

The Effect of Working Capital Management Approach on Firms' Performance

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ABSTRACT

Introduction: The purpose of this paper is to examine the effect of the working capital management approach on the firm's performance for Sri Lankan manufacturing and plantation companies.

Design/ Methodology/ Approach: The data comprise 28 Sri Lankan manufacturing and plantations companies and 140 observations made between years 2014 to 2018. Panel data regressions were employed with statistical tools. These statistical tools include linearity, variance inflation factor, and correlation analysis.

Findings: The results show a significant relationship between Working Capital Investment Policy, Working Capital Financing Policy and lagged one in ROA on Return on Assets. However, Natural logarithm of the Sales and Gearing ratio shows an insignificant relationship. On the other hand, working capital financing policy, Natural logarithm of Sales, gearing ratio shows an insignificant relationship with ROS. However, working capital investment policy and lagged one in ROS show a significant relationship with Return on Sales.

Conclusion: According to this study, the working capital investment and working capital financing policies are major factors in determining a firm's financial and operating performance. Natural logarithm of sales and gearing ratio do not determine a firm's performance.

Keywords: *Return on Assets, Return on Sales, Working Capital Investment Policy, Working Capital Financing Policy, Manufacturing, Plantations*