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The management of working capital can be defined as an accounting approach that emphasize on maintaining proper levels of both current assets and current liabilities. The management of working capital relates managing inventories, accounts receivable, accounts payable and cash. Working Capital Management (WCM) is a powerful element in any organization. For the reason behind that, the main working capital components such as Average Collection Period (ACP), Average Payable Period (APP), Inventory Conversion Period (ICP) and Cash Conversion Cycle (CCC) are directly impact to the firm’s performance. Consequently in this study also used these variables as the independent variables. Return on Assets (ROA) is used as a measure of profitability as well as dependent variable. Current Ratio (CR), Debt Ratio (DR), Firm Size (SIZE) and Sales Growth (GROWTH) are the control variables that used in present study to compute the WCM impact on profitability. This paper analyzes the WCM and its impact on profitability in Sri Lanka for the period of 2011 to 2015. The population consists with 38 hotel and travel companies listed in Sri Lankan Colombo Stock Exchange and the sample contains 20 companies of the above mentioned population. Pearson’s correlations and ordinary least square regression method were used to establish the relationship between WCM and firm’s profitability. This study finds that positive relationship between return on assets and ICP, CCC and CR. On the other hand present study suggests that there is a negative relationship between ROA and ACP, APP, DR, SIZE and GROWTH of firms. Among these variables, ICP and SIZE are highly significant to the profitability. Based on the key findings from this study it has been evident that managers can create a value for the enhancement of shareholder’s wealth by increasing the number of days inventory conversion to a maximum level and reducing the number of days accounts receivables and accounts payables to a reasonable level. This study recommend to the management in setting longer credit period policy for this sector to achieve higher profitability and
they can maintain optimum high level of inventory in order to reduce the cost of possible breaks in the production process and loss of business due to the scarcity of inputs in production. Furthermore, firms can take short to pay their creditors in as much as they can build up strong relationships with these creditors. Also firm can get the sustainable competitive advantage by the effective and efficient utilization of the firm resources through the increment of the cash conversion cycle to its maximum. In so doing, the profitability of the firms is expected to increase.

**Keywords:** Working Capital Management, Average Collection Period, Average Inventory Period, Average Payment Period, Cash Conversion Cycle, Return on Assets, Hotel and travel sector firms