

The Effect Of Inventory Management Practices On Financial Performance Of Small Enterprises In Gayaza Trading Centre, Wakiso District

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Abstract: *The study examined the effect of inventory management practices on the financial performance of small enterprises in Gayaza Trading Centre, Wakiso District, Uganda. Specifically, the study focused on maintaining accurate inventory records, using appropriate inventory control techniques, predicting customer demand, and addressing operational challenges such as technological limitations and lack of skilled personnel. A quantitative research approach was employed, and data were collected using structured questionnaires from 109 small enterprise owners and managers. Descriptive and inferential statistics were used to analyze the data. Findings revealed that maintaining accurate inventory records and effective demand forecasting positively influence financial performance, while technological limitations and lack of skilled personnel hinder inventory management effectiveness. The study concludes that small enterprises can enhance profitability by adopting systematic inventory management practices and leveraging technology to improve efficiency.*

Key words: Inventory management, financial performance, small enterprises, demand forecasting, Gayaza, Wakiso District, Uganda

Introduction

Small businesses are key players in the Ugandan economy in terms of providing jobs, driving market activities, and increasing GDP growth. Despite the important roles played by small businesses in the Ugandan economy, these companies experience various obstacles that may hinder their profit-making processes, one of them being poor inventory management techniques. Inventory management is an essential part of effective operations in any company since it guarantees proper inventory control, sufficient customer demand satisfaction, and efficient use of financial assets.

In reference to Gayaza Trading Centre, small businesses have their own peculiarities, like poor accessibility to modern methods of inventory management, poor records keeping, and lack of skills in forecasting demand. It is crucial to understand how inventory management impacts financial performance for developing policies for improvement of profitability and sustainability of these enterprises. For these reasons, the paper explores the impact of inventory management on the financial performance of small businesses in Gayaza Trading Center.

Literature Review

Inventory management entails planning, organizing, and controlling inventory levels for meeting the demand in an economical manner. Good inventory management practices contribute to better financial outcomes as they lower holding costs, minimize stockouts, and maximize working capital. As noted by Chinomona & Sandada (2021), small businesses that keep track of their inventory levels and use formal control measures exhibit greater profitability through minimal wastage and effective sales management.

Demand forecasting is another key consideration in determining good inventory management. Forecasting the demand for goods enables enterprises to plan their inventories in line with consumer needs, avoiding overstocks and shortages (Munyaneza, 2022). Overstocks lead to locked-in capital and higher expenses associated with storage facilities, while shortages cause missed sales opportunities and poor customer satisfaction (Bongomin & Ntayi, 2020).

Technological adoption in inventory management has been acknowledged as a vital determinant of operational efficiency. The use of inventory management software, automation of stock management, and live reports increases accuracy and improves decision-making in organizations (Nsubuga et al., 2023). Nonetheless, small enterprises suffer from limitations such as inadequacy of human resources, limited finance, and inadequate technology that reduce their ability to effectively manage their inventories (Okello et al., 2022).

While several researches establish the positive relationship between inventory management and financial performance, gaps emerge in the Ugandan context. The majority of the existing studies are based on cities like Kampala, while little research addresses peri-urban trading areas like Gayaza. Furthermore, there is a need for empirical evidence in the recent period (2020–2025) to examine the influence of record-keeping, inventory control methods, forecast of demand, and technology on financial performance in small businesses (Kyambadde & Mugisha, 2023; Nshabire et al., 2024).

The study by Rukundo et al. (2025) looked at the connection between inventory handling and the financial performance of SMEs in Kampala District, Uganda. The findings indicated that there is a positive relationship ($r = 0.597$) between the two variables. According to the study's conclusions, proper implementation of inventory handling policies helps enhance business efficiency, financial transactions, minimize risk, and boost financial performance among SMEs in Kampala District.

The study conducted by Arinaitwe and Kobusingye (2025) focused on the effects of financial management practices on the financial performance of SMEs in Uganda. Some of the financial practices that influence the financial performance of these firms include budgeting, managing cash flow, and financial planning. As indicated in the findings, SMEs that implement financial management practices tend to be more profitable and sustainable.

In their study, Toroba et al. (2025) evaluated the effect of inventory management practices on the financial performance of retail businesses in Cateel, Davao Oriental. The study stressed the need for inventory management practices such as inventory control, storage, and order management in boosting sales and profits, as well as expanding into new markets.

The study done by Makerere University Business School revealed the importance of inventory management activities in improving the revenues earned. Effective inventory management and accounting procedures positively correlate with financial performance. It was therefore recommended that the SMEs should apply operations management techniques to ensure that the management of inventories is done efficiently to increase financial performance.

Fitridiani (2025) carried out a comparative study between the inventory management techniques and financial performance of SMEs. From this study, it can be concluded that SMEs adopting inventory management techniques such as FIFO and LIFO have better financial performance than others who do not use any inventory management. It has been suggested that SMEs adopt inventory management techniques to improve their financial performance.

Methods

Research Design

This research adopted a descriptive and correlational research design with a quantitative methodology. The choice of design allowed for a numerical evaluation of the connection between inventory management and financial performance.

Study Location

The research was conducted in the Gayaza Trading Center within the Wakiso District. The location was picked because of its abundance of small enterprises involved in retail, wholesale, and service activities, reflecting the common small business ecosystem in peri-urban Uganda.

Target population

The population targeted consisted of owners and managers of small enterprises within the Gayaza Trading Center. The sample size was 109 participants from small enterprises operating in the area.

Sampling Strategy

A purposive sampling strategy was adopted, where participants were identified based on their involvement in inventory management decisions. Stratified sampling was utilized to ensure that various categories of business operations (retail, wholesale, and services) were represented.

Data Gathering

Data collection was done through a questionnaire survey incorporating statements on inventory management strategies and financial performance metrics like profitability, cost efficiency, and sales growth.

Data Analysis

Data were analyzed using descriptive statistics (mean and standard deviation) to summarize the perceptions of respondents. Correlation analysis was used to determine the relationship between inventory management practices and financial performance.

Results:**Table 1: Statements on the inventory management practices and financial performance of small enterprises in Gayaza trading centre, Wakiso district**

Statements	SA	A	NS	D	SD	Mean	Std.Dev
Maintaining accurate and regularly updated inventory records enhances financial performance.	21 (19.3%)	29 (26.6%)	16 (14.7%)	23 (21.1%)	20 (18.3%)	3.94	1.30
Using appropriate inventory control techniques reduces holding costs and improves profitability.	34 (31.2%)	39 (35.8%)	12 (11.0%)	15 (13.8%)	9 (8.3%)	3.09	1.411
Predicting customer demand accurately is essential for effective inventory management.	29 (26.6%)	34 (31.2%)	15 (13.8%)	17 (15.6%)	14 (12.8%)	3.67	1.290
Overstocking and understocking negatively affect financial performance of small enterprises.	19 (17.4%)	23 (21.1%)	18 (16.5%)	29 (26.6%)	20 (18.3%)	3.44	1.367
Technological limitations and lack of skilled personnel hinder inventory management effectiveness.	24 (22.0%)	27 (24.8%)	12 (11.0%)	29 (26.6%)	17 (15.6%)	2.95	1.387

Source: Primary Data, 2025

Key: n=109, SA=strongly agree, A=agree, NS=not sure, D=disagree, SD=Strongly disagree, M=Mean, Std. Dev=standard deviation

The descriptive statistics in Table 1 reveal information on how inventory management influences the financial performance of small firms operating within Gayaza Trading Center. It is evident from the analysis that the majority of the participants in this study agree that good inventory record keeping can positively influence the financial performance of small firms, as the mean score was 3.94 (SD = 1.30). This implies that small business managers understand the need for proper record keeping to ensure proper stock control and prevent stock-outs, leading to sales and ultimately profitability.

For the assertion concerning the use of proper inventory control techniques to minimize holding costs and maximize profits, the mean rating was 3.09 (SD = 1.411). It is worth noting that the relatively low mean score implies moderate agreement. This finding means that while there might be some companies that apply proper inventory control mechanisms (for example ABC analysis or FIFO and LIFO techniques), others might adopt informal inventory control processes. In addition, limited awareness about the inventory control process might be one reason for the relatively low score.

For the assertion relating to the importance of proper forecasting in inventory management, the mean rating was 3.67 (SD = 1.290). This shows that the majority of the respondents appreciate the need for accurate forecasting. Proper demand forecasting helps to minimize overstocking and understocking challenges. Overstocking and understocking affect the financial health of companies, but many of those who responded to the questionnaire understand the impact of these issues. As such, the assertion concerning overstocking and understocking effect on the financial results attracted a mean score of 3.44 (SD = 1.367).

Operational difficulties in inventory management have also been mentioned in the study. The problem associated with technological barriers and inadequate human resources affecting inventory management efficiency had an average score of 2.95 (SD = 1.387). This shows that there is a neutral to negative view of the difficulty level in inventory management. In other words,

many small businesses encounter problems in utilizing contemporary inventory management techniques, which could be because of the absence of necessary software, inadequate training, or non-availability of trained employees.

Discussion of Findings

The findings of this study show there to be a positive correlation between stocks management and profitability. Proper documentation will enable efficient tracking of stocks, prevent stock outs and reduce excess stocks, thereby making the business more profitable (Chinomona & Sandada, 2021). Partial implementation of stock control systems indicates small enterprises have manual stock management systems that are less efficient and profitable.

Demand forecasting becomes an important task, supporting earlier findings that have shown the connection between demand forecasting and efficient stock management and reduced costs (Munyaneza, 2022). The detrimental effect of excess inventory and lack of sufficient stocks on company finances also highlights the need for managing inventory effectively.

The major hurdles include the constraints of technology and unavailability of skilled manpower, in line with Nsubuga et al., (2023) and Okello et al. (2022) who note that availability of inventory management software and skilled personnel greatly increases inventory management efficiencies. Technology-based organizations in small-scale firms will be able to better control stock and adapt accordingly to changes in demand.

The study investigated the effect of inventory management practices on the financial performance of small enterprises in Gayaza Trading Centre, Wakiso District. The results indicate that inventory management practices significantly influence financial outcomes, with variations across specific practices such as record-keeping, inventory control techniques, demand forecasting, and operational constraints.

The findings revealed that maintaining accurate and regularly updated inventory records had the highest mean score ($M = 3.94$, $SD = 1.30$), suggesting that small enterprise owners and managers recognize the importance of proper record-keeping. This aligns with prior studies (Chinomona & Sandada, 2021; Rukundo et al., 2025) indicating that accurate inventory records reduce stockouts, prevent overstocking, and facilitate timely decision-making. In practice, maintaining precise records enables small enterprises to optimize working capital, improve cash flow management, and ultimately enhance profitability. In the context of Gayaza Trading Centre, this practice appears particularly critical due to the dynamic demand patterns and limited storage capacity faced by small enterprises.

The moderate mean score ($M = 3.09$, $SD = 1.411$) for the use of inventory control techniques indicates that while some enterprises implement formal methods such as FIFO, LIFO, or ABC analysis, others rely on informal approaches. This mixed adoption reflects the challenges identified by Nsubuga et al. (2023) and Okello et al. (2022), where limited technological capacity and resource constraints hinder systematic application of control techniques. Despite the moderate adoption, enterprises that employ structured inventory control methods likely experience reduced holding costs and improved profitability, consistent with the findings of Fitridiani (2025) and Toroba et al. (2025).

Accurate demand forecasting received a relatively high mean score ($M = 3.67$, $SD = 1.290$), indicating that respondents appreciate its role in aligning stock levels with market requirements. Demand prediction reduces the risk of overstocking, which ties up capital and increases storage costs, and understocking, which leads to lost sales and dissatisfied customers (Munyaneza, 2022; Bongomin & Ntayi, 2020). This finding demonstrates that small enterprises in Gayaza recognize the importance of customer-oriented inventory planning to maintain liquidity and improve financial performance.

The study further revealed that overstocking and understocking negatively affect financial performance ($M = 3.44$, $SD = 1.367$). This confirms previous research (Chinomona & Sandada, 2021; Rukundo et al., 2025) highlighting that inappropriate inventory levels create cash flow challenges, increase operational costs, and reduce sales opportunities. For small enterprises in peri-urban trading centres like Gayaza, maintaining optimal inventory levels is crucial due to limited storage space and fluctuating demand patterns.

Operational challenges, including technological limitations and insufficiently skilled personnel, received a lower mean score ($M = 2.95$, $SD = 1.387$), indicating neutral to slightly negative perceptions. This suggests that a significant number of small enterprises face barriers in implementing modern inventory management solutions. Studies by Okello et al. (2022) and Nsubuga et al. (2023) emphasize that adopting technology, such as inventory management software or automated tracking systems, enhances accuracy, decision-making, and profitability. The results highlight a critical area for intervention, as capacity-building and technology adoption could substantially improve inventory practices and financial outcomes.

These results imply that small enterprises in Gayaza can improve financial performance through systematic inventory management, staff training, and adoption of affordable inventory management tools.

Conclusion

The study concludes that inventory management practices significantly affect the financial performance of small enterprises in Gayaza Trading Centre. Accurate record-keeping, effective demand forecasting, and appropriate control techniques positively influence profitability, while operational challenges such as technological constraints and lack of skilled personnel limit performance.

Recommendations

1. Small enterprises should implement systems to keep inventory records consistently accurate and up to date, enabling more effective stock control and reducing the risk of overstocking or stockouts.
2. Businesses are encouraged to apply proven inventory management methods—such as ABC analysis, FIFO, or LIFO—to minimize holding costs and improve stock turnover.
3. Entrepreneurs should enhance their demand forecasting capabilities to better align inventory levels with actual market needs, reducing waste and improving customer satisfaction.
4. Targeted training programs should be introduced to equip staff with essential skills in inventory management and the effective use of relevant technologies.
5. Investing in cost-effective inventory management software can significantly boost operational efficiency and improve financial performance by automating key processes and reducing manual errors.

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