

The Impact of Working Capital Management on Profitability of Sri Lankan Manufacturing Companies

Dharmasena, N.W.G.N.P.¹ and Abeywardhana, D.K.Y.²
nisankapradeep@gmail.com¹, dilyapa@kln.ac.lk²

This study investigates the impact of the Working Capital Management on profitability of Sri Lankan manufacturing companies. To achieve the objectives of the study, the researcher used secondary sources of data for a sample of 20 manufacturing companies using panel data analysis for the period of 2011-2015. The dependent variable Return on Assets (ROA) is used as a measure of profitability. The key independent variables used in the analysis are the Inventory Conversion Period (ICP), Average Collection Period (ACP), Average Payment Period (APP) and Cash Conversion Cycle (CCC). In this study pooled Ordinary Least Squares (OLS) method regression used for analysis. The impact of WCM on firm's profitability is modeled using OLS regression equation to obtain the estimates. The results show that there is a positive relationship between ACP and profitability as well as APP and Profitability of Sri Lankan manufacturing companies. Therefore it implies that increase the number of days of accounts receivable, leads to increase profitability. Further this suggests that account receivable management is the significant factor in predicting profitability of the manufacturing sector companies in Sri Lanka. As a conclusion we can say that APP is the best measurement in determining profitability of manufacturing companies in Sri Lanka.

Keywords: Working Capital Management, Profitability, Pooled data regression, Return on Assets