

Relationship between Efficient Working Capital Management and Profitability of Listed Firms in Sri Lanka

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Abstract

The efficient management of working capital could make impact on both profitability and liquidity of firms. The study examines relationship between efficient working capital management and profitability of the listed firms in Sri Lanka. Efficiency of working capital management was measured through three indexes have been used, including Performance Index, (PI), Utilization Index (UI), and Efficiency Index (EI). 58 firms from 5 sectors were selected as the sample for this study. The study period was 5 years commencing from Jan 2012 to 31 Mar 2016. Regression and correlation method of analysis found that there was a relationship between efficient working capital management and profitability of listed firms in Sri Lanka. Further, account payable period and inventory turnover period made greatest influence in profitability. This study would help to understand importance of efficient working capital management, and how the working capital components contribute to profitability of the firms.

Keywords: Profitability, Efficient Management of Working Capital