

AN EMPIRICAL ANALYSIS OF WORKING CAPITAL MANAGEMENT AND CORPORATE PROFITABILITY

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ABSTRACT

This paper studies the relationship between working capital management and corporate profitability. We use the cash conversion cycle (CCC) as a measure of working capital management inefficiency and return on total operating assets (ROA) as the profitability indicator. Our empirical findings suggest that there is a strong negative relationship between CCC and ROA for U.S. corporations during the 1983 to 2012 period. However, this negative relationship does not apply to all of the companies across industries. In our industry analysis, we find that there is a strong negative relationship between CCC and ROA for six industry sectors based on the Global Industry Classification Standard (GICS) codes. On the other hand, there is no significant relationship for the Materials sector, and the relationship is significantly positive for the Consumer Staples industry.

Keywords: *cash conversion cycle, working capital, GICS*