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). As the retail sector continues to grow and adapt, addressing these issues becomes increasingly critical for ensuring sustainable operations and financial performance (Ramos et al., 2022). Of the most pressing issues faced by retail businesses in managing their financial performace 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.

The study benefits policymakers by guiding the creation of strategies for economic growth in Cateel, Davao Oriental. Businessmen can gain actionable insights to optimize inventory processes, reduce costs, and boost profitability. Aspiring businessmen can have a practical foundation for establishing sustainable and competitive ventures. Lastly, the study offers future researchers a valuable reference for exploring innovations and advancements in inventory management, fostering continuous improvement in business practices across diverse contexts.

**1.1** **Objectives of the Study**

The main objective of this study was to explore the influence of inventory management practices on financial performance among retail businesses in Cateel, Davao Oriental. Specifically, the study aimed to:

1. Assess the level of inventory maagement practices among retail businesses in Cateel, Davao Oriental, in terms of business order inventory, inventory storage, inventory control, and warehouse inventory management.
2. Evaluate the level of financial performance among retail businesses in Cateel, Davao Oriental, in terms of sales growth, market growth, and profit growth.
3. Determine whether there is a significant relationship between inventory management practices and financial performance.
4. Identify which among the domains of inventory management practices (business order inventory, inventory storage, inventory control, or warehouse inventory management) significantly influences financial performance.

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 | **Very Satisfactory** | The level of financial performance is exceptionally high, with strong profitability and stability. |
| 4 | 3.40 – 4.19 | **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

Understanding the level of inventory management practices among retail businesses is essential to assessing their operational efficiency and potential for financial sustainability. This section evaluates such practices in terms of business order inventory, inventory storage, inventory control, and warehouse inventory management, based on the responses from local retailers.

This suggests that businesses strongly prefer a systematic approach to ordering and rely heavily on local suppliers, likely due to factors such as reliability, cost-efficiency, and logistical convenience. In contrast, the lowest-rated practices were observed in *receiving automatically from suppliers without placing an order* 3.50 and *ordered only when stock runs out* 3.50. These findings indicate that businesses are less inclined to depend on automatic restocking or reactive ordering, reflecting a shift toward more deliberate and controlled inventory management methods.

Table 3. Level of inventory management practices in terms of business order inventory

|  |  |  |  |
| --- | --- | --- | --- |
| Statements | Mean | Std. Deviation | Verbal Description |
| Relying on common sense to determine the quantity of inventory to order | 4.22 | 1.08 | Very High |
| Using an equation to calculate the inventory to order | 4.31 | 0.67 | Very High |
| A fixed quantity is ordered periodically | 4.15 | 0.83 | High |
| Ordered in bulk to avail of trade discounts | 4.15 | 0.79 | High |
| Ordered upon customer equity receipt | 4.06 | 0.96 | High |
| Received automatically from suppliers without placing an order | 3.50 | 1.31 | High |
| Ordered only when stock runs out | 3.50 | 1.30 | High |
| Automatically ordered when inventory reaches a certain level | 4.19 | 0.97 | High |
| Received without delay after order placement | 3.94 | 0.94 | High |
| Ordered only from domestic suppliers | 4.31 | 0.93 | Very High |
| Average | **4.03** | **0.59** | **High** |

The result aligns with the assertion of Pan et al (2022), emphasizing that effective inventory management involves anticipating customer demand and proactively replenishing stock, rather than relying on reactive approaches. The presence of low mean scores in reactive practices implies potential risks such as overstocking or stockouts. Dorfling (2021) argues that businesses relying heavily on ad-hoc ordering mechanisms may face supply chain disruptions and operational inefficiencies. Thus, reinforcing structured ordering systems is vital. Furthermore, Wanjira and Njagiru (2025) emphasize that SMEs with consistent and planned ordering strategies show improved financial performance through reduced wastage and optimized turnover. Similarly, Panigrahi et al. (2024) underscore the value of integrating technical knowledge and behavioral practices into inventory management systems, contributing to better control over resources and profitability. These findings align with the results, revealing that while basic inventory ordering is in place, improvements in systemization and automation could further boost operational performance.

In line with Transaction Cost Economics (TCE) Theory, by relying on systematic methods, firms can minimize delays, communication gaps, and the complexities of dealing with foreign suppliers, all 6of which incur additional transaction costs (Barbieri et al., 2022). Tadayonrad et al (2023) also stated that businesses that use equations to calculate inventory levels and prefer ordering only from domestic suppliers demonstrate a strategic move to reduce uncertainty and increase predictability, which are key goals in managing transaction costs. Furthermore, the relatively low reliance on automatic or reactive ordering practices suggests an intentional effort to maintain control over purchasing decisions and avoid the risks of misalignment between supply and demand (Kelka, 2024). In TCE terms, this reflects a preference for governance structures that enhance control and accountability, reducing the chances of opportunistic behavior from suppliers and ensuring better coordination within the supply chain (Chae et al., 2024). Ultimately, structured and proactive ordering practices serve not only operational efficiency but also the broader strategic goal of reducing transaction-related inefficiencies.

Table 4 presents that the highest mean score was observed in the statement that *all inventory is regularly checked and accounted for* 4.43 indicating that businesses consistently monitor and manage their inventory. This implies a strong emphasis on accuracy and accountability in storage operations. Meanwhile, the item stating that the *warehouse used for storage is owned by the business* 4.31 recorded a slightly lower mean score. These findings suggest that retailers value proper inventory handling and prefer to maintain direct control over storage facilities, contributing to the high overall average 4.37 in this domain.

Table 4. The level of inventory management practices in terms of inventory storage

|  |  |  |  |
| --- | --- | --- | --- |
| Statements | Mean | Std. Deviation | Verbal Description |
| All inventory is regularly checked and accounted for | 4.43 | 0.84 | Very High |
| Warehouse used for storage is owned by the business | 4.31 | 1.16 | Very High |
| Average | **4.37** | **0.81** | **Very High** |

The result conforms with the assertion of Hassan Zadeh et al. (2016), who state that regularly checking and accounting for inventory reflects an effort to reduce uncertainties and potential losses due to theft, spoilage, or misplacement. Kumar and Santhosh (2024) assert that well-organized storage systems enhance business outcomes by maintaining product integrity and optimizing space utilization. Further, studies caution that efficient storage practices, though important, must be supported by efficient ordering and control mechanisms to fully influence financial performance (Espinoza Cruz et al., 2022). Conversely, overstocking incurs additional costs such as storage fees, insurance, and the risk of product obsolescence or spoilage (Francisco et al., 2023). Companies with higher-than-necessary inventory levels incur expenses related to storage, warehouse fees, insurance, and utilities (Martinez-Conesa et al., 2017). In addition, Xie & Palani (2018) note that beyond direct storage costs, there are hidden costs such as inventory depreciation and shrinkage.

In addition, efficient inventory storage minimizes spoilage, breakage, and misplacement, each of which represents a transaction cost (Saputra et al., 2021). Similarly, the preference for owning the storage facility aligns with TCE’s advocacy for internalization when it leads to greater efficiency (Cavusgil & Deligonul, 2025). By keeping storage operations in-house, businesses avoid additional costs linked to negotiating contracts, monitoring third-party performance, and managing potential disputes (Robinson-Ayanwale, 2025). This internal control allows firms to reduce reliance on the market, lowering the risk of opportunistic behavior and information asymmetry (Kim et al., 2022). In effect, efficient inventory storage practices serve not only to improve operational accuracy but also to strategically manage transaction costs in the supply chain.

Table 5 shows that the highest mean score was observed in the item *reporting anomalies to senior staff* 4.4 followed closely by *restricted warehouse access*4.40These results indicated that businesses place strong importance on accountability and security in their inventory systems, ensuring that irregularities are properly communicated and access to storage areas is strictly monitored. In contrast, the lowest-rated practice was the *use of barcodes to monitor inventory* 3.74, interpreted as high. This suggests that while barcode systems are used, they are not as heavily emphasized compared to other inventory control methods, possibly due to limited technological integration or preference for other monitoring tools.

Table 5. Level of inventory management practices in terms of inventory control

|  |  |  |  |
| --- | --- | --- | --- |
| Statements | Mean | Std. Deviation | Verbal Description |
| Verification of inventory delivery and receipt | 4.38 | 0.79 | Very High |
| Staff access to accounting records | 4.32 | 0.70 | Very High |
| Clear procedures on inventory issuance and receipt | 4.32 | 0.70 | Very High |
| Restricted warehouse access | 4.40 | 0.74 | Very High |
| Computerized inventory receipt | 4.25 | 1.07 | Very High |
| Computerized inventory issuance | 4.17 | 0.94 | High |
| Real-time inventory balance tracking | 4.23 | 0.78 | Very High |
| Use of barcodes to monitor inventory | 3.74 | 1.21 | High |
| Senior authorization for disposal | 4.19 | 0.83 | High |
| Storekeeper receives purchase order copies | 4.36 | 0.65 | Very High |
| Reporting anomalies to senior staff | 4.47 | 0.70 | Very High |
| Average | **4.26** | **0.55** | **Very High** |

This aligns with the insights of Orobia et al. (2020), who emphasize the importance of sound inventory control in maintaining reliable financial records. Lin et al. (2018) also supports the role of digital integration in enhancing inventory accuracy and decision-making. Qin et al. (2017) state that adopting analytical systems enables businesses to forecast demand accurately and control inventory costs. Beck (2018) emphasizes that optimized inventory systems enhance productivity, reduce waste, and improve cash flow. Nevertheless, as Ahmed and Nwankwo (2021) suggest, the limited adoption of barcode systems could hinder efficiency and expose operations to manual error. Hence, to maximize control, businesses should continue upgrading their technological capacity and prioritize structured warehouse operations.

Moreover, in alignment with the Transaction Cost Economics (TCE) theory, practices such as reporting anomalies to senior staff and restricting warehouse access represent deliberate mechanisms to reduce risks associated with opportunism, information asymmetry, and internal mismanagement, all of which are potential sources of transaction costs (Liu et al., 2021). By ensuring that irregularities are promptly escalated and access to sensitive storage areas is limited, businesses strengthen internal governance and accountability structures, thereby lowering the need for costly monitoring and enforcement later on (Punia et al., 2024). The emphasis on strict control procedures also reflects a TCE-based preference for internal safeguards that minimize disruptions and protect the integrity of the supply chain (Ketokivi & Mahoney, 2020). Hara et al. (2017) further added that while technologies such as barcode systems are not as widely prioritized, the adoption of manual and procedural safeguards still serves the same purpose: to mitigate uncertainty and enhance coordination.

Table 6 showcases that the highest mean scores were observed in the statements *that small businesses store all inventory (stock) within their premises3.89 and perishable goods are handled,* which cannot be stored in a warehouse 3.89. This suggests that businesses tend to manage inventory within their own spaces and are often engaged in handling products that require immediate distribution, limiting the feasibility of traditional warehouse storage. In contrast, the lowest-rated practice was *warehouse is not needed because items are ordered only when a customer places an order* 3.61. This finding indicates that fewer businesses rely on purely reactive or on-demand inventory strategies, suggesting a preference for maintaining some level of stock or storage capacity despite space or resource limitations.

Table 6. Level of inventory management practices in terms of warehouse inventory management

|  |  |  |  |
| --- | --- | --- | --- |
| Statements | Mean | Std. Deviation | Verbal Description |
| Warehouse is not needed because items are purchased from suppliers and delivered directly to customers. | 3.74 | 1.32 | High |
| A warehouse is not needed because items are ordered only when a customer places an order. | 3.61 | 1.31 | High |
| Small businesses store all inventory (stock) within their premises. | 3.89 | 1.09 | High |
| Slow-moving stock that would require warehouse storage is not accumulated. | 3.80 | 1.12 | High |
| Perishable goods are handled that cannot be stored in a warehouse. | 3.89 | 1.09 | High |
| A warehouse is needed but cannot afford one. | 3.87 | 1.15 | High |
| Average | **3.80** | **1.02** | **High** |

The study aligns with the assertion of Kumar and Santhosh (2024), emphasizing that effective inventory management requires a proactive and demand-driven approach rather than reactive ordering or bypassing inventory storage altogether. This highlights the importance of having reliable storage systems, especially when managing stock levels to meet fluctuating customer needs. Chopra and Meindl (2016) support this view, stating that businesses that rely heavily on direct-to-customer delivery or just-in-time procurement without dedicated warehouse infrastructure often face greater supply chain vulnerabilities and reduced operational flexibility. Wanjira and Njagiru (2025) further emphasize that small and medium enterprises (SMEs) with structured inventory and warehouse management practices experience better financial outcomes through minimized wastage, streamlined operations, and reduced stockouts. Similarly, Panigrahi et al. (2024) assert that the integration of technical and behavioral frameworks into warehouse systems enhances control over physical resources, contributing to efficiency and profitability.

Moreover, Martinez-Conesa et al. (2017) warn that overstocked inventory drives up warehousing costs and places a strain on limited storage space, which is a common concern among smaller retailers. Beck (2018) and Tabane et al. (2024) both highlight that inventory shrinkage caused by theft, damage, administrative errors, or mishandling is a significant issue in under-regulated or poorly maintained warehouse environments. To address this, Feng et al. (2015) recommend the implementation of regular warehouse audits, which reconcile physical stock with inventory records and reduce discrepancies. These practices are particularly crucial for businesses that store inventory on-site or within constrained premises without access to formal warehousing solutions.

Similarly, small businesses choosing to store inventory within their premises and dealing with perishable goods that cannot be warehoused demonstrate a strategic response to reduce transaction-related uncertainties (Carmona Marques et al., 2024). By keeping inventory close and managing time-sensitive items internally, businesses minimize the need for external coordination, transportation, and monitoring, each of which introduces transaction costs (Grover et al., 2024). According to TCE, internalization becomes the more efficient governance choice when market-based solutions (like third-party warehousing or drop-shipping) introduce higher risks of opportunism or performance failure (Lin et al., 2022). In this way, Ketokivi and Mahoney emphasized that despite limited resources, small businesses adopt warehouse management practices that align with TCE by reducing the frequency and complexity of external transactions and enhancing control over their supply chain operations.

**3.2 Level of Financial Performance Among Retail Businesses**

Understanding the level of financial performance among retail businesses is essential in evaluating their overall viability, strategic direction, and capacity for sustained growth. This section evaluates such performance in terms of sales growth, market growth, and profit growth, based on the responses from local retailers.

Table 7 presents the highest mean scores observed in the statements that *the sales have been growing over time* 4.26. This suggests that businesses generally perceive positive growth in their sales performance, indicating consistent customer demand and effective sales strategies over time. In contrast, the lowest-rated practice was that *sales data is not monitored or recorded* 3.19. This finding indicates that some businesses may lack systematic tracking of sales information, which could limit their ability to analyze trends accurately and make data-driven decisions for future growth.

Table 7. Level of financial performance in terms of sales growth

|  |  |  |  |
| --- | --- | --- | --- |
| Statements | Mean | Std. Deviation | Verbal Description |
| The sales have been growing over time | 4.26 | 0.76 | Very Satisfactory |
| Items sold daily or monthly show an increasing trend in sales | 4.22 | 0.77 | Very Satisfactory |
| Sales data is not monitored or recorded | 3.19 | 1.45 | Satisfactory |
| Sales promotional activities are frequently conducted | 3.69 | 1.04 | Very Satisfactory |
| Average | **3.84** | **0.72** | Very Satisfactory |

These findings are consistent with several studies emphasizing the importance and commonality of sales growth in the retail sector. According to Wanjira and Njagiru (2025), sustained increases in sales are a key indicator of a healthy and expanding retail business, often resulting from effective customer engagement and responsiveness to market trends. Ali et al. (2017) pointed out that retail businesses typically experience sales growth when they actively adjust to consumer preferences and implement regular promotional strategies that attract and retain customers. Moreover, Panigrahi et al. (2024) highlighted that observing patterns in sales performance, particularly at daily and monthly intervals, allows retailers to better understand customer behavior, time their offerings strategically, and maintain competitiveness in a dynamic marketplace. The literature affirms that consistent sales growth is not only a reflection of increased demand but also of the retailer’s ability to adapt, promote, and strategically align their practices with consumer behavior. However, these studies also suggest that to sustain this growth, businesses must be proactive in identifying and responding to emerging trends in their sales performance.

Aligned with the principles of Transaction Cost Economics (TCE) Theory, Ketokivi and Mahoney (2020) emphasized that consistent monitoring of sales trends reduced uncertainty, a key contributor to transaction costs. Haryanto et al. (2024) supported this by stating that when businesses relied on internal sales data, they were able to make better-informed decisions regarding purchasing, inventory control, and marketing strategies, thereby avoiding costly mistakes and minimizing the need for external service providers. This approach reflected TCE’s concept of internalization to enhance operational efficiency. In contrast, Ruel et al. (2017) noted that firms failing to track sales data faced greater exposure to risks stemming from inadequate information systems, increasing their susceptibility to market fluctuations and opportunistic behavior. As a result, effective sales data management served not only as a performance metric but also as a governance mechanism that stabilized operations and reduced transaction-related uncertainties.

Table 8 presents that the highest mean score was observed in the statement *that many enterprises are entering into the business* 4.1. This suggests a growing market presence and increasing interest in the business sector, which may indicate favorable industry conditions and heightened customer demand. In contrast, the lowest-rated statement was that *the operation branches have been increasing* 3.70. This finding indicates that businesses are less focused on geographic or physical expansion, possibly due to financial constraints, strategic priorities, or operational limitations, despite experiencing overall market growth.

Table 8. Level of financial performance in terms of market growth

|  |  |  |  |
| --- | --- | --- | --- |
| Statements | Mean | Std. Deviation | Verbal Description |
| Higher sales volumes are achieved compared to competitors in the region | 3.93 | 0.91 | Very Satisfactory |
| Customers have been increasing over time | 3.98 | 0.81 | Very Satisfactory |
| Often purchase more than a previous purchase | 3.87 | 0.75 | Very Satisfactory |
| The operation branches have been increasing | 3.70 | 1.04 | Very Satisfactory |
| Many enterprises are entering the business | 4.15 | 0.79 | Very Satisfactory |
| Average | **3.93** | **0.64** | Very Satisfactory |

The findings align with the study of Kumar and Santhosh (2024), emphasizing that retail businesses typically achieve market expansion through strategies such as acquiring more customers, boosting sales volume, and enhancing their competitive stance within the industry. This expansion is reflected in higher customer turnout, greater purchase frequency, and improved visibility in the marketplace. Naliaka and Namusonge (2015) noted that businesses effectively responding to changing consumer needs and maintaining a consistent presence tend to expand their market reach and retain a larger customer base over time. Additionally, Gaya and Struwig (2016) asserted that market growth is typically driven by a combination of strategic positioning, brand recognition, and sustained consumer trust, which encourages repeat purchases and wider market penetration. These studies affirm that the observed growth in customers, competitive sales volume, and increasing industry entrants reflects an evolving and competitive retail landscape where businesses continuously adapt to attract and retain customers, strengthen their market position, and explore new avenues for expansion.

Correspondingly, the principles of Transaction Cost Economics (TCE) provide a valuable lens for understanding market growth as a key component of financial performance. The consistent rise in customer base, repeat purchases, and higher sales volumes compared to competitors reflects firms’ efforts to minimize market uncertainties through relationship-building and brand loyalty, which serve as informal governance mechanisms that lower the need for costly negotiations and advertising (Khamitov et al., 2019). As Fader (2020) noted, investing in customer retention reduces uncertainty and the transaction costs associated with maintaining demand. Additionally, the expansion of operational branches highlights internal scaling strategies, where firms rely on their own resources rather than outsourcing, aligning with TCE’s advocacy for internalization to improve efficiency. The increasing number of enterprises entering the market further reflects a dynamic and competitive environment where, according to Thomas and Inuwa (2017), businesses must make strategic decisions to sustain their market position. From a TCE perspective, this influx of competitors, as Ning (2017) emphasized, indicates lower entry barriers and pressures existing firms to improve internal efficiencies rather than depend on unstable market mechanisms. Steady market growth signals the effectiveness of transaction cost-minimizing strategies that enhance competitive advantage and organizational stability.

Table 09 presents that the highest average score was recorded for the statement that *often adds back some of the profits that are always made to the business* 4.20. This suggests that businesses actively reinvest their earnings, reflecting a forward-looking approach aimed at sustaining or enhancing future profitability. In contrast, the lowest-rated statement was *that incomes often exceed the expenses incurred* 3.94. This finding indicates that while businesses generally experience profit growth, some may face occasional financial imbalances or challenges in consistently maintaining a surplus, potentially affecting overall profitability trends.

Table 09. Level of financial performance in terms of profit growth

|  |  |  |  |
| --- | --- | --- | --- |
| Statements | Mean | Std. Deviation | Verbal Description |
| The profits have been increasing from time to time | 3.96 | 0.73 | Very Satisfactory |
| The incomes often exceed the expenses incurred | 3.94 | 0.79 | Very Satisfactory |
| The proportions of the profits saved annually keep increasing | 4.06 | 0.76 | Very Satisfactory |
| The business expands every year | 3.94 | 1.05 | Very Satisfactory |
| Often add back some of the profits that always make to the business | 4.20 | 0.83 | Very Satisfactory |
| Average | **4.02** | **0.65** | **Very Satisfactory** |

The results are aligned with the literature that highlights profit growth as a key indicator of financial stability and operational success in retail businesses. According to Orobia et al. (2020), consistent increases in profit signify sound business practices and the ability to generate more income than operational costs over time. Abdallah and Matsui (2018) further emphasize that businesses experiencing profit surpluses often channel these gains back into the enterprise to expand capacity, enhance services, or strengthen infrastructure, actions that reinforce long-term sustainability. This reinvestment approach is supported by the current study’s highest-rated indicator, suggesting that many retailers actively reinvest earnings to fuel further growth. Additionally, Panigrahi et al. (2024) argue that profit growth is not only a reflection of financial viability but also a strategic enabler, allowing businesses to scale operations, pursue innovation, and build resilience in competitive markets. The literature affirms that the observed trends in rising profits, consistent reinvestment, and annual expansion reflect a strong foundation for continued success among retail enterprises.

Additionally, the principles of Transaction Cost Economics (TCE) Theory provide a meaningful lens for interpreting business profit growth. Reinvesting a portion of profits in the business reflects a strategy to internalize resources, reducing reliance on external financing and minimizing transaction-related risks (Fasanya, 2018). Similarly, consistent profit increases, annual business expansion, and the growing proportion of profits saved suggest a deliberate effort to build internal capacity and maintain financial stability (Ritho, 2024). These practices align with TCE’s emphasis on minimizing uncertainties and avoiding the costs associated with negotiating and managing external partnerships. While businesses also agree that income often exceeds expenses, this statement shows slightly less certainty, possibly indicating exposure to market fluctuations or operational inefficiencies. From a TCE perspective, these conditions emphasize the importance of strong internal controls and governance mechanisms (Ketokivi & Mahoney, 2016). To sum up, consistent reinvestment and internal growth strategies serve not only financial objectives but also function as cost-effective governance tools that reduce transactional risks.

**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 10. 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 11. 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

The researchers conclude the following;

1. The study concludes that retail businesses in Cateel, Davao Oriental, generally implement inventory management practices at a high level 4.12. Among the four domains, inventory storage 4.37 and inventory control 4.26, are practiced at a very high level, reflecting well-established procedures in safeguarding and monitoring inventory. Business order inventory 4.03 and warehouse inventory management 3.80 are also practiced at a high level, suggesting that retail businesses frequently apply efficient ordering and warehouse utilization strategies, although there may still be room for enhancement, particularly in warehouse-related practices.
2. The study concludes that the overall financial performance of retail businesses in Cateel is at a very satisfactory level of 3.93. Specifically, businesses demonstrate very satisfactory outcomes in sales growth 3.84, market growth 3.9, and profit growth 4.02. However, it is important to highlight that within the sales growth domain, the lowest mean score was observed in the statement “sales data is not monitored or recorded” with a mean of 3.19, interpreted as satisfactory. This suggests that while businesses generally perform well financially, there is a notable gap in consistent sales monitoring and documentation, which may impact data-driven decision-making and long-term growth if not addressed.
3. There is a moderate and statistically significant positive relationship between inventory management practices and financial performance (r = 0.648, p = 0.000). This implies that improvements in how retail businesses handle inventory across ordering, storage, control, and warehouse management are likely to lead to corresponding enhancements in their financial outcomes. Thus, well-managed inventory systems are key drivers of retail business success in the local context.
4. Based on the regression analysis, 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 the financial performance of retail businesses in Cateel. Of these, business order inventory has the strongest effect, indicating that systematic and strategic ordering processes contribute most substantially to improved financial results. In contrast, inventory storage (β = -0.040, p = 0.738) does not significantly influence financial performance, suggesting it plays a less direct role in profitability and market success.

**6. ETHICAL APPROVAL AND CONSENT**

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.** This research aimed to provide valuable insights for the Municipality of Cateel, Davao Oriental, to identify the influence of inventory management practices on financial performance among retail businesses. The findings from this study will be beneficial to policymakers, businessmen, aspiring businessmen, and future researchers in identifying the influence of inventory management practices on financial performance among retail businesses.

**Informed Consent.** All respondents of this study were of legal age. The survey was conducted through a face-to-face platform. Before the survey, respondents were thoroughly informed about the study’s purpose, procedures, potential risks, and benefits. They had the freedom to withdraw from study at any point without repercussion. Respondents were provided with written consent, signifying their agreement to participate and acknowledgment of their rights as research subjects. The researchers promptly addressed any questions or concerns raised by participants.

**Vulnerability of Research Respondents.** This study involved business owners in the Municipality of Cateel, ensuring that all participants were of legal age and capable of making informed decisions. Their identities and responses were kept confidential, and any instruments used in the study underwent rigorous validation to ensure fairness and appropriateness.

**Risk-Benefit and Safety.** This research was conducted for academic purposes and aimed to benefit participants and the community through its findings. The survey instruments were designed to avoid any form of bias, offensive language, or questions that might cause discomfort. Researchers prioritized the safety and comfort of respondents during data collection and ensured that confidentiality was upheld at all stages.

**Privacy and Confidentiality.** This research strictly adhered to the Data Privacy Act of 2012 (RA 101173) to protect participants’ personal information. Respondents were not required to disclose sensitive or identifying details unless necessary, and even then, safeguards were implemented to protect their identities. All data gathered was securely stored and used solely for the purpose outlined in the study.

**Justice.** This study ensured fairness and equitable treatment of all respondents. Retail business owners across various sectors and demographics in Cateel had an equal opportunity to participate, ensuring a diverse and representative sample.

**Transparency.** In this study, the researchers were open to suggestions from the panel members and the thesis adviser. During the conduct of the research, consolidation of data and results that were obtained by the researchers, transparency was highly upheld to promote openness and freedom of information by people and the organization involved in the study. Further, the researchers will share results with the public through a research forum, conferences, and publications where the public can easily access freely.

**Qualifications of Researchers.** The researchers took full responsibility and accountability for this study in the conduct of both methodological processes, context, and content. The researchers were aware of their research competency limitations and possessed the necessary information and abilities to complete the study.

**Adequacy of Facilities.** All equipment, such as a laptop, internet, printer, and other related equipment necessary for the conduct of this study, was solely owned by the researchers. The researchers covered all the expenses related to the study’s operations. However, access to additional informational resources benefited the study. Moreover, the university where the researchers were enrolled provided essential materials, including journals, books, and printed research, that assisted in the research process. Also, the researchers were guided by the research adviser and members of thepanel.

**Community Involvement.** The researchers collaborated with local government offices and retail business owners in Cateel to ensure the study’s relevance and acceptance. The community was informed about the study’s objectives and findings through presentations and published reports. The results served as a tool for improving inventory management practices and the financial performance of retail businesses in the Municipality of Cateel.

Name Of the Ai Tool: Chatgpt Version/Model: Gpt-4

Source/Provider: Openai (<Https://Chat.Openai.Com>)

Purpose of Use: Generative Ai Was Primarily Employed to Enhance the Clarity and Coherence of The Discussion, Improve the Overall Language And Grammar, And Refine The Abstract For Better Readability And Adherence To Academic Standards.

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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 |  |  |  |  |  |