

Impact of Working Capital Management on Firms' Profitability: In the Context of Sri Lankan Plantation Companies Listed on the Colombo Stock Exchange

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Abstract

Purpose: The impact of working capital management on profitability is investigated in this study.

Design/methodology/approach: This study is confined to Sri Lankan Plantation companies and is based on a survey of 17 listed companies on the Colombo Stock Exchange. Colombo Stock Exchange-listed companies between 2011 and 2020. The dependent variables of this study, net profit margin (NPM) and return on equity, were used to quantify profitability (ROE). Also, the working capital management is the independent variable and is determined by the cash conversion cycle (CCC), accounts receivable days (ARD), account payable days (APD), and inventory turnover days (ITD). Working capital management's effects on profitability have been investigated using regression analysis.

Findings: The results demonstrate a significant relationship between profitability as evaluated by NPM, ROE, ARD, APD, and CCC. ITD, however, has an insignificant impact on ROE and NPM. The outcome also demonstrates that APD has an insignificant impact on NPM for Sri Lanka's listed plantation companies.

Practical implications: Maintaining a suitable level of working capital would help plantation companies increase their profitability.

Research limitations: The study consists of only 17 companies and is confined to only plantation sector companies listed on CSE.

Keywords: *Colombo Stock Exchange, Plantation Companies, Profitability, Sri Lanka, Working Capital Management*