IPRC/16/159

A Study on Working Capital Management and Its Impact to The Firm's Profitability: Case Study in Leading Leather Garment Manufacturer, Sri Lanka

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Working capital is critical for every organization to run day-to-day operations of the organization and it plays significant role in increased profitability, growth opportunities and shareholders wealth of the organization. The aim of working capital management is ability to settle short-term obligation by controlling the current assets and current liabilities effectively and efficiently to get maximum return to the organization. Working capital management is necessary for every business in their short- term planning process and managers should be decided to keep optimum level on each element. Holding them either too much or too little both are giving negative result to the business since there are significant costs associated with each element. So it is no surprise to study on working capital management in an organization since it is one of the main decisions in financial management. This study is to exactly analyses working capital management and its impact to the firm's profitability in Sri Lanka's only, and leading high quality leather garment manufacturer, profitability measured by the Return on Assets (ROA) and analyses the impact from the working capital elements such as inventory holding period, accounts receivable period, accounts payable period, cash conversion cycle, current ratio and quick ratio to the profitability. To investigate this relationship, secondary data analysis utilizes financial data based on independent audit statements of the company for the period of 2000-01 to 20014-15 (15 Years) and a quantitative analysis was conducted by using the SPSS statistics 20.0, linear regression runs in order to validate the hypothesis; correlation and regression analysis. Furthermore, descriptive statistics and correlation matrix also used to analyze the collected data. The findings show that the accounts receivable period (ARP) and cash conversion cycle (CCC) have a significant and moderate positive relationship with ROA. In addition, current ratio (CR) and quick ratio (QR) have significant and strong positive relationship with ROA. However, inventory holding period (IHP) and accounts payable period (APP) have insignificant relationship on profitability. And also based on key findings conclude that the company can increase the profit by offering effective credit facility system in order to encourage customers to buy more products and company has room to increase the profitability through effective working capital management. Thus, this study suggests that the managers can create profit by promoting their sales under the credit facilities until the overall benefits are higher than the overall cost and effective working capital management provides an inward option for source of financing other than the traditional sources of finance. Moreover, the study suggests that inventory management strategies such as JIT, EOQ and ABC analysis system should be implemented to avoid overstocking and stock write off while minimizing holding cost.

Keywords: *Working capital management, profitability, inventory holding period (IHP), accounts receivable period (ARP), accounts payable period (APP), cash conversion cycle (CCC), current ratio (CR) and quick ratio (QR).*

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