IMPACT OF WORKING CAPITAL MANAGEMENT ON BUSINESS PROFITABILITY

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A Dissertation submitted in partial fulfilment for the Master of Science in Management

Submitted to the National College of Ireland, May 2021

ABSTRACT

Working capital management is considered to be a highly significant aspect of financial management within the organisation. It is recognised as an accounting strategy to maintain the financial balance and liquidity of the organisation. Capital Management has the main aim of strategizing the efficiency of the business by managing the finances of the business. The major aim of this research was to identify the impact on the profitability that Capital Management had in a business. The research further aimed to analyse the factors of profitability that were impacted by the Capital Management of a Business. For this study, the selected research philosophy was positivism because positivism research philosophy takes into account the sociological perspective of the study. In analysing the working capital management and its impact on business profitability, the social aspect will be helpful. The selected research design was qualitative, which focused on secondary data. The data was obtained from existing literature and was analysed by performing thematic analysis. Three major themes were drawn from results, which were divided into relevant subthemes. The major themes were the importance of working capital management, the impact of capital management on business profitability and ways to manage working capital. The result of the study implied that the management of working capital had a positive effect on the growth and profitability of the business. In the way forward, the study urged the businesses to incorporate quality management system to effectively manage the working capital and enhance profit.

Keywords: *Working Capital, Profitability, Capital Management, Business.*

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National College of Ireland
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(Thesis/Author Declaration Form)

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Acknowledgement

This Master Dissertation was written with the help of secondary data analysis which includes authentic reports, research papers and articles etc., it helped me to gather clean and authentic information during this pandemic.

I wish to thank my supervisor Mr Robert Fox for his guidance, patience, supervision, and continuous support throughout this research project. Without his guidance, it would have been a considerably difficult task to accomplish.

Thank you
Mohit Bisht

TABLE OF CONTENT

ABSTRACT I

Submission of Thesis and Dissertation II

Acknowledgement III

CHAPTER 1-INTRODUCTION 1

1.1 Research Background 1

1.2 Problem Statement 2

1.3 Research Questions 3

1.4 Research Significance 3

1.5 Structure of the Research 4

CHAPTER 2- LITERATURE REVIEW 7

2.1 Working Capital Management 7

2.1.1 The Importance of Working Capital Management 9

2.1.2 Cash Conversion Cycle 10

2.2 Profitability 11

2.3 Empirical Evidence: Relationship between Profitability and Working Capital Management 12

2.4 Capital of a Business 23

2.4.1 Capital Management 23

2.4.2 Factors of Profitability 24
2.4.3 Impact of Capital Management on Business Profitability 24
2.5 Factors Influencing Managers to Plan the Financial Assets 25
2.5.1 Firm Size 25
2.5.2 Participative Budgeting 26
2.5.3 Internal Control 27
2.6 Research Aim and Objectives 27
2.6.1 Research Aims 27
2.6.2 Research Objectives 27
CHAPTER 3– RESEARCH METHODOLOGY 29
3.1 Chapter Introduction 29
3.2 Research Philosophy 29
3.3 Research Approach 29
3.4 Appropriate Research Design 30
3.4.1 Explanatory Design 30
3.5 Research Strategy 31
3.6 Choice of Method 31
3.7 Collecting Data 32
3.7.1 Secondary Data Analysis 32
3.7.2 Search Term Identification 33

3.7.3 Alternate Terms 33
3.7.4 Search Strategy 34
3.8 Eligibility Criteria 35
3.9 Sample Size 35
3.10 Data Analyses 38
3.10.1 Thematic Analysis 38
3.11 Time Horizon 38
3.12 Validity and Reliability 39
3.13 Ethical Consideration 39
3.14 Limitations 40
CHAPTER 4– RESULTS AND ANALYSIS 40
4.1 Results 40
4.2 Summary Table 40
4.3 Summary of the Main Findings 51
4.4 Analysis 52
4.4.1 Theme 1: Importance of Working Capital Management 52
4.4.2 Theme 2: Impact of Capital Management on Business Profitability 55
4.4.3 Theme 3: Ways to Properly Manage Working Capital 56
4.7 Limitation of the Work 57
4.8 Implication of the Study 57

CHAPTER 5- DISCUSSION 59

5.1 Data Analysis 59

5.2 Importance of Working Capital Management 59

5.3 Factors which Affect Finances of the Firm.. 62

5.3.1 Global Monetary Fluctuations 62

5.3.2 Economic Conditions of the State.. 63

5.3.3 Poor Talent Acquisition Team 63

5.4 Factors that Influence Capital Management 63

5.4.1 Structure of the Organisation 63

5.4.2 Size of the Organisation 64

5.4.3 Funding of the Business 64

5.5 Impact of Capital Management on Business Profitability 64

5.5.1 Direct Relationship between both these Parameters 64

5.5.2 Efficient Resource Management 65

5.5.3 Indirect Influence on Sustainability 65

5.6 Factors that Affect the Profitability of the Business 66

5.6.1 Size of the Company 66

5.6.2 Budgeting 66

5.6.3 Internal Controls by the Manager 67

5.6.4 Amount of Capital 68

5.7 How to Identify the Company's, Financial Standing? 68

5.7.1 Average Terms of Accounts Payable.. 68

5.8 How to Minimise Risks and Enhance Profitability.. 68

5.8.1 Adopting Conservative Approach when Risk Measures are high 68

5.8.2 Adopting Aggressive Approach when Risk is Low.. 69

5.8.3 Reducing Customer’s Terms and Inventories... 69

5.8.4 Effective Management of Working Capital and Operations....................................... 69

CHAPTER 6- CONCLUSION.. 70

6.1 Conclusion 70

6.2 Way Forward 71

REFERENCES... 72

Appendix A 77

Description of Searched Studies 77

LIST OF TABLES

Table 1. Spider Model.. 33

Table 2. Identification of Alternative Search Terms 34

Table 3. Studies Summary Table 50

LIST OF FIGURES

Figure 1. Structure of the thesis 4

Figure 2: Illustration of the PRISMA Flow Chart 37

CHAPTER 1-INTRODUCTION

1.1 Research Background

It is important to manage the finances of an organisation to maintain the assets and liability. The financial managers are responsible to maintain the cash inflow and outflow in an organisation (Altaf and Shah, 2017). Also, financial managers are responsible to maximise profit for the business and its shareholders. The working capital management is significant for firms based on manufacturing because major chunks of the assets are based on inventory and trade receivables (Biswas, 2018). Working capital management is considered to be a highly significant aspect of financial management within the organisation. It is recognised as an accounting strategy with an aim to maintain the financial balance and liquidity of the organisation. An efficient way of capital management helps the firm to meet its financial obligations and enhance their earning (Khalid et al., 2018). It further helps to maintain a sufficient balance within the company's current assets and liabilities. Moreover, capital management impacts the firm's liquidity, profitability and solvency (Anton and Afloarei-Nucu, 2021).

Global monetary fluctuations in the company's activities play an important role in the market which impacts the firm's financing decision (Dhole, Mishra and Pal, 2019). For instance, the fluctuations in the country's monetary policy can be the major reason for a firm to not pay debt timely. Furthermore, another important component of capital is retained earnings. The economic condition also affects the growth and sales of the firm (Jakpar et al., 2017).

Moreover, previous research has split capital management policies into conservative strategy and aggressive strategy (Agyei-Mensah, 2021). The high expected return with high expected risk is associated with aggressive capital management policy whereas the conservative is more about

low risk and low return. Research in the field of capital management has suggested that managers or administrators can generate the value of a firm by reducing the turnover of receivables and payables of the organisation and inventory management (Snyder, 2019).

1.2 Problem Statement

The world is growing at a very fast pace and there are increased financial opportunities for entrepreneurs to open their businesses and take a risk. However, large investors prefer to invest in established and well-performing companies. For public limited companies, there is a very large scope for development, and it requires sharing of the strategic information with the public (Singhania and Mehta, 2017). Details of the capital of the company are important and shared by the public companies with all its stakeholders. Furthermore, the company shares the details of equity with the public by issue of financial statements. However, there is a forgery and use of techniques to show high profitability with low capital investment to attract investments which in actual terms is not that high.

Furthermore, newly incorporated businesses find it difficult to manage their capital and align them with the profitability of the business due to inexperience (Hassan and Shrivastava, 2019). Capital management is the fundamental rule of a successful business as the invested capital is the reason that the business earns profit from its operation (Nastiti, Atahau and Supramono, 2019). If there was no capital, then the businesses would not be generating any profit. Moreover, the problem with capital is that every organisation is looking for an opportunity and to invest in that opportunity. However, investment is limited, and the investor seeks to invest in high return ventures. The businesses manage their capital to increase profitability and attract investors to their organisation. TESCO is the largest supermarket in the UK and the profit of the company was £2.2 billion from £53 billion in revenue. The company has £13.3 billion in equity. This

shows that the larger the amount of capital and managed well, it can generate the high rate of profit for the business (Kayabas and Ertugan, 2020). This is also evidenced by the research of Dhole, Mishra and Pal (2019) on Amazon and Walmart.

1.3 Research Questions

RQ: What impact Capital Management has on business profitability?

Sub-RQ: What are the factors of profitability in the business?

Sub-RQ: What is the connection between Capital Management and business profitability?

1.4 Research Significance

The research is significant for the business community to assess how the business can attain high profit by managing capital in their business. Furthermore, the research covers all the possible factors of capital management that can be used by all businesses to increase the profitability of the business as this was not investigated properly earlier that created a research gap. There is no specific research that studies the connection between capital management and profitability covering overall businesses. Also, entrepreneurs encounter financial problems in the initial stages of their business ideas. They must know how they need to manage their capital investment in the business to attract high profitability. Entrepreneurs must invest capital by scrutinising and analysing its connection with the returns the business will attain and manage their capital accordingly. The connection being studied in this research is important to these entrepreneurs and aids them in decision-making. This research provides the businesses with the tactics that can be used to minimise the spending of the business and in turn, increasing the profitability of the business.

1.5 Structure of the Research

The roadmap that is adopted for the following study constitutes the following chapters:

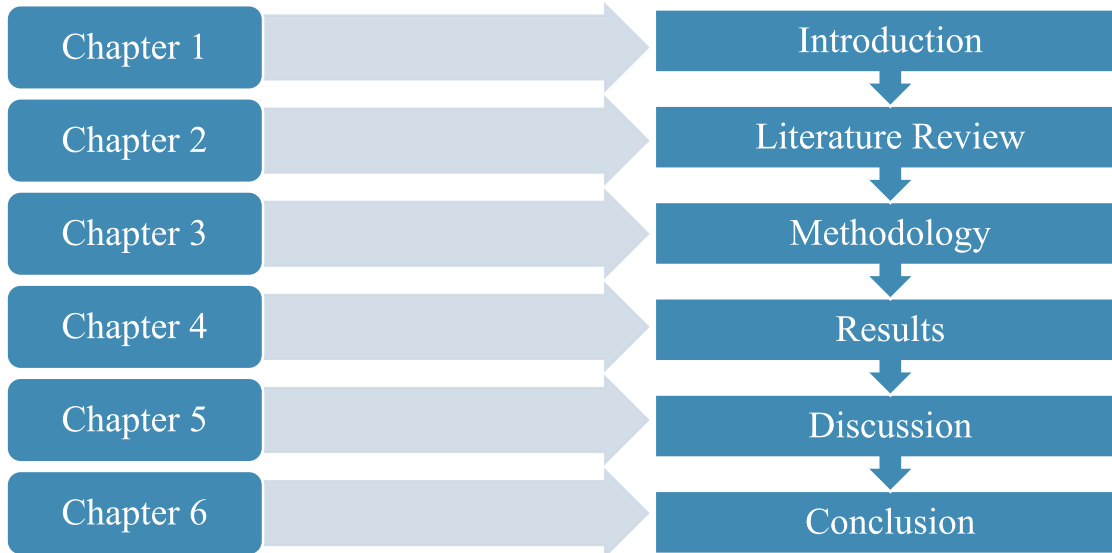

Figure 1. Structure of the thesis

1. Introduction:

The first chapter of the thesis introduces the study, it is also known as the foundation of the study. The background, research significance, research questions, research problem along with aims and objectives are discussed in this chapter. This chapter gives a broad understanding of the topic and the background information to the reader. It helps to identify the research problem, components, elements, and concepts related to the topic. The reader gets to know about how the problem arose within a specific context. This chapter also emphasises the importance of conducting the research, therefore, research significance is also discussed***2. Literature Review:***

This chapter presents a review of several studies which were conducted in the past by other researchers. This chapter is specifically designed to provide the elements mentioned in the research problem and research question which were highlighted in the introduction chapter. It

helps to create well-documented and valid argument-based research. This chapter also includes a conceptual framework which is further used to support the study and it also helps to fill the research gap.

3. Methodology:

In the third chapter, the researcher presents the design of the study. This chapter helps in gaining insight into the procedures are techniques adapted by the researcher. This chapter focused on the validity and reliability of the study and provides details of how the research was conducted. The methodology chapter also highlights the sample size used to conduct the research and provides details of the subjects of the research.

4. Results

The fourth chapter of the research is important as the chapter furnishes the results that the research has found. The findings of the research are extremely important and are furnished in this chapter.

5. Discussion

The fifth chapter interprets all the findings and undertakes the discussion to compare with the findings of the previous studies to validate the research.

5. Conclusion

This chapter acts as the conclusion and summary chapter of the dissertation and briefly provides a conclusion to the findings of the research. The chapter also furnishes the recommendations that can be implemented by the organisations, sector, industry or individuals affected.

CHAPTER 2- LITERATURE REVIEW

In this section, the theoretical basis of the study is presented in five parts. Subjects are treated as concepts relevant to research: working capital, profitability, evidence empirical aspects of the relationship between “profitability and working capital management, and the relationship between profitability, working capital management.”

2.1 Working Capital Management

A company's working capital can be measured as the difference between its assets current and liabilities, in monetary units. With this, it is possible to verify if the firm can pay its short-term obligations. According to Agyei-Mensah, (2021, p. 423), “the policy of working capital refers to company policies concerning levels desired from each category of current assets and how current assets will be financed”. For Ismail (2017a), the importance of working capital is thus expressed: The behaviour of working capital is extremely dynamic, requiring efficient and quick models for assessing the company's financial situation. A need for investment in poorly dimensioned turnover is certainly a source of commitment to the company's solvency, with repercussions on its economic position of profitability.

According to Altaf and Shah (2017), working capital is the amount or set of resources that is not fixed. These resources are in constant motion in the company's day-to-day. Khalid et al., (2018) add that the study of working capital is essential for management because the company needs to recover all costs and expenses (including financial) incurred during the operating cycle and obtaining profit through the sale of the product or provision of services. Working capital is responsible for the operating cycle of companies because its movement reflects on the company's equity status. The capital of turnover undergoes transformation and each transformation has the

objective of making capital always return greater than the value of the beginning of the operating cycle. According to Aytac et al., (2020), in the books of financial management of North American origin, the concept of equity capital turnover is related to current assets. From the American perspective, the configuration of working capital in those texts is expressed as the following:

Working Capital = Assets Current - Current Liabilities

According to Biswa (2018), the European studies on working capital are more relevant as they mainly focused on practicality. Whereas on the other hand, according to Ahmed et al., (2016), working capital is the resources invested in assets current assets, which are essentially composed of inventories, accounts receivable and availabilities. As per the study by Jakpar et al., (2017), working capital refers to current assets that support the day-to-day operations of companies. In the broadest sense of the concept, working capital is defined by resources necessary for a firm to finance its operational needs, which go from the acquisition of raw materials (or goods) to the receipt by the sale of the finished product, the so-called “operating cycle” of the company. Kasozi (2017) defines working capital as the financial resources applied by the company in the execution of the operational cycle of its products, resources that will be recovered financially at the end of this cycle. Therefore, it appears that working capital represents a large part of the total assets of the company and, therefore, requires a greater effort from the administrator than that required by fixed capital. However, while fixed assets generate products, whose sales provide recovery of costs and expenses and the appearance of profits, current assets are applications of resources with low profitability, but necessary to sustain the company's operational activities, which highlights the importance of its management in a coherent and business-adjusted manner

2.1.1 The Importance of Working Capital Management

As per the study by Kayabas and Ertugan (2020) when a company starts its activities it receives two types of investments, one considered as a fixed investment that will serve for the acquisition of machines, furniture, building, tools, in short, to invest in property, plant and equipment items. Another part of the investments will compose a reserve of resources financial resources to be used according to the financial needs of the company over time that is also called the working capital. These features are allocated to inventories, accounts receivable, cash or account bank chain. On the other hand, Anton and Afloarei-Nucu, (2021) stated that the stock of a company is formed and maintained according to the needs of the consumer market, therefore, it is always suffering investment changes, either in item types or quantities. Whereas accounts receivable is the result of sales made in instalments, or that customer takes product and returns the financial resource to the company later. Therefore, the more time company offer the customer or the greater the instalment of instalment sales on its billing, the more financial resources a company should have. The financial resources are secured in the bank's current account usually in a form of cash and can be used any time for its company's operations (Le, 2019). Depending on the opening balance, inflows and outflows, there may be a lack of a surplus of these resources at a specific time, day or week.

Therefore, as Le et al., (2018) stated that it is necessary that whenever a decision to purchase or sell is to be taken, analysis and assessment of whether the company has the financial resources to do so. If an excess purchase decision is made, the company should have a greater amount of financial resources. If a decision is made to give more time for customers in instalment sales, the company will also need more financial resources. If this resource does not exist, the company may need to use borrowed funds, from banks, suppliers, or other sources, which will generate a

need for interest payments, reducing the business profit margin. Therefore, Mahmood et al., (2019) noted that managing the company's working capital means evaluating the current moment, the shortages and surpluses of financial resources, and the reflexes generated by decisions made in the company about purchases, sales and cash management.

2.1.2 Cash Conversion Cycle

Nastiti et al., (2019) define the company's Cash Conversion Cycle (CCC) as an important tool for working capital management. This one cycle has its construction based on the definition of the Operational Cycle (CO) of the company as the composition of two basic categories of short-term assets: inventories and accounts receivable. Its measurement is made in terms of elapsed time that is the average age of the stock (IME) with the average term of receipt (PMR) and average payment period (PMP) (Anton and Afloarei-Nucu, 2021).

$$\mathbf{CCC = CO - PMP}$$

Thus, from the equations defined above, it can be concluded that the cash conversion cycle is a function of the average age of the stock (IME), maturity average payment period (PMR) as set out below:

$$\mathbf{CCC = IME + PMR - PMP}$$

It is verified that the alteration of any of these deadlines implies the modification of the volume of resources invested in day-to-day operations and the working capital of the firm.

According to Panda and Nanda (2018), networking capital (or working capital requirements) can be defined as the difference between current assets (including cash and financial investments) and current liabilities. This one study adopts as a working capital need, in monetary units, the difference between the investment in working capital (accounts receivable and inventories) and financing in working capital (accounts payable, including suppliers, taxes and salaries). This

measure can be converted in days in the so-called cash conversion cycle, also the financial cycle, the difference being between the sum of the average receipt and inventory terms and the average payment term, that is, the period from the purchase of raw material to the receipt for the sale of the product final. The longer the company's financial cycle, the greater need for working capital.

2.2 Profitability

According to the empirical study by Pirttilä et al., (2020, p. 142) "profitability measures are used as tools for monitoring and diagnosis of the financial situation of the organizations, of the return that they obtain, mainly for the firms whose objective is to maximize the profit given the resources employed, the so-called for profitable." These resources, in turn, can be debt, equity or even both. Therefore, the objective of the financial administrator is to measure whether capital is being remunerated expectedly, attending to the interests of the *stakeholders* (Kasozi, 2017). The measurement of profitability is the object of study and monitoring by the financial administrator. Considering the risk assumed by the business, it is necessary to ascertain whether the capital employed is having the expected return. The greater the risk is taken, the greater the expected return for the firm (Tran, Abbott and Yap, 2017).

On the other hand, Roni et al., (2018) while considering the topic of profitability stated that Return of Assets (ROA), Return on Equity (ROE), and Return on Invested Capital (ROIC) are three profitability indicators frequently used in the market and academia. They measure, respectively, the return (in terms of net profit) on total assets, on the company's equity and invested capital (equity + loan long term) in addition to analysing the profit obtained concerning the resources employed, some indicators compare profit (be it gross, operating or net) against the firm's sales. With this, it is discovered how effective the company is in transforming sales into profit in fact through these indicators (Kayabas and Ertugan, 2020).

The indicators presented so far are either related to invested resources or sales. There are other profitability measures such as, for example, price-to-earnings (price-earnings per share) and earnings per share (earnings per share) applicable to firms with publicly traded on a stock exchange, EBITDA on total assets, among others. According to the firm's sector of activity and the objective of the analysis in question, it makes sense to apply the calculation of a given set of indicators combined with qualitative information. In summary, the profitability calculation can be done considering three fronts: accounting, market and cash: Accounting measures: ROA, ROE, ROIC; Market measures: price-to-earnings (share price over earnings per share), Earnings per share and Cash measures (EBITDA).

2.3 Empirical Evidence: Relationship between Profitability and Working Capital Management

Some authors argue that efficient WCM has the potential to leverage the profitability of the company, in addition to managing the risk of the firm running out of cash to meet the company's immediate obligations. This is the case of the article by Sarwat et al., (2017) that, when analyzing a sample of 29 companies with Saudi Arabia's open market capital between the period from 1996 to 2000, revealed that there was a non-significant relationship between profitability (measured by the net margin, ROA and ROE) and liquidity measures (current liquidity ratio and cash conversion cycle).

Moreover, Deloof (2003) concluded, for a sample of 1,009 Belgian companies from 1992 to 1996, that there was a significant negative relationship between operating income and average terms of accounts receivable, inventory and accounts payable. In contrast, Ismail (2017b) stated, that the longer the average payment term, the better for the firm, the Deloof study showed that, in practice, the longer the firm takes to pay its bills, the greater the indication that the company is in

poor financial condition. Therefore, there is a negative relationship between profitability and the average term of accounts payable. The author also supports this statement that there is a negative relationship between profitability and the average term of accounts payable. According to Biswa (2018), successful companies can achieve profitability by timely manage liability.

Seyoum et al., (2016) conducted a study for 131 publicly traded companies on the "Athens Stock Exchange" from 2001 to 2004. The authors reached the same conclusion as Deloof (2003) and Singhania and Mehta, (2017) that there is a strong negative relationship between profitability and the cycle of cash conversion, as well as its components (average term of inventories, of accounts receivable and accounts payable).

Therefore, according to the Greek authors, "managers can create profits for their companies by properly managing the cash conversion cycle and maintaining each of components (accounts receivable, accounts payable and inventory) at an optimal level" Tran et al., (2017, p.43) adding contributions to the theme, the authors brought the ratio of profit and working capital from the perspective of an emerging market. Khalid et al., (2018) analysis considered the period from 1998 to 2007 and 43 companies, concluding that there is a direct relationship between the working capital and its components with profit. According to these authors, "The efficient use of company resources leads to greater profitability and reduces volatility, which, in turn, leads to a reduction in the risk of default and, consequently, improves the firm value" (pp.12-13). The analysis of the subject applied to Japan in an article by Musah (2017) innovates by criticizing the literature largely based on that carried out in the United States, introducing the concept of highly integrated groups of companies, keiretsu. They find the same negative relationship found by previous authors except in the consumer goods markets and services for a sample of Japanese firms from 1990 to 2004.

In a study of fixed effects and the ordinary least square model, Pakdel and Ashrafi (2019) concluded, that working capital management has a significant effect on the profit of firms in Jordan's industrial sector. Unlike Deloof (2003) and Naqi and Siddiqui (2020), the authors found a positive relationship between profitability and working capital.

Due to the number of articles dealing with the theme worldwide, covering different periods, we can see the importance and how much the academy is interested in the fact that the administration can strongly influence the profitability of firms. India, in turn, was studied by authors Altaf and Shah (2017) considering a sample of 311 manufacturing companies from 1996 to 2010. The result was a strong relationship and inversion between the firm's profitability and working capital, average inventory term and accounts receivable. As for the relationship with the average payment term, it was not possible to conclude. The country was also previously studied by Afrifa and Padachi, (2016) for 263 non-financial companies from 2000 to 2008 and brought the opposite result to that observed (direct): by reducing the cash conversion cycle (working capital), the profitability of Indian firm’s decreases. The main difference between the studies is in the profile of the selected companies and the number of observed years. Pais and Gama (2015) apply the study in Portugal to 6,063 small and medium-sized companies from 2002 to 2009 using the fixed effects model (panel). They conclude that the adoption of a strategy more aggressive, with attention to reaching an optimum point, in working capital management increases the profit of smaller firms. The authors considered intrinsic differences in sectors in the execution of the model. Also, this research highlights the relationship between profitability and working capital as the classic “risk vs. return". Aktas et al., (2015) in addition to using secondary data to study the impact of management of working capital in the profit of the organizations of 10 companies listed on the Stock Exchange Chittagong, Bangladesh, used primary data obtained through a

questionnaire. They concluded that it is the role of the financial administrator to coordinate suppliers, customers, team's sales, creditors, etc. to achieve effective and efficient short-term capital management (Biswas, 2018).

For Brazil, the authors' De Almeida and Eid Jr (2014), applied the study of the relationship between profitability and working capital measures for a group of 32 separate companies in the same proportion between those with intensive use of working capital and fixed capital from 2005 to 2009. They also tested which are the variables that affect profitability, considering sales return, assets and shareholders' equity. By multiple linear regression, concluded that adequately managing working capital is significant for the profit of companies. The study conducted in Poland, by Altaf and Shah (2017), and extended to other countries in the Zone of the Euro focusing on the food sector concluded that efficiency in the management of inventories, receivables and payments to suppliers contributes positively to the increase in return on non-financial assets, regardless of the size of the company. According to de Abreu Azevedo and Ricardo Gartner (2020), it was applied to a sample of 88 companies in the United States with shares listed on the New York Stock Exchange for the three years, 2005-2007. The authors found a negative relationship between profitability and working capital significant only for the variable average payment term. For the conversion cycle, the relationship found was positive, contrary to the majority of previous studies. For term stocks and payments, there was no conclusion. Bandara (2015) brings the analysis of the relationship between profit and short-term operational management to companies, from 2007 to 2011, with shares listed on the stock exchange in Sri Lanka from three specific sectors: manufacturing, pharmaceutical and consumer goods (beverages, food and tobacco). Using econometric analysis, the author concluded that increasing

payment terms and reducing payment periods inventories and receipts of the firms have a positive impact on their profitability.

Furthermore, Ben-Nasr (2016) observed the importance of good WCM, which is capable of improving the company's competitive edge as well as its profitability. It is for this reason research on WCM has been extensively studied its impact on the company's profitability (Boțoc and Anton 2017).

In this direction, studies of international literature show the procedures and practices which a company uses to manage its working capital management can have a significant impact on its "liquidity, profitability, market value and value creation for shareholders" (Box et al., 2018 p.2).

Ben-Nasr (2016) suggested that to get the right amount of investment in working capital management, it is important that companies regularly review items, such as "accounts receivable, accounts receivable pay, stocks, cash", among others. Moreover, the author stressed that working as a capital management decision is very important for firms and companies because it affects scarcity and profitability. Furthermore, the authors emphasize that "any requirement to manage financial resources creates a good cash flow that the company can quickly deliver to shareholders." De Abreu Azevedo and Ricardo Gartner (2020) suggested that the demand for financial performance and its inequality lead to bankruptcy for many companies. Researchers suggest that investment options in a fixed area are important because the options for providing conditions for customers and keeping records, accounts are listed in current terms, as long as these decisions affect the financial status of the company's health and profit (Afrifa and Padach 2016; Kasozi, 2017). Deloof (2003) points out that reducing customer's term and inventories can improve a company's profitability. According to Gill (2011), the positive relationship between

profitability and WCM suggests that the most profitable companies seem to effectively manage their operations.

Thus, contrary to the results and expectations, Delouf (2003) stated that the return on investment showed a positive relationship with the financial situation and operational needs WC (NCG) of companies. Whereas, Nazir and Afza (2009) and Gill (2011) come to the same conclusion.

Deloof (2003) found significant evidence that there is a negative relationship between the CCC and its components (except average term payment in the study by Chang (2018) and measures of profitability. Enqvist (2014) showed that, in recessionary periods of the economy, the working capital management has a greater impact on the profitability of Finnish firms than on expansive periods. To stress the importance of WCM, some authors cite emblematic cases of bankruptcy due to inefficient management of its short-term resources. It is the case of Kmart whose cash conversion cycle was longer than 21 days than its competitor Walmart, cited by Shin and Shoenen (1998), as well as WT Grant, bankrupt in 1976, cited by Pais and Gama (2015).

In this line, Nazir and Afza (2009) studied the relationship between WM and profitability in hospitals. The authors used panel data with a sample of 1,397 North American hospitals covering the period between 2000 and 2007. The results showed that companies that managed to operate with a shorter financial cycle, investing less in current assets, such as inventories and accounts receivable, reduced their need for investment in WCM and managed to be more profitable. De Abreu Azevedo and Ricardo Gartner (2020) carried out a study on the impact of the business cycle on the relationship between working capital management and profitability. The sample comprised 1,136 observations from Finnish non-financial companies with data for the period between 1990 and 2008. The study used the return on assets and gross operating revenue as the dependent variable, the CCC as the independent variable while controlling for current liquidity,

sales, debt, economic crisis, and economic growth. The results showed a negative relationship between the WC and the profitability of the companies, showing that the efficient management of WCM (concerning storage periods, from accounts to receivables and accounts payable) generated value for the firm. The results also showed that this relationship is stronger in times of economic slowdown (Bandara, 2015). Similarly trying to test the relationship between the CCC and the profitability of companies, Pais and Gama (2015), reached conclusions close to these studies. Pais and Gama (2015) researched the impact of working capital management on profitability in small and medium-sized Portuguese companies. The authors used data from 6,063 companies in the period between 2002 and 2009. As a DV, the chosen return on assets, as independent variables number of days' receivable, number of days payable, number of days in stock and CCC, and as control variables size, sales growth, leverage, current asset ratio and liability ratio current. All Independent Variable (IDV) had a negative relationship with the profitability, these results support the hypothesis that WCM aggressiveness brings greater profitability for companies. Regarding the number of days' receivable, according to the authors, the list indicates that customers require more time to check the product quality in companies with low profitability (Kasozi, 2017).

Pais and Gama (2015) carried out a study on the effect of WCM on the turnover and profitability of small and medium-sized Norwegian companies. The authors used data for the period between 2010 and 2013 from a sample of 21,075 companies. Profitability on the asset was used as a dependent variable, as IDV were inventory days, accounts receivable days, accounts payable days and CCC, and how to control variables size, sales growth, leverage, asset share current to total assets, participation of current liabilities to total liabilities and GDP growth. The results indicated that the reduction in CCC increased the profitability, although the possibility of

endogeneity has been assumed, the authors argued that these results demonstrate that WCM with aggressive strategy contributed to the improvement in the profitability of small and medium companies. The leverage level was negatively associated with profitability, indicating that the increase in debts hurt the results of the companies.

Shin and Shoenen (1998) studied the influence of the CCC on the performance of companies in 46 countries. The sample consisted of 31,612 non-financial companies comprising the period between 1994 and 2011. Tobin's return on assets and Quantity (Q) were used as variables dependent, CCC as an independent variable, size, payout, leverage, return on assets for the previous year, return on assets for the preceding 5 years, ratio market value/book value and dummy variables as control. The results showed a negative and insignificant relationship between the CCC and the profitability and value of the companies, denoting that companies with aggressive working capital management strategies obtained greater return. Another result pointed out was that the effect of this relationship decreased or was reversed for companies with the lowest CCC level, this can be explained by the fact that companies with negative financial results may have been forced to decrease their capital turnover due to financial constraints.

Ukaegbu (2014) researched the relationship between WCM and the profit of companies in emerging economies on the African continent. The sample consisted of 102 industrial companies with data for the period between 2005 and 2009. Gross operating profit was used as a DV, the WC and the number of days of accounts payable accounts receivable and inventory as DV and the size of the company, the council size and GDP growth as control variables. The results showed that companies that operated with longer terms with suppliers and longer terms smaller inventory and collection costs were more profitable, these results were consistent with the negative relationship between the WC (which is derived from these three variables) and

profitability, denoting that companies must manage their assets and liabilities to reduce the CCC to create value for its shareholders. About the control variables, the size company had a positive relationship with profitability, suggesting that larger companies have more access to technology and economies of scale, since the size of the council was negatively related to profitability, indicating that big boards can be inefficient and can generate overlap in communication.

Differing slightly from the approach of previous research, Afrifa and Padach (2016) carried out work on the value of liquidity in companies in the energy sector electric power in Brazil. The survey covered the year 2011 with a sample of 24 companies. At variables used were liquidity value (dependent variable), financial cycle, return on the financial cycle, working capital requirements and gross profit margin (variables independent). The results showed an insignificant relationship between liquidity value and cycle financial, denoting that the companies that managed the WC with the reduction of the time of this cycle, managed to generate value. Regarding the return of the financial cycle, this variable positively influenced the value of liquidity, in this way, also associating this indicator with the creation of value through the management of short-term assets and liabilities. The need for WC had a negative relationship with the liquidity value indicator, therefore, companies with excess liquidity found it more difficult to generate value. The gross profit margin had a positive association with the value of liquidity, this was very clear in the three companies with the lowest margin, two of them had liquidity value destroyed. Like limitation for this work, it is worth highlighting the use of the period of only one year.

Tran et al. (2017) analyzed the relationship between WCM and generate revenue in small and medium-sized enterprises in Vietnam. The research used data from the period between 2010 and 2012 a sample of 200 companies. “Gross operating revenue was chosen as a (DV), the number of

days of accounts receivable, number of days of inventory, number of accounts payable days and CCC as (IDV), and size, sales and debt growth as control variables". The results showed a negative relationship between "gross operating revenue and the number of days of accounts receivable, the number of days of inventory and the CCC", indicating that companies can seek an increase in profitability with the achievement of a lower level of working capital. The number of days to paying also had a negative relationship with profitability, according to the authors, this occurs the fact that less profitable companies tend to take longer to pay their bills. As a limitation of the study, the authors pointed out that local accounting standards allow a large margin for earnings management, with that, there are incentives for companies to report higher profits.

Chang (2018) researched the determining factors of the need for working capital management in small and micro-companies. The sample consisted of 254 Indian companies with data for the period between 2010 and 2014. As a DV the need for WC was used, as IDV were profitability, sales growth, leverage, size, tangibility, flow used operating cash flow and age. Unlike the Fleuriet model, the authors calculated the need for WC with all components of the assets and liabilities groups circulating. The results showed that profitability and sales growth were positively related to the need for WC, already tangibility, cash flow operating cash and leverage were negatively related. These results demonstrated the impacts of several factors that must be taken into account in the strategies for the management of WC of small and medium-sized companies, in this sense, among other decisions, companies that want to maintain their profitability and sales growth, need to look for additional sources to finance their WC.

Moussa (2019) researched the determinants of the behaviour of working capital whirl. The author used panel data with information from the period from 2000 to 2010 from 68 industrial companies listed on the Egyptian stock exchange. For the analysis of WC, the author made use

of the WC need and the duration of the CCC (DV), these two variables were chosen, because the author proposed to test the determinants in two distinct models, one with a financial variable, and the other with a non-financial variable. The determining factors addressed in the study were: operating cash flow, opportunities for growth, performance/profitability, company value, age, size, leverage, economic conditions and type of industry (IDV). The results showed that companies with the greatest need for working capital and the largest CCC had better performance/profitability and managed to increase the market value, which according to the author, reflected the inability of emerging markets to have a more accurate assessment of the management of inefficient working capital, but it is worth mentioning that this appreciation may have come precisely the best performance/profitability of these companies. Companies with less need for WC and lower CCC obtained higher operating cash flow and interest rates higher growth rates. Younger companies with a higher level of indebtedness had a lower level of working capital needs and longer CCC duration, denoting that these companies sought to manage resources more efficiently and acted more intensely in the granting of commercial credit. Whether with a negative relationship or a positive relationship between WC and profitability and performance of the companies, predominated in these studies previously cited a view of a linear relationship between these variables, thereby indicating that companies should maximize the use of a working capital management strategy that increases the return on investments and that directly impact its profitability.

Many researchers have dedicated themselves to studying this relationship conceptually controversial. Shin and Soenen (1998) investigated the relationship between the efficiency of WC and profitability of American companies, considering 58,985 observations from companies/year from 1975 to 1994. The authors used as a measure of the efficiency of WC the

net business cycle, calculated by adding the percentage of accounts payable receivables on sales and inventories on sales fewer accounts payable on sales. In this case, the shorter the net business cycle, the more efficient the company is in managing its working capital. The study found strong evidence of a negative relationship between the net profit and profitability, measured by ROA and margin operational. In the same study, the authors found evidence of a positive impact on the share price, indicating a possible positive impact on shareholder value.

2.4 Capital of a Business

The capital of a business is (also known as equity; Seyoum, Tesfay and Kassahun, 2016), is an integral part of the business, according to Mahmood et al., (2019). However, Nastiti, Atahau and Supramono (2019) stated that capital dictates the ownership of the business and assesses how the businesses manage their operations, financing, investments and transaction. The capital of a business is the running blood of the organisation and all the expenditures that the business undertakes are covered by the capital (Aytac et al., 2020). Capital for a business varies from organisation to organisation as stated by Tran, Abbott and Yap (2017). This is because of different types of business organisations. Sole traders have their sole ownership in the business therefore the equity account shows only one capital source and account. Whereas for the company on private limited or public limited level there are complex capital structures due to various sources of funds for the company.

2.4.1 Capital Management

Capital management is a very complex term and changes as per the structure, size and funding of the business. Capital Management has the main aim of strategizing the efficiency of the business by managing the finances of the business (Kasozi, 2017). The business can be funded through a

single owner, from many partners in the business or through shareholders in a company setting. Capital management reaches complexity when there is a range of factors used by the business to finance its operations. These factors are ordinary shares, preferences shares, share premium, retained earnings, revaluation reserve and other sources of financing that large organisations use. Capital management is the right use and redemption of these factors to result in positive outcomes for the business (Ismail, 2017b). If the business has a very high capital but the capital is financed by redeemable preference shares, this becomes a burden for the business and on maturity, the business needs to pay back these shareholders to redeem the shares back from the shareholders.

2.4.2 Factors of Profitability

There are several factors in a business that impact the profitability of the business. These factors range from sales to the costs of sales and the expenses and other incomes that the business attains.

2.4.3 Impact of Capital Management on Business Profitability

Capital management impacts the efficiency of the cash flows for the business and dictates the short-term operations and transactions for the business. Furthermore, it assesses how the business responds to the changes in the capital and impacts the profit that the business has been generating from the transactions being undertaken (Aytac et al., 2020). The business needs to retain its shareholders to keep enjoying efficient and smooth business operations and transactions. Impact on the business profitability comes from the decisions of the managers of the business and how they change the capital structure of the organisation to increase or impact the profitability of the business. Based on different factors, profitability as a result of capital management is impacted.

Managers have the role to decide in line with the company policies and objectives considering various factors e.g., company size, budgeting and the internal controls that the manager has.

The impact of capital is also reflected for a business in its profitability and this is because the opportunity never waits (Kayabas and Ertugan, 2020). If the business has the right capital and opportunity at the same time, the business can get a return on the investment and can earn a very high profit on the investment. However, if the business does not have the capital to invest in the opportunity, therefore, the business will not be able to earn any profit. This shows how capital management is important for business profitability.

2.5 Factors Influencing Managers to Plan the Financial Assets

In the current era, the role of financial managers is very complex as well as challenging. Financial managers are responsible for difficult and dynamic work. Their role is to review, prepare and execute financial plans accountant-prepared financial data and track the financial condition of the organisation. The profitability of an organisation can be measured through different methods, the most used method is an analysis of the financial performance of a firm by using profitability ratios (Hassan and Shrivastava, 2019). There are many ways to investigate the factors that affect the mangers decision to plan and assess the financial assets of the organisation. Some of the factors are defined below.

2.5.1 Firm Size

The size of the company is defined as a scale of a business, manufacturing capacity or the quantity and variety of services a company has provided to its customers simultaneously (Seyoum, Tesfay and Kassahun, 2016). A company's size plays a critical role in dealing with rivals by cost-cutting and obtaining further opportunities. The economies of scale are the new

concept which entails the firms to manufacture on a huge scale and benefit from operating on that scale. Firm size is a factor that determines the firm's profitability and affects the decision of managers while considering the market size. The larger the market and market share of the organisation; the more profit is expected by managers and attained by the organisation.

According to Ahmed et al. (2016), the more access to financial assets, and the lesser the cost of capital is dictated by the size of the organisation. The size of the company impacts the financial decision to access more financial resources which decrease the cost of capital but in return organisation gains higher profit (Mahmood et al., 2019). However, the small firm size may increase the firm's debt level which can increase the financial distress and bankruptcy may result. This is because it decreases the firm's performance and profitability (Roni, Djazuli and Djumahir, 2018). The stability in the firm's financial performance can be created by acquiring an optimal capital structure based on the size of the firm which helps in obtaining tax advantages and decrease financial distress.

2.5.2 Participative Budgeting

Participation in the budgeting process helps the managers to plan and assess the financial assets of an organisation as per the dimension and view of the wider employment in the organisation (Panda et al., 2020). According to Le (2019), participatory budgeting is a budget mechanism in which all budget holders can engage in the creation of their budgets. If the financial managers did not actively participate in the budgeting process, then it would be difficult for them to manage the assets and overcome the liabilities. However, effective participation involves the communities, stakeholders, officials, supervisors along with top-level management (Nastiti, Atahau and Supramono, 2019). The active involvement from the officials strives to better

performance as well as reach high profitability. In the budget-making process, the balance between assets and liabilities can be established by the participation of the departments operating in an organisation.

2.5.3 Internal Control

The financial managers must have the ability to control the internal matters of the organisation to assess capital management. Internal control helps the financial managers to reduce the financing cost and increase the funds for projects by selling the non-valuable, obsolete or scrap assets (Dhole, Mishra and Pal, 2019; Jakpar et al., 2017). Internal control is affected by management, a board of directors and other officials to maximise the firm's performance. In general, the financial managers overlook the financing activities and control the extra expenses seeking to manage the volume of cash (Le et al., 2018). The management of financial reporting helps the manager to assess capital effectively. The risk assessment is also the responsibility of a manager to determine the future and present risk. To monitor and control the financial activities, the organisation can grow on a larger scale.

2.6 Research Aim and Objectives

2.6.1 Research Aims

This current study aims to identify the impact on the profitability that Capital Management has in a business. The research further aims to analyse the factors of profitability that are impacted by the Capital Management of a Business.

2.6.2 Research Objectives

RO1: To identify the different factors that affect the profitability of the business.

RO2: To explore the different factors of Capital Management used by the business.

RO3: To investigate the impact on business profitability of Capital Management.

CHAPTER 3– RESEARCH METHODOLOGY

3.1 Chapter Introduction

The procedures and methods adopted for evaluating the impact of capital management on business profitability are discussed in this chapter. This is a systematic form of developing insight into the selected research design, strategy, and eligibility criteria within the prescribed time (Sahay, 2016).

3.2 Research Philosophy

According to O'Gorman and MacIntosh (2014), a research philosophy helps the researcher to work under a set of principles to conduct the research. This section of the research also helps to identify the area of interrogation and how these interrogative parts of the study will be answered (Antwi and Hamza, 2015).

As the topic deals with the impact of capital management on business profitability, the investigator selected the philosophy of positivism. Positivism is chosen as it covers the explanation of the social phenomenon and the association it holds with the discernible laws of society. This explanation includes different elements of how capital management has an impact on business profitability and interpretation based on social construction, issues related to the development of social sciences (Johnston, 2017).

3.3 Research Approach

This section highlights the approach of data collection which may be inductive or deductive (Alase, 2017). The inductive approach begins with observation first, then it comes to generate a

new theory. However, the deductive approach begins with the development of a hypothesis and then further test that hypothesis to confirm it holds in the specific context.

The researcher aims to conduct this research through qualitative means; therefore, the inductive approach is appropriate in this regard. The inductive approach helped the investigator to take every aspect of capital management into consideration through which identification of issues related to capital management and evaluation of its role in business profitability is further discussed in chapter 4 of this dissertation.

3.4 Appropriate Research Design

Bryman and Bell (2014) referred to research design as a significant part of the research. Not only research is designed in this section, but also various fundamental areas related to the topic are examined for data collection. The research design may be exploratory which explores and investigate through a research problem that is not clearly defined earlier (Bryman and Bell, 2014). The explanatory design focuses on explaining the different aspects of the study, whereas, descriptive research design constructs an accurate and systematic study to describe a situation or a phenomenon (Parylo, 2012). The researcher has chosen an explanatory research design as a problem is identified and studied in depth for an evidence-based understanding and a strong conclusion.

3.4.1 Explanatory Design

The researcher has selected this design as the topic was not researched before. Explanatory design is well presented with a structured model of identifying the demands of capital management and its priorities, how it can be used in generating operations in relevance to various business definitions and finally explanatory research design also provides an

understanding of the problem more efficiently (Gaya and Smith, 2016). Therefore, the researcher has chosen the approach of exploring the various levels of depth related to capital management instead of getting into a final conclusive answer and related to problems highlighted under capital management and impact on business profitability.

3.5 Research Strategy

The research strategy helps in a process of data collection. This may be in the form of experiments, case study, interviews, and questionnaire (Bryman and Bell, 2014). This dissertation followed a qualitative archival approach to gather information. Grey literature, authentic reports, research papers are analysed using the secondary data analysis for this research. Online archival research is chosen due to the wide range of data and information it can provide. The archival method is a strategy that saves time and is comparatively inexpensive than other techniques. It is a desk-research and does not require any commuting for data collection which is the main reason for its selection during the COVID-19 pandemic.

3.6 Choice of Method

To carry out research, a mono-method which involves only a single technique of a research method (qualitative or quantitative); a mixed-method, includes 2 or more techniques within a research method (qualitative or quantitative); and the multi-method approach, which includes both the qualitative and quantitative research method strategies can be adopted for researches (Bentahar and Cameron, 2015). However, as the researcher is only able to use qualitative means of collecting data through online archival research, therefore, mono-methodology is applicable for this dissertation. Mono-method is used mostly by researchers since it provides a clear outline of various aspects of the research topic, it is also flexible and systematic (Clarke et al., 2015).

Moreover, this data collection method can provide appropriate data with accurate citations needed for credibility.

3.7 Collecting Data

In this section, using the secondary data analysis, earlier studies and publications are reviewed to evaluate the impact of capital management on business profitability.

3.7.1 Secondary Data Analysis

This data collection approach is selected as it allows the researcher to access a range of publications and gather information in the most convenient way. Secondary data analysis made it easier for the researcher to carry out all the steps of this research by properly following the pandemic SOPs. Under secondary data analysis, research reports, articles, environmental studies and authentic developmental plans are selected for the in-depth examination of the research topic (Abbott and McKinney, 2013). This is a cost and time-saving approach which is suitable for research purposes. Another reason for selecting secondary data analysis is that it helped the research to gather more information through clean and authentic sources available in an electronic form.

In the procedure of collecting data through online-archival research, research articles were extracted which covers the main issues of working capital management. In a study by Samiloglu and Akgün (2016), the author highlighted past due payments, poor sales performance, delay in delivery, inappropriate distribution of inventory and its management and finally due receivables to vendors are considered as the main problems directly reflecting an impact on capital management of a business. The use of secondary data has helped the researcher to gather vast information on each of the above-mentioned issues for analysis.

3.7.2 Search Term Identification

The researcher has also identified various search terms to reduce difficulties in the process of gathering relevant information. For this study, the SPIDER model is selected by the researcher, which helped to streamline the search procedures. It is recognised as an effective tool to gather evidence-based information using the pre-requisite of keywords from the research topic to find relevant information. The SPIDER Model is mostly used in qualitative researches (Methley et al., 2014; Clarke et al., 2015).

"SPIDER"	**"SEARCH TERMS"**
Sample	Capital Management
Phenomena of **I**nterest	Issues and Impact
Design	Explanatory OR/AND Exploratory
Evaluation	Business Profitability
Research	Qualitative OR Quantitative

Table 1. Spider Model

3.7.3 Alternate Terms

In many types of research, investigators are unable to fetch accurate and relevant information related to their topic. For this purpose, alternative terms are recognized to extract data associated with the topic. Other than the main key terms mentioned above, the researcher of this dissertation has outlined alternative terms in reflection to the main words of the topic.

Key Terms	**Alternative Terms**
Issues	Problems OR Troubles OR Difficulties
Impact	Influence OR Consequence OR Effect
Capital Management	CM OR Financial Strategy OR Running expenses
Business	Corporate OR Trade
Profitability	Productivity OR Cost-effectiveness

Table 2. Identification of Alternative Search Terms

3.7.4 Search Strategy

To acquire authentic details related to the issues of capital management and its impact on business profitability, the investigator has extracted information from four business databases.

3.7.4.1 Google Scholar

It is a database providing a wide range of information related to business practices. From this database, the researcher has acquired the main issues of capital management and then further research was extracted to study the impact of these issues on business profitability and growth.

3.7.4.2 SCOPUS

This database is used to overview various business growth theories which have a direct relation with capital management. This database is unique in a way as it streamlines the process of search, automatically connecting relevant information with the key or alternative search terms. SCOPUS makes the process of research easier and allows the investigator to find authentic data from multiple research articles.

3.7.4.3 JSTOR

Multiple pieces of research are published in JSTOR. It covers international research from well-known scholars and the description of the researchers. This database is used by the researcher of this paper to dig out information with relevance for this research.

3.7.4.4 ERIC

ERIC is an educational database that keeps a record of over 1.8 million research studies. The information from this databank is of high use among the business students and researchers, as the topic of the research within ERIC provides peer-reviewed studies related to the topic, with a function of suggesting related articles to the readers to get maximum information.

3.8 Eligibility Criteria

In this part, inclusion and exclusion criteria are used for setting eligibility criteria of selection. Firstly, the investigator has included only publications from the last 10 years. Schaufeli et al., (2019) emphasized that evidence that is too old may lack validity and may not comply with the new developments and changes. Whereas, taking more recent years help the researcher to include valuable literature which is critically important to observe any change. 2010 to 2020 are the latest literature for observing the impact of capital management on the financial stability of the business. Moreover, due to the requirement of extensive time in translating different studies to English, the research published in other languages were not included and only research published in English are selected to collect data.

3.9 Sample Size

In the following research, 450 publications were gathered from multiple sources. These studies were taken from the years 2010 to 2020. The description of the publications from each year can

be viewed in Appendix A below. Whereas the total sample size of 10 is selected for analysis. The illustration of how these 10 publications were selected from the process of identification to screening and selection through inclusion criteria is shown in the PRISMA flowchart below.

From a total of 450 publications, 300 were excluded as the studies failed to meet the selection criteria. Some of them were available in different languages, keeping English as the main language for selection, the studies had to be excluded. Moreover, only publications that are recent and updated are selected for this study, other publications which are outdated or mention old business practices are excluded so that validity can be maintained. In addition, some studies were screened and due to the unavailability of access to these resources. 78 studies were further excluded after screening. In the final step of accessibility, 25 more studies were excluded as they did not match with the target population and sector taken for this research and only 10 studies included for qualitative synthesis.

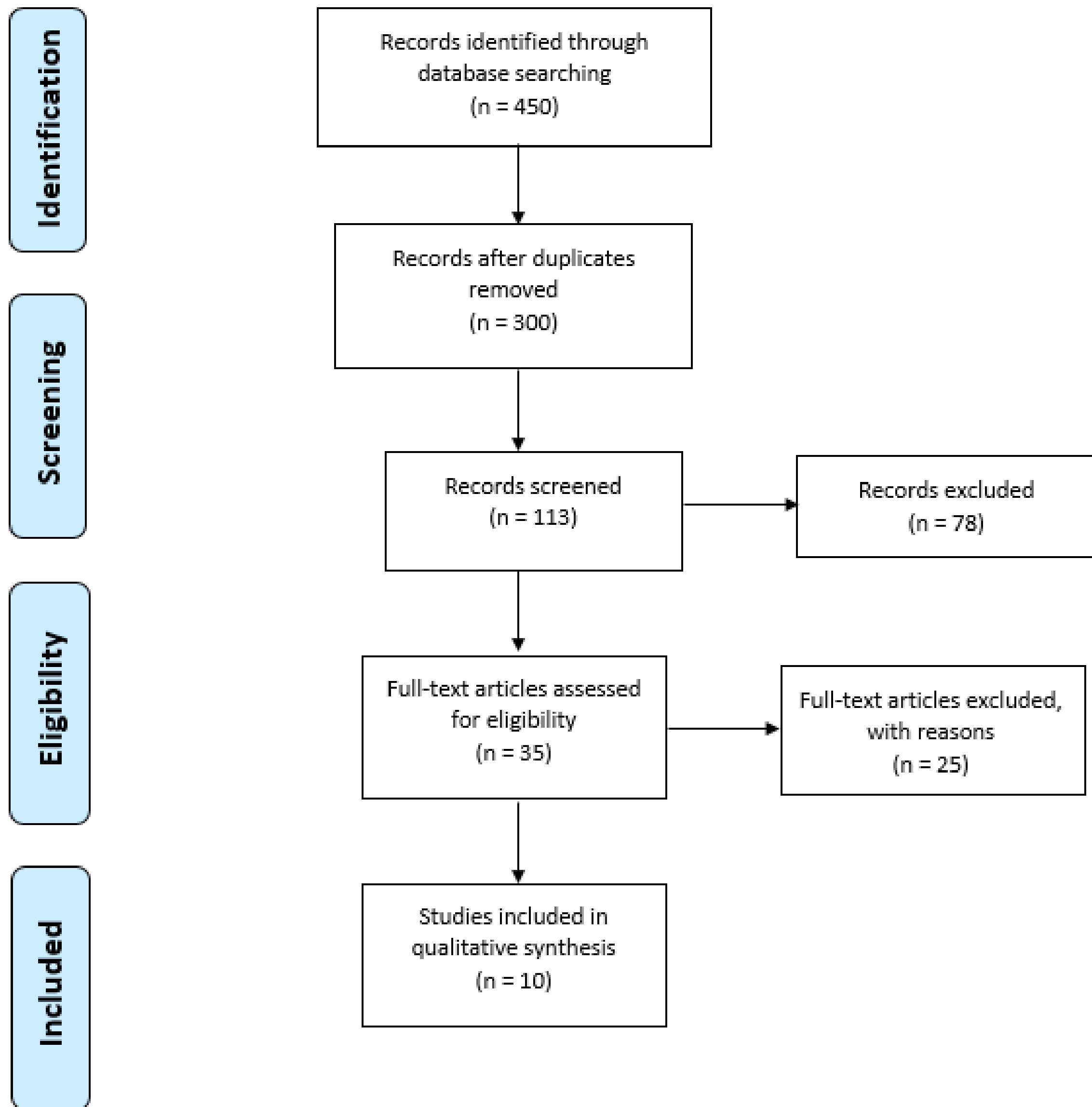

Figure 2: Illustration of the PRISMA Flow Chart

3.10 Data Analyses

The process of data analysis is a fundamental part of any research (Johnston, 2017; Abbott and McKinney, 2013; Parylo, 2012). As this dissertation is conducted using the qualitative secondary data method, therefore, thematic analysis is appropriate for analysing the data.

3.10.1 Thematic Analysis

It is the most common form of the analytical method used for qualitative research. It is selected as it emphasises and pinpoints on examining various business patterns and trends for sustainable cash-flows. The thematic analysis helped the researcher to summarise all the information in multiple stages from data familiarisation, generating codes and naming the themes for analysing the final result (Bryman and Bell, 2014). The thematic analysis approach can be utilised for a range of qualitative studies. This approach briefly outlines individual opinions, knowledge, experiences and values from a range of qualitative data and literature such as interview transcripts, research journals, articles, survey responses. This data analysis approach is used as it is flexible in interpreting information and allows the researcher to easily approach a large set of data and interpret it by sorting them into themes and codes (Joffe, 2012).

3.11 Time Horizon

This part states the point of time at which each step of the research was conducted and completed. There are two dimensions through which a time horizon can be specified. The first is cross-sectional and another is longitudinal. The cross-sectional research is selected for academic purpose research and the longitudinal methodology is selected by professionals who observe different trends and variables repeatedly over a period of time (Sperandei, Vieira and Reis, 2016).

The core purpose of this study is to research various literature related to the impact of capital management on business practices. The researcher adopted a cross-sectional time horizon approach in this dissertation. Therefore, limited time was assigned for the completion of this research. Firstly, the researcher took 1 week to outline the role of capital management and how it is practised in the business. 6 days were allocated for extracting various issues which have an impact on the functionality of capital management. 15 days period was taken for relating each issue with its direct or indirect influence of regular cash-flows which impact the financial stability of the business and 15 days were taken to analyse the collected.

3.12 Validity and Reliability

There is no value of research if the investigator has not created a degree of validity and reliability. In this dissertation, the researcher has developed different strategies and techniques to acquire strong validity and reliability gradation. Firstly, reliability is attained as the articles and research journals taken for this study are related to capital management and its impact on business profitability. Secondly, the theories chosen in the literature and issues related to capital management are both chosen in reflection to the financial growth of the business which is properly cited from main sources for reliability.

3.13 Ethical Consideration

It is important to consider the ethics of the research to maintain value in the future (Valentine and Hollingworth, 2012). In this research, the investigator has used and extracted a lot of significant information which is properly cited, providing credibility to other researchers. Moreover, as the topic is sensitive in outlining the effect of capital management on business profitability and growth, this may reflect many financial institutions of the world. Therefore, no

information or data is being fabricated or manipulated during this research. Lastly, this dissertation is conducted to produce beneficial results for society without harming the image of any community or communal organizations. The process of the research was conducted following the ethical guidelines approved by the institute.

3.14 Limitations

This is an important part of the research as, without it, the research may lack to gain future adoption by other researchers. There were various constraints in the process of the research. The main limitation was that as it was desk research, the investigator was unable to visit any financial organization or company. The data was collected using online archival research only. Questionnaire, interviews and other forms of data collection would have allowed for more accurate data, but COVID-19 limitations impeded data collection via these methods.

Another hurdle is the limited time. As this is an academic dissertation, only 12 months period was given by the supervisor following a cross-sectional study. If it would be longitudinal and examined several times, the influence of capital management on business practices, profitability and growth could be more deeply observed in a systematic way.

Lastly, only research published in English were selected in this dissertation, this opens a door for a probability of missing important data which would be available if more publications in other languages were added in this research by translating them.

CHAPTER 4– RESULTS AND ANALYSIS

4.1 Results

This chapter will present the results of the study. It will present a summary table consisting of 10 major studies that will make the basis of the qualitative research design and secondary analysis. The 10 studies will be briefly discussed in the table, along with its author name, study title, the aim of the study, adopted methodology, and finally the result. This chapter will end with a summary of the main findings where all the results will be briefly concluded.

4.2 Summary Table

Author(s)/ Year of Study	Title of Study	Aim	Methodology	Findings
"Anton and Afloarei Nucu, (2021)"	"The Impact of Working Capital Manageme nt on Firm Profitabilit y: Empirical Evidence	The research aimed to find out the relationship between the profitability of the firm and capital management by considering the selected polish firms.	The selected methodology for this study was the quantitative research method. It used different statistical techniques for multiple waves of panel data such as fixed effects, panel-corrected standard error models, and ordinary least squares. The sample size is 719. The sample contained polish	The results portrayed an inverted U shape relationship between the working capital and the profitability of the firm. This inverted U shape indicated that working capital has a positive impact on the growth and efficiency of polish firms. However, the positive impact had been observed till the breakeven point, which is the optimum level. After reaching the

	from the Polish Listed Firms".		firms working from the year 2007-2016.	optimal level, the working capital negatively impacted the growth and profitability of the firm.
"Zimon and Zimon (2020)"	"Quality Manageme nt Systems and Working Capital SMEs in GPO—A Case of Poland".	The study aimed to portray the importance of quality management systems for the proper management of working capital.	The quantitative methodology was used to fulfil the said aim. The sample size for interviews was 102. The small polish trading companies were selected as the sample. The firms were divided into two groups of organisations functioning in the same industry. The experimental model was used. In one group, a quality management system was applied while in the other group, it was	The results revealed that the organisations in which the quality management system was used worked more effectively than the other experimental group.

			not applied. Appropriate statistical methods were used to obtain the results.	
“Wang, Akbar and Akbar (2020)”	“The Interplay between Working Capital Management and a Firm’s Financial Performance across the Corporate	This study aimed to evaluate the effect of "working capital management and working capital strategy" on the financial performance and outcome of the organisations across varying stages of the 'corporate Life cycle'.	The quantitative methodology was used. 98 Pakistani firms were selected from 12 different industrial sectors from the period of 2005 to 2014. The hierarchical linear mixed (HLM) estimator was applied, which was used to process and evaluate the multilevel data in the cases where observations are dependent.	The results revealed that working capital management and its association with the performance of the firm is not static. Other factors such as efficient talent acquisition, size of the firm and working mechanism of the company can play a role in boosting the performance of the firm and define whether working capital management independently is responsible for the growth of the businesses.

	Life Cycle".			
"Siraj, Mubeen and Sarwat (2019)"	"Working capital management" "and firm performance: evidence from non-financial firms in Pakistan"	The study aimed to analyse and evaluate the relationship between the management of working capital such as receivable management, inventory management and payable management on the performance and	The methodology adopted in this research was quantitative data, which was then analysed through regression analysis and content analysis. Panel data has been obtained from the listed non-financial firms on the Pakistan stock exchange from the year 2000-2016. 280 firms have been selected. The control variables were liquidity, firm size and leverage. The effect of working capital management was obtained through constituent policies such	The results of the study revealed that there was a linear graph between working capital management and the financial performance of the firms in terms of growth and profitability. The linear graph indicated a direct relation, which explains the better the management of capital, the more the increase in the profitability.

		efficient non-financial organisations in Pakistan.	as analysing the payable management, receivable management, and inventory management.	
“Nastiti, Atahau and Supramono (2019)”	“Working capital management” “and its influence on profitability and sustainable growth”	The purpose of this study was to evaluate whether the management of working capital had a positive influence on the profitability and productivity of the firm and does this relationship contribute to the	The methodology adopted in this research was a quantitative research design. The sample size was 136. The sample included manufacturing organisations of Indonesia listed in the Indonesian stock exchange from the year 2010 to 2017. Data panel regression technique was used to fulfil the said aim. The fixed-effect model was used to analyse the data.	The results showed that there was a positive effect of working capital management on the productivity and profitability of the firm. However, there was not a direct effect on the sustainable growth of the firm by managing working capital but an indirect influence through the profitability of the organisation.

		sustainable growth of the firm.		
"Ismail (2017)"	"Working Capital – An Effective Business Management Tool"	The research aimed to provide a clear understanding of the concept of working capital. It also aimed to critically analyse the role of working capital in the success of business along with its management.	A qualitative and descriptive design was selected to get insights into the selected topic. The 12 semi-structured interviews were developed, and the managers and entrepreneurs of the organisations became the participants of the interviews. For data analysis, the content analysis technique was utilised.	The findings suggested that working capital is certainly an effective and profit-generating business management tool. All the entrepreneurs unanimously consented to the importance of working capital in the growth of businesses.
"Jakpar et al (2017)"	"Working Capital	The major focus of this study was to	The quantitative research design was used to achieve the discussed	The findings showed the obvious results and found support for their

	Management and Profitability: Evidence from Manufacturing Sector in Malaysia”	identify the effect of management of working capital on the growth and profitability of the firm by focusing solely on the manufacturing sector in Malaysia.	aim. For this, the sample size of 164 was taken, which included the manufacturing firms present in the "Mainboard of Bursa Malaysia" from years 2007 to 2011. To test the hypothesis, the Pearson correlation technique and discriminatory panel regression was utilized. The exogenous variables included inventory conversion, the size of the firm and the average collection period whereas the endogenous variables included the profitability of the organisations.	hypothesis. A linear graph was obtained which showed a direct relationship between the management of working capital and the profitability of the firm. An inverse relation appeared when debt ratio (leverage) and organizational productivity and profitability were kept testing.

“Yusuf and Srithongrung, (2017)”	“Capital manageme nt: Advancing ” “theory and practice”	This research aimed to highlight the key elements of capital management along with describing capital budgeting, capital planning, outcomes of capital spending, capital decision making and capital financing. The research laid a strong focus on public sector capital management to find	The research methodology used in this study was qualitative research design, focus solely on secondary data results. To analyse the data thematic analysis was done and the major themes that were drawn out of this study were: “modest progress in applying and empirically testing theoretical frameworks; the variety of actors and institutions; and the deteriorating condition and poor performance of public infrastructure”.	The findings of the study proved that the concept of capital management looks very complex in theory. However, in practice, its incorporation is essential because, without this, the business cannot flourish.

		out the key challenges of capital management on the level of local and state government.		
"Tuffour and Boateng (2017)"	"Is Working Capital Manageme nt Important? Empirical Evidence from"	The major objective of this research was to evaluate the impact of working capital management on the performance of manufacturing organisations in Ghana. The	The methodology selected to empirically prove the hypothesis was quantitative design. The sample size included six manufacturing firms present on the Ghana Stock exchange between the period of 2008 and 2014. A multiple regression analysis was conducted; a	The findings of the study revealed that the average collection period, account payable period and the current ratio had an amplifying effect on the profitability of the organisations. The current ratio was statistically important. Moreover, the cash conversion cycle and inventory conversion period led to reduced

	“Manufacturing” Companies in Ghana”.	research proved the hypothesis by empirical data.	correlation coefficient was estimated between x and y	performance which's why they were statistically unimportant.
“Tauringana and Afrifa (2013)”	“The relative importance of working capital management and its components to SMEs' profitability”	The research aimed to describe the importance of working capital and prove its efficiency in the profitability of SMEs. The research specifically focused on SMEs because the profit-making organisations were	The regression analysis was used and the primary research design was utilised. The quantitative research methodology was utilised as the research relied on the questionnaire survey. The sample size was 133.	The research findings showed that capital management proved to be beneficial for the SMEs in long run. The process of capital management is no doubt costly but since it reduces the overall financial risks for the SMEs, therefore, the chances of their growth multiply.

		generally good at capital management. By evaluating the role of capital management in the growth of SMEs can prove the importance of Capital management in the business.		

Table 3. Studies Summary Table

4.3 Summary of the Main Findings

The summary table consists of 10 pieces of works of literature. The analysis of all kind of literature reveals that the management of working capital has a positive effect on the profitability of the organisations. Not only the organisations grow on a financial level but the overall growth on various parameters of organisations is observed. Moreover, the findings reveal that all Multinational corporations have incorporated the mechanism of managing working capital. This is why these organisations have witnessed growth. The reason why SMEs are lagging is that they mismanage their finances, which creates a panic situation and the entire organisation's performance is affected. The results also reveal that when the companies are not in financial distress, the employees are psychologically satisfied and therefore, they tend to perform better. While on the other hand, when companies suffer financial losses due to mismanagement of working capital, the workflow of the whole organisation is disrupted. This shows how significant the management of working capital is for the companies to flourish. The direct relation, which is the linear graph, was shown when exogenous and endogenous variables were put to test. The exogenous variables included inventory conversion, the size of the firm and the average collection period whereas the endogenous variables included the profitability of the organisation. An inverse relation appeared when debt ratio (leverage) and organisational productivity and profitability were kept testing. This revealed that the greater the leverage of the firm, the less is the profitability, which also emphasises the importance of working capital management in minimising the leverages of the companies. Moreover, the findings portrayed that although, the organisation's sustainability and working capital management do not exert a direct influence on each other. Yet, there is still an indirect relation, which asserts that a profitable firm is more sustainable. Hence, working capital management is indirectly contributing to the sustainability of

the firm. The results have taken into account the companies of various countries such as Poland, Ghana, Malaysia, Indonesia etc. This shows that the result is all-inclusive and the importance of working capital for the success of an organisation is therefore consistent across many nations.

4.4 Analysis

4.4.1 Theme 1: Importance of Working Capital Management

4.4.1.1 Subtheme 1.1: Finances are the spine of Organisational Profitability

This study found that finances may be considered to be the backbone of the organisation because its proper management leads to the firm's profitability. All capitalistic organisations focus solely on profitability, therefore, in this regard, financial management is highly important. For these financial managers are required, who plays the key role. As said in the literature, the financial managers are responsible to maintain the cash inflow and outflow in an organisation (Altaf and Shah, 2017). Also, financial managers are responsible to maximise profit for the business and its shareholders. This means that the key responsibility lies on the shoulders of financial managers to make most of the situation. This is the reason why working capital management is highly essential (Nastiti, Atahau, and Supramono, 2019).

The research by Yusuf and Srithongrung (2017) supports the results of this study. This research proves that the firm with a strong grip on financial management has always flourished.

4.4.1.2 Subtheme 1.2: To maintain a balance between Assets and Liabilities

Management of assets and liabilities determine the financial muscle of the company. Working capital management means that a balance between assets and liabilities would be ensured. As the literature indicates that it is important to manage the finances of an organisation to maintain the assets and liability. This means that profit of the organisation will be ensured as less cost will be

sued in making new products because the working capital manager would make the best use of the current resources (Siraj, Mubeen and Sarwat, 2019).

4.4.1.3 Subtheme 1.3: Maintain the Operational Cycle of the Firm

As per the study by Jakpar et al., (2017), working capital refers to current assets that support the day-to-day operations of companies. In the broadest sense of the concept, working capital is defined by resources necessary for a firm to finance its operational needs, which go from the acquisition of raw materials (or goods) to the receipt by the sale of the finished product, the so-called "operating cycle" of the company. This implies that the company's operational needs and its timely fulfilment are also one parameter of the success and productivity of the firm. This further solidifies the importance of working capital management.

Moreover, in the literature, Kasozi (2017) defines working capital as the financial resources applied by the company to execute the operational cycle of its products. By managing the working capital, the overall cost of the product development cycle would reduce because the resources are recovered financially at the end of this cycle.

4.4.1.4 Subtheme 1.4: Maintain Financial Balance and Liquidity

It is recognised as an accounting strategy to maintain the financial balance and liquidity of the organisation. An efficient way of capital management assists the organisations to meet their financial obligations and enhance their revenue build-up (Khalid et al., 2018). It further helps to maintain a sufficient balance within the company's current assets and liabilities. Moreover, capital management impacts the firm's liquidity, profitability and solvency (Anton, and Afloarei-Nucu, 2021). This shows how working capital management provides inclusive benefits and retain the profit margin of the company.

4.4.1.5 Subtheme 1.5: Facilitates Quick and Efficient Decision-Making

Khalid et al., (2018) say that the companies that are quick and effective in decision-making earn major profit. Considering this, Le et al., (2018) stated that it is necessary that whenever a decision to purchase or sell is to be taken, analysis and assessment of whether the company has the financial resources to do so. The reason why analysts are important in this regard is that they have the experience to handle the pressure and make timely decisions that can save the company from incurring losses. If an excess purchase decision is made, the company should have a greater amount of financial resources. If a decision is made to give more time for customers in instalment sales, the company will also need more financial resources. If this resource does not exist, the company may need to use borrowed funds, from banks, suppliers or other sources, which will generate a need for interest payments, reducing the business profit margin. Therefore, Mahmood et al., (2019) noted that managing the company's working capital means considering the current scenario and evaluating all possible ways to maximise the profit and minimise the loss (Tauringana and Afrifa, 2013). This implies that the working capital management would also assist the firm in taking big and difficult decisions.

Moreover, the author stressed that working as a capital management decision is very important for firms and companies because it affects scarcity and profitability.

4.4.1.6 Subtheme 1.6: Helps in Taking Calculated Risks

As discussed above, working capital management assis1ts in the process of decision-making. This means that the risk evaluation also comes under the garb of decision making. All the firms are exposed to risks at a certain time of their operation, the companies that already make a risk profile and proactively act according to it have more chances to flourish. As said in the literature that considering the risk assumed by the business, it is necessary to ascertain whether the capital

employed is having the expected return. The greater the risk is taken, the greater the expected return for the firm (Tran, Abbott and Yap, 2017). Some authors argue that efficient WCM has the potential to leverage the profitability of the company, in addition to managing the risk of the firm running out of cash to meet the company's immediate obligations. Thus, capital management also ensures that the calculated risks are taken that would result in greater profits for the firms (Tuffour and Boateng, 2017).

4.4.2 Theme 2: Impact of Capital Management on Business Profitability

4.4.2.1 Subtheme 2.1: Positive Impact on Growth and Profitability of the Business

The results reveal that the management of working capital has a positive influence on the growth and profitability of the business. It was revealed that after reaching the optimal level, working capital management negatively affected the growth of the organisation. The company should seek positive working capital so that the risk factor can be minimised, and growth can be ensured (Tauringana and Afrifa, 2013).

4.4.2.2 Subtheme 2.2: Builds the trust among Involved Stakeholders

From the study, it can be deduced that proper management of working capital can ensure effectiveness in paying the suppliers, employees and fulfilling the expenses. Having proper working capital boosts the financial position of the company along with solidifying its goodwill. Efficient management of finances builds trust among the involved stakeholders, which attracts more investors and hence, the overall financial muscle of the organisation is strengthened (Tuffour and Boateng, 2017).

4.4.2.3 Subtheme 2.3: Adding Sustainability to the Business

From the study, it was established that the management of working capital had an indirect influence on the sustainability of the firm, through increased profitability (Nastiti, Atahau and Supramono, 2019).

4.4.3 Theme 3: Ways to Properly Manage Working Capital

4.4.3.1 Subtheme 3.1: Checking the Net Working Capital Ratio

The businesses should seek to get a stable NWC ratio. 1.0 Or less than that means that all the working capital resources are being utilised. This implies that in case of changes or adjustments from the client side, there would be no resources left to fill the gap, resulting in negative working capital. The businesses usually ignore this calculation of net working capital, which can result in greater problems for the businesses (Singhania and Mehta, 2017).

4.4.3.2 Subtheme 3.2: Digitizing Inventory Management

Investors and shareholders check the inventories of the company before making investment decisions. This makes inventory an important aspect of a company's financial growth. To improve inventory management, digitising it would be the best approach. This would prevent overstocking or the shortage of inventory. Although it appears an expensive option in long run, it can increase the efficiency of the business (Ukaegbu, 2014).

4.4.3.3 Subtheme 3.3: Automation of Business Finances

Business financing not only requires labour costs but is also error prone. Errors in matters of financing are not acceptable because they can negatively impact the profit margin of the firm. Automating the business finance would not only ensure efficiency but would also enhance the business finances by minimising the chances of errors (Wang, Akbar and Akbar, 2020).

4.4.3.4 Subtheme 3.4: Introducing Quality Management System for Managing Working Capital

It was established from the study that the firms with effective quality management system managed the working capital much better than the ones with no quality management system. A quality management system helps in the effective utilisation of resources by ensuring that the company remains in a positive working capital state, which is having more assets than liabilities (Zimon and Zimon, 2020).

4.7 Limitation of the Work

Although, the results drawn from this study has analysed the organisations from different countries, yet many countries were skipped due to time shortage. This study discusses that working capital management has an indirect influence on sustainability. However, this study fails to explore this relationship through various literature. The data on sustainability and working capital management was not enough to endorse the study. This study explores the overall relationship between the profitability of the firm and working capital management but the impact of working capital management on different elements of profitability such as supply-demand ratio, resource availability, the revenue of the company, is not independently discussed. The primary data would have been useful to prove the hypothesis, but due to pandemic, direct contacts with a concerned population was hard. Therefore the study was purely qualitative based on secondary sources.

4.8 Implication of the Study

The study will be useful to encourage SMEs to focus on the management of their working capital so that they can maximise their profits. The big organisations would focus on ameliorating their management of working capital because this study has strongly linked it with the success and

growth of the firm. Increasing the overall profitability of private and public organisations would result in increased global revenue. This study will be one of the major contributions in the literature concerning organisational growth.

CHAPTER 5- DISCUSSION

5.1 Data Analysis

This chapter of the dissertation is considered the backbone of the thesis because it presents the results in the most elaborated form. In this chapter, not only the results are provided but the results are described and supported or contrasted by other existing literature. Since the methodology selected for this thesis is secondary data analysis, therefore, the results are extracted from literary sources. This means that this chapter will not only provide the supporting literature while discussing the results but also will provide the contrasting literature to make sense that why the results of this study are more viable than that of the contrasting one.

5.2 Importance of Working Capital Management

The working capital is an integral part of the financial structure of any organisation. The working capital ratio can be defined as the ratio of current assets to current liabilities. The analysis of the working capital indicates that whether the organisation has sufficient cash to fulfil the expenses that arrive suddenly or the expenses and debts that are timely. The results of the study revealed that working capital is an integral business component that is responsible to maintain the financial health of the company and ensure the operational growth and success of the business (Anton and Afloarei Nucu, 2021).

Nastiti, Atahau and Supramono (2019) assert that Capital management is the fundamental rule of a successful business as the invested capital is the reason that the business earns profit from its operation. If there was no capital, then the businesses would not be generating any profit. This shows why capital is important for the business. The research by Ismail (2017b) asserts that if capital was not important for the growth and profitability of the firms, then the organisations

would never have been eager to invest. Every organisation is looking for an opportunity and to invest in that opportunity. However, investment is limited, and the investor seeks to invest in high return ventures. Every Company, no matter what size it is, look for investment opportunities because the probability of growth is exponential and so is the probability of failure. This makes it important for businesses to manage their capital. Jakpar et al. (2017) say that the organisations that are effective in managing their working capital gain more investors. According to Jana (2018), the bigger entrepreneurs are likely to invest in any firm, the more are the chances that the concerned organisation is growing.

On the contrary, Alvarez, Sensini and Vazquez (2021) say that it is not necessary that organisations with an efficient working capital management team would gain more investors. It is usually the size and the fame of the firm that gains investors. However, the research by Korent and Orsag (2018) says that management of working capital might not attract the investors, but it would surely build trust among people, which will indirectly attract the investors. This, in turn, will increase the face value of the organisation.

Al Dalayeen (2017) says the greater capital also results in high revenue and high profit. The example of Tesco in this regard is worth mentioning. TESCO is the largest supermarket in the UK and the profit of the company was £2.2 billion from £53 billion in revenue (Kayabas and Ertugan, 2020). The company has £13.3 billion in equity. The case of Tesco shows that the larger the amount of capital and managed well, it can generate the high rate of profit for the business (Kayabas and Ertugan, 2020). This is also evidenced by the research of Dhole, Mishra and Pal (2019) on Amazon and Walmart. All the big organisations work actively on the management of their working capital, which in turn, solidifies the correlation between the management of working capital and the profitability of the organisation.

Khalid et al., (2018) say that the financial performance of the firm is the key parameter to assess its profitability. To check whether the company is growing, the annual review of its finances is made, and the comparison is drawn keeping in view the profit rate. This makes financial performance an essential tool to assess the organisation's growth (Hassan and Shrivastava, 2019). On the other hand, Yusuf and Srithongrung (2017) say that it is not the financial performance that measures the firm's success but it is customer satisfaction, which usually comes from low-priced products, which means that the firm is not generating enough revenue. However, the results of our study are much viable because even if customers are satisfied with the low-priced product, still it does not mean that the company will get losses by applying this strategy. Low priced, quality products can result in a huge consumer base, which in turn, will increase the profit base of the firm. This again makes financial performance the key indicator of the success and growth of the business (Jakpar et al, 2017).

According to Altaf and Shah (2017), working capital refers to the non-fixed amount or set of resources. These resources are in constant motion in the company's day-to-day business. Khalid et al. (2018) add that the study of working capital is important for management because the company needs to recover all costs and expenses (including financial) incurred during the operating cycle and obtaining profit through the sale of the product or provision of services. Cost recovery is the skill, which needs to be polished because this skill ensures that the existent resources are utilised in the best possible way. As reflected in the literature, working capital is responsible for the operating cycle of companies because its movement reflects on the company's equity status. The capital of turnover undergoes transformation and each transformation has the objective of making capital always return greater than the value of the beginning of the operating cycle (Nastiti, Atahau and Supramono, 2019).

The results also reveal that while fixed assets generate products, whose sales provide recovery of costs and expenses and the appearance of profits, current assets are applications of resources with low profitability, but necessary to sustain the company's operational activities, which highlights the importance of its management in a coherent and business-adjusted manner. The research by Khalid et al., (2018), however, do not stand in consonance with the results of our study. Khalid et al., (2018) say that the current assets are most of the time outdated because the technology is continuously growing and so is the demand for the products, which is getting widened day by day. This is why current assets might not fulfil the requirement of changing market demand.

5.3 Factors which Affect Finances of the Firm

5.3.1 Global Monetary Fluctuations

The finances of the company are affected majorly by global monetary fluctuations. Global monetary fluctuations can occur due to different reasons. Some literature asserts that liberalisation results in an economic recession, while some researchers say that liberalisation and globalisation can increase the economic muscle of the globe. Thus, these global monetary fluctuations are highly responsible for the finances of the firm. Global monetary fluctuations in the company's activities play an important role in the market which impacts the firm's financing decision (Dhole, Mishra and Pal, 2019). For instance, the fluctuations in the country's monetary policy can be the major reason for a firm to not pay debt timely (Wang, Akbar and Akbar, 2020).

5.3.2 Economic Conditions of the State

The economic condition also affects the growth and sales of the firm (Jakpar et al., 2017). Due to the economic condition, the policy changes of the state occur, which also affects the financial position of the firms operating in that state. The declining economy of the country would also affect the purchasing power of the people. This means that the demand of the product would be reduced and this, therefore, will affect the overall finances of the firm.

5.3.3 Poor Talent Acquisition Team

The finances of the firm grow if the people looking over it are effective. However, if the team working on it is not skilled and ineffective, then the finances of the companies can get disrupted. Therefore, Yusuf and Srithongrung (2017) urge on hiring talented people even if it means giving them heavy salaries. Talented people would be useful in the long run because they will surely bring up techniques, which would lead to profits. Furthermore, newly incorporated businesses find it difficult to manage their capital and align them with the profitability of the business due to inexperience (Hassan and Shrivastava, 2019). Therefore, hiring experienced staff is always a plus, which will positively influence the profitability of the firm.

5.4 Factors that Influence Capital Management

5.4.1 Structure of the Organisation

According to Zimon and Zimon (2020), the structure of the organisation influence capital management. The hierarchical organisations are good at managing the capital than the democratic ones.

On the contrary, the research by Kasozi (2017) says that democratic organisations are less complex, therefore, their capital management is easier and hence effective. Nastiti, Atahau and Supramono (2019) said that in the hierarchical organisation, the power is concentrated in the top tier of the organisation, while the lower tiers are generally powerless. There is a huge communication barrier between the upper and the lower tier, which is why the complexity level increases. The decision-making of the organisation does not take into account the greater good of employees and the customers but is solely focused on generating wealth and profits for upper strata. The working capital management requires a unanimous consensus to ensure that correct decision-making is done, and risk is minimised. Thus, the optimal level of complexity would affect the management of working capital and hence, would negatively influence the profit.

5.4.2 Size of the Organisation

The results suggest that bigger organisations have more resources to manage the working capital whereas the smaller organisations pay minimum attention to the management of working capital.

5.4.3 Funding of the Business

The more the investors in the business, the greater would be the influence on capital management.

5.5 Impact of Capital Management on Business Profitability

5.5.1 Direct Relationship between both these Parameters

There is a direct relation between working capital management and business profitability. This means that capital management in the firm would result in maximising the profits of the firm.

From the literature, it can be concluded that adequately managing working capital is significant for the profit of companies.

Furthermore, Ben-Nasr (2016) observed the importance of good WCM as capable of ameliorating the company's competitive edge as well as its profitability. It is for this reason research on WCM has been extensively studied its impact on the company's profitability (Boțoc and Anton 2017). In this direction, studies of international literature show the procedures and practices which a company uses to manage its working capital management can have a significant impact on its “liquidity, profitability, market value and value creation for shareholders” (Box et al., 2018 p.2). These are the key parameters that influence the profitability of the firm.

5.5.2 Efficient Resource Management

According to these authors, “The efficient use of company resources leads to greater profitability and reduces volatility, which, in turn, leads to a reduction in the risk of default and, consequently, improves the firm value” (pp.12-13). Since the prime purpose of working capital management relates to the management of existing resources, therefore, this implies that less material would be used in making new products and the old resources can be made to generate revenue. This means that with fewer costs, sufficient money can be made, which leads to profit generation. The working capital management efficiently uses the resources and generate heavy profits for the firm.

5.5.3 Indirect Influence on Sustainability

The results show that there is a positive effect of working capital management on the productivity and profitability of the firm. However, there is not a direct effect on the sustainable

growth of the firm by managing working capital but an indirect influence through the profitability of the organisation (Nastiti, Atahau and Supramono, 2019).

5.6 Factors that Affect the Profitability of the Business

5.6.1 Size of the Company

Firm size is a factor that determines the profitability of the firm and affects the decision of managers while considering the market size. The larger the market and market share of the organisation; the more profit is expected by managers and attained by the organisation. According to Ahmed et al. (2016), the more access to financial assets, and the lesser the cost of capital depends on the size of the organisation. The size of the company impacts the financial decision to access more financial resources, which reduces the cost of capital. The organisations as a result gain higher profit (Mahmood et al., 2019). However, the small firm size may increase the firm's debt level, which can cause financial pressure and distress and lead to bankruptcy. This is how it decreases the firm's performance and profitability (Roni, Djazuli and Djumahir, 2018).

5.6.2 Budgeting

Participation in the budgeting process assists the managers to plan and assess the financial assets of an organisation keeping in view the wider employment in the organisation (Panda et al., 2020). From the literature, it can be established that the role of financial managers is effective in managing the assets and liabilities by actively participating in the budgeting process. However, effective participation involves the communities, stakeholders, officials, supervisors along with top-level management (Nastiti, Atahau and Supramono, 2019). When stakeholders are actively involved in budget-making and financial decisions, then there is less possibility of error. This,

therefore, can help the company to attain high profits. In the budget-making process, the balance between assets and liabilities can be established by the participation of the departments operating in an organisation.

On the contrary, the research by Yusuf and Srithongrung (2017) asserts that participation in the budgeting process can slow down the decision-making process, which in turn can negatively affect the profitability of the organisation. More people in decision making means it can be more difficult to get consensus. Sometimes the firms require quick decision-making, but participatory budgeting can hamper this process.

5.6.3 Internal Controls by the Manager

Managers have the role to decide according to the company policies and objectives. It takes into account various factors e.g., company size, budgeting and the internal controls that the manager has. As per the literature, the financial managers must have the ability to control the internal matters of the organisation along with assessing capital management. Internal control helps the financial managers to reduce the financing cost and increase the funds for projects by selling the non-valuable and outdated assets (Dhole, Mishra and Pal, 2019; Jakpar et al., 2017). In general, the financial managers overlook the financing activities and control the extra expenses seeking to manage the volume of cash (Le et al., 2018). The management of financial reporting assists the manager to assess capital effectively. The risk assessment is also the responsibility of a manager to determine the future and present risk. The organisation can grow by effectively managing and controlling the outflow of finances and utilising the existing resources.

5.6.4 Amount of Capital

According to the literature, if the business has the right capital and opportunity at the same time, the business can get a return on the investment and can earn a very high profit on the investment. However, if the business does not have the capital to invest in the opportunity, therefore, the business will not be able to earn any profit. This shows how capital management is important for business profitability. This shows that amount of capital is directly proportional to business profitability (Seyoum, Tesfay and Kassahun, 2016).

5.7 How to Identify the Company's, Financial Standing?

5.7.1 Average Terms of Accounts Payable

Deloof (2003) showed that, in practice, the longer the firm takes to pay its bills, the greater the indication that the company is in poor financial condition. Therefore, there is a negative relationship between profitability and the average term of accounts payable. The author also supports this statement that there is an inverse relationship between profitability and the average term of accounts payable.

5.8 How to Minimise Risks and Enhance Profitability

5.8.1 Adopting Conservative Approach when Risk Measures are high

The Conservative approach deals with two 'lows', which means low returns and low investment. This is considered the safe approach, because even in the situation, when the investment does not generate profit, still the losses are bearable and does not majorly affect the financial position of the firm. Thus, when the risk is higher, a conservative approach will be more suitable (Sperandei, Vieira, and Reis, 2016).

5.8.2 Adopting Aggressive Approach when Risk is Low

From the literature, it was revealed that aggressive strategy has enabled the businesses to reach their optimum point and has turned out to be beneficial for smaller firms. On the contrary, All Independent Variable (IDV) had a negative relationship with the profitability. The results support the hypothesis that WCM aggressiveness brings greater profitability for companies. However, aggressive strategy can sometimes hit the companies and could ruin the financial standing of the firm. Therefore, it is advisable that when risk is low, only then an aggressive approach should be adopted (Sarwat et al., 2017).

5.8.3 Reducing Customer’s Terms and Inventories

Deloof (2003) points out that reducing customer's term and inventories can improve a company’s profitability. This is because the inventory reduction would save the carrying cost of the business, the transportation cost of the firm and its storage cost. It flushes the obsolete and outdated stock, which is necessary to sell. The condition when obsolete stock, if not sold, could go complete waste and drain the cash flow down, in such a situation, it is profitable to reduce customer’s terms and inventories.

5.8.4 Effective Management of Working Capital and Operations

According to Gill (2011), the positive relationship between profitability and WCM suggests that the most profitable companies seem to effectively manage their operations. When the companies are ineffective on operational parameters, they usually become unproductive, which in turn affects the revenue and hence, the profits of the firm.

CHAPTER 6- CONCLUSION

6.1 Conclusion

One of the major problems that businesses face is the management of their finances and the effective utilisation of existing resources. This study establishes that a reason why businesses might suffer from the financial paradigm is their lack of focus on working capital. This study has found that the management of working capital can help the business grow along with ensuring the sustainability of the business. Capital management is a very complex term and changes as per the structure, size and funding of the business. Capital Management has the main aim of strategizing the efficiency of the business by managing the finances of the business. The major aim of this research is to identify the impact on the profitability that Capital Management has in a business. The research further aims to analyse the factors of profitability that are impacted by the Capital Management of a Business. The result of the study found evidence to suggest that the management of working capital has a positive effect on the growth and profitability of the business. Large organisations usually have a separate management team for the management of working capital. However, the smaller organisations or the SMEs tend to ignore this very integral part of business finance, which may explain why their profit rate is not robust and could survive the global monetary fluctuations. Moreover, one potential reason why SMEs are lagging is that they mismanage their finances, which creates a panic situation and the entire organisation's performance is affected. The results also reveal that when the companies are not in financial distress, the employees are psychologically satisfied and therefore, they tend to perform better. While on the other hand, when companies suffer financial losses due to mismanagement of working capital, the workflow of the whole organisation is disrupted. This shows how significant the management of working capital is for the companies to flourish.

There were three major themes extracted from the results, which were then divided into relevant subthemes. Theme 1 described the importance of working capital management. Theme 1 was subdivided into six subthemes, which further explained why working capital management is important. Theme 2 discusses the impact of capital management on business profitability. Three subthemes were drawn from it indicating a positive effect on growth and profitability of the business, building trust among stakeholders and ensuring sustainability. Finally, theme 3 discusses ways to adequately manage working capital. 4 subthemes define the ways. These are: checking the networking capital ratio, digitising the inventory management, automation of business finances and finally including a quality management system for managing business finances.

6.2 Way Forward

From the research, it can be deduced that working capital management positively influences the growth and profitability of organisations. However, due to less knowledge, the entrepreneurs are usually reluctant to accept the importance of working capital management. In the short run, its management might appear costly, but it has huge financial benefits in the long run. Businesses should empower their research and development department to find ways to effectively manage the working capital. Moreover, the quality management systems for the management of working capital can be the best technique to maximise the profit rate. The research in this area has revealed that the companies that use the quality management system are more effective in managing their working capital. They can fasten the pace of collecting credits and paying debts. Quality management systems make the overall process of working capital management easy and effective. Thus, the companies should adopt this strategy to ameliorate their business outcomes and increase profit rate (Zimon and Zimon, 2020).

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Appendix A

Description of Searched Studies

Characteristics	**Number (n=450)**
Publication year	
2010	46
2011	30
2012	45
2013	32
2014	20
2015	58
2016	45
2017	26
2018	68
2019	50
2020	30