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P 29 Impact of Working Capital Management on Financial Performance: Evidence from Listed Plantation Companies of Colombo Stock Exchange (CSE) in Sri Lanka.

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Working capital management (WCM) is one of the prerequisites for the success of a firm and it is essential to retain the optimum level of working capital for firms' sustainability. Though empirical evidence exists on the topic, yet there is an uncertainty on determining the optimum level of WCM, especially in Sri Lankan context. WCM may be different from industry to industry. Therefore, firms have to follow an appropriate WCM approach, related to the particular industry sector for sustained financial performance. We attempted to investigate the impact of the WCM on financial performance in plantation companies in Sri Lanka. Data were collected from annual reports of 18 listed plantation companies of Colombo Stock Exchange in the financial year of 2011/2012. Although, Plantation industry plays a significant role in the Sri Lankan economy as a main foreign exchange earner and employment generator, literature relating WCM of the plantation industry in Sri Lanka is very rare. Therefore, this study enriches the literature by providing evidence which can be easily applied for plantation industry in Sri Lanka. We measured financial performance in terms of Net Profit margin (NPM), Return on Assets (ROA) and Return on Equity (ROE) whereas the WCM is measured in terms of Inventory Turnover Days (ITD), Accounts Receivable Days (ARD) and Cash Conversion Cycle (CCC). Based on multiple regression analysis, results indicated that negative relationship between CCC and ITD with NPM and ROA. Moreover ARD has a significant positive effect on ROA. Hence the study recommends plantation companies to manage their working capital by implementing liberal credit term policy, reducing inventory turnover days and the cash conversion cycle to improve their financial performance and survive in the undetermined business environment.

Keywords: working capital management, financial performance, plantation companies, Colombo stock exchange