

Working Capital Management and Profitability of Uk Firms: A Contingency Theory Approach

Authors : Ishmael Tingbani

Abstract : This paper adopts a contingency theory approach to investigate the relationship between working capital management and profitability using data of 225 listed British firms on the London Stock Exchange for the period 2001-2011. The paper employs a panel data analysis on a series of interactive models to estimate this relationship. The findings of the study confirm the relevance of the contingency theory. Evidence from the study suggests that the impact of working capital management on profitability varies and is constrained by organizational contingencies (environment, resources, and management factors) of the firm. These findings have implications for a more balanced and nuanced view of working capital management policy for policy-makers.

Keywords : working capital management, profitability, contingency theory approach, interactive models

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