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Working capital management and firm profitability

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[Thorsten Knauer](#) ¹ & [Arnt Wöhrmann](#)¹

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Abstract

Managing a firm's current assets and liabilities (working capital management) is highly relevant to the success of that firm. While the short-term liquidity effects of working capital management are straightforward to derive, it is an empirical question how it affects firm profitability. This short survey paper consolidates the empirical literature on the association between working capital management and firm profitability. This state of the art analysis provides evidence of positive effects of accounts receivable management and inventory management on profitability. However, results for the effects of accounts payable management on profitability are driven by reverse causality. Finally, this paper highlights critical aspects of prior research and points to avenues for future research.



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Notes

1. Lazaridis and Tryfonidis ([2006](#)) use the term gross operating profit (GOP) instead of GOI. Since the definition of GOP is equivalent to the GOI measure, we use only one term.
2. Since most studies report a negative relationship between CCC and profitability while the isolated effect of DPO on profitability is less clear, using gross instead of net working capital in empirical studies is unlikely to affect the inferences for working capital management and profitability.

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Author information

Authors and Affiliations

**Münster School of Business and Economics, University of Münster,
Universitätsstrasse 14-16, 48143 , Münster, Germany**

Thorsten Knauer & Arnt Wöhrmann

Corresponding author

Correspondence to [Thorsten Knauer](#).

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