Impact of Working Capital Management on Firm Performance: Comparative Analysis between Listed Manufacturing & Plantation Companies in Sri Lanka

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This study examines the relationship between the Working Capital Management (WCM) and the firms' performance. This research uses data from 2010 to 2016 and examine two sectors (manufacturing and plantations) listed in Colombo Stock Exchange (CSE). Ordinary least squares regression and fixed effect model have been used to estimate the relationship between variables. The results showed that different sector may give different results in determining the relationship between the working capital and the firms' performance. The study finds a negative relationship between profitability and number of day's receivable in both manufacturing and plantation sectors. And negative relationship between number of day's inventory holding of manufacturing firms, but positive relationship between profitability and no of day's inventory holding in plantation sector firms, but a positive relationship between profitability and number of days accounts payable settlement in manufacturing companies. However Plantation Company's result shows negative relationship between No of days payables settlements with profitability. The present study reveals that shortening of the cash conversion cycle negatively affects the profitability of Sir Lankan manufacturing companies but negatively affect the profitability of Sri Lankan plantation companies. Current ratio used as a variable shows positive relationship with profitability of plantation companies and negative relationship with the profitability of the manufacturing companies in Sri Lanka. Results can be strengthened if the firms manage their working capital in more efficient way it will ultimately increase profitability of these companies.

Keywords: Working Capital Management, Firm performance, Cash conversion cycle, Manufacturing sector and plantation sector, Sri Lanka