

## **Impact of Working Capital Management on Profitability of Manufacturing Sector Small and Medium Sized Enterprises (SMEs) in Sri Lanka**

Bandara, A.W. D.Y.<sup>1</sup> and Thilakarathne, P.M.C.<sup>2</sup>  
dhanushkayasithamal@gmail.com<sup>1</sup>, lal@kln.ac.lk<sup>2</sup>

Working Capital Management (WCM) is the management of short-term financing requirements of companies. WCM impacts on both profitability and liquidity of the companies. This study aims to investigate the impact of working capital management on profitability of manufacturing sector small and medium sized enterprises in Sri Lanka. This study makes use of twenty manufacturing sector small and medium enterprises in Sri Lanka for the period from 2010 to 2015. Study used secondary data, data were collected from selected companies audited financial statements of relevant years. Multiple regression model was used to investigate the relationship between working capital management and companies' profitability. The working capital was measured by cash conversion cycle (CCC), average number of day-sales of inventories (INV), average number of day-sales accounts receivable (AR) and average number of accounts payable (AP) as independent variables and the profitability was determined by return on assets (ROA) as dependent variable. Finally, researcher finds that the positive relationship between CCC and AP with ROA and AR is negatively related with ROA. So, the CCC, AR and AP are significant factors to determine the impact profitability of manufacturing small and medium sized enterprises in Sri Lanka. The INV is not a significant factor. Therefore, INV does not impact on profitability of manufacturing small and medium sized enterprises in Sri Lanka.

**Keywords:** Working Capital Management, Manufacturing Small and Medium sized Enterprises (SMEs), Profitability, Return on assets, Cash conversion cycle