Determinants of Working Capital Management

C. Siriopoulos a, E. Archavli b and S. Arvanitis c

ABSTRACT

Purpose: The purpose of this paper is to investigate the effects of the determinants of working capital on the efficiency, profitability and market value of firms.

Methodology: The research approach is based on the examination of 211 listed firms on the Athens Stock Exchange (ASE) for a period of six years from 2005 to 2010 and the application of linear regressions of panel data in order to examine the predetermined research hypotheses.

Findings: According to the econometric findings of the study, an increase in the number of days that companies collect and pay back bills affect negatively their profitability (expressed in gross operating profit). Thus as expected, profitability is negatively affected by increasing the cash conversion cycle and follows a similar relationship between profit-business obligations. On the contrary, the increase in business sales and the increase of fixed financial assets positively affect business profitability. Furthermore, outlined that the odds of companies' assets fall, as increase the cash conversion cycle, or the size of current assets in terms of current liabilities, or the short-term liabilities and total debt of companies. Moreover, the increase of current assets relative to total assets of firms has a positive influence on their efficiency. Finally, a similar (negative) relationship is observed between all the above financial ratios and the market value of the companies.

a University of Patras, S.M.E., Dept. of Business Administration, Rion, 26500 Patras, Hellas, tel +30-2610-997120 Email siriopoulos@upatras.gr.

b T.E.I. of Crete, S.M.E., Dept. of Accounting, MSc Accounting and Auditing, Corresponding Author Email. Elena.archavli@gmail.com

c T.E.I. of Crete, S.M.E., Dept. of Accounting, MSc Accounting and Auditing, Estavromenos, 71500 Heraklion, Crete, Hellas, tel. +30-2810-379674. Email starvan@staff.teicrete.gr
Limitations of the research: The main limitation of this paper is that in examining a non-random sample of listed firms does not allow for generalization of conclusions for all listed firms.

Originality: This paper provides new evidence on the effects of determinants of working capital on efficiency, profitability and market value of listed firms in the ASE.

Keywords: Working capital management, Cash conversion cycle, Athens Stock Exchange