

"How working capital management impacts the profitability
of Non-Financial Firms in Pakistan"



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Abstract

There has been a long discussion on how the efficient working capital management impacts the profitability of the firm. Some researchers say that working capital is impartially an indolent resource with low benefit and higher cost so, according to those researchers the firm must follow a zero-working capital policy, but it can be riskier for the firms as it decreases the liquidity of the firm which might force the firm towards default. Majority of the researchers argue that a firm must implement an effective working capital management policy, because if the components of working capital are managed properly, it can reduce default risk of the firm by raising the level of gross profit margin, reducing costs and increasing benefits. There are three types of working capital policies such as defensive, conservative and aggressive policies, which firms implement to raise their gross profit margin. A lot of research work is done on this topic around the world but in Asian countries specially in Pakistan and India more work is needed. So, this research is carried out to find the impact of working capital management and its components on profitability (Gross profit margin) of the firms in Pakistan. For this purpose, we studied a sample of 200 non-financial firms listed on Pakistan stock exchange from different sectors from 2011-2017. In this study a strategy known as explanatory research is used. Moreover, this study follows a quantitative and deductive approach. In this research gross operating profit is used to measure the profitability of the firm as dependent variable, and cash conversion cycle, average collection period, average payment period, leverage, size of firm and age of firm, return on equity and return on assets are used as independent variables. The data was analyzed using SPSS and 6 regressions were run on 200 observations.