ABSTRACT

Inventory is one of the most important assets for many companies as it is often a large asset on the company’s financial statements and represents a source of revenue in the near future through sales. Inventory is a quantity or store of goods that is held for the purpose of future use, production or sale. It is often the largest and the most important asset owned by a merchandising business. Despite this, many companies’ managers including manufacturing ones tend to ignore the role of inventory management and concentrate on developing strategies to increase funds and reduce liabilities. This leads them to overstocking or understocking and even unnecessary costs. The researcher intended to investigate impact of inventory management practices on financial performance of manufacturing companies. The objectives of the study are to determine the bases on which manufacturing companies design inventory management policies, to evaluate the commonly used inventory management practices among selected manufacturing companies in Rwanda (Inyange Industries Ltd and Bralirwa Ltd), to investigate the impact of inventory management practices on the financial performance of Inyange Industries Ltd and Bralirwa Ltd and to assess the challenges to inventory management by manufacturing companies in Rwanda. The literature review focused on data relating to inventory management issues including economic order quantity, inventory costs, and inventory planning, and so on. It also covered financial performance related issues such as sales volume, profit level, return on investments and so on. These data were generated from books, journal papers across the world as well as company reports. Data were collected from primary and secondary sources. Primary data were collected by means of questionnaire whereas the secondary data were generated through documentary namely financial statements, reports, journals, publications, etc. Both open and closed questions were prepared and distributed to the respondents so as to facilitate the answering. The collected data were organized and analysed in form of numbers, arranged in form of frequency distribution, summarized, statistically treated and drafted in tables using Likert Scale and Statistical Package for Social Sciences (SPSS). It was found that on average, different inventory management practices embraced by selected manufacturing companies have positively impacted on their financial performance at large extent (Overall average = 3.600). That is, the proper establishment of optimal inventory policy, determination of safety stock, inventory planning practice and inventory valuation methods affected at large extent, sales volume (Mean = 3.588), operating profit (Mean = 3.476), level of profit (Mean = 3.693), asset turnover (Mean = 3.341), market share (Mean = 3.604), and competitive edge (Mean = 3.833). It was recommended to the management of selected manufacturing companies to invest in recruiting highly skilled inventory staff and enhance their empowerment through training and to take part in helping farmers in their production activity. It was also recommended to the government to include inventory management course in its curriculum.