

Working Capital Management and Profitability

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Working Capital Management And Profitability – Case Of Pakistani Firms

Abdul Raheman* and Mohamed Nasr **

Working Capital Management has its effect on liquidity as well on profitability of the firm. In this research, we have selected a sample of 94 Pakistani firms listed on Karachi Stock Exchange for a period of 6 years from 1999 – 2004, we have studied the effect of different variables of working capital management including the Average collection period, Inventory turnover in days, Average payment period, Cash conversion cycle and Current ratio on the Net operating profitability of Pakistani firms. Debt ratio, size of the firm (measured in terms of natural logarithm of sales) and financial assets to total assets ratio have been used as control variables. Pearson's correlation, and regression analysis (Pooled least square and general least square with cross section weight models) are used for analysis. The results show that there is a strong negative relationship between variables of the working capital management and profitability of the firm. It means that as the cash conversion cycle increases it will lead to decreasing profitability of the firm, and managers can create a positive value for the shareholders by reducing the cash conversion cycle to a possible minimum level. We find that there is a significant negative relationship between liquidity and profitability. We also find that there is a positive relationship between size of the firm and its profitability. There is also a significant negative relationship between debt used by the firm and its profitability.

Field of Research: Corporate Finance

1. Introduction

Working capital management is a very important component of corporate finance because it directly affects the liquidity and profitability of the company. It deals with current assets and current liabilities. Working capital management is important due to many reasons. For one thing, the current assets of a typical manufacturing firm accounts for over half of its total assets. For a distribution company, they account for even more. Excessive levels of current assets can easily result in a firm's realizing a substandard return on investment. However firms with too few current assets may incur shortages and difficulties in maintaining smooth operations (Horne and Wachowicz, 2000). Efficient working capital management involves planning and controlling current

* faculty member in University Institute of Management Sciences, University of Arid Agriculture, Rawalpindi, Pakistan and PhD student at COMSATS Institute of Information Technology, Islamabad, Pakistan. E Mail: ab_rehman1976@yahoo.com or ab_rehman1976@hotmail.com
** (CGA) professor (under the foreign faculty hiring program of Higher Education Commission of Pakistan) at COMSATS Institute of Information Technology, Islamabad, Pakistan.
E mail: Mohamed_nasr@comsats.edu.pk or nasr_m@mail.com

The purpose of this paper is to provide empirical evidence on the effects of working capital management on the profitability of small and medium-sized. The purpose of this study is to examine the effect of working capital management on firm's profitability. The study is based on a sample of manufacturing. The efficient management of working capital is crucial to the profitability of firms, therefore, it is prudent that management of firms make available in the ri. The purpose of this paper was to examine the relationship between working capital management strategies of a firm and its profitability. This short survey paper consolidates the empirical literature on the association between working capital management and firm profitability. Working Capital Management and Firm Profitability: Empirical Evidence from Manufacturing and Construction Firms Listed on Nairobi Securities. Exchange. Abstract. Working capital management plays a pivotal role in enhancing the operational efficiency of firms and their ultimate profitability. Working capital management and profitability: Evidence from Ghanaian listed manufacturing firms. Richard Kofi Akoto¹, Dadson Awunyo-Vitor^{2*} and Peter. The aim of this paper is to examine the relationship between working capital management and firm profitability. Using a panel data set on HGFs from Central, . Key words: Working Capital Policies, Working Capital Management, Firm profitability, Financial constraints, Financial Crisis, Public Listed Firms, Amsterdam. View details for Working capital management and profitability of UK firms: a contingency theory approach. ABSTRACT. The impact of working capital management on the profitability of manufacturing firms has attracted the attention of researchers in different countries. Management of working capital is regarded as one of the most essential part of Key Words: Working Capital Management, Profitability, Telecom Sector, India. Consequently, we contribute to the literature by re-examining the relationship between working capital management and corporate profitability by investigating . Management and profitability is compared between the different company groups . sensitivity to changes in Working Capital Management strategies. This was. reveal that working capital management and profitability is positively However, working capital management also directly affects the liquidity of the company. Abstract. The main purpose of this study is to empirically test the impact of working capital management on crecernamaior.com investigate this relationship between. Abstract. The purpose of this study is to examine the relationship link working capital management and performance such as profitability between accountant.

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