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IMPACT OF WORKING CAPITAL MANAGEMENT ON PROFITABILITY: EMPIRICAL EVIDENCE FROM MANUFACTURING INDUSTRIES IN BANGLADESH

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ABSTRACT

Effective management of working capital is crucial for the profitability of a company since it affects the efficiency of cash flow, performance, and financial stability. The purpose of this study is to examine the relationship between inventory conversion period (ICP), receivable collection period (RCP), payable payment period (PPP), and cash conversion cycle (CCC) and profitability. The study also examines the effects of firm size (SIZE) and liquidity (CR) on profitability. To analyse the working capital practices and their relationship with profitability, descriptive statistics and multiple regression analysis were used. The regression model has high explanatory power, with an R value of 0.911 and an R-square value of 0.830, meaning the selected variables explain 83% of the variation in profitability. The empirical results show that ICP has a positive but non-significant relationship with profitability ($\beta = 0.070$, $t = 0.297$), and RCP has a negative but non-significant relationship with profitability ($\beta = -0.033$, $t = -0.106$). On the other hand, profitability is significantly and negatively affected by PPP ($\beta = -0.893$, $t = -2.933$, $p < 0.05$), meaning that the longer the payment, the more negative the impact on firm performance. Likewise, there is a strong negative relationship between CCC and profitability ($\beta = -1.138$, $t = -2.825$, $p < 0.05$), indicating that companies with higher CCC have lower profitability. The results further show that firm size positively affects profitability ($\beta = 0.241$, $t = 3.145$, $p < 0.10$), while current ratio liquidity also has a positive influence ($\beta = 0.214$, $t = 2.25$, $p < 0.10$). The study concludes that efficient working capital management, specifically cash conversion cycle reduction and the implementation of effective payable policies, is critical to improving profitability.

Keywords: Working capital, Manufacturing firms, Profitability.

1.0 INTRODUCTION

Working Capital Management (WCM) is one of the key elements of corporate finance aimed at the efficient management of a company's current assets and current liabilities. Its main aim is to keep the company in a condition of optimal liquidity and profitability, so that it can meet the short-term obligations and operating costs without sacrificing the returns to the shareholders. The ultimate goal is to avoid over- or underinvesting in current assets because both negatively affect a firm's financial position. Overinvesting in current assets, such as unused cash or unsold inventory, can reduce profitability. In contrast, underinvesting can cause liquidity problems and even insolvency in the operation.

Working capital management is one of the most essential duties of the finance manager, particularly in the the manufacturing industry, where a large amount of working capital is usually tied up in operational cycles. In this sense, WCM is frequently referred to as the "key to success" for manufacturing companies. This success depends on balancing current assets (such as inventory and accounts receivable) with current liabilities (such as accounts payable). In Bangladesh, the Cement Industry plays an important role in the socio-economic development of the nation. This sector has experienced tremendous development in the past ten years, mainly driven by the growing allocation by the government in its Annual Development Program (ADP) for infrastructure development, particularly at the level of road and bridge construction. Industry experts have estimated the average demand growth in the sector at 20-25 per cent, and hence the operational capital needs to be managed efficiently to maintain the growth.

Several indicators determine profitability in the manufacturing industry. They are Return on Assets (ROA), Return on Equity (ROE), Net Profit Margin (NPM) and Return on Capital Employed (ROCE). These variables are interdependent and dynamic. According to traditional financial theory, the more liquid the financial instruments, the safer the investment, but in practice, empirical studies sometimes indicate that an excess of liquidity can lead to lower overall profitability. On the other hand, a shorter cash conversion cycle (from quicker inventory turnover and more efficient receivables collections) can increase a firm's ability to earn profits. Various relationships are often modelled by descriptive statistics and multiple linear regressions in the cement sector in Bangladesh, and secondary data is often used for this purpose from companies listed on the Dhaka Stock Exchange (DSE).

Finance managers can improve their operational strategies by examining the profitability of working capital components. Smooth working capital management helps firms report higher profits and a stronger balance sheet. Therefore, understanding the effect of WCM efficiency is vital for the long-term sustainability and growth of cement companies in Bangladesh's changing economic scenario.

2.0 LITERATURE REVIEW

A large amount of international research has concluded that efficient working capital management is critical to the success of a company. Delivering empirical evidence, global foundational studies by Deloof (2003) and Lazaridis and Tryfonidis (2006) showed that WCM has a direct effect on the profitability of firms, respectively in Belgium and in Greece. In particular, Deloof (2003) reported that Belgian companies could boost profit by decreasing the accounts receivable days and inventory days. Likewise, Lazaridis and Tryfonidis (2006) found a positive correlation between WCM and profitability for companies listed on the Athens Stock Exchange, implying that managers can generate value by optimising the cash conversion cycle. The literature has revealed mixed findings regarding the effects of non-oil exports in developing economies, depending on the country and industry. The results of Angahar and Alematu's (2014) study on the Nigerian cement industry indicate a negative relationship between the various components of working capital and ROA; this can be interpreted as the industry incurring costs in maintaining high levels of current assets. Wanguu and Kipkirui (2015) examined the cement industry in Kenya, which reported that the WCM had substantial impacts on profitability. Raheman & Nasr (2007) and Naeem et al. (2017) found a strong

negative correlation between CCC and profitability, as measured in various industries such as cement, food, and textiles in Pakistan. Safiah and Nizam (2015) also noted in Malaysia that these trends were valid and that efficient inventory and payables management is essential in the plantation and petroleum industries.

The study conducted specifically on Bangladesh has pointed out the potential and present weaknesses of the cement industry. Quayyum (2011) did an important study on the cement industry listed in the DSE, which gave statistics on the significant relationship between profitability indices ROA and NPM and different components of liquidity and working capital. Her research results indicated that working capital management is consistently related to profitability. But Hoque et al. (2015) noted that the working capital position of many sample cement industries in Bangladesh was not satisfactory, and the profitability of many industries was also not good despite the growth in the cement industry in the country. They determined that managers were not fully leveraging the days-in-AR to create shareholder value as of yet.

The components of WCM have been examined to determine the effects each has on earnings. For example, the Cash Conversion Cycle (CCC) is often seen to have a negative relationship with profitability ratios such as ROA. This means that the longer the delay between cash outflows and inflows, the less the firm can return on its assets. This was validated by Mazumder (2015), who found that controlling the "activity level" of working capital (inventory turnover) is essential for the survival of cement companies. Furthermore, some evidence suggests a positive correlation between Average Payment Period (APP) and profitability, meaning firms that pay their creditors slowly have access to cheap financing that can be invested in the production process. But this approach must be weighed against the risk of damaging supplier relationships or losing early payment discounts.

Another factor often mentioned in the literature is inventory management. If one sees the inventory turnover ratio low, it could mean over-investment in inventory leading to a lack of productive use of resources. Panigrahi (2024) noted a cause-and-effect relationship between efficient inventory management and superior financial performance among Indian cement companies. The data highlights a wide range of the holding period of inventories in Bangladesh, indicating ample opportunities to improve supply chain management. In their comparative study between cement and tannery, Rahman and Ahmed (2021) found that the inventory conversion periods had adverse effects on the net profit of the cement companies, adding to the rationale for reducing the holding period. The effect of the firm-specific control variables, such as firm size and sales growth, has also been documented. The cement companies' firm size (log of total assets) significantly affects the Return on Equity (ROE) of cement companies, which showed that for every 1% increase in firm size, the ROE of cement companies increased by 1.61%. This suggests economies of scale in managing working capital for large companies. Moreover, the growth in sales is closely related to profitability indices, since it enhances the amount of operations and cash flow. One of the early observers of the state of the art in working capital management was Smith (1973), who observed that the state of the art really is the integration of all the above functions into a cohesive strategy that can be used to advance the firm's overall financial objectives.

Although consensus has emerged that WCM is important, researchers such as Panigrahi (2024) note that management styles and economic conditions differ widely from country to country.

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Thus, the results of a single region cannot be easily transferred to another region without making adjustments for market competitiveness and technology adoption. In Bangladesh, the dependency of profitability is evident. Still, the performance of most companies indicates a gap between theory and practice in satisfactory working capital management. Future studies should classify businesses according to certain features to explore the relationship between WCM and profitability, taking into account the impact of internal controls and external competition. Finally, the literature has focused on the importance of working capital management for manufacturing firms to increase profitability and maintain a smooth cash conversion cycle.

3.0 METHODOLOGY

The study used secondary data collected from the annual audited financial reports of selected manufacturing firms operating in Chattogram, Bangladesh. The study focused on manufacturing firms because working capital management plays an important role in maintaining liquidity, operational efficiency, and profitability in manufacturing businesses. The financial information was collected from the published annual reports of the selected firms for the study period. The most recent financial year was not considered in the study because of changes in the financial reporting period of companies in Bangladesh. According to the revised government regulation, companies other than banks, insurance companies, and non-bank financial institutions are required to follow a July–June financial year. Therefore, differences in the reporting periods of the firms could create inconsistencies in the comparison of financial information across the study period.

For the purpose of the study, 10 sample of manufacturing firms in Chattogram was selected based on the availability and consistency of audited financial information. The study considered financial data covering the period from 2015 to 2025. The annual reports of the selected firms were examined to collect information regarding current assets, current liabilities, inventories, accounts receivable, accounts payable, sales, total assets, and net profit. The collected data were then organised and analysed to examine the relationship between working capital management and the profitability of the selected manufacturing firms.

The study attempted to identify the major working capital management variables that influence the profitability of manufacturing firms in Chattogram. For this purpose, the study selected dependent and independent variables based on previous empirical studies and the availability of relevant financial information. Profitability was considered the dependent variable, while working capital management indicators were treated as the major independent variables. Firm size and other relevant firm-specific financial characteristics were included as control variables to account for differences among the selected firms. The selected variables and their respective measurement methods are presented in the following table.

3.1 Variables of the Study

The study employed descriptive and inferential statistical techniques to analyze the collected data.

Table 1: Variable description of the study

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Type of Variable	Variable	Measurement Method
Dependent Variable	Return on Assets (ROA)	Net Profit / Total Assets × 100
Independent Variable	Inventory Conversion Period (ICP)	Average Inventory / Cost of Goods Sold × 365
Independent Variable	Receivables Collection Period (RCP)	Average Accounts Receivable / Net Sales × 365
Independent Variable	Payables Payment Period (PPP)	Average Accounts Payable / Cost of Goods Sold × 365
Independent Variable	Cash Conversion Cycle (CCC)	ICP + RCP − PPP
Control Variable	Firm Size (SIZE)	Natural Logarithm of Total Assets
Control Variable	Current Ratio (CR)	Current Assets / Current Liabilities

Descriptive statistics were used to summarise the characteristics of the variables, while correlation analysis was applied to examine the association between working capital management variables and profitability. Multiple regression analysis was subsequently used to determine the extent to which working capital management affects the profitability of the selected manufacturing firms. The regression model was specified to examine whether changes in inventory management, receivables management, payables management, and the cash conversion cycle significantly influence firm profitability after controlling for firm-specific characteristics.

The general regression model of the study can be expressed as:

$$\mathbf{ROA = \beta_0 + \beta_1 ICP + \beta_2 RCP + \beta_3 PPP + \beta_4 CCC + \beta_5 SIZE + \beta_6 CR + \varepsilon}$$

Where ROA represents profitability, ICP represents inventory conversion period, RCP represents receivables collection period, PPP represents payables payment period, CCC represents cash conversion cycle, SIZE represents firm size, CR represents current ratio, β_0 is the constant term, β_1–β_6 are the regression coefficients, and ε represents the error term. The analysis was conducted using the firm-year observations obtained from the selected manufacturing companies during the study period.

3.2 Analysis and Findings

This chapter aims to provide an empirical interpretation of selected variables based on tests conducted in this study. However, this chapter is organised around descriptive statistics, a correlation matrix,rix and regression analysis. To describe the basic features of variables, this study uses descriptive statistics, which represent the average, minimum, maximum, standard deviation, skewness and kurtosis of the selected variables. This study shows enormous differences in the number of days inventory, number of days accounts receivable, cash conversion cycle, and profitability (ROA), as shown by their minimum and maximum values in the table. The table presents the descriptive statistics of the study variables, including profitability (ROA), working capital management indicators (ICP, RCP, PPP, CCC), firm size (SIZE), and liquidity (CR). The descriptive statistics include the number of observations (N),

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minimum and maximum values, mean, standard deviation, skewness, and kurtosis, which provide information about the central tendency, variability, and distribution characteristics of the variables.

Table 2: Descriptive statistics

VAR.	N	MIN	MAX	Mean	ST.DV	Skewness	Kurtosis
ROA	10	0.026	0.302	0.062	1.055	1.757	0.735
ICP	10	63.1	685.153	262.331	291.654	1.767	0.827
RCP	10	0.668	153.867	56.909	66.579	3.162	0.435
PPP	10	6.89	68.179	23.811	38.469	2.256	7.994
CCC	10	16.859	665.423	296.429	397.616	1.546	5.695
SIZE	10	6.056	12.266	8.131	1.839	1.039	3.967
CR	10	1.827	2.182	1.376	1.521	1.539	6.438

The profitability measure (ROA) has 10 observations. The lower and upper bounds of the range of values are 0.026 and 0.302, respectively, suggesting that the companies in this sample achieved positive returns on assets. However, there is a wide spread of values between the observations. The mean ROA is 0.062, meaning that, on average, companies earned around a 6.2% return on their total assets. The relatively high standard deviation of 1.055 for profitability suggests large variation in profitability among firms and significant differences in asset utilisation efficiency. The skewness value is positive (1.757), suggesting a right-skewed distribution in which most firms have comparatively low ROA values, with a few firms having comparatively high ROA values, indicating higher profitability. The kurtosis value is 0.735, indicating that the distribution is moderately peaked compared to a normal distribution, although the difference is not large.

The average number of days it takes firms to convert inventory into sales is known as the Inventory Conversion Period (ICP). There are 10 observations of the variable, ranging from 63.1 days to 685.153 days. A mean value of 262.331 days means that, on average, companies take about 262 days to convert their inventory into sales. A standard deviation of 291.654 indicates significant differences in inventory management efficiency between firms. Some companies keep their stock for a relatively short time, while others keep stock for a much longer period. The distribution is skewed (1.767) with the firms with very high inventory holding periods being the skewing influence. The kurtosis value (0.827) suggests the distribution is slightly more concentrated than a normal distribution, but with a few extreme observations. The Receivable Collection Period (RCP) is the average number of days it takes for companies to collect customer payments. The differences in credit management practices between firms are significant, with the minimum value being 0.668 days and the maximum being 153.867 days. The average RCP is 56.909 days, indicating that on average, companies receive payment after 57 days. The standard deviation of the collection efficiency (66.579) shows a high degree of variability. The skewness value (3.162) is very positive, indicating that the distribution is strongly positively skewed, which is a result of the few firms with very long collection periods. The kurtosis value of 0.435 suggests the distribution is fairly close to normal but has some extreme values.

Payable Payment Period (PPP) is the average time that companies take to pay their suppliers. The minimum value is 6.89 days, and the maximum value is 68.179 days, which indicates differences in suppliers' payment strategies. The mean PPP is 23.811 days, meaning companies generally pay suppliers in about 24 days. There is moderate variation in payment practices, with a standard deviation of 38.469. The skewness value is 2.256, indicating positive skewness: a large proportion of firms have shorter payment periods, with a few firms having longer periods. The kurtosis figure (7.994) is quite large and suggests the distribution could be highly peaked, with extreme observations or outliers. The Cash Conversion Cycle (CCC) is the time it takes for companies to convert their investments in inventory and other resources into cash flow. The CCC values range from 16.859 days to 665.423 days, with a mean value of 296.429 days. This means that, on average, companies need around 296 days to turn back cash invested in the operations.

The standard deviation (397.616) indicates significant differences in working capital efficiency among firms. The skewness value (1.546) indicates a right-skewed distribution, suggesting that some companies have significantly longer cash conversion cycles. The kurtosis value (5.695) indicates a leptokurtic distribution, where extreme values lie toward the tails. Firm size (SIZE) ranges from 6.056 to 12.266, with a mean value of 8.131. This suggests that there is some degree of variation in the size of firms in the study. The standard deviation (1.839) indicates significant differences in the size of the firms observed. The skewness value is 1.039, indicating that the sample is positively skewed; that is, there are more small and medium-sized firms than very large firms. The kurtosis value is 3.967, indicating a relatively peaked distribution with potential extreme values and concentration around the mean. Current Ratio (CR) is a measure of liquidity and reflects the ability of firms to pay their short-term debts. The lowest value is 1.827, and the highest value is 2.182. The overall mean value of 1.376 indicates that businesses have relatively good liquidity positions on average. The standard deviation (1.521) shows variation in the liquidity management of firms. The skewness index (1.539) is positive, meaning some companies have much higher liquidity than others. The Kurtosis value (6.438) shows a very peaked distribution, suggesting a concentration of observations and/or extreme liquidity values.

3.3 Regression Analysis

To assess the nature and degree of the dependent variable (ROA) on selected working capital efficiency indicators, multiple regression analysis is performed. The summary of the multiple regression analysis is shown in the the respective table.

Table 2: Model summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	R Square Change	F Change	Sig. F Change	Durbin-Watson
1	.911	.830	.660	.04012	.830	5.310*	.097	1.875

The model summary in Table 3 summarises the overall performance of the regression model, testing the strength of the relationship between the variables, the explanatory power of the

model, the level of errors, whether the regression model is statistically significant or not, and whether there is autocorrelation in the model. The value of R is 0.911, which is very high, suggesting that the dependent variable and the set of independent variables in the regression model are strongly related. This implies that the combination of all the predictors is strongly related to the dependent variable. The R Square value is 0.830, meaning that about 83.0% of the variation in the dependent variable is explained by the independent variables in the model. This regression model accounts for 87.5% of the variation; the remaining 17.0% is explained by other factors that are not included. The Adjusted R Square value is 0.660, which indicates that the model accounts for about 66.0% of the variation in the dependent variable after the number of predictors and sample size have been taken into account. R Square (0.830) and Adjusted R Square (0.660) imply some loss in the explanatory power of the model due to the number of the predictors, but the model is still considered.

The standard error of the estimate is 0.04012, indicating the average amount of error between the observed values and the regression line. A lower SE means the predicted y values are relatively close to the actual y, indicating the model achieves high accuracy in predicting actual y. The R Square Change value is 0.830, suggesting the predictors entered into the model accounted for an additional 83.0% of the variance compared to a model containing no predictors. The F Change value is 5.310, and the significance level (Sig. F Change = 0.097). The overall regression model is not statistically significant at the 5% level because the p-value is > 0.05. However, the model is significant at around the 10% level of significance ($p < 0.10$), indicating that the independent variables have a marginally significant combined effect on the dependent variable. The Durbin–Watson value is 1.875. A value close to 2.0 indicates that there is no serious autocorrelation problem in the residuals. Therefore, the value of 1.875 suggests that the regression model does not suffer from significant autocorrelation, and the assumption of independent errors is satisfied.

Table 4: Model coefficients

Model	Variables	Unstandardized Coefficients (B)	Std. Error	Standardized Coefficients (Beta)	T
1	(Constant)	0.336	0.288	—	1.475
1	**ICP**	0.000012	0.000	0.070	0.297
1	RCP	-0.005	0.024	-0.033	-0.106
1	PPP	-0.1212	0.037	-0.893	-2.933**
1	CCC	-0.123	0.124	-1.138	-2.825**
1	SIZE	0.145	0.254	0.241	3.145*
1	CR	0.252	0.123	0.214	2.25*

* significant at 10%, ** significant at 5% and *** significant at 1%

The regression coefficients in Table 4 show the relationship between the dependent variable and the independent variables: working capital management indicators (ICP, RCP, PPP, CCC), firm size (SIZE) and liquidity (CR). The unstandardized coefficient (B), standard error, standardised coefficient (Beta), and t-statistics are reported and provide information about the direction, magnitude, and statistical significance of each predictor. The constant value is 0.336, the standard error of this value is 0.288, and the t value is 1.475. This is the expected value of

the dependent variable when all of the independent variables are set to a value of zero. The intercept, however, is not statistically significant, and it has no independent significance. ICP has a positive coefficient (B = 0.000012), a standardised coefficient (Beta = 0.070) and a t-value of 0.297. This means that as the inventory conversion period increases, the dependent variable changes very slightly in a positive direction. In this model, however, inventory holding period does not have a statistically significant relationship with firm performance ($p > 0.05$), suggesting that the effect of inventory holding period on firm performance is not significant. The coefficient of RCP is negative (B = -0.005), and the standardised coefficient corresponding to the coefficient is Beta = -0.033 and t = -0.106. This means that a longer period of time to collect receivables is correlated with a slight decrease in the dependent variable. The impact is, however, not statistically significant, indicating that the time taken by firms to collect receivables does not affect the dependent variable significantly.

The coefficient of PPP is negative (B = -0.1212), the standardised coefficient is Beta = -0.893, and the t-value is -2.933. A negative coefficient means a decrease in the dependent variable as the payable payment period increases. The correlation between them is statistically significant at the 5% significance level ($p < 0.05$), meaning that the late payment to suppliers negatively affects the firm performance. This may lead to lower operational efficiency or increased constraints related to suppliers within the firm that extend payment terms. The coefficient of CCC is negative (B = -0.123), and the standardised coefficient has the value of Beta = -1.138 and the t value of -2.825. The negative sign indicates that the dependent variable is affected by a longer cash conversion cycle. It is statistically significant at the 5% level. It indicates that inefficient use of working capital, measured by the time it takes firms to convert investments into cash, adversely affects firm performance. Thus, companies can enhance their performance by reducing the cash conversion cycle.

The standardised coefficient is Beta = 0.241, with a t-value of 3.145, and the SIZE coefficient is positive (B = 0.145). This means that there is a positive association between the dependent variable and the size of the companies. The relationship is statistically significant at the 10% significance level ($p < 0.1$). It shows that firm size has a positive impact on performance. Large companies can take advantage of economies of scale and/or more resources or market strength. The coefficient of CR is positive (B = 0.252); the standardised coefficient is Beta = 0.214, with a t-value of 2.25. This means that the liquidity situation has a positive impact on firm performance. The correlation is significant at the 10% level, indicating a statistical relationship between firms' short-term financial strength and performance.

4.0 SUMMARY AND CONCLUSION

The study focused on the working capital management and profitability, which was explored through an analysis of how working capital management components- inventory management, receivable management, payable management, cash conversion cycle, firm size and liquidity affect the performance of a firm. The descriptive data showed that there is wide dispersion in the management of the components of working capital among firms, especially in the inventory conversion period, receivable collection period, payable payment period and cash conversion period. These indicators have a wide range of values, indicating that companies use different operational and financial management strategies. The regression analysis results revealed that the overall model has a strong explanatory power, and the independent variables accounted for

a significant amount of the variation in the profitability. The results show that working capital management is one of the factors that significantly impact firm profitability.

Payable payment period (PPP) and cash conversion cycle (CCC) were identified as the working capital components that had a significant negative impact on profitability. A negative correlation between PPP and profitability indicates that delays in supplier payments could detrimentally affect operational efficiency, supplier relationships, and company performance. Likewise, the negative effect of CCC suggests that companies with more time between investment in WCP and cash return will have lower profitability. Thus, companies with poor use of working capital will have lower ROI. Conversely, the study found statistically insignificant relationships between profitability and inventory conversion period (ICP) and receivable collection period (RCP). This means that although ineffective inventory management and late payments could lower profit, they did not have a significant impact in this study. The results also showed that firm size (SIZE) is positively significant with profitability, which suggests that the larger firms could perform better because of economies of scale, greater bargaining power, and better access to financial resources. Likewise, there was a positive relationship between profitability and liquidity (current ratio), which indicates that a good liquidity position helps to satisfy the short-term obligations and assists in effective operations of the companies.

The results conclude that working capital management plays a vital role in improving profitability, especially through the cash conversion cycle, which requires the company to be efficient in keeping a balance between the time required for the company to pay its suppliers and the time needed for the company to receive its payment.

4.1 Recommendations

1. Improve the management of Cash Conversion Cycle:

The cash conversion cycle is a key target for companies to minimise by efficiently managing inventory, receivables, and payables. The advantage for companies that have a shorter cash conversion cycle is that they will be able to get their invested money back sooner and put their resources to profitable use.

2. Optimise Payable Management:

Excessive supplier payment delays are undesirable because they negatively affect profitability, as does the payable payment period. On-time payment can help build stronger partnerships with suppliers, secure better payment terms, and maintain uninterrupted supply operations.

3. Improve inventory management procedures:

While not statistically significant, firms should also try to reduce unnecessary inventory holding costs to a minimum. Effective inventory forecasting, demand planning, and inventory control systems can help minimise storage expenses and the unnecessary tie-up of capital.

4. Enhance Receivable Collection Efficiency:

The firm should inculcate proper credit management policies to minimise the time taken for customer payments. Set up a regular receivable monitoring system, establish suitable credit terms, and maintain an efficient collection system to improve cash availability and ease financial pressure.

5. Keep an Optimal Liquidity Position:

Profitability influences the amount of current assets a company holds, so it should have enough of these assets to cover its short-term debts. But too much liquidity is a bad thing since idle funds can diminish investment opportunities and profits.

6. Use Firm Growth Advantages:

Larger companies need to build on their economies of scale, market standing and financial resources to improve profitability. Smaller companies can use better financial planning and working capital strategies to enhance performance, much like larger companies.

7. Integrated Working Capital Policies are developed:

Managers need to define a wider working capital policy which takes into account the inventory policy, the collection of receivables, the policy for payments to suppliers and the policy for liquidity. When these elements are well connected, they can boost operational efficiency and increase profits.

8. Ongoing monitoring and financial planning:

Indicators of working capital and profitability performance should be assessed periodically by the firms. Managers can employ financial analysis tools and forecasting techniques to detect inefficiencies early and thus make better working capital decisions.

The study concludes that effective working capital management is one of the critical factors which help to achieve profitability. In particular, efficient payment practices and shortening the cash conversion cycle can make a big difference for a business's finances. Firms should aim to have a mix of working capital policies and maintain adequate liquidity in the company, but not invest in unnecessary short-term assets. The effective management of the components of working capital will bring about improvement in profitability, competitiveness and sustainable growth for the companies.

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