

The Relationship between Working Capital Management and Corporate Profitability: Comparison between Manufacturing and Pharmaceutical Chemical companies in Sri Lanka

Kavishan, D.¹ and Abeywardhana D.K.Y.²
dharmarajahkavishan123@gmail.com¹, dilyapa@kln.ac.lk²

The objective of this research is to provide empirical evidence on the Relationship between Working Capital Management (WCM) and Corporate Profitability of Manufacturing and Pharmaceutical and Chemical companies in Sri Lanka. The Regression analysis is used as analytical techniques and the sample data collected for the period of Six years from 2010-2016 for 10 manufacturing companies and for 10 pharmaceutical and chemical companies listed in Colombo Stock Exchange (CSE). This study measures corporate profitability using Return on Assets (ROA) and independent variables are Inventory Turnover period (ITP), Average Collection Period (ACP) and Average Payable Period (APP) and control variables are firm size, debt ratio and sales growth. For pharmaceutical and chemical sector ITP and total assets shows significantly positive relationship with profitability and ACP, and APP is significantly negative with profitability. In contrast, for the manufacturing sector, ACP shows significantly negative relationship with profitability. This study suggests that Pharmaceutical and Chemical sector should focus on reducing the ACP and APP to increase the profitability thereby maximize the wealth of shareholders of the company. The firms in manufacturing sector should reduce the ACP to increase their profitability.

Keywords: Working Capital Management, Profitability, Manufacturing sector, Pharmaceutical and chemical sector, Sri Lanka