

The Effect of Inventory Management Practices on Financial Performance of Listed Material Sector Companies in Sri Lanka

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Abstract

The material manufacturing sector companies have a significant concern over its inventory management and financial performance. Accordingly, it is important to identify the impact of inventory management on financial performance and many researchers have conducted their researchers relating to this impact in worldwide. But no consensus among researchers on the impact of inventory management on financial performance since they have identified negative and positive relationship between inventory management and financial performance.

The objective of this research is to find out whether the inventory management practices have an impact on financial performance of listed material manufacturing companies in Sri Lanka. Data collection of this study is carried out with sample of 25 listed material manufacturing companies in Colombo stock Exchange for a period of six years from 2015 to 2020. Descriptive analysis and inferential analysis which has multiple regression analysis and correlation analysis is used to analyze the data. There are four key variables as, inventory turnover, inventory to current assets, inventory conversion period and inventory to sales ratios considered as the independent variables. The return on assets is used as the dependent variable to measure the financial performance of companies.

Key words: *Material Manufacturing Companies, Inventory Management, Financial Performance, Colombo Stock Exchange*