Abstract

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The Effect of Working Capital Management on the Financial Performance of Firms in Egypt

Working capital management is the management of current assets and current liabilities and it has an important role in any firm's success. Working capital management is measured by the cash conversion cycle (Number of Days of Inventory + Number of Days of Accounts Receivables – Number of Days of Accounts Payables). A relatively short cash conversion cycle implies an aggressive approach to working capital management whereas a relatively longer cycle represents a conservative one. It is important to monitor the cash conversion cycle and each of its components separately and to assess their effect on firm profitability. This thesis aims to determine the effect of working capital management on firm profitability of a panel data set for the most active 48 firms listed on the Egyptian stock market from 2003-2007. Then the data is extended to 2010 (including the period of the global financial crisis of 2008) and the effect of working capital management on firm profitability is analyzed again from 2003-2010. The measures of profitability used are the return on assets and gross operating income. Analysis is carried out using several statistical tools and techniques first, summary statistics is used to describe the data, and then correlation analysis is used to find the relationship among variables of the study. Fixed effect and random effect regression analyses are used according to the Hausman test. Then the regression analysis is repeated using ordinary least square regression. Finally, analysis of means is used to compare working capital management practices across industries. The results of the random effect regression analysis from 2003-2007 show that a conservative working capital approach increases profitability of firms in the sample, however the results are all insignificant. When the period of 2003-2010 was analyzed results indicated that a more aggressive approach to working capital management enhances firm profitability, however the results are still insignificant. Results of the ordinary least square regression show that firms in Egypt can increase profitability through having a longer cash conversion cycle.