

Impact of Working Capital Management and Working Capital Policy on Firms' Profitability in the Listed Manufacturing Companies in Sri Lanka

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Abstract

This study contributes to the existing literature by integrating both Working Capital Management (WCM) and Working Capital Policy (WCP) on profitability of firms which is an under researched area in the context of Sri Lanka. An effective Working Capital Management (WCM) and Working Capital Policy (WCP) has been regarded as significant components of the financial management. Purpose of this study is to investigate the impact of Working Capital Management (WCM) and Working Capital Policy (WCP) on the profitability of the Listed Manufacturing Companies in Sri Lanka with special reference to the moderating impact of firm size. Moreover existing literature shows mixed results of the relationship between Working Capital Management (WCM) and Firm Profitability. A quantitative research approach is adopted to study the impact and financial data obtained from the audited annual reports of the 35 listed manufacturing companies for a period of 5 years from 2015 to 2019. In this regard, Descriptive statistics, Correlation, Regression and Pooled OLS analysis are used to analyze the data. Moreover, financial institutions and lenders will be of interest in understanding the companies financing decisions as they can formulate strategies in lending accordingly.

Keywords: Firm size, Manufacturing Companies, Profitability, Working Capital Management, Working Capital Policy