# Impact of working capital management on the performance of manufacturing sector of Pakistan

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**Abstract**

*Purpose: The main objective of the study is to examine the effective management over components of working capital through their impact on firm profitability in the manufacturing sector.*

*Design/Methodology: Data is collected from the annual reports of 94 Pakistani non-financial firms listed on Pakistan Stock Exchange (PXS) for the period of 2011- 2016. Fixed effects models are used and additionally tests for multicollinearity and autocorrelation are performed to establish validity of the results.*

*Findings: Inventory turnover, average collection period and cash conversion cycle have an insignificant relationship with profitability, indicating that working capital management (WCM) is not important in the manufacturing sector. It appears levels of current assets are maintained to support current ratio and solvency to sustain the high levels of debt financing. However, average payment period has a negatively significant association with profitability demonstrating that firms may be managing working capital through payables, where reduction in payables increase profitability through better trade and cash discounts and timely supplies. Therefore, management focuses on the liabilities side of the WCM equation and maintains current assets for other purposes.*

*Practical implication: The results provide insights into manufacturing sector practice of maintaining levels of current assets as cushion against financial and operational risks, and their managing of working capital requirements through payables. It provides banks and other financial institutions a perspective into the working capital behaviour of the manufacturing sector.*

*Originality statement: The paper provides innovative insights into the manufacturing sector practice of focusing on the current liabilities to manage working capital and maintaining levels of current assets as cushion against risk and to support borrowings. It suggests that in this sector, the conventional working capital practices are not applied.*