

## **WORKING CAPITAL DYNAMICS AND FINANCIAL PERFORMANCE: A QUANTITATIVE STUDY ON MANAGERIAL PERCEPTION ON CHENNAI- BASED FIRMS**

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### **ABSTARCT:**

This study investigates the relationship between working capital management (WCM) and profitability, focusing on how the effective management of cash, receivables, and payables contributes to a firm's financial performance. In today's competitive business environment, maintaining optimal levels of current assets and liabilities is essential for ensuring liquidity and profitability. Data were collected from 398 managerial executives in Chennai, and Structural Equation Modeling (SEM) was used for analysis. The results reveal that cash and receivable management significantly influence WCM. Furthermore, a strong positive relationship was found between WCM and enhanced profitability, underscoring the importance of efficient management of current assets and liabilities. The findings suggest that firms prioritizing liquidity, timely collection, and optimal resource utilization can improve their financial performance. By optimizing working capital components, firms can strengthen financial stability and boost overall profitability. The study offers practical insights for financial managers and policymakers seeking to enhance operational efficiency and long-term sustainability through strategic working capital practices.

**Key words:** Cash management, payable management, receivable management, working capital management, profitability

### **1.INTRODUCTION:**

Working capital management is a critical aspect of corporate financial management, directly influencing a firm's liquidity, operational efficiency, and overall financial performance. It involves managing short-term assets and liabilities to ensure a company maintains sufficient cash flow to meet its short-term obligations. An efficient working capital strategy enables firms to minimize financing costs while maximizing profitability. In emerging economies like India, where business environments are often volatile and access to capital is constrained, working capital decisions become even more significant.

Chennai, being one of India's major industrial and commercial hubs, hosts a diverse range of firms across sectors such as manufacturing, IT services, automotive, and SMEs. Despite advancements in technology and financial practices, many Chennai-based firms face challenges in managing working capital effectively due to factors like market fluctuations, delayed receivables, inventory management inefficiencies, and supplier constraints. Managerial perception plays a vital role in determining working capital policies, influencing decisions around cash conversion cycles, credit terms, and inventory turnover.

This study aims to quantitatively assess the perception of financial managers in Chennai-based firms regarding working capital dynamics and its effect on their firm's financial performance. By integrating managerial perspectives with financial metrics, the research provides a holistic view of how strategic working capital management can drive profitability and sustainability. The study also attempts to fill gaps in existing literature by focusing on firm-level insights from an urban Indian context, which remains under-explored.

WCM is one of the most critical components of a company's financial management (Uguru et al., 2018). It involves all decisions related to handling current assets and liabilities, including determining the ideal levels of cash, accounts receivable, inventory, and short-term liabilities, while maintaining a proper balance between them (Abuzayed, 2012). Working

capital represents the funds allocated for short-term use in business, typically within a one-year period. It serves as an indicator of a firm's operational efficiency and short-term financial stability.

It reflects the company's ability to cover its short-term obligations using its current assets. The funds are essential for managing daily operational costs and maintaining inventories such as raw materials, spare parts, consumables, work-in progress, finished products, and covering overdrafts. Working capital plays a crucial role in sustaining a firm's operating cycle (Rawat & Dave, 2017). WCM is an area of interest that has been widely covered by academia to postulate a firm's profitability (Mbawuniet al.2016). Profitability is often influenced by how effectively a company manages its components of working capital. Company's ability to generate earnings over its cost is influenced not only by revenue generations but also by efficient use of available resource.

Effective management of working capital enables firms to optimize their production and sales processes leading to higher revenue generation and improved profit margins. Therefore by implementing sound WCM strategies businesses can reduce costs increase operational efficiency and ultimately boost profitability, thereby driving overall financial performance Dang and Nguyen (2020). In the current competitive business environment, firms are under constant pressure to improve performance and maintain financial stability. This study aims to analyse the impact of working capital management on profitability by examining how key working capital components influence the financial performance of firms. By understanding the link between WCM and profitability, businesses can develop better financial strategies to enhance efficiency, reduce risk and increase shareholder value. The findings of this study are expected to provide valuable insights for financial managers, investors and policy makers interested in improving firm performance through optimal working capital practices.

## **2. REVIEW OF LITERATURE:**

The extensive body of literature on Working Capital Management (WCM) in India and globally underscores its pivotal role in enhancing firm performance, ensuring liquidity, and sustaining profitability across various sectors. Altaf and Shah (2023) emphasized that efficient WCM is particularly vital for firms facing financial constraints, as it supports operational continuity and profitability. Similarly, Kumar and Singh (2022) noted that SMEs in urban centers like Chennai significantly benefit from shorter inventory cycles and streamlined receivables, which contribute to improved financial performance. In the broader South Asian manufacturing context, Chowdhury and Amin (2022) found a strong positive correlation between shorter cash conversion cycles (CCC) and firm profitability, highlighting the operational efficiency dimension of WCM. Ravindran and Balasubramanian (2021) introduced a behavioral perspective, asserting that the perceptions and risk appetites of financial managers influence strategic working capital decisions, particularly in volatile business environments.

Post-pandemic analyses by Mitra and Sharma (2021) showed that firms employing aggressive WCM strategies experienced enhanced market valuations, indicating the strategic importance of agile capital structuring. Sasidharan and Menon (2020) further argued that industrial structure and capital intensity influence the WCM-performance relationship, necessitating sector-specific capital management approaches. Within the SME sector, Dutta and Banerjee (2020) highlighted the profitability implications of efficient inventory turnover and receivables collection. Raghunathan (2019) observed that large corporates in metropolitan areas benefit from reduced CCCs, translating to higher profit margins. In the service sector, Joshi and Kiran (2019) linked strategic WCM to revenue growth and

scalability, especially in IT and BPO firms. Patel and Nair (2018), through a Chennai-based case study, shed light on the contextual and behavioral aspects of WCM, emphasizing how local culture and managerial attitudes influence financial decision-making.

Expanding beyond India, Mandipa and Sibindi (2022) analyzed South African retail firms and found a negative association between profitability and CCC components such as Days Sales Outstanding (DSO), Days Inventory Outstanding (DIO), and Days Payable Outstanding (DPO), confirming that WCM significantly impacts financial performance. Upreti and Kulshrestha (2022) stressed optimizing the CCC to enhance operational efficiency and mitigate financial risks, advocating for delayed payables and quicker receivables as strategies to boost profitability. Ares et al. (2021) observed a non-linear (curved) relationship between inventory levels and firm earnings among Spanish firms, suggesting a need for optimal inventory management. Han (2021) supported the view that proper handling of accounts receivable and payable is crucial for maintaining both liquidity and profitability. Kisanyanya (2020) reinforced the strong connection between WCM practices and financial outcomes, while Ojha (2019) identified a negative relationship between profitability and both DSO and DPO, but a positive one with the current ratio (CR). Maheshwari's (2017) longitudinal study of HPCL further corroborated a positive link between liquidity and profitability, along with a notable relationship between risk and profit.

Earlier studies, such as Atseye et al. (2015), warned against both underinvestment and overinvestment in current assets, arguing that such extremes negatively impact performance by disturbing the balance between liquidity and profitability. Azeem and Marsap (2015) echoed the need for balancing operational and financial strategies, especially during economic turbulence, as observed in the Pakistani context. Lastly, Sany et al. (2023) reaffirmed the importance of managing CCC components—DSO, DIO, and DPO—to maintain profitability and operational smoothness. Collectively, the literature establishes that effective WCM is a multidimensional strategic function, deeply influenced by industry characteristics, managerial outlook, macroeconomic conditions, and regional contexts, with far-reaching implications for a firm's financial health and long-term sustainability.

### **3. OBJECTIVE OF THE STUDY:**

To examine the impact of working capital management on profitability of the companies.

### **4. RESEARCH METHODOLOGY:**

This study employed a quantitative research approach using structured questionnaires to collect primary data from 398 managerial executives in Chennai. Purposive sampling was adopted to ensure relevant respondents. Percentage analysis and SEM was used for data analysis to evaluate the relationships between the cash, receivable, payable management with working capital management and profitability ensuring statistical validity.

### **5. HYPOTHESES:**

The following are the hypotheses of the study

H1: Cash Management has significant positive impact on Working Capital Management.

H2: Receivable Management has a significant positive impact on Working Capital Management.

H3: Payable Management has significant impact on Working Capital Management.

H4: Working Capital Management has significant impact on Profitability.

## 6. ANALYSIS AND INTERPRETATION:

This section shows the detail explanation of the analysis and interpretation of the study. The following table explains the demographic profile of the managers of the companies in Chennai

**Table 6.1**  
**Demographic Profile**

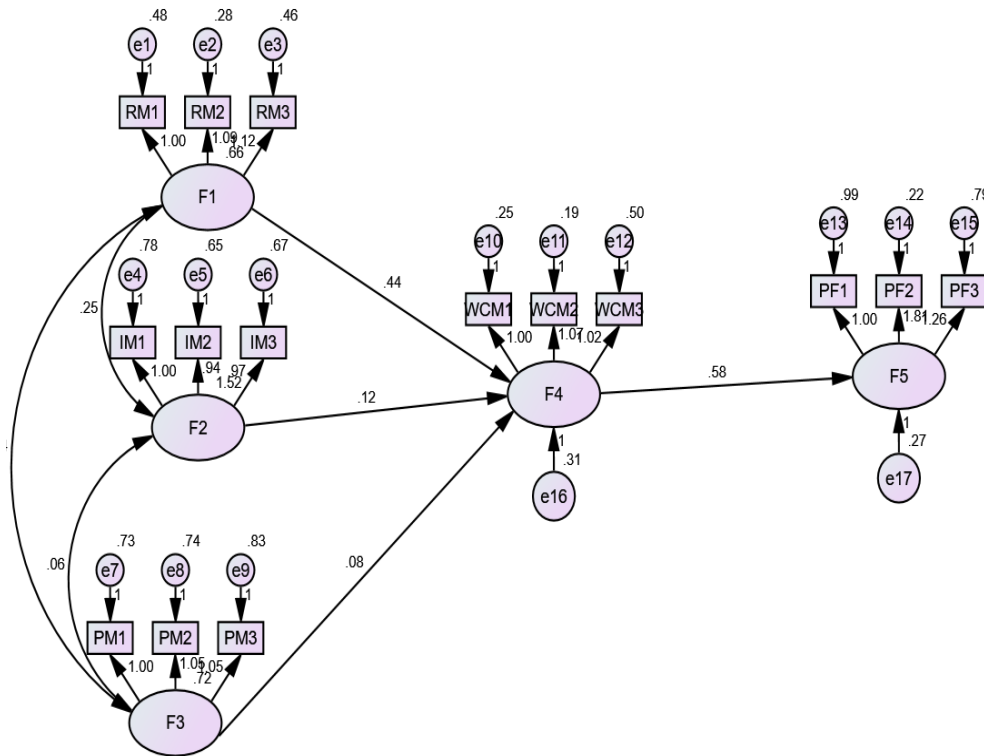
Demographic	Category	Frequency	Percentage
<b>Gender</b>	Male	211	53.02
	Female	187	46.98
	Total	398	100
<b>Age Group (years)</b>	25 – 34	98	24.62
	35 – 44	185	46.48
	45 – 54	64	16.08
	55 and above	51	12.81
	Total	398	100
<b>Years of Experience</b>	Less than 5 years	86	21.61
	5 – 10 years	197	49.50
	More than 10 years	106	26.63
	Total	398	100
<b>Educational Qualification</b>	PG	112	28.14
	CA/CMA	193	48.49
	Others	93	23.37
	Total	398	100

Source: Computed Source

The demographic profile of the managers revealed a balanced gender distribution with 53.02% are male and 46.98% were female participants. Most of the respondents (46.48%) fall within the 35 – 44 age group, suggesting a workforce in their prime working years, while 24.62% are aged 25-34 age group and smaller portion (12.81 %) are 55 and above, In terms of experience, nearly half (49.50%) have 5-10 years of work experience, indicating a well experience group, while 21.61 % have less than 5 years and 26.63% possess over 10 years of experience. Regarding educational qualifications, the majority (48.49%) are professionally qualified as CA/CMA, followed by post graduates (28.14%), reflecting a highly educate sample. The demographic composition suggests that respondents possessed both academic and practical knowledge making them well-suited to provide valuable insights.

The model represents the how the cash management receivable management and payable management influence proper working capital management and enhance profitability.

**Fig 6.1**  
**SEM Model of Working capital management impact on profitability**



**Table 6.2**  
**Validity**

CMIN.DF	1.957
GFI	0.950
AGFI	0.928

The CMIN/DF value is below 3, indicating a good model fit. The Goodness-of-Fit Index (GFI) and Adjusted GFI (AGFI) both exceed the recommended threshold of 0.90, confirming the model’s adequacy.

**Table 6.3**  
**Estimates**

	Estimate	S.E.	C.R.	P
Working Capital Management <--- Cash Management	.442	.052	8.468	***
Working Capital Management <--- Receivable Management	.119	.030	3.952	***
Working Capital Management <--- Payable Management	.076	.046	1.671	.095
Profitability <--- Working Capital Management	.583	.071	8.250	***

The structural model demonstrates a strong overall fit, as indicated by a Chi-square to degrees of freedom ratio (CMIN/DF) of 1.957, which falls well within the acceptable range (typically less than 3), suggesting that the model's hypothesized relationships closely mirror the observed data. Additionally, the Goodness-of-Fit Index (GFI) and the Adjusted Goodness-of-Fit Index (AGFI) are recorded at 0.950 and 0.928, respectively—both exceeding the conventional threshold of 0.90. These values reflect a robust model fit and support the validity of the structural relationships proposed.

With regard to the individual path relationships within the model, the findings reveal that both Cash Management and Receivable Management have statistically significant and positive effects on Working Capital Management. This underscores the critical role that efficient handling of cash flows and timely collection of receivables play in enhancing overall working capital efficiency. Conversely, Payable Management does not exhibit a statistically significant impact on Working Capital Management, suggesting that liabilities management may be less influential in driving working capital efficiency in this context.

Moreover, Working Capital Management is found to have a strong and statistically significant positive influence on Profitability, indicating that firms that effectively manage their working capital components are more likely to enhance their financial performance. This reinforces the strategic importance of optimizing working capital practices as a means of sustaining profitability and operational effectiveness.

## **7. CONCLUSION:**

The study concludes that working capital management plays a vital role in determining a firm's financial health and profitability. Effective WCM ensures that a company maintains optimal levels of current assets and liabilities, thereby reducing financial risk, improving liquidity, and supporting smooth daily operations. The findings show that firms with strong cash and receivable management practices tend to experience higher profitability. Efficient WCM shortens the cash conversion cycle, minimizes unnecessary costs, and enhances operational efficiency. Overall, the study highlights that profitability and WCM are closely interconnected. Companies implementing sound WCM strategies are better positioned to enhance financial stability, mitigate risk, and maximize shareholder value.

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