

Impact of Inventory Management Practices on Financial Performance of Listed Food, Beverage, and Tobacco Companies in Sri Lanka

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Abstract

This study investigates the impact of inventory management practices on the financial performance of listed food, beverage, and tobacco companies in Sri Lanka. It focuses on key indicators, inventory conversion period, inventory turnover, and inventory leanness and evaluates their effects on financial performance, measured by return on assets. Furthermore, the investigation integrates firm growth, firm size, and operational efficiency as control variables to enrich the analytical framework. The population consisted of 44 firms listed on the Colombo Stock Exchange within the food, beverage, and tobacco sector, from which 41 were selected as the final sample based on data availability. The required data were gathered as secondary data sourced from audited annual financial statements covering the period from 2018 to 2022. The data were analyzed via descriptive statistics, correlation analysis, and panel data regression analysis, followed by the fixed effects model, ascertained by the Hausman Test. The analysis indicated that both the inventory conversion period and inventory turnover have a significant and positive influence on return of assets, whereas inventory leanness fails to show a statistically significant impact. Among the control variables, firm growth and firm size were found to positively associate with financial performance; conversely, operational efficiency did not reveal a significant association. The results affirmed the strategic significance of effective inventory management in boosting profitability. The study concludes that firms within the food, beverage, and tobacco sector can enhance their financial performance through the implementation of shorter inventory cycles and effective stock turnover. It advocates for policymakers and corporate managers to prioritize the establishment of robust inventory control systems to bolster financial outcomes and proposes extending future research to encompass additional sectors or utilizing mixed methods for more comprehensive insights.

Keywords: financial performance, food and beverage industry, inventory management, tobacco sector