

Effect of Working Capital Management and Financial Leverage on Financial Performance of Listed Trading Companies in Sri Lanka

Saseela S.¹

Abstract

In the world of business, the ability to seize every opportunity and to seek practical business tools and techniques to improve the financial performance are of paramount importance for success. This paper aims to determine the effect of working capital management policy and financial leverage on financial performance of listed trading firms measured in terms of net income, return on equity (ROE) and return on asset (ROA). The research question is that how far working capital management policy and financial leverage impact on financial performance of listed trading firms in Sri Lanka. The data was collected from the financial statements (Annual Reports) of these firms for a period of eight years from 2003 to 2010. Pearson's rank correlation test and multiple regression analysis were used on nine firms in Sri Lanka. Results of the study indicated that firm's working capital management policy and financial leverage have significant relationship with net income. However, working capital management policy has no significant effect on return on equity (ROE) and return on assets (ROA).

Keywords: Working capital management , financial performance.

¹ Lecturer, Department of Financial Management, University of Jaffna, E-mail: sascelas@yahoo.com