EFFECTIVELY MAINTAIN THE WORKING CAPITAL FOR MANUFACTURING ORGANIZATION'S PERFORMANCE IN SRI LANKA.

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Abstract

Working capital management plays a significant role of manufacturing firms. Firms can increase it performance by managing it an effective way. The profitability, liquidity tradeoff is important because if working capital management is not given due considerations then the firms are fallen and faced bankruptcy (Abdul et.al, 2010). Firms can achieve optimal management of working capital by making the trade-off between profitability and liquidity. It promotes to satisfy the short term liquidity, Profitability and shareholder wealth (Daniel, Ambrose, 2013). There is a main issue facing by the organization is regarding to this is the management compromise to be made between low profitability and high liquidity. According to the economist Assaf Neto (2003), liquid assets are usually less profitable than fixed assets. The optimum level of working capital will increase the organization value (Mousavi and Jari (2012).

This paper analyzes the impact of working capital management on manufacturing firm's performance in Sri Lanka for the period of 2009 to 2014. For this purpose data are analysis from 100 manufacturing firms based on the annual reports during this time period. The variables will expect to measure by using Net Operating Profitability. In order to find out the relationship between different variables, regression model and correlation analysis are expected to examine the Working Capital behavior of the firm. This research expects to find out the efficient working capital policy to maintain and assess the negative relationship between the working capital and profitability.

Key words: Working Capital Management, Cash Conversion Cycle, Net Trade Cycle, Average Collection Period, Average Payment Period, Manufacturing Sector, liquidity, Firm size