THE RELATIONSHIP BETWEEN WORKING CAPITAL MANAGEMENT AND PROFITABILITY OF BUSINESS

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Abstract

The working capital management is important because of its effects on the firm's profitability and risk, and consequently its value. Specifically, working capital investment involves a tradeoff between profitability and risk. Working capital management is direct impact on liquidity and profitability, in attention to the liquidity management process may cause severe difficulties and losses due to adverse short-run developments even for a firm with favorable long-run prospects.

The purpose of this research is to provide empirical evidence on the effects of working capital management on the profitability of listed companies of the manufacturing sector in Sri Lanka. Working Capital Management has its effect on liquidity as well on profitability of the firm. In this research, I have selected the Sri Lankan manufacturing firms which are listed in the Colombo stock exchange for a period of 5 years from 2009 – 2014. Data collection will be mainly based on secondary evidence methods including annual reports and financial statements and, previous financial statements. This study uses the effect of different variables of working capital management including the Average collection period, Inventory turnover in days, Average payment period and cash conversion cycle from operating activities, total current assets and total current liabilities on the Net operating profitability of having Sri Lankan manufacturing firms. Empirical evidence relating working capital management and profitability in general supports the fact that aggressive working capital policies enhance profitability. This suggests that reducing working capital investment is likely to lead to higher profits.

Key words: Profitability, Manufacturing Business, Working capital management