

Inventory Management Practices and Financial Performance of Manufacturing Firms in Lira City

Geoffrey Odoch

Robert Oguti Etengu (PhD)

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Background: The purpose of this study was to examine the effect of inventory management practices on the financial performance of Manufacturing Firms in Lira City. The research was conducted in three manufacturing firms of Mount Meru Millers (U) Ltd, Mukwano Group of Companies and Nile Agro Industries Ltd. Specifically, the study sought to investigate the effect of ABC analysis inventory management practices on financial performance, establish the effect of fixed order quantity inventory management practices on financial performance and determine the effect of vendor managed inventory on the financial performance of manufacturing firms.

Methods: The study employed cross sectional research design and employed quantitative approaches from a sample size of 129 respondents that was drawn using Krejcie & Morgan (1970). The reliability and validity were determined using Cronbach's Alpha to ensure quality control. Manufacturing firms apply various techniques in the management of their inventories. Manufacturing firms that efficiently apply these practices have an excellent financial performance. The primary data was collected using structured questionnaires administered to the respondents. Descriptive statistics was used to test the extent of inventory management practices. Correlation and regression analysis were used to determine the nature and magnitude of the relationship among inventory management variables.

Findings: The results indicate that VMI ($\beta=0.101$, p value <0.01), ABC ($\beta=0.308$), $p<0.01$ and FOQ ($\beta=0.208$, $p=0.001$) have significant effect on financial performance of manufacturing firms.

Conclusions: Based on the findings, the study concluded that inventory management practices are very important to the financial performance of manufacturing firms.

Recommendations: The study therefore recommended that manufacturing firms should develop the framework to facilitate implementation of best inventory management practices.

Key words: *Inventory Management Practices, Manufacturing Firms and Financial Performance.*

