

## **Impact of Working Capital Management on Financial Performance of Non- Banking Financial Institutions in Sri Lanka**

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Working Capital (WC) is reckoned as the animating spirit of an entity's concern. Consequently, it is imperative to accommodate the smooth running of operations in any organization. Yet the non-banking financial sector encountered many issues regarding managing cash as a component of WC and there is no consensus in the literature regarding the link between Working Capital Management (WCM) and financial performance. Hence, the objective of this study is to examine the impact of working capital management on the financial performance of non-banking financial institutes in Sri Lanka. WCM was measured using creditor's payment period, debtors' collection period, cash conversion cycle, current ration, and financial performance was measured using the return on assets and return on equity. Data were extracted from the annual reports of non- banking financial institutes covering a period of eight years from 2011 to 2018. Ten non- banking financial institutes out of 63 were considered as the sample based on the Fitch ratings. Data were analyzed through the Eviews statistical software using Pearson correlation and random effect panel regression model. The results reveal that there is a significant negative relationship between the debtor's collection period and financial performance. Further, it exhibits an insignificant positive relationship between creditors' payment period and cash conversion cycle and finally found that there is a significant positive relationship between the current ratio and financial performance. In line with the above findings, it is recommended that the non-banking financial institutes maintain a shorter debtor's collection period as much as possible and a higher current ratio to enhance the financial performance. Further, it is recommended to adopt a conservative working capital strategy while paying a higher attention to the current ratio as the most affecting factor to the financial performance of non- banking financial institutes in Sri Lanka.

*Keywords:* Working Capital Management (WCM), Financial performance, Return on Assets (ROA), Current ratio and conservative strategy