

Working Capital Management & Financial Performance of Manufacturing Sector in Sri Lanka

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Abstract

Working capital management is considered to be a crucial element in determining the financial performance of an organization. The primary purpose of this paper is to investigate the relationship between working capital management and financial performance of listed manufacturing firms in Sri Lanka. A sample of 30 manufacturing firms listed on the Colombo Stock Exchange was used for this study. Data were collected from annual reports of sampled firms for the period of 2008 to 2011. Performance was measured in terms of return on assets and return on equity while cash conversion cycle, current assets to total assets and current liabilities to total assets were used as measures of working capital management. Correlation and regression analysis were used for the analysis. The findings reveal that, there is no significant relationship between cash conversion cycle and performance measures. The study also concludes that, manufacturing firms in Sri Lanka follow conservative working capital management policy.