



Impact of Working Capital Management on Firm Profitability of Listed Companies in Sri Lanka

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ABSTRACT

Working Capital Management (WCM) is a significant piece of finance that should be managed in any company. The main objective of this research is to examine whether WCM impacts the firm profitability of listed companies in Sri Lanka. So many researchers have investigated this impact based on one industry but there is a dearth of studies about this topic in a few industries. Therefore, to examine this impact, seventy listed companies were selected to gather data using a proportionate stratified random sampling technique to measure the impact of variables. Secondary data was collected from annual reports from 2018 and 2019 listed companies on Colombo Stock Exchange (CSE). Multiple regression analysis was applied to find whether there is an impact between WCM and firm profitability. For this research study, only four ratios, such as inventory conversion period (ICP), debtors' collection period (DCP), creditors payment period (CPP), and cash conversion cycle (CCC), was used to measure WCM. For this study, there are only two ratios such as return on assets (ROA) and return on equity (ROE) were utilized to measure profitability leverage (LEV), and the current ratio (CR) was used as the control ratio (CR) were used as the control variables for this study. Multiple regression results showed a significant negative impact among ICP, CCC, CR and, ROA, ROE. As well as an association of DCP, CPP with ROA, ROE was insignificant. However, there was a negative association among DCP and ROA, ROE, and also, there was a positive association among CPP and ROA, ROE. Further, there was significant positive association among LEV and ROA, ROE. This investigation is significant for academic purposes and contributes to the knowledge. Analyst recommends extending the scope of future examination to the WCM and Profitability. There is a sector-wise gap. So, future researchers should analyze the regression result sector by sector. Future researchers should give attention to time series to get a reasonable conclusion for their investigation.

Keywords: *Colombo stock exchange, listed companies, profitability, Sri Lanka, working capital management*