

THE EFFECT OF THE WORKING CAPITAL MANAGEMENT ON PROFITABILITY OF SRI LANKAN COMPANIES

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Abstract

Most firms have a large amount of cash invested in working capital, as well as substantial amounts of short-term payables as a source of financing. Therefore working capital mainly affects the company's profitability and liquidity. A well-managed working capital promotes a company's wellbeing on the market in terms of liquidity and it also acts in favor for the growth of shareholders' value (Jeng - Ren, Li & Han-Wen, 2006). Management of these short-term assets and liabilities warrants a careful investigation since the working capital management plays an important role for the firm's profitability & risk as well as value (Smith, 1980).

The main objective of this research is to find out the relationship between working capital management and company profitability. To collect the required financial data of these firms was obtained from the companies' annual reports from CSE. Consequently, the sample data begins in 2010 and ends in 2014. The effects of working capital management on the firm's profitability are modeled using the following OLS regression equations to obtain the estimates. This study expects most of the Sri Lankan companies have large amounts of cash invested in working capital. It can be expected that the way in which working capital is managed will have a significant impact on profitability of those firms.

Key words: Working capital management, Profitability, Colombo stock exchange