

Impact of working capital management on profitability of firms in Pakistan

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Abstract: Working capital management is a very important component of corporate finance because it directly affects the liquidity and profitability of the firm. This study investigates a relationship between working capital and profitability of firms. In this research we have selected a sample of 25 Pakistani firms listed on Karachi stock Exchange for a period of 6 years from 2001-2006, we have studied the effect of different variable cash, inventory, account receivable, and account payable on the profitability of Pakistani firms. The relationship between working capital management and profitability is examined using correlation and regression analyses. I have found a significant positive relationship between profitability inventory and cash. These results suggest that managers can create value for their shareholder by increasing account receivable and inventories. The negative relationship between account payable and profitability is consistent with the view that less profitable firms wait longer to pay their bills.

Keywords: Profitability, Cash, Inventory, Accounts Payable and Accounts receivable.