

## **Effect of Working Capital Management on Firm’s Profitability Evidence from Listed Insurance Companies in Colombo Stock Exchange**

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Working capital management is considered to be a crucial element in determining the profitability of business firms. An optimal working capital management practices are contributing positively to the firm’s profitability. In recent years many insurance companies in Sri Lanka have been an encounter many issues regarding working capital. Many research studies have been carried out to find the effect of the working capital on firms’ profitability, but there were only a few studies carried out to investigate the effect of working capital on the profitability of the insurance companies in Sri Lanka. To fulfill this existing research gap, this study investigates the effect of working capital on a firm’s profitability of all the listed insurance companies in the Colombo Stock Exchange (CSE) for the period of five years starting from 2015 to 2019. This study used Average Collection Period (ACP), Average Payment Period (APP), Current Ratio (CR), and Debt Ratio (DR) to measure the working capital while Return on Assets (ROA), Return on Equity (ROE), and the Profit Margin (PM) were used by the researcher to measure the profitability of the listed insurance companies in the CSE. Pearson correlation analysis was used to find the association between the working capital and the firm’s profitability. Three random effect panel regression models were used to find the effect of working capital on a firm’s profitability. The results of the study conclude that APP and DR have a negatively statistically significant effect with the ROA (Model 01), ACP has a positive statistically significant effect with the ROE (Model 02) and the CR has a positive statistically significant effect with the PM (Model 03) of the Sri Lankan listed insurance companies. In line with the above findings, it is recommended to adopt a conservative working capital strategy while paying higher attention to the ACP and CR as the most favorably affected factors to the profitability of the listed insurance companies in the CSE.

**Keywords:** Colombo stock exchange; Profitability; Profit margin; Return on assets; Return on equity; Working capital management.