

**An Empirical Examination of the Relationship of Working Capital Management and
Performance of Nonfinancial Listed Companies at KSE Pakistan**

By

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requirements for the degree of Master of Philosophy



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Declaration of Authentication

*I, **Mehwish Jabeen**, M.Phil student in the Department of Management Sciences, Bahria University, Islamabad, certify that the research work presented in this thesis is to the best of my knowledge my own. All sources used and any help received in the preparation of this dissertation have been acknowledged. I hereby declare that I have not submitted this material, either in whole or in part, for any other degree at this or other institution.*

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Dedication

I dedicate all my work to my Daddy (Nana), parents, brother and sister and my dearest friends Zubair Hasan Shahid and Sahar Arshad along with my adorable niece Abiha Fatima.

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EXECUTIVE SUMMARY

The study deems short term as the main span of analysis by focusing on the working capital management which indicates efficiency and short term financial health of the business. The relationship of working capital management with market dominance and firm performance across industries is analyzed while incorporating both static and dynamic perspectives for measuring the liquidity of firms. Furthermore, both financial (ROE and ROS) and market performance (EPS and Tobin's Q) of non financial sector of Pakistan are analyzed and compared across different regimes. The sample of the present study comprises of 100 nonfinancial companies listed at Karachi Stock Exchange, Pakistan for the period of 2005 to 2012. The results of Dummy variables and Logit & Probit models delineate that there exists differences in the performance of nonfinancial sector of Pakistan across different industries and regime. In addition, working capital management plays a critical role in the determination of market dominance and firm performance. It is also examined that cash conversion cycle has negative and accounts payable period has positive relationship with firm performance. Moreover, it is investigated that accounts receivable period positively affects financial performance but negatively affects market performance. On the contrary, inventory turnover period negatively affects financial performance but positively affects market performance. Furthermore, it is found that management style varies across industries and working capital management is not a statistically significant determinant for all the sectors under study.

Key Words: cash conversion cycle, working capital investment and financing policies, regime change, market dominance, firm performance, agency theory, pecking order theory, liquidity, profitability.