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RESEARCH ARTICLE

Effects of working capital management on firms' profitability: evidence from cheese-producing companies

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PDF

Abstract

Working capital management (WCM) is a key question for firms' profitability, especially for small and medium enterprises faced with severe financial restrictions and whose current assets account for a significant part of their investments. These features describe most firms in the livestock industry. However, studies on WCM related to these firms are scarce. Using a sample of 444 Spanish cheese-manufacturing companies during the period 2010–2016 and applying a dynamic panel data methodology, this paper analyzes the extent to which the main components defining the WCM policies—days sales outstanding, days inventory outstanding (DIO), days payable outstanding (DPO), and cash conversion cycle (CCC)—affect firms' profitability. Empirical evidence reveals a negative effect of DIO and the CCC on firms' profitability, suggesting the need to reduce the level of inventory of cheese-manufacturing companies. Similarly, the empirical evidence confirms a negative relationship between DPO and firms' profitability. [EconLit Citations: C23, G31, L25, L79, Q12].

DATA AVAILABILITY STATEMENT

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