

**THE IMPACT OF INVENTORY MANAGEMENT ON THE FINANCIAL PERFORMANCE OF COMPANIES LISTED IN THE COLOMBO STOCK EXCHANGE (CSE)**

**W.M.N.S. Wanasingha<sup>1,\*</sup>, W.P. Wijewardana<sup>2</sup> and P.R. Weerathunga<sup>3</sup>**

*<sup>1,2,3</sup>Department of Accountancy and Finance Faculty of Management Studies, Rajarata University of Sri Lanka*

\*Corresponding author (Email: nipunisajana@gmail.com)

**ABSTRACT**

This study examines the impact of inventory management on financial performance, with particular reference to companies listed in the CSE. Many researchers have explored the effects of inventory management on financial performance globally. However, there is no consensus among researchers regarding the impact of inventory management on financial performance, as studies have identified both positive and negative relationships. The study population comprised all the companies listed in the CSE. This study focuses on 290 companies listed on the Colombo Stock Exchange that are relevant to this topic. One hundred and sixty-five companies listed in CSE were sampled as per the Morgan table. The study covers five years from 2018 to 2022. This study aims to determine whether inventory management affects the financial performance of listed companies in Sri Lanka. The data were collected from 108 companies. Data on companies listed on the Colombo Stock Exchange for five years, from 2018 to 2022, were collected. According to this study, descriptive and inferential analyses, which include multiple regression and correlation analyses, were used to analyze the data. There are four critical variables, inventory turnover, inventory-to-sale ratio, gross margin return on investment, and inventory day, which were taken as the independent variables. The return on assets and return on equity are used as dependent variables for measuring financial performance. In conclusion, this study provides significant insights into how inventory management practices affect the financial performance of companies listed on CSE. The findings underscore the importance of strategic inventory management in optimizing ROA and ROE, offering practical recommendations for managers and investors, while highlighting areas for future research to build on these insights. However, this study was limited to companies listed on the CSE, which may not be representative of other markets. The generalizability of these findings to other contexts may be limited. In addition, the analysis is based on a specific period, which may not capture the long-term trends or effects of economic fluctuations.

**Keywords:** Financial performance, inventory management, listed companies