



INVENTORY COST MANAGEMENT PRACTICE AND FINANCIAL PERFORMANCE OF GARISSA WATER AND SEWERAGE COMPANY IN GARISSA COUNTY, KENYA

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ABSTRACT

This study purposed to establish the extent to which adoption of inventory cost management practice affected the financial performance of Garissa Water and Sewerage Company. Theory anchoring the study comprised of Working Capital Management Theory. The study employed a descriptive correlational research design. The population of the study comprised of 85 employees from Garissa Water and Sewerage Company from accounting, administration, and operations departments. The study employed a census approach. A close-ended questionnaire structured in a five-point liker scale was used to collect data for the study. Both descriptive and inferential statistics were used to analyze the collected data. The descriptive statistics comprised of means and standard deviation while the inferential statistics comprised of both regression and correlation analysis. The statistics were generated through Statistical Package for Social Science version 25. Figures and tables were used to present the analysis results. Prior data collection, a pilot study was conducted to assess the reliability and validity of the questionnaire. The study established that inventory cost management practice positively and significantly affected financial performance of Garissa Water and Sewerage Company. The study concluded that inventory cost management practices have significant positive effects on the financial performance of Garissa Water and Sewerage Company. The study recommends that the management of Garissa Water and Sewerage Company strengthen the implementation of inventory cost management practices through regular reviews, staff training, improved cost allocation, and enhanced inventory control systems.

KEYWORDS: *Inventory Cost Management Practice, Financial Performance and Garissa Water and Sewerage Company*

BACKGROUND OF THE STUDY

Water and sewerage firms play an important role in society by supplying clean drinking water and ensuring good sanitation through wastewater management (Obaideen et al., 2022). According to Baraza and Muturi (2019), the services are essential to public health, environmental sustainability, and economic development. The effective functioning of the water and sewerage companies is consequently critical, and this efficiency is significantly determined by how efficiently the firms manage costs. Effective cost management enables the firms to maintain and modernize infrastructure, reach out to underserved groups, and ensure the quality and dependability of water and sanitation services. Mawia & Kalunda, 2021).

Inventory cost management determines organizational results, but more indirectly. Inventory cost management deals with the management, regulation, and controlling of resources of items carried by the business, allowing businesses sufficient stock holdings while decreasing costs that are tied to storage, decay and spoil, or stock outs. Better inventory management, companies can free up money from high inventory stock levels, whilst having essential materials arrive at a timely location. This for water and sewerage industries is especially important as daily use depends upon stocks such as water treatment, chemicals, spares parts and pipes. Good inventory control is found to keep operational flow smoother by Stevenson (2021) as companies manage a fine balance between the availability of stock without making excess inventory stocks that cost a huge amount to the company. According to Heizer, Render, and Munson (2020), there exist good inventory control that lower costs, and enhance operational reliability and efficiency and a less erratic pattern of service. For that reason, effective inventory cost management practices at Garissa Water and Sewerage Company might lead to better financial outcomes, by limiting avoidable spending and encouraging a more sensible utilization of resources.

STATEMENT OF THE PROBLEM

When organizations implement sound inventory cost management practices, their financial performance is likely to improve. These practices enable organizations to control inventory-related expenses, minimize wastage, prevent unnecessary accumulation of stock, and



ensure the efficient utilization of resources. Effective inventory cost management also helps organizations maintain optimal stock levels, reduce storage and handling costs, and ensure that essential materials are available when required for daily operations. In public utilities such as water and sewerage companies, proper management of inventory, including water treatment chemicals, pipes, spare parts, meters, and other maintenance materials, is essential for controlling operating costs and ensuring the continuous provision of safe and reliable services.

The financial difficulties experienced by some public service organizations suggest that weaknesses in financial management, including inventory cost management, may affect their operational efficiency and financial sustainability. Garissa Water and Sewerage Company (GAWASCO), which is mandated to provide water and sewerage services in Garissa County, may face challenges associated with controlling inventory costs, maintaining accurate inventory records, preventing wastage, and ensuring the timely availability of essential operational materials. Ineffective inventory cost management practices could result in excessive stockholding costs, shortages of critical supplies, unnecessary procurement expenditure, and inefficient utilization of financial resources. These challenges may consequently affect the company's ability to control operating expenses, maintain its infrastructure, and improve its financial performance.

Weak implementation of financial management practices at GAWASCO has been associated with financial and operational challenges. As reflected in the Auditor-General Report (2023), the utility's rate of non-revenue water (NRW) was 44 percent during the period examined. This translated into revenue losses of Kshs. 73,699,848, comprising 1,364,812 m³ of unbilled water against total water production of 4,400,699 m³. In addition, the Company billed only 2,420 out of 7,927 meters, implying that over 69 percent of the meters were not billed, which indicated weaknesses in the utility's revenue systems. The Auditor-General Report (2023) also highlighted control weaknesses involving unsupported cash and cash equivalent balances of Kshs. 16,537,977, unrecorded meter deposits, and an unjustified variance of Kshs. 27,756,300. Furthermore, the Company spent an amount exceeding Kshs. 376.7 million over its approved budgets, representing an overall budget overrun of 52 percent. Although these findings do not directly establish weaknesses in inventory cost management, they demonstrate broader financial control and resource-utilization challenges that warrant an examination of whether inventory cost management practices could contribute to improved expenditure control and financial performance at GAWASCO.

There is relatively limited prior research on the implementation of financial management practices in this context, despite various studies having examined financial management practices in other organizations. For instance, Oluwagbemiga, Olugbenga, and Zaccacheus (2022) examined financial management practices in Nigerian manufacturing firms, meaning that their findings may not fully reflect the circumstances of Kenya's water sector, where inventory management involves essential treatment chemicals, infrastructure materials, and maintenance supplies. Chelangat (2023) examined cost management strategies at Kapkoros Tea Factory, leaving a contextual gap because of differences in industry and geographical location. Similarly, Hussein (2022) investigated internal control systems at GAWASCO but did not specifically focus on inventory cost management practices and their relationship with financial performance, creating a conceptual gap. Therefore, this study seeks to address these gaps by examining the effect of inventory cost management practices on the financial performance of Garissa Water and Sewerage Company in Garissa County, Kenya.

OBJECTIVE OF THE STUDY

To examine the effect of inventory cost management practice on financial performance of Garissa Water and Sewerage Company in Garissa County, Kenya

THEORETICAL REVIEW

Working Capital Management Theory

The basic concept of Working capital management theory is a thought or concept relating to financial management which was derived by Weston and Brigham during 1972. The concept is that companies ought to maintain a suitable equilibrium; therefore, firms are equipped with necessary operating capital and meanwhile do not wastage their capital by keeping too much money on hands or by holding excessive assets on hand. For inventory concerns, working capital theory suggests organizations to ensure appropriate amount of inventory stock to avoid disruptions, meantime reducing warehouse inventory holding costs, avoid spoilages and wastage and relevant costs which may pass unnoticed and accumulate.

Working Capital Management theory relies on the argument that if operating working capital is managed properly, it can create improved financial results. Similarly, the theory also suggests, that companies can enhance their productivity by using their capital as wisely as they can, while reducing costs without benefit, ensuring better Cash Flow management and efficient purchase and storage decisions. Additionally, the theory supposes managers to have dependable management information, in both the financial as well as operational sphere, in so as to allow determination of optimal level of inventory necessary for smooth operations. A company's financial statements reveal the success of a company to the management of this practice. If cost management of Inventory is conducted optimally then it ensured that the company achieved a stable financial health.



However, Working Capital Management Theory was criticized for being unrealistic at the management of "optimal" inventory levels due to variability such as fluctuations of demand and supplies and the inflation. Others have pointed out that if a management of the firm excessively targets cost efficiency, it might do so to the extent that inventory stocks are inadequate and caused disruptions in day-to-day operations. Another criticism faced by Working Capital Management theory by critics is that the theory mainly focuses on financial efficiency and do not examine various operational issues, quality, public services as well as the broader social implications of the organizational performance.

The relevance of Working Capital Management Theory in the given research study is to ensure its capability of providing explanations on the manner in which inventory cost management practices impact upon financial results of the Garissa water and sewerage Company within Garissa County, Kenya. The Garissa Water and Sewerage Company requires a wide range of inventory for instance chemicals that are used in treatment, spare parts, pipes and maintenance materials for normal operation of both water supply and sewerage systems. Effective inventory cost management ensures minimization of expenses that are not needed, avoiding losses or damages in inventory; maintaining optimal levels of inventory to curb idleness while averting shortages that may cause work disruptions, and efficient allocation of inadequate available funds. Therefore, by balancing optimally between efficient provision of inventories and optimum control on costs, the company is assured of improved operation in addition to improved financial performance, thereby making the working capital management theory a realistic hypothesis in conducting the research on the relationship between inventory management costs practice and financial results.

Empirical Review

Atnafu et al (2020) explored the influence of inventory management practice on organizational performance and competitive advantage of micro and small enterprises (MSEs) in manufacturing sector. Their objective was to find out whether implementation of formal inventory management practice leads to sustainable organizational performance and competitive advantage of MSEs using advanced inventory management practices. The authors used cross-sectional research design using a structured questionnaire method on 188 purposively selected MSEs, and owners and managers of the enterprises were the respondents. Descriptive and structural equation modeling (SEM) methods were employed to analyse the data collected from the respondents. The empirical results show that advanced inventory management systems have an effect on the MSEs on organizational performance and competitive advantage. Regarding financial performance, this indicates that inventory management practices enable organizations to more efficiently utilize financial resources, eliminate non-value-adding inventory costs and improve profit.

Balakrishnan and Sullivan (2017) analyzed the link between financial performance and inventory management practices in manufacturing firms in the United States. The study aimed to find out whether firms that have higher inventory turnover and lower inventory holding costs would enjoy higher profitability. In the study, financial data for 120 US manufacturing firms published in annual reports were used for five years, the study used a descriptive correlational design and stratified random sampling for data collection, and panel regression analysis was employed in testing the relation between financial performance and inventory management practices. The results showed that firms that implemented proper inventory management practices experienced a higher asset return and lower inventory holding costs. Asset utilization and profit levels were used to represent financial performance in the study.

Kumar and Sharma (2019) studied the influence of inventory cost control practices on the profitability of companies operating in the retail industry in Europe and Asia. The objective was to determine if contemporary inventory management policies, such as just-in-time inventory control and the use of automated inventory reorder points, led to higher profitability. The research used a mixed-method approach, combining an organizational survey of 200 supply chain managers and financial information from firms. The data was analyzed using thematic analysis and regression analysis to determine the influence of inventory management practices on profitability. It was found that companies that best controlled inventory costs experienced superior profit margins, in part through reduced operational waste and greater utilization of contemporary inventory control policies. In this case study, organizational financial performance was determined by the degree of profitability and ability to cut unnecessary operating costs.

Etale and Binglar (2020) in their study evaluated the effect of inventory cost management on business performance in Nigeria. The study examined how cost management of raw materials inventory, work in progress and finished goods inventory can affect the profitability of a business. The study adopted a quantitative longitudinal research design based on secondary data of time series data retrieved from the audited annual report of a few selected brewery companies covering the period 2005 – 2014. The researcher used multiple regression analysis to analyze the variables using SPSS in order to find the relationship between inventory cost management and business performance. Results concluded that inventory cost management can be related to an increase in gross profit margin implying that cost management of the cost of acquiring, processing and storing inventories can lead to an increase in business profitability. In this case, an enterprise's financial performance was operationalized as the ability of the firm to keep more money with it after incurring costs, which the firm must expend in generating such revenues.

Nkosi and Adewole (2021) investigated inventory cost management and business performance by manufacturing companies in South Africa. The aim was to determine whether the dissimilarities between inventory cost management practices influence return on equity and operating margin. The researchers used a cross-sectional quantitative research design. Data were gathered from 150 firms registered at the Johannesburg Stock Exchange and analysed using random sampling and multiple regression to identify the statistical relationships between inventory cost management and financial performance. The results showed that proper inventory cost management was a significant determinant of financial performance, especially with regard to return on equity and operating margin. For the purposes of this study, return on equity refers to the gains accruing to a firm's shareholders, while the operating margin accounts for what is remaining from operating income once operating costs have been deducted. These examples demonstrate how inventory cost management influences the productive use of capital and the control of operating expenditure.

Braimah, Mu, Quaye and Ibrahim (2021) studied the work-in-progress management strategies and profitability of SMEs in Ghana. The study investigated the effect of inventory management and working capital management on profitability of SME firms. The research utilized a GMM model for the analysis and a data set of 366 selected Ghanaian SME's on the period 2007-2016. The result indicated that relatively long periods of inventory holding had a significant negative effect on SME profitability. This pointed to the fact that – a longer period of holding inventory could imply increase storage and financing costs, thereby lowering the effective utilization of invested financial resources (i.e., financial performance, as measured by the profitability of an enterprise) and the volume of the enterprise's effective use of working capital. The finding suggested that good inventory management facilitates lowered inventory holding costs, thus saving resources and preventing financial resources from being costlessly locked up.

Annah and Musau (2023) examined inventory cost control and financial performance: the case of Kapkoros Tea Factory, Bomet County, Kenya. The purpose of this study was to establish whether the implementation of systematic inventory costs control impact on financial performance. A sample of 187 employees at Kapkoros Tea Factory who worked in marketing, production, personnel and finance sections was selected using stratified and simple random sampling techniques. Data was collected using semi-structured questionnaires and analyzed using descriptive and inferential statistics. Results of the study indicated that inventory cost management had a significant and positive impact on financial performance. Financial performance improves when inventory cost is controlled as this results in how the availability of material that is needed for operations and saves the organization the cost of wastage, holding costs and inefficiencies.

Muriithi and Muturi (2022) investigated the effect of inventory cost management practices on the financial performance of Kenya's agro-based manufacturing companies. The study aimed to establish the link between strategic inventory cost management practices and profitability and minimizing of losses. The study employed the descriptive survey research design, with respondents being finance and inventory managers and primary data being collected through structured questionnaires. The study indicated a positive correlation between inventory cost management and financial performance, postulating that implementation of the right inventory management practices can significantly enhance effective allocation of resources and minimize avoidable costs. When it comes to financial performance, these findings imply that organizations can enhance their financial performance by minimizing costs associated with the procurement, storage, and handling of inventory.

Omwenga (2022) investigated the effects of inventory cost management practices on financial performance of public water utilities in Nairobi County. The research specifically aimed at determining the influence of inventory cost planning, control and monitoring on financial performance as measured by cost- to-revenue ratio. A census of 150 employees working in procurement and finance departments of public water utilities was used as the target population. The study adopted a descriptive survey design with self-administered questionnaires used to gather primary data and SPSS regression analysis to analyze the research hypothesis. The result revealed that sound inventory costing practices led to better financial ratios. Cost-to-revenue ratio gives an idea of how much of the revenue is being spent and the lower the value the better provided the services are met and productivity is assured. The results implied that planning, control and monitoring of inventories could lead to reduced unnecessary expenses in water utilities, thereby enabling them to meet their operational costs from internally generated revenues.

Conceptual Framework

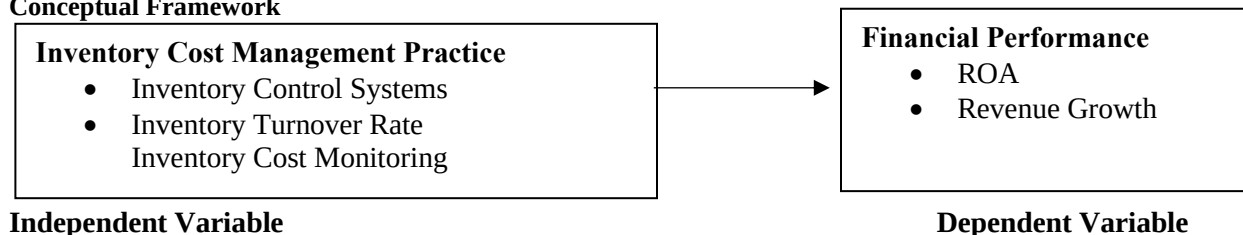


Figure 1 Conceptual Framework

RESEARCH METHODOLOGY

The study employed a descriptive correlational research design. The study targeted 85 employees from Garissa Water and Sewerage Company from accounting, administration, and operations departments. The research employed a census approach. The study used a close-ended questionnaire structured in a five-point Likert scale. The study applied both descriptive and inferential statistics to analyze the collected data. The descriptive statistics comprised of means and standard deviation while the inferential statistics comprised of both regression and correlation analysis (Patten & Newhart, 2019). The statistics were generated through Statistical Package for Social Science version 25. Tables were used to present the analysis results. A multivariate regression model was used to establish relationships between the study variables. The model was in the form of:

$$Y = \beta_0 + \beta_1 X_1 + \varepsilon$$

Where; Y = Financial performance, β_0 = Intercept (Constant), β_1 = coefficient of the independent variable, X_1 = Inventory Cost Management Practice and ε = Error term.

RESULTS

The study aimed at collecting data from 85 respondents comprising of accounting officers, operation personnel and administration officers from GAWASCO. Out of the 85, only 71 respondents fully filed the questionnaires and returned for analysis. This accounted for a response rate of 83.5%. A response rate of 83.5% was considered adequate for analysis because response rates of 50% are considered adequate, 60% good, and 70% or above very good for survey research, indicating that the obtained response rate was sufficient to yield reliable findings (Morgan, 2020). The high response rate was attained due to the application of drop and pick data collection approach.

Descriptive Results

The study wanted to know the respondent's perception on the effect of Inventory Cost Management Practice on financial performance of Garissa Water and Sewerage Company. For that reason, some selected questions were provided on a 5-point Likert scale and the respondents were asked to rate them. The findings are presented in table 1.

Table 1: Descriptive Results on Inventory Cost Management Practice

Inventory Cost Management Practice	Mean	Std.Dev
The company uses a computerized inventory control system to track inventory levels in real-time.	3.592	1.348
Inventory cost reports are used in decision-making to improve financial performance	3.535	1.361
Inventory records are updated promptly and accurately after each transaction	3.282	1.289
The company maintains optimal inventory levels to meet operational needs without excessive stock	3.141	1.334
The company conducts regular audits to monitor and control inventory costs	2.944	1.252
Inventory control procedures are consistently followed to avoid overstocking or stockouts.	2.606	1.075
Overall	3.183	1.277

The results in table 1 revealed that respondents were in agreement with the statements that the company used a computerized inventory control system to track inventory levels in real-time (mean=3.592, std.dev=1.348) and that inventory cost reports were used in decision-making to improve financial performance (mean=3.535, std.dev=1.361). Respondents were however neutral with the statements that Inventory control procedures were consistently followed to avoid overstocking or stockouts (mean=2.606, std.dev=1.075) and that inventory records were updated promptly and accurately after each transaction (mean=3.282, std.dev=1.289).

Respondents further had a neutral stance with the sentiments that the company maintained optimal inventory levels to meet operational needs without excessive stock (mean=3.141, std.dev=1.334) and that the company conducted regular audits to monitor and control inventory costs (mean=2.944, std.dev=1.252). All the statements on overall attained a neutrality stance as depicted by a mean of 3.183 and std.dev of 1.277. The results tallied with findings from Nkosi and Adewole (2021) who revealed that if the management of inventory cost is done appropriately, business could perform better by increasing the return on equity as management of inventory cost provides competitive advantage.

Financial Performance

Table 2 outlined the descriptive results on financial performance.

**Table 2: Descriptive Results on Financial Performance**

Financial Performance	Mean	Std.Dev
The company's total revenue has been increasing steadily	4.183	1.086
There is consistent growth in revenue from water and sewerage services	4.141	1.086
The company has expanded its customer base, resulting in increased revenue	4.099	1.084
The company has managed to reduce its operating costs relative to revenue over time	4.056	1.145
The company effectively collects billed revenue in a timely manner	3.845	0.980
The cost-of-service delivery is within acceptable benchmarks	3.761	1.281
Overall	4.014	1.111

The results in table 2 revealed that respondents were in agreement with the statements that the company's total revenue had been increasing steadily (mean=4.183, std.dev=1.086), that there was consistent growth in revenue from water and sewerage services (mean=4.141, std.dev=1.086) and that the company had expanded its customer base, resulting in increased revenue (mean=4.099, std.dev=1.084). Respondents further agreed with the statements that the company had managed to reduce its operating costs relative to revenue over time (mean=4.056, std.dev=1.145), that the cost-of-service delivery was within acceptable benchmarks (mean=3.761, std.dev=1.281) and that the company effectively collected billed revenue in a timely manner (mean=3.845, std.dev=0.980). On overall, responses on financial performance attained an agree stance as depicted by a mean of 4.014 and std.dev of 1.111. The results were in tandem with Williams and Dobelman (2021) who noted that organizations which develop effective systems and framework of financial management tend to have better position to monitor operation process and adapt efficiently to unforeseen risk events and capitalize opportunities from the utilization of resources.

Inferential Statistics

Correlation Analysis

The purpose of the correlation analysis was to establish existence of correlations between the independent and dependent variables of the study. Table 3 presents the results.

Table 3: Correlation Results

		Inventory Cost Management Practice	Financial Performance
Inventory Cost Management Practice	Pearson Correlation	1	
	Sig. (2-tailed)		
Financial Performance	Pearson Correlation	.691	1
	Sig. (2-tailed)	.000	
	N	71	71

According to the results presented in table 3, inventory cost management practice positively and significantly correlates with financial performance of Garissa Water and Sewerage Company. This is shown by a correlation value of 0.691 and significant value of 0.000. The results bear the implications that enhancing aspects of inventory cost management practice leads to enhancement of financial performance of the company. The results matched those of Atnafu et al (2020) which revealed that the level of advancement in inventory management system leads to the organizations' higher performance in terms of competitive advantage and ultimately the best performance in the marketplace.

REGRESSION ANALYSIS

Model summary

The model summary was utilized in assessing the degree of relationship between independent variables the dependent variable and further to show the percentage accounted by the independent variables on the dependent variable. Table 4 outlines the results.

Table 4: Model Summary

R	R Square	Adjusted R Square	Std. Error of the Estimate
.813 ^a	.661	.640	.448

a. Predictors: (Constant), Inventory Cost Management Practice

From the results in table 4, the R-value was 0.813 implying existence of a strong positive relationship between Inventory Cost Management Practice and financial performance. Similarly, the R-Square value was 0.661 implying that 66.1% of financial performance of GAWASCO can be explained by inventory cost management practice while the remaining 33.9% of financial performance of GWASCO is influenced by factors outside this model.



ANOVA

Table 5 presents the Analysis of Variance (ANOVA) results. The ANOVA was incorporated aiming at assessing whether the model connecting the independent variable with the dependent variable was statistically significant.

Table 5: ANOVA

Model		Sum of Squares	Df	Mean Square	f	Sig.
1	Regression	25.741	1	25.74	134.10	.000 ^b
	Residual	13.245	69	0.19		
	Total	38.986	70			
Dependent Variable: Financial Performance						
Predictors: (Constant), Inventory Cost Management Practice						

According to the results in table 5, the significant value was 0.000 which was less than 0.05, confirming the statistical significance of the model. The model was therefore considered fit for the study.

Regression Coefficients

The regression coefficients were utilized to evaluate how the dependent variable changes when an independent variable change. Table 6 presents the results.

Table 6: Model Coefficient

Predictors	Unstandardized Coefficients		Standardized Coefficients		
	B	Std. Error	Beta	T	sig.
(Constant)	1.039	.291	3.572		.001
Inventory Cost Management Practice	.427	.076	5.593	.457	.000
Dependent Variable: Financial Performance					

The results in table 6 show that inventory cost management practice positively and significantly affect financial performance of GAWASCO. This is depicted by a beta value of 0.427 and p-value of 0.000. The result bears the implication that increasing aspects inventory cost management practice with one-unit results into 0.427 units increase in the financial performance level of the organization. The results tallied with findings from Nkosi and Adewole (2021) who revealed that if the management of inventory cost is done appropriately, business could perform better by increasing the return on equity as management of inventory cost provides competitive advantage.

The optimal model of the study becomes:

$$\text{Financial Performance} = 1.039 + 0.427 (\text{Inventory Cost Management Practice})$$

Hypothesis Testing

The results derived from the regression analysis (Model Coefficient) was utilized in examining the hypothesis formulated in the study. The acceptance or rejection of the hypothesis was based on the p-value. A hypothesis was rejected if the p-value was less than 0.05 while it was accepted if the p-value was greater than 0.05. Table 7 presents the hypothesis testing results.

Table 7: Hypothesis Testing

Hypothesis	Method and Criteria	Remark
H_{01} : Inventory cost management practice has no statistically significant effect on financial performance of Garissa Water and Sewerage Company in Garissa County, Kenya.	Regression analysis ($p=0.000 < 0.05$)	Reject H_{04}

CONCLUSION

The study concludes that inventory cost management practice is a significant contributor to the financial performance of Garissa Water and Sewerage Company. Despite respondents expressing neutral perceptions regarding the consistency of inventory control procedures, maintenance of optimal inventory levels, timely updating of inventory records, and regular inventory audits, the significant positive relationship and regression effect demonstrate that effective inventory cost management enhances financial performance. The findings therefore suggest that strengthening inventory control systems, improving inventory monitoring procedures, and ensuring regular inventory audits can enhance cost efficiency, minimize inventory-related losses, and ultimately improve the company's financial performance.

Recommendations

The management of Garissa Water and Sewerage Company should improve inventory cost management by strengthening inventory control procedures, ensuring timely updating of inventory records, maintaining optimal inventory levels, and conducting regular



inventory audits. The company should also fully utilize computerized inventory management systems to facilitate real-time inventory monitoring, minimize stock losses, reduce unnecessary holding costs, and improve procurement planning. Strengthening these inventory management practices enhanced operational efficiency, support prudent utilization of organizational resources, and contribute to improved financial performance.

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