Liquidity Management Policies and Its Effect on Profitability of High Liquidity Turnover Companies in Sri Lanka

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ABSTRACT

Purpose: Liquidity management encompasses both investment and financing policies, with maintaining an optimal balance being crucial for profitability. This study examines whether high liquidity turnover companies in Sri Lanka adopt conservative or aggressive strategies to financing and investing in current assets, and how these strategies effect profitability.
Design/methodology/approach: The study analyzes data from 56 companies across the materials, capital goods, and retail sectors over a 10-year period (2013–2022), using panel regression analysis in E-Views.
Findings: The fixed effect model reveals that companies with high liquidity adopting a conservative financing policy experience a significant negative effect on profitability, likely due to increased opportunity costs and growth restrictions. Meanwhile, investment policy shows an equal distribution between fixed and current assets but has no significant effect on profitability, suggesting that matching assets does not drive profit growth. However, sales levels show a significant and positive effect on profitability, indicating that higher revenue generation directly boosts profits.
Practical implications: Companies typically achieve profitability through increased sales, yet conservative financing policies may restrict these gains. This study suggests that a less conservative financing approach may enhance profitability.
Originality value: This study offers localized insights into the profitability impacts of liquidity management in Sri Lanka's high liquidity sectors. It highlights the value of balancing short-term financing with current assets through effective forecasting to optimize risk and return in similar emerging economies.

Keywords: ***Financing Policy; Investment Policy; Profitability; Turnover Companies***

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