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Working Capital Management on Corporate Firm Performance of NSE Listed Companies in Indian

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Abstract

The goal of this research is to determine whether WCM influences the financial success of Indian publicly traded enterprises. Accounts Payable and Accounts Receivables, a metric of Working Capital Management and Return on Capital Employed, a measure of financial performance was taken from the annual reports and 14 firms between 2014 and 2023. The obtained data were analyzed by employing both Fixed Effect Model and Random effect Model using panel data estimate strategies. The findings of the research suggest that one of the most important factors that determine the profitability of service-oriented businesses that are publicly traded in India is how well the working capital is managed. Businesses in India should make it a top priority to develop and apply efficient practices for managing their working capital if they want to improve their overall performance. In addition, the management of service firms needs to make certain that the amount of time taken to pay back creditors is increased; doing so would be beneficial for increasing service companies' overall performance.

Keywords: Publicly Listed, Financial Performance, Annual Report, Fixed Effect Model and Random Effect Model

1. Introduction

Managing working capital has been a concern for organizations since the beginning of time, and it is regarded as one of the most prevalent issues. Regardless of whether the company in issue is public or private, WCM is a crucial metric for assessing the financial health of a business (Abbas and Isiaka 2021). A sizable amount of a company's operating capital is comprised of WCM in addition to other non-current assets like real estate, buildings, plant, and equipment, and so forth.

According to Umenzekwe et al. (2021) in the business world, working capital refers to the money that a company has on hand to carry out its operations daily. WCM can also be thought of as operational capital. The net current assets of a corporation are what are used to calculate working capital. According to Nguyen et al. (2020) research, WC is the primary factor that contributes to the success of any given business. In a similar vein et al. (2020) define WC as the resource that is required daily by an organization in order to convert raw materials into finished goods that can then be sold to end consumers. According to Demireli et al. (2019), for a company to achieve long-term success and sustainability, management needs to take workplace culture very seriously.

India's publicly traded companies are successful due to the efficiency and effectiveness of their finance departments, including their WCM. According to Gitman and Zutter (2014) a cash management program is one that enables an organization to meet its immediate obligations. The goal of WCM is to create a stable balance between a company's assets in order to ensure enough cash flow for short-term obligations in the future.

The significance of effective WCM for the performance of publicly traded companies in India cannot be overstated. The profitability of a firm, together with its operational efficiency and financial

performance, may be positively impacted by enhancing its working capital management capabilities. According to Oke and Adeyemi (2017) assert that companies that effectively manage their working capital stand a better chance of achieving long-term growth as well as good returns on investment. This is so that the company would be in a better position to expand over time with properly managed working capital.

On the other side, if a firm performs a poor job of managing its working capital, it could impair the company's financial success. A high inventory level or a large accounts receivable balance can negatively affect cash flow and lead to decreased profitability and liquidity. A business may have an excess of inventory or receivables if it has an excessive amount of inventory. If the debtor is not able to fulfill its financial obligations, the excessive amount of short-term debt can similarly damage the reputation and credit rating of the organization.

Working capital management is primarily concerned with current assets, such as cash and inventory. WCM makes ensures that the company's commitments do not always go beyond the extent of its liquid assets. According to Ironkwe and Wokoma (2017) state that maintaining a sufficient balance between payables, inventory, and receivables is a prerequisite for WCM. Businesses' daily activities are impacted by this requirement.

Working capital management (WCM) is defined by Etale and Bingilar (2018) as the process of managing a business's assets and liabilities to reduce the likelihood that it won't be able to pay its present debts and to avoid acquiring unnecessary assets. This highlights the significance of efficient WCM, as research has shown that it significantly affects a company's profitability and financial performance (Hiram & Willy, 2017).

Furthermore, considering the conflicting results of previous research on the topic, a study is required to ascertain whether WCM influences the financial performance of publicly traded service companies in India. In addition to the literature review, the remaining sections include the research procedure, findings, discussion, and recommendations.

2. Review of Related Literature

Odiri (2016) suggests that a company should be able to maximize its liquidity and profitability by having a balance between its current assets and its current liabilities. Joseph and Amah (2016) state that when management can balance the business's immediate assets and debts in a way that guarantees it can pay all its short-term obligations when they fall due, that is when working capital management is effective.

The phrase "working capital management" (WCM) was first used by Tanveer et al. (2016) to describe the process of keeping an eye on a business's short-term assets and liabilities while avoiding overinvesting in the former. WCM is the act of overseeing an organization's "working capital." The goal of working capital management is to keep short-term assets and liabilities in a balanced and healthy proportion. This led to the development of this accounting style.

In terms of cash conversion, inventory turnover times, AR/AP cycle lengths, operational cycle lengths, and other metrics, Chen et al. (2016) believe that WCM is effective. According to Adamu and Hussaini (2015) suggest that the reason behind the creation of WCM objectives might be attributed to their direct influence on a firm’s financial viability and solvency.

Inventory conversion period, cash conversion cycle, times for collection and payment, AR and AP cycles, and net trading cycles are some of the aspects of WC management. The research's conclusions indicate that WCM is crucial to an organization's productivity and financial health.

Despite this assertion, not much study has been conducted to evaluate the potential influence of WCM metrics, such as accounts payable and receivable, on the financial performance of publicly traded service companies in India.

3. Financial Performance

The idea of financial performance can be defined and examined using a range of written resources. Odiri (2016) says that because financial ratios show connections between factors that may be found in yearly reports and accounts, they offer a more thorough study of a company's financial performance. A company's financial performance at the firm and market levels can be assessed using a variety of approaches found in the accounting literature, including Tobin's Q, share price value, return on invested capital, earnings per share, book value per share, earnings yield, and many more metrics.

The return on capital employed (ROCE) ratio was the only financial efficiency parameter used in this investigation. One of the best ways to assess how well a business is doing is to look at its return on capital employed (ROCE; Adamu & Hussaini, 2015). Divide operating income by total capital utilised to get return on capital employed, profitability metric. A higher return on capital employed (ROCE) is indicative of improved financial performance, according to Abbas and Isiaka (2021).

Akir and Kucukkaplan (2020) as well as Nguyen et al. (2020) claim that ROCE is a highly effective indicator of a company's performance and success. Although prior studies have linked WCM to the financial performance of organizations in both developed and developing nations, it is unclear whether WCM is a key factor of ROCE for publicly listed service companies in India. This does not alter the reality that WCM and financial performance are related. We developed a conceptual model of the research that may serve as a basis for estimating the empirical model of the study after taking all this information into consideration.

4. Research Methods

The research sample consisted of all non-financial companies that were listed on the National Stock Exchange (NSE) trading floor. In India's non-financial sector, there are seventy-five (75) publicly listed enterprises.

Additionally, the service companies that are publicly listed on the NSE were selected using a procedure known as stratified random sampling. As of December 31, 2023, twenty publicly traded service companies were listed on the NSE. Out of them, fourteen (14) were carefully selected based on inclusion and exclusion criteria.

The research team obtained the data for their analysis from the websites and annual reports of NSE-listed service companies between 2014 and 2023. Accounts Payable and Receivable were used to determine WCM, whereas Return on Capital Employed was used to measure financial performance. Considering all of this, the empirical model that was estimated for the study was as follows:

$$ROCE = f(ACPAY, ACREC) \quad \text{eq. 1}$$

$$ROCE_{it} = \delta_0 + \delta_1 ACPAY_{it} + \delta_2 ACREC_{it} + \varepsilon_{it} \quad \text{eq. 2}$$

The implicit (Equation 1) and explicit (Equation 2) versions of the study's regression model are displayed below. Where AP and AR are the accounts payable and receivable terms in days, ROCE is the return on capital employed, ε_{it} is the error term, and δ is the regression coefficient of the variables. WCM observations of AR and AP are the independent variable, and financial results are the dependent variable.

Panel data were gathered for Indian companies that are listed on stock exchanges from 2014 to 2023. The data analysis was done using a panel data estimate method that incorporated both

Fixed and Random Effect Models. Statistical techniques including descriptive, inferential, and diagnostic were applied throughout the analysis. The Variance Inflation Factor (VIF), heteroscedasticity, minimum and maximum values, kurtosis, Pearson correlation, and regression using the Fixed Effect Model and Random Effect Model were among these techniques. According to the a priori hypothesis, if the WCM measurements improve by one unit, service organizations in India can predict a similar one-unit rise in their financial performance. On the presumption that WCM measurements have been becoming better over time, this prediction is made.

5. Results

Table 1: Descriptive Statistics

Statistics	ROCE	AP	AR
Mean	2.510	389.55	167.83
Median	4.575	185.39	95.065
SD	16.288	66.091	90.656
Min.	-92.690	0.000	0.510
Max.	45.560	289.6	866.990
Kurt.	20.011	20.482	6.9616
Skew.	-3.373	4.0136	2.0992
Obs.	138	138	138

Source: Author Source, 2024

Table 1 provides a summary of the descriptive statistics for ROCE as well as the two independent variables (AP and AR) for the sample of listed service businesses that were conducted in India from 2014-2023. It was discovered that AP had the greatest mean, which was 389.55, followed by AR, which had 167.83, and their respective medians were 185.39 and 95.065. Since the WCM measures were presented in days, this is to be expected. Therefore, according to this finding, all other factors being equal, the average number of days for payable and receivable accounts for the listed service companies in their inventory are 390 days (AP) and 168 days (AR).

The dispersion was greatest for AP (66.001), while it was at its lowest for ROCE (16.288). According to the standard deviation, the financial performance indicator varied by over 16% on average throughout the period of analysis. The minimum for AP is set at zero, while the minimum for AR is set at 0.51. This indicates that the number of days it would take some listed service firms to pay their inventories is zero, while the number of days it would take to receive receivables is twelve.

In addition, the values of skewness for the WCM measures of AP (4.013) and AR (2.099) are both positive, except for ROCE (3.373), which has a negative value. This finding suggested that all the WCM measures went in the same direction, except for ROCE, which moved in the opposite direction of the WMC measures that were investigated in this study. In addition, the kurtosis values for ROCE (20.011), AP (20.482) and AR (6.9616) all had a kurtosis value that was larger than 3, which is a sign of a leptokurtic distribution. A leptokurtic distribution is a distribution that has the potential to raise the possibility of a tremendously poor performance by service organizations in India.

Table 2: Pearson Correlation Result

Statistics	ROCE	AP	AR
ROCE	1.000		
AP	-0.082	1.000	
AR	-0.190	0.768	1.000

Source: Researcher Compilation, 2024

Table 2 presents the results of the analysis of the correlation between the dependent and independent variables about the service companies that are publicly traded in India. All the WMC measures, including AP (r = -0.082) and AR (r = -0.190), were shown to have a negative correlation with performance measures (ROCE), as the investigation's findings demonstrated. According to these findings, the Return on Capital Employed (ROCE) for publicly traded service companies in India has a negative correlation with WCM indicators (AP and AR).

Table 3: Result of the Variance Inflation Factor (VIF)

Parameters	VIF	1/VIF
AP	1.43	0.302
AR	1.43	0.302
Mean VIF	1.43	

Source: Researchers' Compilation, 2024

Table 3 displays the results of the multicollinearity test that was conducted on the NSE-listed service providers that were included in the sample. Since the mean VIF (1.43), which is less than the conventional mean VIF benchmark of 10, the panel dataset satisfies one (1) of the axioms of panel linear regression. This is because the fact that there is no multicollinearity disadvantage in the model of WCM and service providers' performance in India implies that there is no multicollinearity disadvantage. In addition to this, there was not a single correlation coefficient that was greater than 0.8 (Gujarati, 2003; cited in Okoro & Ekwueme, 2021 and Okoro & Ihenyen, 2020), which indicates that no two variables were perfectly related with one another.

Table 4: Breusch-Pagan/Cook-Weisberg Test for Heteroscedasticity

F-Value	65.33
Prob. F	0.000

Source: Researchers' Compilation, 2024

According to the findings of the statistical study, the Breusch- Pagan/Cook Weisberg F-value is 65.33 and there is a probability that is more than F, which is 0.000. According to this conclusion, which is significant at the 0.05% level, there does not appear to be any evidence of heteroskedasticity in the variables that were investigated. In addition to this, it is quite likely that the panel dataset does not demonstrate unequal variance. This result also satisfies an additional tenet of the linear panel regression methodology.

Table 5: Impact of WCM Measures (AP and AR) and Financial Performance (ROCE) of the Publicly Listed Service Companies

Estimator(s)	Fixed Effect (FE)		Random Effect (RE)	
Variable(s)	Coefficient	Prob.	Coefficient	Prob.
AP	0.002 (0.870)	0.388	0.030 (1.190)	0.236
AR	-0.025 (-2.270)	0.025	-0.026 (-2.350)	0.019
Constant	5.895 (3.140)	0.002	5.638 (3.020)	0.003
F-value	3.470			
F-Probability	0.034			
R^2 (within)	0.053			0.052
R^2 (between)	0.080			0.028
R^2 (overall)	0.045			0.046
Wald $Ch^2(3)$				6.470
Prob. Ch^2				0.039
Hausman Test	Chi2(2) = 9.41		Prob>Chi2= 0.000	

Source: Researchers' Compilation, 2024

Table 5 illustrates the financial performance (ROCE) and WCM metrics (AP and AR) of publicly traded service companies in India. According to the findings of the RE, the coefficient for AP is 0.0308, which indicates that the changes in ROCE brought about by the sampled service companies in India's AP will amount to around 3.08% (rise). In addition, the AR value of (-0.0266) will result in changes in ROCE of around 2.66% (a reduction); this condition is comparable to the one that was reached in the FE result.

In addition, the findings of the t-test performed on AP indicated that this component has a positive and minor influence on ROCE (t = 0.87; prob. = 0.388). On the other hand, it was demonstrated that AR has a negative and significant effect on the ROCE of publicly listed service businesses in India (t = -2.27; probability = 0.025).

The overall coefficient of determination (R^2) for FE is calculated to be 0.0454, whereas the overall coefficient of determination (R^2) for RE is calculated to be 0.0464. This indicates that the WCM measurements, taken as a whole, were responsible for approximately 4.64 percent of the variance in ROCE. The findings of the Hausman test indicate that FE is superior to RE in terms of

effectiveness (Prob> Chi^2 = 0.000). As evidenced by F = 3.470 and prob. Chi2 = 0.039, WCM (AP and AR) had combined major impacts on the financial performance (ROCE) of publicly listed service organizations in India. This was the case since WCM was responsible for both ACs.

In conclusion, the findings suggest that service providers in India could potentially gain financial benefits from increasing the number of days that it takes debtors to repay their debts. It is consistent with the findings of Abbas and Isiaka (2021) and Akir and Kucukkaplan (2020) to find that WCM influences financial performance.

6. Conclusion and Recommendations

When it comes to the bottom line, it is realistic to predict that the practices of a company regarding the management of its working capital will have a significant influence on the success of any modern corporation that comes into possession of a significant amount of cash on hand. Because the procedures that an organization uses to manage its working capital are directly tied to the firm's ability to make profits, this is the case. Although this may be the case, certain businesses have only a very small amount of cash invested in their working capital. This may or may not affect the financial outcomes of the company, depending on the circumstances. Because these two points of view are opposed to one another, the purpose of this research was to determine whether the efficient management of working capital plays a role in the financial success of publicly traded service firms in India.

In the simplest terms, the efficiency with which publicly traded companies in India manage their working capital is an essential variable that organizations achieve. Businesses that can properly manage their working capital often see improvements in their bottom lines, as well as gains in their profitability, decreases in their operational expenses, and overall improvements in their financial standing. Consequently, for Indian businesses to achieve long-term growth and profitability, they must apply successful procedures to manage their working capital. This is to ensure that they can reach their goals.

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