

IMPACT OF WORKING CAPITAL MANAGEMENT ON PROFITABILITY OF CHEMICAL SECTOR OF PAKISTAN

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ABSTRACT

Purpose of the study: The purpose of this study is to find the effect of working capital components that is (collection period, payment period and inventory period), liquidity and firms' size over profitability of chemical firms in Pakistan. The study evaluates the individual impact of independent variables on ROA.

Research method: Research approach for this study is Cause and Effect approach. The nature of the research is explanatory. Collection period, inventory period and payment period are the independent variables of the research whereas Return on assets is the only dependent variable of the research. The secondary data has been taken from the audited annual financial reports of five years from 2009 to 2013. The hypothesis are made to indicate the impact of collection period on ROA, the impact of inventory period on ROA, the impact of payment period on ROA as well as the impact of liquidity and firms' size on ROA.

Findings of the research: The results of the hypotheses reveal that there is inverse relationship between collection period, inventory period and payment period with return on assets. Liquidity and firms' size have positive impact on return on assets.

Practical implications of the research: The findings of the research indicates that there is negative relationship between independent and dependent variables so it is crucial for chemical firms and financial managers to investigate the relationship between these working capital management variables with return on assets to reduce the collection and payment period and by keeping inventory to optimum level so that firms can perform better to generate more profits.

Keywords: Working capital management, collection period, payment period, inventory period, current ratio, return on assets.

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