

Working Capital Management on the Financial Performance of Plantation Companies in Sri Lanka

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Abstract

The purpose of this research study was to find out the influence of working capital management on the financial performance of plantation companies in Sri Lanka. Effective working capital management is crucial for businesses as it directly affects their liquidity, profitability, and overall financial health. However, the specific impact of working capital management practices on the financial performance of plantation companies in the Sri Lankan context remains largely unexplored. The research will employ a quantitative approach, utilizing financial data from a sample of 20 plantation companies listed in the Colombo Stock Exchange from 2016 to 2022. The study would focus on Return on Assets as the key financial performance. Additionally, working capital management variables, including cash conversion cycle, inventory turnover, and receivables/payables management, will be examined to understand their influence on financial performance. Through data analysis and statistical techniques such as regression analysis, the study aimed to provide empirical evidence regarding the relationship between working capital management and financial performance in the plantation sector of Sri Lanka. The findings helped shed light on the specific working capital management strategies that positively impact financial performance and highlight areas for improvement. The findings of this study significantly deviate from the previous international studies conducted in different countries. The results divulged that working capital management and profitability are positively correlated in Sri Lankan plantation companies. The study further showed that the number of days of inventory and the number of days of accounts payable are negatively correlated with a firm's profitability, whereas the number of days of accounts receivables and cash conversion period reveals a positive relationship with corporate profitability. Overall, this research study aims to contribute to the existing literature on working capital management and provide valuable insights into the Sri Lankan plantation industry, enabling stakeholders to make informed decisions about financial management and performance improvement strategies.

Keywords: Working Capital Management, Return on Assets, Financial Management