

RARE

AN INVESTIGATION OF THE ROLE OF WORKING CAPITAL MANAGEMENT
ON PROFITABILITY, LIQUIDITY, SOLVENCY AND ORGANIC GROWTH OF
SMALL AND MEDIUM ENTERPRISES IN SRI LANKA



Submitted by

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ABSTRACT

The efficient management of working capital could determine profitability, liquidity and solvency, value added levels and the ultimate organic growth state of enterprises. Inefficiencies associated with working capital management could make an adverse impact on the growth trajectory. The present study examines the impact of efficient working capital management on the ultimate dynamic of organic growth of the Dirisavi Board listed firms in Sri Lanka. In order to determine the efficiency of Working Capital Management, three indexes have been used including Performance Index (PI), Utilization Index (UI) and Efficiency Index (EI). The statistical samples of the study are the firms accepted in 4 sectors and a total number of 25 firms were selected as the sample. The study period was 04 years commencing from January 2009 to December 2012. To measure the relationship between efficient working capital management and organic growth, the researcher used seven independent variables and nine dependent variables. Regression, correlation and Anova (GLM) methods of analysis was employed to analyze data. The study found that there were relationships between efficient working capital management and the contributory variables along growth pathways of listed firms in Sri Lanka. The degree of relationship between efficient working capital management and organic growth was dissimilar among sectors. Further working capital policy and strategy which encompassed the inventory conversion period, debtors and creditors conversion periods culminating in the cash conversion cycle were all equal predictors of organic growth. The current assets to total assets ratio : used as a control variable, made a contribution to ultimate organic growth. This study would help to understand the importance of efficient working capital management, which sectors organic growth is highly effected and how the working capital components contribute to organic growth of the firms.

Keywords: *Profitability, Liquidity, Solvency, Value Added, Organic Growth*