The Influence of Inventory Management Practices on Financial Performance Among Retail Businesses

ABSTRACT

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| --- |
| **Aims:** This study aimed to investigate the influence of inventory management practices on the financial performance of retail businesses in Cateel, Davao Oriental during the year 2024. Specifically, the study examined the levels of inventory management in terms of business order inventory, inventory storage, inventory control, and warehouse inventory management, as well as the levels of financial performance in terms of sales growth, market growth, and profit growth.  **Study design:** Descriptive-correlational research design.  **Place and Duration of Study:** Cateel, Davao Oriental during the year 2024.  **Methodology:** Consist of 116 retail businesses operating for at least one year.  **Results:** The respondents demonstrated high levels of inventory management (x̄ = 4.12, s = 0.50), particularly in inventory storage (x̄ = 4.37, s = 0.81) and inventory control (x̄ = 4.26, s = 0.55). Financial performance also reflected favorable outcomes, with profit growth showing the highest mean (x̄ = 4.02 s = 0.65). A moderate positive relationship (r = 0.648, p = 0.000) was observed between overall inventory management and overall financial performance. Furthermore, regression analysis indicated that business order inventory (β = 0.463, p = 0.000), inventory control (β = 0.452, p = 0.002), and warehouse inventory management (β= 0.163, p = 0.018) significantly influenced financial performance (β = -0.031, p = 0.738). In contrast, inventory storage did not show a significant impact.  **Conclusion:** Findings suggest that targeted improvements in specific inventory domains may enhance business performance. Recommendations include prioritizing training and support for inventory control systems and reinforcing structured order and management practices for sustainable financial outcomes. |

*Keywords: correlational, retail, business, inventory, financial*

1. INTRODUCTION

The ability of retail businesses to effectively manage their inventory can significantly influence their financial performance, shaping profitability and operational efficiency (espinoza cruz et al., 2022). Retailing encompasses the sale of goods and services directly to consumers, facilitating access to essential products and promoting economic activity (paulino, 2022). Competition in the retail industry intensifies, and companies are increasingly focusing on adopting strategic inventory management practices to enhance their financial health (álvarez-martínez et al., 2024). One of the most pressing issues faced by retail businesses in managing their financial performance is maintaining a balance between costs and revenues (martinez-conesa et al., 2017).

Poor inventory management decisions, such as incorrect order quantities or inappropriate stocking strategies, often stem from this skills gap (Santos et al., 2024). Inventory management is a crucial component for optimizing the financial performance of retail businesses (Pulido-Rojano et al., 2020). Effective inventory practices can reduce holding costs, minimize stock-outs, and enhance overall profitability (Francisco et al., 2023). The lack of proper monitoring systems further exacerbates the shrinkage problem, leading to a decline in overall financial performance (arditto et al., 2020).

While the connection between inventory management practices and financial performance has been extensively examined, there is still a significant gap in research that specifically targets retail businesses, especially small and medium-sized enterprises (smes) (francisco et al., 2023).

Furthermore, the effects of advanced technologies like real-time inventory tracking and artificial intelligence on the financial results of retail businesses have not been thoroughly explored (santiago et al., 2019). This gap indicates that the researchers need a more detailed investigation on how retail businesses can enhance their inventory management to boost financial performance. Given the evolving nature of the retail industry, especially with increasing competition from online platforms, understanding how technology can enhance operational efficiency and financial sustainability is crucial for businesses seeking a competitive edge.

2. methodology

**2.1 Research Design**

This study employed a descriptive-correlational research design to explore the relationship between inventory management practices and financial performance among retail businesses located in Cateel, Davao Oriental. A quantitative descriptive-correlational approach was appropriate for this study as it allowed for the quantification and analysis of the degree of association between two or more variables without manipulating any of the variables (Creswell & Creswell, 2017).

A descriptive research design was used to identify the level of inventory management practices and financial performance among retailers. On the other hand, a correlational research design was used to determine the relationship between inventory management practices and financial performance among retailers.

**2.2 Research Locale and Duration**

The research was conducted in year 2024 in Cateel, a municipality located in the province of Davao Oriental, Philippines. Cateel is situated on the eastern coast of mindanao and is known for its diverse economic activities, which include agriculture, fishing, and small-scale manufacturing.

2.3 Research Sampling

In selecting the respondents, the researchers used a simple random sampling method to ensure the representation of different business sizes (small and medium) among retail businesses. The total population, as provided by the department of trade and industry, is 163. Further, as calculated using slovin’s formula, 116 retail businesses were included, located in cateel, davao oriental, had been operating for at least one year, and were actively engaged in inventory management practices.

2.4 Research Instrument

The researchers utilized two (2) survey questionnaires. The questionnaire for the independent variable, inventory management practices, was adapted from Rutendo Melody Kanguru (2016), Inventory Management Practices of Small, Medium and Micro-Enterprises in the Cape Metropole, South Africa. The questionnaire for the dependent variable, financial performance, was adapted from Christone Arinda (2019), Financial Literacy and Financial Performance of SMs Enterprises in Uganda.

2.5 Data Analysis

Mean. Describe the level of inventory management practices on financial performance among retail businesses.

Table 1. Interpretation table on the level of inventory management practices

|  |  |  |  |
| --- | --- | --- | --- |
| Scale | Range of Means | Verbal Description | Interpretation |
| 5 | 4.20 – 5.00 | **Very High** | The level of inventory management practices is extremely extensive and well-developed. |
| 4 | 3.40 – 4.19 | **High** | The level of inventory management practices is significantly strong and consistent. |
| 3 | 2.60 – 3.39 | **Moderate** | The level of inventory management practices is average, showing room for enhancement. |
| 2 | 1.80 – 2.59 | **Low** | The level of inventory management practices is limited and requires notable improvement. |
| 1 | 1.00 – 1.79 | **Very Low** | The level of inventory management practices is minimal and underdeveloped. |

Table 2. Interpretation table on the level of financial performance

|  |  |  |  |
| --- | --- | --- | --- |
| Scale | Range of Means | Verbal Description | Interpretation |
| 5 | 4.20 – 5.00 | **ss** | The level of financial performance is exceptionally high, with strong profitability and stability. |
| 4 | 3.40 – 4.19 | **Very Satisfactory** | The level of financial performance is above average, showing solid financial health and results. |
| 3 | 2.60 – 3.39 | **Satisfactory** | The level of financial performance meets basic standards but has room for improvement. |
| 2 | 1.80 – 2.59 | **Poor** | The level of financial performance is weak, with several indicators falling below acceptable levels. |
| 1 | 1.00 – 1.79 | **Very Poor** | The level of financial performance is critically low, suggesting potential financial distress. |

Pearson-r. Determine a significant relationship between the level of inventory management practices and financial performance.

Simple Regression Analysis. Determine which among the indicators of inventory management practices significantly influence financial performance and identify their relationship.

3. results and discussion

3.1 Level of Inventory Management Practices Among Retail Businesses

Evaluates such practices in terms of business order inventory, inventory storage, inventory control, and warehouse inventory management, based on the responses from local retailers.

the mean score was observed in the factor inventory storage (x̄ = 4.37, s = 0.81). This suggests that businesses place strong emphasis on maintaining organized storage systems. In contrast, the lowest-rated domain was warehouse inventory management (x̄ = 3.80, s = 1.02). This finding indicates that while warehouse practices are still evident, they are less emphasized compared to other areas of inventory management, possibly due to resource limitations or the operational scale of the businesses.

Table 3. The level of inventory management practices

|  |  |  |  |
| --- | --- | --- | --- |
| Factors of Inventory Management | Mean | Std. Deviation | Verbal Description |
| A. Business Order Inventory | 4.03 | 0.59 | High |
| B. Inventory Storage | 4.37 | 0.81 | Very High |
| C. Inventory Control | 4.26 | 0.55 | Very High |
| D. Warehouse Inventory Management | 3.80 | 1.02 | High |
| Overall Inventory Management | **4.12** | **0.50** | **High** |

**3.2 Financial Performance Among Retail Businesses**

The mean score was observed in the factor *Profit Growth* (x̄ = 4.02, s = 0.65). This suggest that businesses are generally successful in generating increasing profits, which may result from efficient operations, strategic reinvestments, or consistent income exceeding expenses. In contrast, the lowest-rated factor was *Sales Growth* (x̄ = 3.84, s = 0.72). This finding indicates that while businesses are experiencing profit and market growth, the pace of sales growth may be relatively moderate, possibly due to competition, limited market demand, or inconsistent promotional efforts.

Table 4 The level of financial performance

|  |  |  |  |
| --- | --- | --- | --- |
| Factors of Financial Performance | Mean | Std. Deviation | Verbal Description |
| A. Sales Growth | 3.84 | 0.72 | Very Satisfactory |
| B. Market Growth | 3.93 | 0.64 | Very Satisfactory |
| C. Profit Growth | 4.02 | 0.65 | Very Satisfactory |
| Overall Financial Performance | **3.93** | **0.64** | **Very Satisfactory** |

**3.3** **Significant Relationship Between Inventory Management Practices and Financial Performance**

This section presents the correlation between the level of inventory management practices, namely business order inventory, inventory storage, inventory control, and warehouse inventory management, and the financial performance indicators of retail businesses in Cateel, Davao Oriental. The results revealed that inventory management practices have a moderate and significant positive relationship with financial performance (r = 0.648, p = 0.000).

Table 5. Relationship between inventory management practices and financial performance

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Independent Variables |  | Sales Growth | Market Growth | Profit Growth | Overall Financial Performance |
| Business Order Inventory | Pearson Correlation | 0.454 | 0.544 | 0.437 | 0.502 |
|  | Sig. (2-tailed) | 0.001 | 0.000 | 0.001 | 0.000 |
|  | Interpretation | Moderate relationship | Moderate relationship | Moderate relationship | Moderate relationship |
| Inventory Storage | Pearson Correlation | 0.304 | 0.271 | 0.359 | 0.328 |
|  | Sig. (2-tailed) | 0.025 | 0.048 | 0.008 | 0.015 |
|  | Interpretation | Weak relationship | Weak relationship | Weak relationship | Weak relationship |
| Inventory Control | Pearson Correlation | 0.485 | 0.368 | 0.533 | 0.487 |
|  | Sig. (2-tailed) | 0.000 | 0.007 | 0.000 | 0.000 |
|  | Interpretation | Moderate relationship | Weak relationship | Moderate relationship | Moderate relationship |
| Warehouse Inventory Management | Pearson Correlation | 0.423 | 0.413 | 0.344 | 0.415 |
|  | Sig. (2-tailed) | 0.001 | 0.002 | 0.011 | 0.002 |
|  | Interpretation | Moderate relationship | Moderate relationship | Weak relationship | Moderate relationship |
| Overall Inventory Management | Pearson Correlation | 0.622 | 0.596 | 0.629 | 0.648 |
|  | Sig. (2-tailed) | 0.000 | 0.000 | 0.000 | 0.000 |
|  | Interpretation | Moderate relationship | Moderate relationship | Moderate relationship | Moderate relationship |

**3.4** **Factors Influencing Financial Performance**

The regression reveal that business order inventory, inventory control, and warehouse inventory management are significant predictors of financial performance among retail businesses, as indicated by their respective p-values below 0.05. Specifically, business order inventory has the strongest influence, with a standardized beta of 0.434 (B = 0.463, p = 0.000), suggesting that efficient ordering practices greatly enhance financial outcomes.

The regression findings of this study are strongly supported by existing literature that emphasizes the critical role of specific inventory management practices in influencing financial performance. The significant positive impact of business order inventory on financial outcomes affirms that practices such as demand forecasting, timely replenishment, and optimized ordering strategies are central to maintaining business profitability (Jean, 2024) as Smith (2024) note, efficient order management reduces the risk of both stockouts and excess inventory, which in turn enhances inventory turnover rates and customer satisfaction. Liu et al (2020) further state that these outcomes not only contribute to smoother operations but also directly support higher sales volumes and reduced operational waste, factors that are essential to sustaining positive financial performance.

Table 6. Factors that influence financial performance

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| Model | | Unstandardized Coefficients | | Standardized Coefficients | t | Sig. |
| B | Std. Error | Beta |
| 1 | (Constant) | -0.363 | 0.630 |  | -0.577 | 0.567 |
| Business Order Inventory | 0.463 | 0.114 | 0.434 | 4.050 | 0.000 |
| Inventory Storage | -0.031 | 0.093 | -0.040 | -0.337 | 0.738 |
| Inventory Control | 0.452 | 0.135 | 0.389 | 3.339 | 0.002 |
| Warehouse Inventory Management | 0.163 | 0.067 | 0.259 | 2.449 | 0.018 |

4. Conclusion

A quantitative descriptive correlational study explored the relationship between inventory management practices and financial performance among retail businesses located in Cateel, Davao Oriental. The study consisted of 116 respondents, who were key participants in the retail businesses that have been operating for at least one year and actively engaged in inventory management practices.

The findings revealed that the overall level of inventory management practices—assessed across business order inventory, inventory storage, inventory control, and warehouse inventory management—resulted in an average mean of (x̄ = 4.12, s = 0.50), which is interpreted as often practiced. Meanwhile, the level of financial performance, measured in terms of sales growth, market growth, and profit growth, yielded an average mean of (x̄ = 3.93, s = 0.64), which is interpreted as very satisfactory. These results indicate that retail businesses in Cateel, Davao Oriental, consistently apply sound inventory management practices that contribute positively to financial performance through enhanced operational efficiency and profitability. The correlation analysis revealed a moderate and statistically significant positive relationship between inventory management practices and financial performance, with a correlation coefficient of (r = 0.648, p = 0.000). This suggests that better inventory management is associated with stronger financial performance among retail businesses. Further analysis using regression showed that business order inventory (β = 0.434, p = 0.000), inventory control (β = 0.389, p = 0.002), and warehouse inventory management (β = 0.259, p = 0.018) significantly influence financial performance. However, inventory storage (β = -0.040, p = 0.738) did not show a significant effect. Among the domains, business order inventory emerged as the most substantial factor influencing financial performance.

**6. ETHICAL**

This research has undergone ethical review by the University Research Ethics Board (DOrSU-UREB) to ensure adherence to ethical standards and considerations. This study addressed ten key dimensions of research ethics: social value, informed consent, vulnerability of research respondents, risk-benefit and safety, privacy and confidentiality, justice, transparency, research qualifications, adequacy of facilities, and community involvement.

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8. APPENDIX

**Appendix A. Survey questionnaire on the influence of inventory management practices on financial performance among retail businesses**

*Dear Respondent,*

The researchers are currently conducting a study entitled The Influence of Inventory Management Practices on Financial Performance among Retail Businesses. Please read each question carefully and answer it honestly. There are no correct or incorrect responses as this study is merely interested in your personal point of view. Be assured that all data shall be treated with confidentiality.

**The Researchers,**

**Christine V. Baraas, Rosevic A. Gregori, Cherry B. Impas, Dionar J. Martinez, and Angeline O. Toroba**

**Business Name:**

**Name:**

**Part 1. Inventory Management Practices**

**Instruction:** Put a check mark [**🗸**] to your corresponding answers on the column beside the statement. Please use a pen to mark your choices. Thank you.

**5 - Strongly Agree (SA)**

**4 - Agree (A)**

**3 - Neutral(N)**

**2 - Disagree (D)**

**1 - Strongly Disagree (SD)**

1. To what extent do you agree with the following statements?

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  | **BUSINESS ORDER INVENTORY** | 5 | 4 | 3 | 2 | 1 |
|  | I rely on common sense to determine the quantity of inventory (stock) to order. |  |  |  |  |  |
|  | I use an equation to calculate the inventory (stock) to order. |  |  |  |  |  |
|  | I order a fixed quantity of inventory (stock) periodically. |  |  |  |  |  |
|  | I order inventory (stock) in bulk to take advantage of trade discounts. |  |  |  |  |  |
|  | I order inventory (stock) when I receive an equity from customer. |  |  |  |  |  |
|  | I receive the inventory (stock) automatically from suppliers without placing an order. |  |  |  |  |  |
|  | I order only when I run out of sock. |  |  |  |  |  |
|  | When inventory (stock) reaches a certain level, I automatically place an order. |  |  |  |  |  |
|  | When I place an order, I receive our inventory (stock) without delay. |  |  |  |  |  |
|  | I order inventory (stock) from suppliers only within Philippines. |  |  |  |  |  |

1. Does your business use a warehouse for storage of inventory (stock)?

YES NO

If YES proceed to questions C and D, if NO proceed to question 12.

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  | **INVENTORY STORAGE** | 5 | 4 | 3 | 2 | 1 |
| 11. | I ensure all our inventory (stock) in the warehouse |  |  |  |  |  |
| 12. | I own our warehouse |  |  |  |  |  |
| C. Do you plan in advance before ordering inventory (stock) for the warehouse in your business?  YES NO  If YES proceed to questions E, if NO proceed to question J.  D. Do you prepare inventory (stock) budgets in your business?  YES NO   1. Do you compare inventory (stock) ordered to the budgets regularly in your business?   YES NO   1. Do you update the inventory (stock) budgets regularly in your business?   YES NO   1. Do you conduct stocktaking in your business?   YES NO   1. If YES, to question 17, how often does your business conduct stocktaking   Daily Weekly Monthly Every six months  Annually Other , please specify   1. Do you track the movement of inventory (stock) from the tome am order is placed to the time the stock is received?   YES NO   1. Does your business have dedicated staff that manage the warehouse?   YES NO  If YES proceed to questions K, if NO proceed to question L.   1. To what extent do you agree with the following statements about inventory (stock) control by your staff in the warehouse? | | | | | | |
| **INVENTORY CONTROL** | |  |  |  |  |  |
| 13. | My warehouse staff verify delivery, receipt, and storage of stock. |  |  |  |  |  |
| 14. | My warehouse staff have access to the accounting records. |  |  |  |  |  |
| 15. | I have clear procedures followed by staff when receiving and issuing stock from warehouse. |  |  |  |  |  |
| 16. | Access to the warehouse is restricted to authorized staff only. |  |  |  |  |  |
| 17. | My staff use computers to record inventory (stock) received. |  |  |  |  |  |
| 18. | My staff use computers to record inventory (stock) issued. |  |  |  |  |  |
| 19. | My staff can determine inventory (stock) balance at any time. |  |  |  |  |  |
| 20. | My staff use a bar-coding system to monitor movement of inventory (stock) in the warehouse. |  |  |  |  |  |
| 21. | Disposal of inventory (stock) must be authorized by senior staff |  |  |  |  |  |
| 22. | Purchase order copies are sent to the storekeeper to verify delivery made. |  |  |  |  |  |
| 23. | Anomaly in inventory (stock) delivered is reported to senior personnel. |  |  |  |  |  |
| 1. To what extent do you agree with the following statements about the need for a warehouse in your business? | | | | | | |
|  | **WAREHOUSE INVENTORY MANAGEMENT** |  |  |  |  |  |
| 24. | I do not need a warehouse because we buy from suppliers and deliver straight to customers. |  |  |  |  |  |
| 25. | I do not need a warehouse because we only order an item when a customer orders from us. |  |  |  |  |  |
| 26. | My business is very small, so I store all my inventory (stock) within my premises. |  |  |  |  |  |
| 27. | I do not pile up slow moving stock which requires a warehouse. |  |  |  |  |  |
| 28. | I deal in perishable goods that cannot be stored in warehouse. |  |  |  |  |  |
| 29. | I need warehouse but I cannot afford one. |  |  |  |  |  |

**Part 2. Financial Performance**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  | **SALES GROWTH** | 5 | 4 | 3 | 2 | 1 |
| 30. | The sales have been growing over time |  |  |  |  |  |
| 31. | What I sell every day or every month sales increasing |  |  |  |  |  |
| 32. | I don’t know anything about my sales made |  |  |  |  |  |
| 33. | I often carry out sales’ promotional activities |  |  |  |  |  |
|  | **MARKET GROWTH** | 5 | 4 | 3 | 2 | 1 |
| 34. | I sell more quantities than my competitors in the region |  |  |  |  |  |
| 35. | Customers have been increasing over time |  |  |  |  |  |
| 36. | I often purchase more than a previous purchase |  |  |  |  |  |
| 37. | The operation branches have been increasing |  |  |  |  |  |
| 38. | Many enterprises are entering into the same to my businesses |  |  |  |  |  |
|  | **PROFIT GROWTH** | 5 | 4 | 3 | 2 | 1 |
| 39. | The profits have been increasing from time to time |  |  |  |  |  |
| 40. | The incomes often exceed the expenses we incur |  |  |  |  |  |
| 41. | The proportions of the profits we save annually keeps increasing |  |  |  |  |  |
| 42. | The business expands every year |  |  |  |  |  |
| 43. | I often add back some of the profits that I always make to the business |  |  |  |  |  |