

Impact of Working Capital Management Strategies on Firm's Value and Profitability

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Abstract : The impact of aggressive and conservative working capital's strategies on the value and profitability of the firms has been evaluated by applying the panel data regression analysis. The control variables used in the regression models are natural log of firm size, sales growth, and debt. We collected a panel of 13,988 companies listed on the Korea stock market covering the period 2000-2016. The major findings of this study are as follow: 1) We find a significant negative correlation between firm profitability and the number of days inventory (INV) and days accounts payable (AP). The firm's profitability can also be improved by reducing the number of days of inventory and days accounts payable. 2) We also find a significant positive correlation between firm profitability and the number of days accounts receivable (AR) and cash ratios (CR). In other words, the cash is associated with high corporate profitability. 3) Tobin's analysis showed that only the number of days accounts receivable (AR) and cash ratios (CR) had a significant relationship. In conclusion, companies can increase profitability by reducing INV and increasing AP, but INV and AP did not affect corporate value. In particular, it is necessary to increase CA and decrease AR in order to increase Firm's profitability and value.

Keywords : working capital, working capital management, firm value, profitability

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