan hubungan antara pengurusan inventori dan semua pembolehubah bebas terhadap SME, dan (3) untuk menyiasat kesan yang paling ketara yang meningkatkan pengurusan inventori SME. Kesan pengurusan inventori SME mengelakkan berlakunya kekurangan, mengoptimumkan gudang, menegtahui tahap inventori dalam masa sebenar dan pengurusan membeli pesanan. Pengumpulan data adalah penting untuk melengkapkan kajian ini dan terdapat dua jenis pengumpulan data yang data utama dan data sekunder. Bagi data utama dalam kajian ini, penyelidik menggunakan soal selidik untuk membuat kajian dan soal selidik ini ditetapkan untuk dijawab oleh responden. Data sekunder adalah dari sumber-sumber lain yang telah wujud seperti artikel, jurnal, rujukan buku dan kajian sumber internet. Soal selidik telah disediakan dalam bahasa Inggeris dan kemudian diterjemahkan ke dalam bahasa bahasa Malaysia jadi kesulitan tertentu dan halangan komunikasi telah dielakkan. Soal selidik ini akan diedarkan di negeri Melaka dan Kuala Lumpur. 100 SME akan menjadi responden untuk kajian ini dan selepas itu, data akan dianalisis menggunakan perisian SPSS untuk mentafsir data.

Kata Kunci: Pengurusan Inventori, Impak, SME, Gudang.

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LIST OF ABBREVIATIONS

ABBRV.	DETAIL
SMEs	Small and Medium Enterprises
IMP2	Industrial Master Plan 2
ISO	International Standards Organization
SPSS	Statistical Package For The Social Science
IM	Inventory Management
PS	Prevent Shortage
OW	Optimize Warehouse
ILRT	Inventory Level in Real Time
POM	Purchase Order Management

CHAPTER 1

INTRODUCTION

1.0 Introduction

This chapter an introduction to the study is provided the background of study, problem statement, research question, research objective, scope and significant of the study and summary.

1.1 Background of Study

Inventory management is important for Small and Medium Enterprises (SMEs) to remain competitive, to make an improvement and survive in the marketplace. SMEs occupy a place of strategic importance in developing as well as developed countries owing to its considerable contribution to national income, employment, exports, and entrepreneurship development (Saxena, 2012). In Malaysia's economic, SMEs contribute incredibly regardless of their level of development and since the 1990s, as SMEs become the main economic transformation to the nation, they are important for employment and growth. In order to survive in the competitive environment, SMEs must gear up themselves towards developing and sustaining a competitive advantage through high-quality, low cost products, with their limited resources (Scully and Stanley, 1994).

Furthermore, SMEs should be as efficient and effective as they could be at every level which includes inventory management to succeed in today's competitive environment and to sustain economic growth. A good inventory management can bring a positive impact for the SMEs in industry which is according to Beheshti, (2009), an appropriate managed inventory might impressively improve the business's performance. Mismanage the inventory may threaten SMEs existence since the inventory is the largest valuable asset for businesses. The success or failure of SMEs depends on inventory management performance which can make investment in working capital and operational results better or worse. So, it is possible to consider that the primary goal of inventory management, therefore, is to have adequate quantities of high quality inventory available to serve customer needs, while also minimizing the costs of carrying inventory (Brigham and Ehrhard, 2005). Therefore, the existence of effective inventory management is due to proper handling, perfect audits and correct recording of sales.

Inventory management as the management of different inventory components (raw materials, work-in-process and finished goods) by properly managing the crucial determinants of inventory levels considering the specific features of SMEs (Rajeev, N., 2008) and inventory management, therefore, should strike a balance between too much inventory and too little inventory (Gupta and Gupta, 2012). Every SMEs organization continually strives to keep up an ideal inventory to be able to meet its requirements and maintain a strategic distance from over or under inventory that can affect the financial figures. SMEs deal with their inventory every day as they put in new orders for items and ship orders out to customers and to avoid the consequence of shortage, effective inventory management is required. Management of inventory is also fundamental to the success and growth of organization as the entire profitability of an organization is tied to the volume of products sold which has a direct relationship with the quality of the product (Anichebe and Agu, 2013). The bad management of the inventory in SMEs can affect the perception on the brand that can cause delay, employee pilfering, shoplifting and not enough inventory.

Moreover, according to Koumanakos (2008), efficient or inefficient management of inventories is only one factor that may influence firm performance. Since, inventory itself is an idle asset and involves holding cost, it is always desirable

that investment in this asset should be kept at the minimum possible level (Panigrahi, 2013). The purpose of inventory management is to reduce errors and improve operations because excess inventory and shortage of materials are often the two main problems found in SMEs regarding inventory management (Eloranta and Raisanen, 1988). In addition, competitive advantage to other competitors is required for SMEs by well manage the inventory in organization to meet consumer demand. It is important since inventory can give a huge impact to the businesses and a positive perception from others is required to maintain in marketplace.

1.2 Problem Statement

This study focus on the impact of inventory management towards small medium enterprise (SMEs). Inventory management is one of the main factors for success and failure in businesses and to balance the supply of inventory with demand is challenging since the demands come from various customers in different amounts. Poor inventory management may cause some trouble such as disruptions of production, reduce market share and loss customers.

However, the inefficiency of inventory management will result in the records of inventory does not align with actual inventory in the business. This will lead to inaccuracy in financial and accounting report of SMEs business. Furthermore, SMEs faces the excessive or shortage in inventory for the market demands. Shortage in inventory may cause a dissatisfaction of consumer towards SMEs because of not enough inventory to serve customer needs.

SME is also facing the problems of loss, spoilage of inventory which may increase their inventory cost for them. Systematic and proper manage of inventory can smooth the running of activities to meet the demand of customers and reduce the cost. Therefore, this study is to investigate the impact of inventory management towards SMEs in Melaka and Kuala Lumpur.

1.3 Research Question

RQ1: What is the most significant impact that enhance SME's inventory management?

RQ2: How optimize warehouse had improved SME's inventory management?

RQ3: What is the relationship between SME's inventory management and all independent variables?

1.4 Research Objective

RO1: To identify whether optimize warehouse had improved SME's inventory management.

RO2: To determine relationship between SME's inventory management and all independent variables.

RO3: To investigate the most significant impact that enhance SME's inventory management.

1.5 Scope of Study

This study try to identify whether optimize warehouse had improved SME's inventory management. Also, this study try to determine relationship between SME's inventory management and all independent variables. This study will be conducted at Melaka and Kuala Lumpur to investigate the most significant impact that enhances SME's inventory management. The reason why the researcher choose Kuala Lumpur also because there are not enough SMEs in textiles industry around Melaka.

1.6 Significant of the Study

The significant of this study is to identify the challenges in inventory management toward Small and Medium Enterprises (SMEs) in Melaka and Kuala Lumpur. The analysis of inventory management will show the benefit to SMEs to determine the challenges and make plans for overcoming these challenges. Moreover, from the information that this study provide, the organization will recognize effective inventory management that will improve optimization of the warehouse, prevent shortage and purchase order management.

1.7 Summary

In chapter 1 was clarified the introduction of the topic and background of the study clearly. In addition, the problem statement are identified in this chapter and also explained the purpose of this study to be conducted. After that, the research questions and research objectives are formed during this study are important because it is contribute a clear way to complete the whole research study and the significant of the study. The following chapter will describe in detail the literature review of inventory management. Also, hypothesis and theoretical framework.

CHAPTER 2

LITERATURE REVIEW

2.0 Introduction

This chapter will be discussed about the previous study related to SME's inventory management. In this chapter, the independent variable and dependent variable were formed and also was explained and discussed. Moreover, the prediction of research which is the hypothesis and theoretical framework was also presented in this chapter. All of these will be explained in detail in this chapter.

2.1 Inventory

One of the working capital elements among current assets are inventory and inventories are very important for any business organization. Inventories are normally considered the least liquid component of current assets group (Nwakaego et al., 2014). According to Sekeroglu and Altan (2014), profitability is an indicator for firms' financial success is provided with minimum cost and optimum inventory quantity. Inventories should be available in exact amount of what is required rather than more or less stock because it will cause an issue after that. Inaccuracies in an inventory creates a range of problems, including loss of productivity, the manufacturing of unwanted items, a reduction in the levels of customer commitment, the accumulation of costly physical inventories and frustration (Meyer, 1991)

Furthermore, according to Nwakaego et al., (2014), in most companies, a certain level of inventory must be kept in order to generate an adequate level of sales. If there is a shortage of inventories, the sale will decrease and cause poor customer service. In many cases good customers may become irate and take their business elsewhere if the desired product is not immediately available (Koumanakos, 2008). If there is an excessive inventory, the company will expose to an expenses such as storage costs, taxes and insurance of the inventories and increases the possibility of damage, wastage and loss. According to Joshi (2000), the objectives of inventory management are to reduce cost of holding stock, to avoid investment in stock outs (running out of stock) so as to ensure that production cycle operates smoothly. Type, function, demand, lead time, cost and usage are basic characteristics of inventory. Inventory includes the stock of raw materials, goods-in-process, finished goods and stores and spares (Panigrahi, 2013).

Raw materials used as an item to the operation process to produce finished goods or products. Morse, (1989) writes that raw materials are basic inputs converted into finished goods or products through the manufacturing process. For example, raw materials to produce chocolate are cocoa bean, milk and sugar. Every finished goods have their own raw materials through the operation process. Raw materials are concerned with the goods that have been delivered by the supplier to purchaser's warehouse but have not yet been taken into the production area for conversion process (Cinnamon et al., 2010).

In addition, goods-in-process and also known as work in progress concerned with products that are still in the production process to be converted into finished products and they are important in covering the gap that may be left by the company running out of stock of finished products (Pandey, 1999). Work in progress refers to partially complete product which are at various processing operations to be complete product.

Lastly, end result from processing operations are finished goods or completed items which are ready to use, sale and delivery in the marketplace. According to Kasim et al., (2015), finished goods refer to the stock sitting in the warehouse waiting for sale and delivery to customers. After this stage, there is no processing operations required

for finished good. Finished goods inventories are completely manufactured products which are ready for sale (Horngreen, 1982).

2.2 The Impact of Inventory Management

According to Swaleh and Dr. Were (2014), inventory management plays a decisive role in the enhancement of efficiency and competitiveness of business enterprises. Inventory management is a set of techniques that are used to manage the inventory levels within different companies in the supply chain (Hugos, 2000). Moreover, inventory management is a process to manage and control the inventories so that there is no shortage or exceed stock. The inventories that are mismanaged can create financial issues for a firm in marketplace such as inventory investment, cost of holding the inventory and sales. Beside demand and other forces like competitors' actions and general price index, inventory situation in terms of efficient management and effective planning determines the activity level, the turnover and the ultimate profit in a given company (Akindipe, 2014). The achievement or disappointment of a business relies on its inventory management performances which are from the management of the inventories, it can maximize production operating efficiency, improve customer satisfaction and increase sales. A properly managed inventory system can significantly enhance the company's execution (Min and Pheng, 2005; Koumanakos, 2008).

Furthermore, inventory management can increase product quality and prevent obsolete inventory that can cause wastage, spoilage and loss of the businesses. Effective inventory management is essential in the operation of any business (Bassin, 1990) and according to Panigrahi (2013), proper management and control of inventory not only solve the problem of liquidity but also increase profitability. Inventory management is to minimize cost of handling stock and fulfill customer demand in order to increase sales. Maria and Jones (2003) argue that implementation of proper inventory management practice involves providing high quality products at relatively less cost. Inventory as an asset on the balance sheet of companies has taken on increased importance because many companies are applying the strategy of