

## Impact of Working Capital Management Policies on Firm Value

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### Abstract

This research study investigated the impact of working capital management policies on firm value in Sri Lankan companies. Data were gathered from a sample of 24 companies listed in Colombo Stock Exchange. It covers the manufacturing sector from period of 2010 to 2014. Aggressive working capital management policy (AWCMP), Conservative working capital management policy (CWCMP), Moderate working capital management policy (MWCMP), investing policy (IP) and Financing policy (FP) were used as independent variables. Firm value is measured in terms market value addition (MVA) and was employed as dependent variable in the study. The multiple regression analysis was used. The results indicate that there is a statistically significant positive relationship between conservative working capital management policy, aggressive working capital management policy, moderate working capital management policy and market value addition of the firm. It further explains the firms that follow aggressive working capital management policy yields higher market value additions than the firms with other two types of policies. Similarly it indicates that there is a significant negative relationship between market value additions and investing policy and financing policy. Accordingly the results conclude that the firms following aggressive, conservative and moderate working capital management policies improved the market value additions of the firms in Sri Lanka.

**Keywords:** *Firm Value, Market Value Addition, Working Capital Management Policy, Sri Lanka*