

The Relationship between Inventory and Financial Performance: Turkey Case

H. Ali Ata

University of Gaziantep, Gaziantep, Turkey
ata@gantep.edu.tr

M. Fatih Buğan

University of Gaziantep, Gaziantep, Turkey
mfbugan@gantep.edu.tr

Yunus Kılıç

University of Gaziantep, Gaziantep, Turkey
ykilic@gantep.edu.tr

Inventories, which are among working capital factors and have the least amount of liquidity, have an important effect on the financial performance of enterprises, especially in terms of productivity. Inventory management and determining of optimal inventory level have a vital role in the point of the productivity of firms' operations especially for the firms which operate on manufacturing industry.

This study has a vital importance because of several reasons. There are limited numbers of studies relevant to discrete components of inventory performance and financial performance in Turkey. This study is relevant to both inventory and finance departments of a firm. Cost of inventory and financing of these assets' investment are important for financial managers.

The purpose of this study is to investigate the relationship between inventory and financial performance in manufacturing firms in Turkey. In this respect, financial statements of manufacturing firms are used between 2002 and 2011. Financial data of firms are obtained from the İstanbul Stock Exchange database. Raw material, work-in-process, finished goods and total inventory are taken as indicators of inventory performance. Then the ratios of these indicators to total sales are used in analysis. Gross profit to total sales and operating profit to total sales are used as indicator of financial performance. The regression analysis was employed by using financial ratios obtained from financial statements of firms within the scope of analysis.

As a result, the relationship between total inventory performance and financial performance are explained. Besides this, the relationship between discrete types of inventory performance and financial performance are summarized in the results.

Keywords: Operating Performance, Inventory Performance, Financial Performance, Raw Material, Work-In-Process, Finished Goods.