



## **IMPACT OF WORKING CAPITAL MANAGEMENT ON FIRMS' PROFITABILITY: EVIDENCE FROM LISTED COMPANIES IN SRI LANKA**

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### **Abstract**

In corporate finance, the working capital management has been considered as the prominent area of the overall corporate strategy to maximize shareholders wealth. Working capital represents a significant proportion of firm's investment that affects profitability, liquidity and firm value and any firm can't grow in absence of satisfactory working capital. The ultimate objective of working capital management is to ensure that the firm is able to carry out ordinary course of business and that it has sufficient cash flow to meet both short-term debt and future operational expenses. This study examines the relationship between working capital management and firms' profitability using a sample of 35 listed companies on the Colombo Stock Exchange (CSE) using stratified random sampling technique over the period 2012-2018. The analysis is made using the Descriptive Statistics, Correlation Analysis, Regression Analysis and Variance Inflation Factor from E Views 8. The efficiency of working capital management is measured using the Cash Conversion Cycle (CCC), Accounts receivable days (ARD), Inventory conversion days (ICD) and Accounts payables days (APD). The control variables such as Debt to Assets (DE\_AS), Sales Growth Rate (SGR) and Firm size (SIZE) are used for measuring the working capital management. The conclusion of this study reveals that CCC, ARD, ICD was negatively correlated with ROA and has a significant impact on profitability. Also, the findings show APD has a positive significant impact on ROA but the control variables such as SGR and SIZE excluding DE\_AS significantly affects ROA.

**Keywords :** Firms profitability, Cash Conversion Cycle, Inventory Conversion Days, Accounts Payable Days, Accounts receivable days, Debt to Assets, Sales Growth Rate, Firm size