

The Impact of Working Capital Management on the Profitability of Hotel and Travel Sector Companies in Sri Lanka

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Abstract

Working capital management makes sure that a company has sufficient cash flow in order to come across its short term debt obligation and operating expenses. The main purpose of this study was to investigate working capital management and its impact on profitability. The research problem focused on to what extent the working capital management influences the profitability of the hotel and travel sector. The dependent variable return on assets is used as a measure of profitability and the independent variables are account payable period, account receivable period, cash conversion cycle, and inventory conversion period. A sample of 20 firms has been selected from the companies listed in the Colombo Stock Exchange for the period from 2015 to 2019. The data analysis is conducted by employing panel data analysis for the period data obtained for the study sample. The results of the study revealed that there is a significant positive impact of the account payable period and cash conversion cycle on the profitability of firms in the hotel and travel sector. Meanwhile, other particular independent variables established an insignificant negative impact between the account receivable period and inventory conversion period with the profitability of the firms in the hotel and travel sector. Based on the findings, the study concluded that managers can increase firm profitability by increasing the account payable period and maximizing the length of the cash conversion cycle. Hence, it is recommended that hotel and travel sector companies emphasize working capital management as a high, if not highest, priority in order to improve profitability.

Keywords: Hotel and travel sector, profitability, working capital management