

## **Impact of Working Capital Investment Policy on Firm Value in Sri Lankan Manufacturing Companies**

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Corporate financial officers identify the Working Capital Management (WCM) as being important determinant to their firms' value. WCM is defined as the ability of the organization to fund the short term assets and short term liabilities. In practice, WCM has become one of the most important issues in the organizations. The issue is vital in the manufacturing sector organizations due to employment of high amount of short term assets in day to day operations.

The study investigates the impact of firms' WCM Investment Policy (IP) on firm value in Sri Lankan companies. The sample of the study was 36 manufacturing companies listed in the Colombo Stock Exchange for the period of 2008/09 to 2012/13 which comprises 180 firm year observations.

Correlation and panel regression analysis were employed as measures of analysis. Firms' IP was used as an independent variable. Firm value was measured in terms of Economic Value Addition (EVA) as dependent variable of the study.

IP explains the way in which a firm invests their funds in short term or long term assets. Where a minimal level of investment is in current assets in comparison with fixed assets, it closes to the more aggressive IP and percentage of current assets on total asset was used as a measurement of IP. EVA indicates economic profitability and it assesses the managerial effectiveness in a given year by measuring profits, after subtracting the expected return to shareholders. Creating sustainable improvements in EVA is synonymous with increasing shareholder wealth (Stewart, 1991).

Both correlation and regression analysis results proved that there is a statistically insignificant but negative relationship between IP and EVA providing evidence that manufacturing companies having more current assets as a percentage of total assets will decrease its EVA of manufacturing sector companies in Sri Lanka.

*Key words: Working Capital Management, Firm Value, Economic Value Addition, Investment Policy*

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