Working Capital Management and Profitability of Manufacturing Firms in GCC Countries.

BY

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Abstract

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This study aims to investigate the relationship between management of the working capital and the profitability of (74) manufacturing firms listed on six stock exchanges of cooperation council for the Arab states of the gulf over the period of (2007 to 2012). Two measures are used for determining profitability. The first one is named "return on assets", while the other one is named "growth operating income". Within the same context, both cash conversion cycle and its components (average age of inventory, average collection period, average payment period) are used as indicators to determine the working capital management efficiency. Descriptive analysis, correlation analysis and panel of multiple least square regression methods were used to achieve the objective of the study. The results indicated that GCC manufacturing firms recorded a cash conversion cycle with an average of (75.54) days, while the longest cash conversion cycle was given in Basic Material industrial sector with
an average of (100.16) days, and the shortest cash conversion cycle was
given in food industrial sector with an average of (56.96) days.
Furthermore the results showed that there is a significant positive
relationship between working capital management and the firm
profitability calculated by the growth operating income of such firms, on
the other hand there is no statistical significance correlation between the
cash conversion cycle and its components in side and the profitability
calculated by return on assets on the other side.
The study recommends that managers of GCC manufacturing firms
should be more concerned about their firm's liquidity, and due to the
positive relationship between the average payment period and the
profitability calculated using growth operating income, managers of GCC
manufacturing firms should keep in mind that lengthening the average
payment period might harm the profitability of their firms in the long-run.

**Key Words:** Working Capital Management, Cash Conversion Cycle,
Profitability, GCC Manufacturing Firms.