

## DOES WORKING CAPITAL MANAGEMENT POLICY AFFECT FINANCIAL PERFORMANCE? SPECIAL REFERENCE TO LISTED COMPANIES IN SRI LANKA

V.R. Sampath and D. Samarawickrama

*Department of Accounting and Finance, Faculty of Management and Finance,  
University of Ruhuna*

Corresponding author: dhanush1347@gmail.com

Efficient management of working capital is a fundamental part of the overall corporate strategy to create the shareholders' value. Firms are struggled with deciding the appropriate working capital policy in order to maximize the firm value. Since the paucity of empirical studies regarding working capital management policies specifically in Sri Lankan context, the present study investigates the impact of aggressive/conservative working capital policies on firm financial performance in Sri Lankan companies. Data were gathered from one hundred and thirteen (113) listed companies in Sri Lanka covering thirteen business sectors for the period of 2011/2012. Working capital investment policy and working capital financial policy were used as independent variables and firms' financial performance measured by in terms of Return on assets and Return on equity. Moreover, growth and leverage were used as control variables and multiple regression analysis was employed to examine the relation of working capital policies and financial performance. The findings imply that a negative relationship between the financial performance measures of firms and degree of aggressiveness of working capital investment policies ( $p < .001$ ), whereas positive relationship between the performance measures of firm and degree of aggressiveness working capital financial policy ( $p < .001$ ). The study reveals that firm could improve financial performance if they adopt a conservative approach towards working capital investment policies and aggressive approach towards working capital financing policies. Hence, this study guides the potential stakeholders, who are waiting to merge with Sri Lankan companies as a shareholder or long term debtor, to concern with companies which following relatively conservative approach towards short-term assets and aggressive approach towards current liabilities.

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