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## **Effects of Integrated Management Policies on Financial Performance of Seventh-Day-Adventist Book Centers: A Case of Adventist Book Centers (Abc), Kenya**

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### **Abstract:**

*Effective Integrated management and control systems are critical to the profitability and overall performance of many companies. Many Adventist Institutions have trouble resulting from operating losses and cash flow problems. This could be because of low income, poor integrated management systems, and lack of financial discipline. Having this perspective in mind, the researcher was prompted to investigate the effects of integrated management systems on financial performance of a seventh day Adventist (S.D.A) institutions in Kenya. Some of the key areas the researcher investigated included among others investigating the impact of integrated management policies on the financial performance of ABCs. The researcher used descriptive research design in undertaking this study. Descriptive research design entails the survey and fact finding research. Descriptive research design assesses the characteristics of whole populations of people or institutions. The target population was 216 employees at Home Health Education Services (HHES) while sample size was 30% of the target population totaling to 64 employees. The sampling design adopted was stratified random sampling because population was heterogeneous. The researcher used both questionnaires and secondary data in analyzing mean, standard deviation, frequency tables, percentages, and Pearson correlation and regression analysis. Data was entered into the computer and analyzed by use of statistical package for social science (SPSS) regression and correlation. Data was then presented using tables and figures. The findings from the studies demonstrated that effective integrated management had a strong positive impact on the financial performance and policies of ABCs. This research indicated that ABC proprietors must adopt effective management policies if any positive financial performance of ABCs was to be realized. This, it was suggested would act as a tactic to further their financial performance and in overall performance of their organization.*

**Keywords:** *Integrated management policies, financial performance*

### **1. Introduction**

Integrated means combination of the entirety of the internal management practices to form one cohesive entity. This is possible through connections that make business operations of processes and departments boundary-less or rather seamless. The Chartered Quality Institute (CQI) explains integrated management system (IMS) as a system used by the management to combine business departments into a seamless system. This CQI argues enables the business to achieve its objectives. CQI outlined a number of supporting reasons in favor of integrated management policies. These included harmonizing and optimizing business practices so as to create consistency, improve communication and facilitate training and development

The policies a company uses therefore impacts on costs, reduces risks that the company may otherwise face and increase the level of earnings. Policies eliminate conflicting responsibilities and work related relationships on its financial performance. There are firms that use a periodic system that has been found not to maintain a continuous update of inventory. CQI explains periodic inventory as a system of inventory that makes record updates only at intervals. On the other hand, the perpetual inventory system makes inventory updates as seen necessary. The difference between the two lies on the fact that periodic inventory system does not commit to make up-to-date entries on both the inventory and the cost of inventory. Any inventory updates are only done on certain occasions, usually end-year.

It takes physical counts periodically, which should be at least annually and generally at the end of the year. This is the only time(s) when the company knows the physical quantities on hand, and therefore the quantities used or sold during the period (Nikolai, 2007). In the periodic system, a company typically does not record (debit) the costs of the purchases of Inventory in an Inventory account. This would lead to an overstatement of the permanent Inventory account. The periodic system then necessitates a temporal record of purchases of the inventory. (Williams, 2008).

The problem of determining the most desirable order quantity under stable conditions commonly is known as the Economic Order Quantity (EOQ). EOQ refers to the amount of inventory a firm should add to the existing inventory and still keep at its lowest the total cost of inventory. These costs include order costs, expenses associated with holding and shortage of inventory. EOQ is a tool that is used by management to monitor and review inventory systems on a continuous basis. This necessitates the purchase of a certain determined amount of quantity every time inventory reaches a certain level (Woolsey, 2001). To do this, EOQ designs a framework that helps calculate the point or time at which there should be a reordering of inventory. This framework provides an opportunity for the firm to avoid cases of spontaneous shortages during periods when shortages are not envisaged. This tool is used by firms to determine the points when its advisable to replenish, to determine the level of inventory to be kept and decide how often reordering should be done if a firm has to reap from the benefits if lowest costs possible. Piasecki (2001) noted that EOQ framework rides on some basic assumptions. Such key assumptions are, among others, that there exists constant demand and that inventory is exhausted at a fixed rate. This theory assumes that at the point when inventory is zero, a certain fixed amount of purchases is made so as to return inventory back to its beginning level. It's important to note that the model assumes instantaneous replenishment and as a result inventory shortages or associated costs are avoided. (Piasecki, 2001)

## 2. Related Literature

A sizeable number of researches have been conducted that hold the two important assumptions in EOQ model, which are; constant demand and that of a fixed order (Tripathy, 2007). The role of integrated management system is to ensure faster Inventory turnover and turnaround time. It increases Inventory turnover and reduces costs. The Inventory turnover demands products on the shelves should not be sold based on the first-in first-out (FIFO) cycle principle (Jayeff, 2008).

Classification of Inventory differs from organization to organization based on the business undertaking. Common criteria used are nature of Inventory. An example is the manufacturing, sale or retail inventories, the purpose for which Inventory is being held in stock or function and the related usage in the supply chain. Others include consumables, all supplies in an undertaking which are classified as indirect and which do not form part of saleable product Proper classification of Integrated and its control improve the financial position of a business (Williams,2008).

According to Likert, (2010), manual perusal of the Inventory levels on a daily basis is one of the ways to facilitate re-ordering under computerized system. Under this plan a printout is generated of all items in Inventory and is examined by the Inventory manager, which decided when and how much to order based on usage rates and expected future needs. ABC analysis and minimum and maximum meters of establishing Inventory review plans are vital they are useful for both manual and computerized.

Lynch (2007) argues that the very aim of Inventory management is cost reduction so as to maintain profitable margins. Inventory management is therefore critical for any firm. As such, inventory management entails the amount to be bought at any particular time and in what quantities. It's the question of inventory size and timing. Pandey (2009) indicated that wherever management of inventory has been effective there has been inventory-planning models. The function of Inventory- planning models has been to grapple with the problems of inventory size and timing. He argues that integrated management models have been designed to attain a balance between costs associated with acquiring and holding inventory. These two problems can affect a company's profitability. The inventory planning models are designed to assist the management keep inventory at its optimal levels. This then serves as the basis of this study, to investigate how integrated management models can be used to maintain optimal inventory levels at minimum possible costs. Jayeff (2008) argued that from a financial perspective, Inventory management is an important matter. For him, Inventory is the biggest and important asset item on a manufacturer or distributor's balance sheet. He argues that the management should emphasize good management of inventories.

According Halachmi, (2007) the purpose of Inventory is to maintain good customer service, to smooth the flow of goods through the productive process and to provide protection against the uncertainties of supply and demand. It also aids in obtaining reasonable utilization of human resource and assets. Transit or pipelines inventories are used to stock the supply and distribution pipelines linking an organization to its suppliers and customers as well as internal transportation points.

They exist because of the need to move materials from one point to another. Obviously, transit inventories are dependent on location and mode of transportation. A decision to use a distant supplier will probably create a far larger raw materials transit Inventory than one to use a local supplier with truck delivery. In just in time (JIT) production a variety of means are used to reduce transit inventories including the use of local supplies, small batches in special containers and trucks. To take stock of inventories has been touted as an important factor to be considered because of its direct implications on the balance sheet (Nikolai, 2007). In order to identify the costs of inventory, include all expenses associated with direct or indirect actions that will bring the item to a salable condition and place i.e., the difference between invoice cost and any discount and incidental costs which includes import duties, freight, storage, insurance, and costs incurred and are important in placing an item in a salable condition and place. (Nyanga, 2010).

### 3. The Conceptual Framework

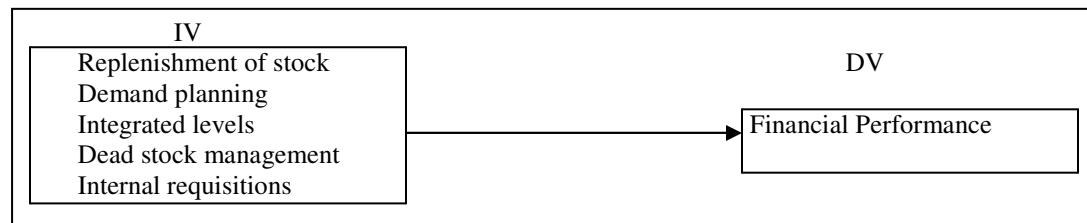


Figure 1: Conceptual framework

### 4. Research Methodology

Descriptive research design was used. The target population of this study was the staff in finance and procurement departments in the Adventist Book Centers across the country. The target population of this research study was 216 members of staff.

Name of ABC's	No of Employees	Percentage
Nairobi	38	18
Mombasa	22	10
Embu	20	9
Nakuru	27	13
Keroka	18	8
Kisii	21	10
Kisumu	16	7
Kakamega	12	6
Kitale	18	8
Eldoret	24	11
Total	216	100

Table 1: Target Population

In this study 10-30% of the accessible population was used and was adequate according to Mugenda (Mugenda, 2007). Stratified random sampling design was used in the study. This method was appropriate because it represented not only the overall population but also the key sub groups at the populations. The researcher used 30% of the target population as the sample size.

Name of ABC's	Target Population	Sample Size	Percentage
Nairobi	38	11	17
Mombasa	22	7	11
Embu	20	6	9
Nakuru	27	8	13
Keroka	18	5	8
Kisii	21	6	9
Kisumu	16	5	8
Kakamega	12	4	6
Kitale	18	5	8
Eldoret	24	7	11
Total	216	64	100

Table 2: Sample size distribution

The study relied on both primary and secondary data obtained from ABC staff. The instrument used is questionnaires. The questionnaire sought information on the effects of integrated management systems on financial performance of ABCS. Questionnaires used in the current study were designed using both open ended and closed ended questions. Respondents' opinions were quantified by rating them on a five point Likert scale.

To ensure validity of the findings the researcher from time to time sought for assistance from the supervisors and other experts in the field of research. In order to ensure the reliability of the research, the researcher used Cronbach's alpha as a measure of internal consistency. Data was analyzed using mean, standard deviation, frequency tables, percentages, and Pearson correlation and regression analysis.

### 5. Results and Discussions

The study sought to know whether management of ABC centers in Kenya practiced Inventory policies. Respondents were asked questions on how various policies were associated with financial performance and how they were applied to improve the financial

performance. Findings were as discussed here below. Data collected in relation to integrated management policies were illustrated in the chart below.

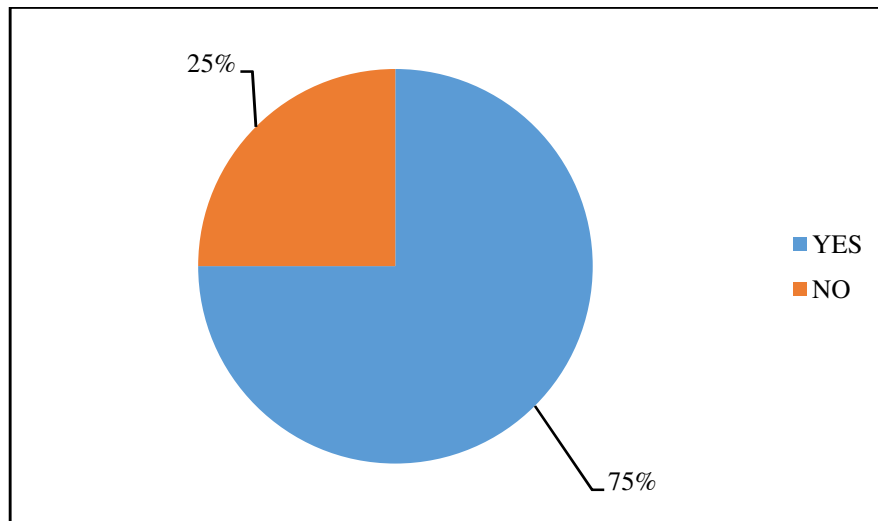


Figure 2: Effect of Integrated management policies on financial performance

According to the findings in figure above, 75% agreed that inventory-warehousing systems influenced financial performance while 25% said it did not affect. These results imply that Inventory management policies influence the sales thus improving the profits of the firm. Asked to give their opinion on how integrated management policies affect financial performance based on replenishment of stock, the respondents said that demand planning, Inventory levels, dead stock management, and internal requisitions were some of the areas of high concern. The findings were captured on a five-point scale on the basis of their level of agreement as shown in the chart below. (Rating Scale: 1=strongly disagree, 2=Disagree, 3=Moderately Agree, 4=Agree, 5=Strongly Agree).

On the basis of the above table, the weighted average score was calculated

$$\text{Weighted average} = \sum f(n) / N$$

S. No	Category	Ranks					Weighted Averages
		1	2	3	4	5	
1.	Replenishment of stock	4	5	10	35	6	3.12
2.	Demand planning	8	7	12	29	4	3.15
3.	Integrated levels	4	7	17	30	2	3.16
4.	Dead stock management	6	10	15	28	1	3.13
5.	Internal requisitions	5	8	18	26	3	3.10

Table 3: Integrated management policies effects on financial performance

From the analysis above, Integrated management policies employed by ABC centres in Kenya influenced financial performance. After analyzing the weighted averages, it was inferred that respondents agreed that policies to do with Inventory levels had highest scores of 3.16. This was mostly emphasized by ABC organization. This was followed by demand planning with scores of 3.15, while dead stock management scores were 3.13, whilst replenishment of stock had scores of 3.12. The least score was represented by internal requisitions, which had 3.10. From the findings the Integrated policies on the above issues was barely average. This is why when Integrated is maintained at a certain level we will have prudent management on inventory.

Hence, in order to maintain reliable sales forecasts, effective integrated management policies must ensure effective management of stock analysis of costs is necessary. This serves the reason why the ABC is able to maintain high and increasing sales at the end of their financial year, which is an indication of high profits for the firm.

## 6. Summary, Conclusions, and Recommendations

### 6.1. Summary

The last objective was to find out the effects of integrated management policies on financial performance of ABC in Kenya. Results indicate that majority of respondents agreed that Integrated management policies affected financial performance. The study indicated that integrated management policies focused more on maintaining Inventory levels rather than replenishment of stock, demand planning, dead stock management, and internal requisitions.

## 6.2. Conclusion

Effect of Integrated management policies on financial performance

From the study, 75% agreed that integrated management policies had a direct effect on financial performance of the organization. ABC Centres in Kenya practice policies majorly geared towards maintaining Inventory levels ( $M=3.16$ ) in order to ensure they have the right quantity and a certain level of Inventory required at certain time to avoid obsolescence of stock. However, the organization also considers policies to ensure effectiveness in demand planning, replenishment of stock, dead stock management and internal requisitions. Excessive Inventory is a financial burden. It exposes items to damage, spoilage or loss. Little Inventory may interrupt normal business operations. The aim has been therefore to ensure optimal levels of inventory.

## 6.3. Recommendation

Finally, I recommend that there should be best integrated management policies aimed at maintaining inventory levels. Best Integrated management policies will require analysis of costs, which will ensure reliable sales forecasts. The category management practices have been proposed as a remedy for possible stock outs. This will lead to improved performances. As another recommendation, researches should be conducted to determine how automatic replenishment programs can be used beneficially to improve performance.

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