# Do Corporate Governance Practices Influence Working Capital Management Efficiency? Evidence From Listed Manufacturing Companies in Sri Lanka

Lingesiya Kengatharan[1] & W. S. Sanoli Tissera[1]

[1] Department of Financial Management, University of Jaffna, Sri Lanka

Correspondence: Lingesiya Kengatharan, Department of Financial Management, University of Jaffna, Sri Lanka.

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**Abstract**

The purpose of the study is to investigate the influence of corporate governance practices on working capital management efficiency in the listed companies of the manufacturing sector in Sri Lanka. Board meeting, board size, CEO tenure and size of the audit committee are used as corporate governance practices and the cash conversion cycle is calculated to measure the working capital management efficiency. Sales growth and firm size are considered as control variables to evaluate the influence of corporate governance practices on working capital management efficiency. Relevant data are extracted from the annual reports of 30 listed manufacturing companies for the period from 2013 to 2017. Finally, 150 observations are used for the data analysis. Pearson correlations are executed to determine the relationship between corporate governance practices and working capital management efficiency. OLS regression analysis is performed to determine the explanatory power of the combination of corporate governance practices on the efficiency of working capital management. The correlation analysis shows that board meeting, CEO tenure and firm size have a significant positive relationship with cash conversion cycle. The regression results suggest that board meetings and CEO tenure have a significant positive influence on cash conversion cycle. Generally, the shorter the cash conversion cycle is better for the business, therefore, according to this result the increase in a board meeting and CEO tenure have the considerable decreasing in liquidity position in an organization. Therefore, the outcome of the study may be useful to the top management of the firms and practitioners when they are implementing governance mechanisms in order to enhance the working capital efficiency.

**Keywords:** corporate governance practices, working capital efficiency, manufacturing companies

## 1. Background of the Study

The company's accounting strategy is designed to monitor and improve the effective use of current assets and liabilities to ensure the most financially efficient operations of the company. The objective of working capital management is to maintain the company's current assets and current liabilities in order to run its day-to-day operations or business smoothly and without disruption. A lower level of the liquidity position threatens the company's short term solvency and makes it insecure and unsound. Negative working capital means current liabilities over current assets and can damage the reputation of the company by interrupting the day to day operations of the firm. Too much of working capital is kept in the firm is also not advisable because excessive liquidity will not involve in generating the profitability to firm. Therefore, cash management of the firm must take prompt and timely action to improve and correct the imbalances in the liquidity position of the company and which should be maintained at the satisfactory level. Companies usually follow a cycle in which they buy inventory, sell goods on credit and then collect debtors. This cycle is called the cash conversion cycle. A sound working capital policy is designed to minimize the time between cash spending on materials and cash collection when selling.

Corporate governance is processes and mechanism that ensure that the firm is being directed and managed to enhance long term shareholder value. If firms want to maintain the sustainability and survival, day to day business operations should be without interruptions. Then only they can run the business efficiently. Therefore, there should be a proper mechanism to monitor the business function in order to maximize the shareholders wealth. Cash conversion cycle is treated as a measure of efficiency in working capital (Deloof, 2003). A firm's cash conversion is the period during which it is transited from goods to money and again from money to goods (Deloof, 2003; Raheman