

A Study on Relationship between Working Capital Management and Firms' Performance: Comparison between Manufacturing Sector and Food & Beverage Sector in Colombo Stock Exchange

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This study examines the relationship between working capital management (WCM) on firms' performance and also compare the correlation results in between manufacturing sector and the food and beverage sector firms in Sri Lanka. The goal of WCM is to ensure that the firm is able to continue its operations and that it has adequate cash flows to satisfy both maturing short-term debt and upcoming operational expenses at minimal costs, and consequently, increasing corporate profitability (Angahar & Alematu, 2014). Though empirical evidence exists on the topic, yet there is an uncertainty in determining the optimum level of WCM, especially in Sri Lankan context. Since WCM may be different from industry to industry, firms have to adopt an appropriate WCM approach which is favorable to particular industrial sector. Hence this study compare the relationship between WCM and the firm's performance of eighteen manufacturing firms and eighteen food & beverage firms listed in the CSE. Data were gathered from annual reports of the sampled firms for the period 2011-2015. The WCM measured in terms of Inventory Turn-over Days (ITD), Average Receivable Days (ARD), Average Payable Days (APD), Cash Conversion Cycle (CCC) and Sales Growth Rate (SGR) whereas performance was measured by the return on assets (ROA). According to the data analysis, there was a negative correlation between ROA and CCC, ITD, ARD. In addition to that, there was a positive correlation between APD and SGR with ROA. There was a significant relationship between WCM and firms' performance in manufacturing and food & beverage sector. Keeping an optimal level of liquidity of the manufacturing and food & beverage sector and the value of the managers of companies in the manufacturing and food & beverage sector will have to increase the value of the firm thereby controlling the level of optimal working capital position.

Keywords: Cash Conversion Cycle, Working Capital Management, Performance