

THE IMPACT OF WORKING CAPITAL MANAGEMENT ON CASH HOLDING: A Quantitative Study of Listed Manufacturing Companies in Colombo Stock Exchange Market in Sri Lanka

Prahalathan B

Cash holding problem is faced by every manufacturing firms to meets its day to day transaction determine a firm keeps a cash balance either in the form of cash on hand or as a bank deposit in controlling the level of cash balance. Hence, the present research extends the literature to investigate the relationship between working capital management and cash holding of listed manufacturing companies in Sri Lanka. The sample consists of 30 manufacturing companies listed in the Colombo Stock Exchange Market for the period of 2003 to 2007. To determine the working capital management is measured through the Net working capital and Cash conversion cycle. Net working capital measured through Relative inventory holding, Relative account receivable holding and Relative short term liability holding. Cash conversion cycle measured through Days sales of inventory, Days sales outstanding and Days payables outstanding are used as independent variables. Cash holding of the firm is measured by the liquid fund to balance sheet total of the companies and also used as a dependent variable. Five - year data were analyzed by using the univariate analysis and bivariate analysis. The results show that the efficiency and Cash holdings are positively impact to working capital management and negatively related to the cash conversion cycle. Relative inventory holding, days sales of inventory are having negative impact on cash holding of Sri Lankan manufacturing companies.

Keywords: Working capital, Cash holding, Cash conversion cycle