

A STUDY ON THE RELATIONSHIP BETWEEN  
WORKING CAPITAL MANAGEMENT PRACTICES AND PROFITABILITY  
OF FIRMS IN SRI LANKA



MAYURATHY MAHENTHIRARAJAH



FCM1156

Project Report  
Library - EUSL

DEPARTMENT OF COMMERCE  
FACULTY OF COMMERCE AND MANAGEMENT  
EASTERN UNIVERSITY, SRI LANKA

2010

## Abstract

This paper is aimed at analyzing the relationship between Working Capital Management practices and Profitability of firms in Sri Lanka. The Working capital management is measured by using four dimensions. Such as,

1. Receivable management
2. Inventory management
3. Payable management
4. Cash management

Moreover managers can create profits for their firms by handling correctly the cash conversion cycle and keeping each different component (accounts receivables, accounts payables, inventory) to an optimum level.

Profitability is measured by using two dimensions. Such as,

1. Return on assets
2. Return on equity

Profitability measured through net operating profit.

This study consists of sample of 100 firms of Sri Lanka. Primary data and secondary data were collected for this study. Primary data collected from questionnaires and interviews and secondary data collected from statement and web pages. Sample of questionnaires were issued to 100 respondents of firms in Sri Lanka. Univariate and SPSS package are used for the data analysis and presentation. Collected data were analyzed and evaluated as low level, moderate level, and high.level.

According to the results show that there is a low positive relationship between working capital management practices and profitability of the firms in Sri Lanka.

## Table of Contents

	Page No
Acknowledgement	i
Abstract	ii
Table of contents	iii
List of tables	vi
<b>Chapter 01 Introduction</b>	<b>01-06</b>
1.1 Background of the Study	01
1.2 Problem Statement	05
1.3 Research Questions	05
1.4 Objectives of the Study	06
1.5 Scope of the study	06
1.6 Significance of the study	06
1.7 Assumptions	07
1.8 Summary	07
<b>Chapter 02 Literature Review</b>	<b>08-30</b>
2.1 Introduction	08
2.2 Working Capital	08
2.2.1 Working capital management and risk return tradeoff	10
2.2.2 Operating cycle or working capital cycle	11
2.2.3 Determinants of working capital	12
2.2.4 Kinds of Working Capital	14
2.2.5 Sources of working capital	16
2.2.6 Receivable Management	17
2.2.7 Inventory Management	19
2.2.8 Payable Management	21
2.2.9 Cash Management	21
2.3 Profitability	23
2.4 Empirical Evidences	25
2.5 Summary	30

**Chapter 03 Conceptualization and Operationalization 31-38**

3.1	Introduction	31
3.2	Conceptualization	31
3.3	Operationalization	37
3.4	Summary	38

**Chapter 04 Methodology 39-45**

4.1	Introduction	39
4.2	Study setting, Study design and Method of survey	39
4.3	Sampling	40
4.4	Method of data collection	40
4.5	Method of Data Presentation, Data Analysis and Data Evaluation	42
4.6	Summary	45

**Chapter 05 Data presentation and Data analysis 46-66**

5.1	Introduction	46
5.2	Personal Information	46
5.3	Research Information	50
5.3.2	Overall Analysis of the Working Capital Management and Profitability	59
5.3.3	Cross Tabulation Analysis of Research Information	60
5.3.4	Bivariate Analysis of Research Information	64
5.4	Summary	66

**Chapter 06 Discussion of Findings** **67-77**

6.1	Introduction	68
6.2	Discussion on Research information	68
6.2.1	Working Capital Management	75
6.2.2	Profitability of firms	75
6.2.3	Relationship between Working Capital Management Practices and Profitability	76
6.3	Summary	77

**Chapter 07 Conclusions and Recommendations** **78-83**

7.1	Introduction	78
7.2	Conclusion	78
7.3	Recommendations	79
7.4	Limitations	83
7.5	Summary	83

References	viii
------------	------

Appendix 1 Survey Questionnaire	x
---------------------------------	---