The Relationship between Working Capital Management and Firms’ Performance: A Comparative Study between Manufacturing and Plantation Companies Listed in Colombo Stock Exchange (CSE)

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In this study an attempt has been made to identify the relationship between working capital and firms’ performance in listed manufacturing and plantation companies in the CSE and also to test the performance differences between two industries. Cash Conversion Cycle (CCC) is used to measure the working capital as it represents the main aspects of working capital. Payable and receivables and Return on Capital Employed (ROCE) were used as the measure for the firms’ performance.

The study is primarily based on the secondary data that were extracted from the annual reports of 22 Manufacturing firms and 18 plantation firms listed in the CSE for the period from 2009 to 2012. The result of the normality test reveals that both the selected samples for ROCE is not normally distributed. Hence non-parametric tests were used to analyze data and it was found that both CCC and ROCE significantly vary from manufacturing firms and plantation firms. Statistical analysis was used to compare the performances between two industries. The results of the study depicted that the performance of plantation firms are lower compared to manufacturing firms and plantation firms operate lower cash conversion cycle compared to manufacturing sector.

Spearmen’s Rank correlation coefficient is used to evaluate the relationship between CCC and ROCE. The results revealed that there is a moderate negative relationship between CCC and firms’ performance in manufacturing companies and also it is statistically significant. However, statistical evidence was not sufficient to prove the same for plantation companies. As a recommendation it is suggested that for all manufacturing companies to have a greater focus on working capital management which in-turn contribute to its performance. The industry factors and the opinions of the subject experts were also suggested the same. The study opens up further room for researchers to investigate into plantation industry -working capital with reference to different stages in the plantation life cycle.

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