Impact on Working Capital Management on Firm Performance

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Working capital has an effect on firm profitability as well as on liquidity position. Working capital is described as the capital available to meet the day-to-day operations and, depending on the industry, it could be a relatively high percentage of the total assets of the organization. Management of working capital is an important component of corporate financial management because it directly affects the profitability of the firm. This paper investigates the relationship between the working capital and the firm's profitability for a sample of 15 Sri Lankan manufacturing companies listed on the Colombo Stock Exchange(CSE) for the period of 4 years from 2012-2015. The secondary data analyses by applying correlation, descriptive and multiple regression analysis. The main objective of this research to identify the relationship between working capital management and firms financial performance and other secondary objectives to identify relationship between average inventory period, average receivable period, average payable period, current ratio, quick ratio and return on assets of the firms. The results shows that there is a relationship between variables of the working capital and profitability of the firm. There is a negative relationship between average inventory period and profitability of the firm and positive relationship between average receivable period, average payable period, current ratio and quick ratio against profitability of the firm. This paper highlights the importance of managing working capital components to ensure an improvement in firm's profitability and to operate effectively and efficiently.

Keywords: Working Capital Management, Profitability, Manufacturing firms