

The Effects of Working Capital Management on the Profitability of Plantation and Power Energy Sector in Sri Lanka

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This study seeks to establish the influence of Working Capital Management (WCM) towards the profitability of Sri Lanka's Plantation and Power energy firms. Plantation, Power and energy sectors are the sectors which showed more working capital problems due to the highly volatile cash flows. Even though there are studies conduct on this topic on developed market context, studies on this topic on emerging market setting like Sri Lanka is on spare. Thus this study may contribute to the literature on this area specially as emerging market evidences. This study was done on 30 companies registered in Colombo Stock Exchange (CSE), which covered the period of 2015 – 2017 with a total observation of 60 firms/years. The independent variables to measure working capital management include working capital turnover ratio (WCTR), current ratio (CR), cash conversion cycle (CCC), inventory days (ID), receivables days (ARD) and payables days (APD) while, the dependent variable used are Return on Asset (ROA) and Return on Capital Employed (ROCE). This study adopted explanatory research design. The collected data was analyzed using descriptive means, Pearson correlation and multiple linear regressions via E-Views. Multiple linear regressions are implied in this research in order to analyze the significance between working capital management on profitability. The independent variables used are WCTR, CR, CCC, ID, ARD and APD and the dependent variables are the ROA and ROCE. Every independent variable is found significant and had influence the profitability except for inventory days on ROA and ROCE and payable days on ROCE. Hence, the insignificant relationship between both variables is concluded that these variables are not a factor in determining the effect of working capital management in the plantation, power/ energy sector in Sri Lanka.

Keywords: Working Capital Management, Profitability, Cash Conversion Cycle, Inventory Days, Sri Lanka

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