

**WORKING CAPITAL MANAGEMENT AND CORPORATE CASH  
HOLDING, A COMPARATIVE ANALYSIS OF CONVENTIONAL  
AND ISLAMIC BANKS IN PAKISTAN.**

**By:**

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**NATIONAL UNIVERSITY OF MODERN LANGUAGES  
ISLAMABAD**

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**NATIONAL UNIVERSITY OF MODERN LANGUAGES,  
ISLAMABAD**

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Discipline; **FINANCE**

Candidate of “**MASTER OF SCIENCE IN BUSINESS ADMINISTRATION**” at the National University of Modern languages do hereby declare that the thesis “**WORKING CAPITAL MANAGEMENT AND CORPORATE CASH HOLDING, A COMPARATIVE ANALYSES OF CONVENTIONAL AND ISLAMIC BANKS IN PAKISTAN**” Submitted by the researcher in partial fulfillment of MS. Degree, is my original work, and has not been submitted or published earlier. I also solemnly declare that it shall not, in future, be submitted by the researcher for obtaining any other degree from this or any other university or institution.

I also understand that if evidence of plagiarism is found in my dissertation at any stage, even after the award of a degree, the work may be cancelled and the degree revoked.

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Date: \_\_\_\_\_



## THESIS AND DEFENSE APPROVAL FORM

The undersigned certify that they have read the following thesis, examined the defense, are satisfied with the overall exam performance, and recommend the thesis to the Faculty of Management Sciences

Thesis Title: WORKING CAPITAL MANAGEMENT AND CORPORATE CASH HOLDING, A COMPARATIVE ANALYSIS OF CONVENTIONAL AND ISLAMIC BANKS IN PAKISTAN.

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This thesis has been read by the researcher and has been found to be satisfactory regarding content, English usage, format, citations, bibliographic style, and consistency, and thus fulfills the qualitative requirements of this study. It is ready for submission to the Faculty of Advanced Integrated Studies and Research for internal and external evaluation.

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Signature

**Dr. Alam Rehman**

Date: \_\_\_\_\_

## DEDICATION

I, dedicate this thesis to my respected parents and especially to my beloved father, who is a real source of inspiration to me, because of his learner ship, conduct, honesty, dedication towards his profession, way of living and norms of customs. No doubt due to special blessings of **ALLAH** and prayers of my parents today I am able to complete the study in a prestigious manner and splendid way.

## **ACKNOWLEDGEMENT**

I would like to acknowledge the efforts put in by my supervisor Dr. Alam Rehman, who besides his over committed routine taught in an exemplary manner about research and helped the researcher a lot to complete this document. I consider myself lucky enough to have dedicated teachers including respected Dr. Alam Rehman. At the end I would like to mention, for enough support of my elder brother who has always supported me zealously to complete my Master of Science.

## **ABSTRACT**

This study was conducted in order to understand the impact of Working capital management on corporate Cash Holding in the context of conventional and Islamic banks in Pakistan. Working capital is the life blood for all types of businesses. In this study the panel data is used for 31 banks, in which 24 banks are conventional and 7 banks are Islamic banks. In this study the data was collected from the annual reports of both conventional and Islamic banks for the period of 2011 to 2017. The data was analyzed through various statistical techniques such as correlation, Fixed effect model, Random effect model.

The results of all the above statistical techniques demonstrated that the proxy of Working capital management such as cash Flow ratio (CFL) has positive insignificant effect on the corporate Cash Holding of conventional banks in Pakistan. The study also confirmed positive significant effect of both firm Size and firm leverages on the corporate Cash Holding of conventional banks.

The study has also predicted very similar results for Islamic banks portfolio. In this regards, the results have shown positive, but insignificant effect of cash flow ratio (CFR) on the corporate Cash Holding of the Islamic banks. The results have also confirmed the positive significance effect of control variables such that firm Leverages and firm size on the corporate Cash Holding of the Islamic banks portfolios. The study has also certain managerial implications for both policy makers and investors. The study has highlighted the importance of Working capital management in managing corporate Cash Holding for the management of both conventional and Islamic banks in Pakistan.

**Keywords:** Working capital management, Cash holding, Cash Flow Ratio.



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# CHAPTER 1

## INTRODUCTION

### 1.1 Background of the study

In the environment of today's business concern it is quiet necessary for the management of any business firms to utilize the Working Capital in a highly impressive and progressive way for the achievements of their goals and objectives. In business perspective it is very important for the management to manage their resource in highly efficient way to produce high gaining and uniform liquidity for the firms operating in a business environment. The importance of Working Capital management should be managed by using all types of resources in an efficient way. The Working Capital management is a uniform way of handling all such types of activities like operational and financial activities for the basic implementation of their rules and policies of all types of business firms and Companies. The Working Capital management is the best way to properly understand and managed the firms or Business Current assets and Current liabilities. The Working Capital is all about the difference between the firm's Short terms assets and short term liabilities. Working Capital management is a business strategy designed in order to predict and analyze that the company or firms operates in smooth and effective manner by properly monitoring and utilizing the available short term assets and short term liabilities to the best possible outcomes. Working Capital is a major part of any firms or business mainly composed of firm's Current assets minus firm's Current liabilities. The Working Capital is the most important part of Working Capital management. The management of Firms or companies may focus precisely on the

utilization of Working Capital to the best possible outcomes.

The Working capital, also known as net Working Capital (Net Working Capital), is the difference between a company's Current Assets, such as cash, accounts receivable (customers' unpaid bills) and inventories of raw materials and finished goods, and its Current liabilities, such as accounts payable. Net operating Working Capital is a measure of a company's liquidity and refers to the difference between operating Current assets and operating Current liabilities. In many cases these calculations are the same and are derived from company cash plus accounts receivable plus inventories, less accounts payable and less accrued expenses. Working Capital is a measure of a company's liquidity, operational efficiency and its short-term financial health. If a company has substantial positive working capital, then it should have the potential to invest and grow. If a company's Current assets do not exceed its Current liabilities, then it may have trouble growing or paying back creditors, or even go bankrupt.

Cash holding may be defined as Cash in hand over or in bank that can be easily available to purchase assets, products and to distribute among the investors.

According to Brigham & Houston, (2003), that the profitability and liquidity of any business may depends upon the way in which the Working Capital as programmed and managed. So it is very important in order to investigate the practices of Working Capital specially in banking sectors in Pakistan.

In a highly competent perspective view Working Capital management is the most important and necessary part of Working Capital management in the way of process in which the managing of the short term assets and short term liabilities is very important and necessary to accommodate more bitterly for the management in all type of business

firms. Which will reflect more responsibilities for the management to arrange the Working Capital to the best and at least possible outcomes and cost and also to accommodate of the capital more efficiently at low possible cost margin.

The word Working Capital can be defining as the entire business firm which performed investment in Current assets. The Working Capital management is all about the efforts of the management towards the most progressive utilization of firm's Current assets and Current liabilities. The Working Capital is all about the difference between the short term asset and Current liabilities. In other way the Working Capital management also reflect that that firm must have a sufficient profitability and liquidity in order to fulfill and satisfy the current expenses and Current liabilities.

Working Capital management reflects all the business strategies of any business firms which can clearly explains the best and efficient utilization of both Current assets as well as Current liabilities. The main and basic objective of Working Capital management is that the company should have a sufficient amount of cash in order to manage its current occurring cost and also able to pay their short term debts. The Working Capital of any firm reflects the sum of total Current assets minus the sum of total Current liabilities.

The Current assets composed of such things that can be easily transferred into cash within a year, which can be concluded as company's most highly liquid assets. The Current assets mainly comprised of cash, accounts receivable, inventory, and short-term investments. Its quiet important for the management of the company to ensure to maintain sufficient cash flow by properly monitoring the company's Current assets and liabilities for better understanding of the working capital.

The process of Working Capital management is mainly composed of three tracking ratios

which are inventory ratio, Net Working Capital ratio and also the Net CR ratio. With the help of these above three ratios it will be quite helpful for the management to manage the Working Capital in a highly efficient way. These ratios can be used in order to demonstrate the actual analyses of Working Capital management to best possible outcomes by ensuring that the firms have sufficient Current assets over excess of Current liabilities. The firms or company will be in better position if they have sufficient Current assets to pay for their Current liabilities which will clearly indicate that the firms or company has strong financial position. Those firms or company which has a huge amount of Current assets over Current liabilities will be quite able to perform their business activities in a highly accurate and efficient way and also have no threat towards business loss and collapsing. Current liabilities are mainly composed of short period operational expenses and short-term account payable which are due on the firm to pay within a year. The following are some components of all assets and all liabilities which form the structure of Working capital. The Assets of the firms are the Debtors, Current assets, Cash and Bank Balance, Accounts Receivables etc are the parts of All Firms Assets. The All liabilities of the business may have concerned with Current liabilities, Creditors, Accounts Payable, unpaid Expenses, and Bank pay overdraft etc. The income of business may be includes Running Working capital, Accrued Income, Short-term Loans, Proposed Dividends and also Inventories turnover, Work-in-progress, Finished Goods are the such parts of working capital structure.

If Current assets and liabilities plays the role of eclectic current in a business, then Working Capital have the role of heart in it. Working Capital funds are created and use in the business. Firms will become bankrupt if they do not use it. It plays the role of life



blood for all type of firms or companies. For this purpose, the Working Capital (Working Capital cycle) which enables the company to earn their money in cash by disposing of their shares in a market and also their borrowings and gains from operations. The Cash or money in hand is the only way to directly purchase long term assets, raw materials and also utilized to pay accounts payables. Raw material contains direct, indirect and Factory overhead expenses are also paid through cash, which results in producing finish goods available for sale

For any business firms of any type of size may different their cash position in hand for their business operations. Those firms which are operating in a Large scale operation may contain larger amount of cash in their hand for their day to day operations while on other hand those firms which operates in small scale will hold small amount of cash in hand. This study oriented a different view about Working capital and its relationship with cash holding of the firms. The study also highlighted the significance of WCM in way of holding cash of the financial institutes like Banks. It was also found that Accounts Receivables turnover mainly positively contributes to the firm cash holding which directly impacts on the firms gaining ratios. A lot of many others ratios also have shown great positive relationship with the firm's cash holding position of the banks. The study also gives a great view for the positioning of Cash handling for the banks which meets best possible outcomes and business requirements for the banks. The study further stated that it is highly important for any financial institutes or firms to better perform their business activities by keeping in mind about to handle their cash in both short run as well as in long run. Those banks or financial institutions will survive bitterly which are able to utilize their resources in a highly efficient and effective way by proper monitoring of this

cash handling activities. Sometimes due to the lack of financial constraints a firm or business may face some issues like financial discrepancies, so a firm must confirm the financial requirement for best possible outcomes and also for better handling of business operations and business activities. so firms especially small firms they may keep in mind about such types of certain situation occurs like financial as well as operational activities. So in order to full all the requirements of business operations the firms will be have requires excess amount of cash in hand. on other side The large scale operational firms must keep cash in reserve in the proportion of low amount of cash in order to protect the firm's financial distress due the economies of scale.

A smooth operating cycle is one of the major aim of Working Capital management in order to ensure a best possible cycle that may not be taken for the purpose of uniform liquidity maintenance for the purpose of creating the availability of stock materials, remuneration payments and also for paying taxes etc. The working capital is the way of generating the high gaining power for any business firms or company in order to gain the objective of the smooth operating cycle, its quiet necessary that the managers must keep in mind in view the requirement of Working Capital at the lowest possible outcomes. Which is to be achieved by giving favorable credit turnovers to both account receivables and account payable, best production facilitation cycles, more proactive skills of management for inventory control systems etc.

For any business firm it is quiet necessary and important for the, management to properly manage and study the expense of all capital interest which is one of the important and basic huge costs for a business or firms. So it is very key point for the managers of all set of the any business/ firm to elaborates properly well and properly to all types of

financial institutions, select the right mode of finance, maintain optimal capital structure etc.

In most of the firms or businesses, it must have a different liquidity situation, sometimes it exceeds at one stage and minimize at some another stage. This happens mostly with seasonal industries. When a firm have excess liquidity, it will be the best possible opportunity for the management to gain short-term investment avenues to take benefit of the idle funds.

The managing of Working Capital in a best way is quiet important for the firm to maintain the fundamental financial position and also operational activities in a firm's operations. The best of hallmark best practical business operational activities management is taken for the purpose to able the firm to greatly utilize its Working Capital management in a uniform way to maintain a best possible equality amongst the all growths, uniforms gains and perfect liquidity level.

Sanjay Borad (2003) says that the management of Current assets and Current liabilities are basically are the part of Working Capital Management. In simple words the difference between Current assets and current liabilities is the mainly equity of Working Capital of all firms. Therefore, effective Working capital management means that the business has enough capital to fulfill its short term debts and expenses. For each and every business firms and company the Working Capital management is mainly composed of Proper managing of inventory system, operational cycles, procedures of accounts receivables and accounts payable. The above procedures and system are the best focus for the management to deal in a highly corporate and effective measure in order to get better success in the life of business circumstances. This types of systems will generate more

profit for the firm in order to achieved their goals and objectives of the business to deal in a highly comparative environment in the modern business race of competency.

For the purpose of achieving best possible outcomes through proper managing of Working Capital, it's quite necessary for the management to follow all descriptive steps and procedures in order to decrease the cost of operations to the minimum extent by proper allocating of operational cycles of Working Capital management to the best possible achievements about the profit and return of the business.

Broadly speaking, apart from Current assets and Current Liabilities Working Capital management also includes Working Capital financing. It also oversees the effective utilization of capital. Borad emphasizes its use in every type of business for which the Working Capital management is a routine activity unlike capital budgeting decision. This can be affected by mismanagement at any level. The following points signify the importance of Working Capital Management. The High capital return must be ensured.

- Must Developed high profile Credit policies.
- The Profitability index must be increased.
- Higher Liquidity Ratio.
- Must to adopt Appreciation for Business Value.
- High standard of Financing Terms and conditions
- Free Production development environment.
- Readiness for Shocks and Peak Demand.
- Get better competitive advantages over Competitors.

A Working Capital is the day to day process used by a business to performed daily operations by means of which Working Capital is demonstrated as the difference between

a business's Current assets and Current liabilities or debts. Working Capital is the right way through which for a company efficiently operates its functionality and how to accomplished a financial stability of business firms in a limited-terms. According to Working Capital ratio, which the Current assets divides by Current liabilities, it will clearly predict about the company status whether a company has adequate cash flow to cover short-term debts and expenses.

For every business the Working Capital is necessary every time for the business operations because they require a specific continuous and regular amount of cash to pay daily payments, accumulate unproductive costs, and purchase basic materials used in the production of goods.

A lot of study has been carried out by the researcher about WCM and CH from various perspectives in a different environment. These researchers have used different types of work taken in order to predict that how WCM impact on the corporate CH by predicting various variables which greatly defines the study of the research thesis. Many researchers also tried in order to analyzed that what type of relation exist between WCM and corporate CH of various financial firms. Most of the below mentioned researcher work in this field will be quite fruitful and beneficial for our research study.

In this context the Autukaite and Molay (May 1, 2011) have predicts about the reliability of WCM theories and scenarios through which it can be possible to identify main components of working capital, can be taken as a all the essential concepts for the management to properly managed the account receivable, managing of inventory systems and also payout ratios with the help of which management can get the most possible and respective proxies about the average periods of receivables, conversion

ratios of inventory and also the payment average period ratio. when theories are taken about to study the components of WCM in a sense of philosophically view that it can be more importance to analyses in a competent way. This types of theories are structured through instruments which not necessary to answer all types of enigmas, but these can more predictable according to their relevancy to the scenarios and can enormously help by explaining all such types of concepts and not easy to be ignored. Therefore, this research study tried to review the concepts and components of WCM and also provide a platform to make a suitable relations and links with other some of the exact theories and concepts in order to proceeds to be more relevant in explaining them. The concepts and theories are to be taken about WCM components may be vary from different scenarios in which the stakeholders and agency, high risk and high return theory, conversion of cash cycle, the operational cycle and the resource-based theory. In this research paper it is will be quiet found necessary in order to view the base of literature of different of its kinds and more specially in the area of Working Capital Management. In the phenomenal view of this study is addressing about the research design concepts about the WCM components and concepts. It will be finally deserving to established a uniform relationship between the Working capital concepts and components and the Conceptual theories. In Proper managing of the Current assets of any business in WCM concepts, it has always been fruitful way to gain highest profit in a market and also very essential for better survival of the business. A lot of attempts has been taken out for reviewing the concepts and components of Working capital which includes the conversion cycle of cash and also the components of CCC, conversion cycle ratio of inventories , Average collection period and Average payout ratio period and also to help to relates and

establishing relation with such types of theories considering more relevant to explain these concepts. Having kept in mind the procedures and concepts taken about the different scenarios of WCM theories and concepts which can be properly relates with the concepts of WCM by taking and establishing uniform way of understanding and also to assert integration methods. so for any business survival and accomplishment it is more important to focus on such types of research study to bring more theories in to this field in order to get more concepts about the antecedents of Working Capital, for better showing of strategic importance.

The main aim of Working Capital management for every business is to develop high operational efficiency with the help of which the management quiet be able performed the daily operational activities in a smooth way through which the company earning and profitability can be improved.

For each and every business firms and company the Working Capital management is mainly composed of Proper managing of inventory system , operational cycles, procedures of accounts receivables and accounts payable. The above procedures and system are the best focus for the management to deal in a highly corporate and effective measure in order to get better success in the life of business circumstances. This types of systems will generates more profit for the firm in order to achieved their goals and objectives of the business to deal in a highly comparative environment in the modern business race of competency.

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proper allocating of operational cycles of Working Capital management to the best possible achievements about the profit and return of the business. The main and important Aim of Working Capital management is to allocate the main operational cycle of Working Capital and also to ensure its operational order under the extent to which the cost of capital spent to minimum level on the Working capital, and the return on short term asset investments should be high achieved.

The concept of Working Capital is an easy to understand and it can be compare or linked with a individual's cost of living, therefore it's can be easily understandable more in a personal way. Every personal wants to accommodate itself with the help of money which he owned in his life in order to facilitate himself and also to pay for his daily expenses occurred in his life.

Working Capital is one of the most important factors for the health of a business. It includes short-terms accounts like inventories, payables, receivables, cash, debt etc. therefore it shows the picture of various activities such as revenue collection, debt and inventory management and payment to suppliers. Moreover, the need of Working Capital may vary from industry to industry and even can vary amongst same companies. This need depends upon many factors like collection and payment methods, timing of assets buying, difference in writing off methods of account receivables, and sometimes in capital raising efforts.

Capital working management is also important for the life, stability, liquidity, solvency etc. Its efficient use can help in covering financial obligations and also in boosting their earnings. A better Working Capital management system uses key performance ratios that identify the need of cash, assets, liabilities etc.



Working Capital management is a vital factor for the financing of corporations due the reasons that its plays a role map of being impacting directly the gaining and uniform liquidity of a business. Therefore, this research study mostly investigates to thoroughly focus about the firm's interaction of being made between Working Capital management real practices and high potential of gaining profits should be made for the firms or businesses.

Padachi (2006) argued that Working Capital management is a great platform for each any every type of business portfolios and also for better financial position and health of the business. Firstly, often there is a large amount employed in the Working Capital than total asset, therefore it is important to use it in effective way. Secondly, The best allocating of Working Capital management of every firms or business may directly impact on the companies returns and also its liquidity and also the total worth of the business scenarios. (Smith, 1980). So therefore it is quiet necessary for the man- agent of the business to keep its Working Capital in a highly uniformed way in order to maintain average balance between the liquidity and return of the business with uniformed and routine business operations for the business.

Kargar and Bluementhal (1994), has explained that any firms that does not have efficient Working Capital management system may face consequences like bankruptcy, despite its positive profitability. A business may invests its funds in long-terms and short-terms funds. Long-term investment may be called as 'fixed investment.' Its main part is usually in fixed assets. These assets are then use for profit generation during its useful life. Short-term investments are required for the operations of business

Working Capital has quantitative and qualitative concepts. Some people may call it the

gross concept and the net concept. The total of Current assets is referred to quantitative concept which can be also called it Current assets. Smith also called it circulating capital.

These Current assets are referring to as gross Working Capital in this concept.

The qualitative concept gives an idea about financing capital of any firms or business. According to this concept the amount of Working Capital refers to the amount of excess of Current assets over Current liabilities.

The following are some components of all assets and all liabilities which form the structure of Working capital. The Assets of the firms are the Debtors, Current assets, Cash and Bank Balance, Accounts Receivables etc are the parts of All Firms Assets. The All liabilities of the business may concern with Current liabilities, Creditors, Accounts Payable, unpaid Expenses and Bank pay overdraft etc. The income of business may be includes Running Working capital, Accrued Income, Short-term Loans, Proposed Dividends and also Inventories turnover, Work-in-progress, Finished Goods are the such parts of working capital structure.

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Working Capital is one of the most important factors for the health of a business. It includes short-terms accounts like inventories, payables, receivables, cash, debt etc. therefore it shows the picture of various activities such as revenue collection, debt and inventory management and payment to suppliers. Moreover the need of Working Capital may vary from industry to industry and even can vary amongst same companies. This need depends upon many factors like collection and payment methods, timing of assets buying, difference in writing off methods of account receivables, and sometimes in capital raising efforts.

Capital working management is also important for the life, stability, liquidity, solvency etc. Its efficient use can help in covering financial obligations and also in boosting their earnings. A better Working Capital management system uses key performance ratios that identify the need of cash, assets, liabilities etc.

Working Capital management is a vital factor for the financing of corporations due the reasons that its plays a role map of being impacting directly the gaining and uniform liquidity of a business. Therefore, this research study mostly investigates to thoroughly focus about the firms interaction of being made between Working Capital management real practices and high potential of gaining profits should be made for the firms or businesses. Its quiet necessary and important For Any business success and development to describe the specific concepts in a highly moderate and professional way in order to predict the study of effect of WCM techniques on CH levels. These types of Working Capital concepts has an great importance for the management of any business or firms to get possible efficient outcomes for the firm performance evaluations. For the purpose of achieving best possible outcomes through proper managing of Working Capital, its quite necessary for the management to follow all descriptive steps and procedures in order to decrease the cost of operations to the minimum extent by proper allocating of operational cycles of Working Capital management to the best possible achievements about the profit and return of the business. The main and important Aim of Working Capital management is to allocate the main operational cycle of Working Capital and also to ensure its operational order under the extent to which the cost of capital spent to minimum level on the Working capital, and the return on short term asset investments should be high achieved.

The concept of Working Capital is an easy to understand and it can be compare or linked with a individual's cost of living, therefore it s can be easily understandable more in a personal way. Every personal wants to accommodate itself with the help of money which he owned in his life in order to facilitate himself and also to pay for his daily expenses occurred in his life.

Working Capital is one of the most important factors for the health of a business. It includes short-terms accounts like inventories, payables, receivables, cash, debt etc. therefore it shows the picture of various activities such as revenue collection, debt and inventory management and payment to suppliers. Moreover the need of Working Capital may vary from industry to industry and even can vary amongst same companies. This need depends upon many factors like collection and payment methods, timing of assets buying, difference in writing off methods of account receivables, and sometimes in capital raising efforts.

Capital working management is also important for the life, stability, liquidity, solvency etc. Its efficient use can help in covering financial obligations and also in boosting their earnings. A better Working Capital management system uses key performance ratios that identify the need of cash, assets, liabilities etc.

These concepts of WCM will also explore more specifically in order to predict and monitor the effect of WCM techniques on firm CH by studying overall structures of business firms adopted by the top management to get best possible incomes and results of business firms specially banks regarding their performance according to CH scenarios , in which the comparisons be made amongst the banks included conventional and Islamic banks in Pakistan. The Working Capital management is a great platform for

each any every type of business portfolios and also for better financial position and health of the business. Firstly, often there is a large amount employed in the Working Capital than total asset, therefore it is important to use it in effective way. Secondly, The best allocating of Working Capital management of every firms or business may directly impact on the companies returns and also its liquidity and also the total worth of the business scenarios. So therefore it is quiet necessary for the man- agent of the business to keep its Working Capital in a highly uniformed way in order to maintain average balance between the liquidity and return of the business with uniformed and routine business operations for the business. In this study one thing must kept in mind that for each and every firms must know bitterly the proper managing of Working Capital concepts which has a great role in the firms growth and profitability due to which it is very necessary for the management of business firms to broadly understand the Working Capital all concepts and ideas to get better results from the business operations. The study of WCM concepts has an great role for the management of the business to get enough results from the business operations by allocating a uniform way of resources in a highly efficient and effective manner. This research study will also add more to get best outcomes for the business by properly managing of assets turnover and also equity turnover. The criteria of WCM concepts will also used to judge and measure the best possible gaining of business firms by calculating and predicting various collection periods like payment collection average ratios, inventory turnover in days and CCC variables are be considered in all major activities of business operations. Any firms that does not have efficient Working Capital management system may face consequences like bankruptcy, despite its positive profitability. A business may invests its funds in long-

terms and short-term funds. Long-term investment may be called as 'fixed investment.' Its main part is usually in fixed assets. These assets are then used for profit generation during its useful life. Short-term investments are required for the operations of business.

L.J. Guthmann has described that Working Capital is composed of firm's short-term assets through which long-term funds are financed by the firms. When a business firm has greater Current assets as compared to short-term liabilities, it will be referred to as 'Net working capital'. The Net Working Capital is a concept in which we define that the firm's Current assets have been in excess over the Current liabilities which are paid. Every concept of Working Capital has its own importance according to its points of interest. In the Gross concept, it has been measured about the purpose, size, and extent to which Current assets are being used, then this concept will be fruitful. While in the Net concept, the undertaking of evaluating the liquidity position of firms is taken through which it becomes feasible and preferable for the firms. So in order to understand the Working Capital more concisely and better, it is also necessary to keep in mind the meaning of Current assets and Current liabilities in a better way.

## **1.2 Problem statement**

In order to understand the Impact of WCM on the Corporate Cash Flow of financial firms in Pakistan, especially banks, is a debatable concern for the researcher in general and finding the difference for the said relationship in conventional and Islamic banks in particular. Therefore, this study investigates the relationship to answer both concerns.

Nowadays, the banking sectors in Pakistan are quite smoothly effective and progressive in the stability and growth of the economy of the country, banking sectors are playing a very important role to circulate and accommodate the circular debts of the economy of the



country in order to overcome the poverty level and also to accelerate the economic growth for the country. So this research will definitely explain the basic concepts about the Working Capital of the firms to better understand the CH prospective to develop high efficiency in firms' profitability and liquidity specially the banking sectors of Pakistan. The banking sectors are playing a very vital role in the economic and also social stability of the any country which give a great support to the economy in certain situation like financial distress, financial losses and also financial resources allocations by giving a high credits margins to the country in the form loans, scholarships and credits in different scenarios of the system of economy.

### **1.3 Objectives of the study**

- The study of this research is taken for the purpose of investigating the effect of WCM on the corporate Cash Holding of conventional and Islamic banks in Pakistan
- To comparatively Analyzed the relationship of WCM on the corporate Cash Holding of conventional and Islamic banking sectors in Pakistan.

### **1.4 Research question**

1. What kind of relationship exists between WCM and corporate CH in banking sector of Pakistan?
2. Does any Differentiation exist in the relationship of WCM and corporate CH in conventional and Islamic banks in Pakistan?

### **1.5 Scope of the study**

The extent of this study is generally limited to banking sectors of Pakistan. The context of the research study is composed of conventional and Islamic banks which are all

operating in the financial business environment of Pakistan. In this study overall 31 Banks are taken in which 25 Conventional and 7 Islamic banks are included. All these banks are listed in Pakistan stock exchange in which most of the banks are high Ranking in Pakistan stock exchange. In these list of banks most of the banks are local which are operating in high rating in Pakistan stock exchange like HBL, MCB, NBP. BOK etc. This study of banks are also included some international banks which are operating in Pakistan like standard chartered and also small banks are included which are recently functional in Pakistan such as samba bank, U bank and also al Baraka bank etc.

### **1.6 Significance of the study.**

Every research study which are taken by the researcher will be significant and quiet fruitful for every field of study. This context of the study will be also quiet helpful and progressive for the researcher to accomplished such type of study in the banking sectors of Pakistan as well as abroad.

1. This research study is taken in context of Pakistan which will contribute a good literature contribution for the researcher in the field of WCM and corporate CH.
2. This study will also add a well progressive managerial decision making process for the management for better achievements and success in gaining high market based firms values.
3. From this research study the investors will also gain better understanding about to allocate better investments opportunities in the field of business market to gain better success.
4. This study will also give social contribution to the academicians in the society for better achievements in study life.

5. The study of this research will also explore better experience in order to predict that How these Islamic and conventional banks more positively contribute in the stability of economic situations of the country.

### **1.7 Justification of the study.**

Most of the studies have been taken in order to determined and analyzed the relation between Working Capital and corporate CH in the context of banking sectors in Pakistan. In this context, Padachi in (2006) concluded that all types of business firms of all sizes required the proper management of Working Capital which is very necessary for the business financial health. For all types of business firms will operate smoothly and consistently when they better understand and accumulate their capital management. Firstly ,when the management of the business firms invests the required amount in the Working Capital which is usually more than the high total assets employed in a proportion and this will interact the efficient way of amount invested in a cost effective way. Secondly any firm or business profitability and liquidity may directly depends upon the efficient way of managing of Working capital, and also consistently the net-worth of the firm. The WCM can be determined by analyzing the impact of CH on the firm value and profitability by predicting the variables like cash flow ratio, firm Age and firm Size etc.

### **1.8 Limitation of the study**

The study has few limitation regarding data collection of these banking sectors in Pakistan. Most of the relevant data has been capture from the financial reports of these banks but some data might not be available due to some confidentiality of these financial

sectors. The data of this research study is generally allocated from the annual reports and annual performance appraisals of these both conventional and Islamic banks which are taken in the research study.

### **1.9 Scheme of the study**

The scheme of the study is based in the following consequence.

Chapter 01: Composed of an introduction and Background of the Study, the Problem Statement, the Research Questions, and Objectives of the Study, the Aim and Scope, the Justification of the Study, the Significance of the Study.

Chapter 02: Contains Introduction to WCM and CH, Importance of WCM in Firms Reputation, Relationship of Working Capital and CH, Working Capital and Firm Profitability/Liquidity, Working Capital and Firm Performance, Theoretical Frameworks of the study, Hypothesis of the Study.

Chapter 3: Includes Research design, Type of Research, Type of the Study, Population of the Study, Sample size and Sampling Techniques, Data sources and Data Collection Method, Statistical Techniques, Tools and Models for Data Analysis, Operational Definitions and Measurement

Chapter 4: Consists of Empirical Analysis including random effect model, fixed effect model , Hausmen Test, descriptive statistic, correlation and regression.

Chapter 5; is all about Discussion and Recommendations, the research findings and scope of future research.

## CHAPTER 2

### REVIEW OF LITERATURE

#### 2.1 Introduction to WCM and CH

A lot of study has been carried out by the researcher about WCM and CH from various perspectives in a different environment. These researcher have used different types of work taken in order to predict that how WCM impact on the corporate CH by predicting various variables which greatly defines the study of the research thesis. Many researchers also tried in order to analyzed that what type of relation exist between WCM and corporate CH of various financial firms. Most of the below mentioned researcher work in this field will be quite fruitful and beneficial for our research study.

In this context the Autukaite and Molay (May 1, 2011) have predicts about the reliability of WCM theories and scenarios through which it can be possible to identify main components of working capital, can be taken as a all the essential concepts for the management to properly managed the account receivable, managing of inventory systems and also payout ratios with the help of which management can get the most possible and respective proxies about the average periods of receivables, conversion ratios of inventory and also the payment average period ratio. when theories are taken about to study the components of WCM in a sense of philosophically view that it can be more importance to analyses in a competent way. This types of theories are structured through instruments which not necessary to answer all types of enigmas, but these can more predictable according to their relevancy to the scenarios and can enormously help by explaining all such types of concepts and not easy to be ignored. Therefore, this research study tried to review the concepts and components of WCM and also provide a

platform to make a suitable relations and links with other some of the exact theories and concepts in order to proceeds to be more relevant in explaining them. The concepts and theories are to be taken about WCM components may be vary from different scenarios in which the stakeholders and agency, high risk and high return theory, conversion of cash cycle, the operational cycle and the resource-based theory. In this research paper it is will be quiet found necessary in order to view the base of literature of different of its kinds and more specially in the area of Working Capital Management. In the phenomenal view of this study is addressing about the research design concepts about the WCM components and concepts .It will be finally deserve to established a uniform relationship between the Working capital concepts and components and the Conceptual theories. In Proper managing of the Current assets of any business in WCM concepts, These concepts of WCM will also explore more specifically in order to predict and monitor the effect of WCM techniques on firm CH by studying overall structures of business firms adopted by the top management to get best possible incomes and results of business firms specially banks regarding their performance according to CH scenarios , in which the comparisons be made amongst the banks included conventional and Islamic banks in Pakistan. The Working Capital management is a great platform for each any every type of business portfolios and also for better financial position and health of the business. Firstly, often there is a large amount employed in the Working Capital than total asset, therefore it is important to use it in effective way. Secondly, The best allocating of Working Capital management of every firms or business may directly impact on the companies returns and also its liquidity and also the total worth of the business scenarios. So therefore it is quiet necessary for the man- agent of the business to

keep its Working Capital in a highly uniformed way in order to maintain average balance between the liquidity and return of the business with uniformed and routine business operations for the business. Any firms that does not have efficient Working Capital management system may face consequences like bankruptcy, despite its positive profitability. A business may invests its funds in long-terms and short-terms funds. Long-term investment may be called as 'fixed investment.' Its main part is usually in fixed assets. These assets are then use for profit generation during its useful life. Short-term investments are required for the operations of business

it has always been fruitful way to gain highest profit in a market and also very essential for better survival of the business. A lot of attempts has been taken out for reviewing the concepts and components of Working capital which includes the conversion cycle of cash and also the components of CCC, conversion cycle ratio of inventories , Average collection period and Average payout ratio period and also to help to relates and establishing relation with such types of theories considering more relevant to explain these concepts. Having kept in mind the procedures and concepts taken about the different scenarios of WCM theories and concepts which can be properly relates with the concepts of WCM by taking and establishing uniform way of understanding and also to assert integration methods. so for any business survival and accomplishment it is more important to focus on such types of research study to bring more theories in to this field in order to get more concepts about the antecedents of Working Capital, for better showing of strategic importance.

Eljelly (2004) documented that reasonable position of liquidity management contains planning and controlling Current assets and the same nature of liabilities in such way that

eradicate the risk of insolvency to fulfill their day to day needs. The position to measure the association between these two elements are performed by financial instruments i.e. current ratio and cash gap via CCC with the help of joint stock company in kingdom of Saudi Arabia while using statistical tools correlation and regression analysis. The results of the study shows conversion cycle of cash has positive and significant impact liquidity than as compare to profitability. The results of the study showing significant effects on profitability of corporation. The overall study of the company has positive and statistically significant impact on all Saudi Arabia companies. While others studies in the same nature studies are showing negative significant effects of firms liquidity over its profitability.

In this study one thing must kept in mind that for each and every firms must know bitterly the proper managing of Working Capital concepts which has a great role in the firms growth and profitability due to which it is very necessary for the management of business firms to broadly understand the Working Capital all concepts and ideas to get better results from the business operations. The study of WCM concepts has an great role for the management of the business to get enough results from the business operations by allocating a uniform way of resources in a highly efficient and effective manner. This research study will also add more to get best outcomes for the business by properly managing of assets turnover and also equity turnover. The criteria of WCM concepts will also used to judge and measure the best possible gaining of business firms by calculating and predicting various collection periods like payment collection average ratios, inventory turnover in days and CCC variables are be considered in all major activities of business operations. This will also help to measures the financial



performances of any business firms by properly allocating the results of ROA And ROE by adopting all the major concepts of WCM thoroughly.

In this context Beaumont and Begemann (1997) also argue that the profitability and liquidity of any business may depend upon the way in which the Working Capital is programmed and managed. So it is very important in order to investigate the practices of Working Capital specially in banking sectors in Pakistan. In a highly competent perspective view Working Capital management is the most important and necessary part of Working Capital management in the way of process in which the managing of the short term assets and short term liabilities is very important and necessary to accommodate more bitterly for the management in all type of business firms. Which will reflect more responsibilities for the management to arrange the Working Capital to the best and at least possible outcomes and cost and also to accommodate of the capital more efficiently at low possible cost margin.

The word Working Capital can be defined as; the entire business firm which performed investment in Current assets. The Working Capital management is all about the efforts of the management towards the most progressive utilization of firms Current assets and Current liabilities. The Working Capital is all about the difference between the short term asset and Current liabilities. In other way the Working Capital management also reflect that that firm must have a sufficient profitability and liquidity in order to fulfill and satisfy the current expenses and Current liabilities. Working Capital management reflects all the business strategies of any business firms which can clearly explain the best and efficient utilization of both Current assets as well as Current liabilities. The main and basic objective of Working Capital management is that the company should have a

sufficient amount of cash in order to manage its current occurring cost and also able to pay their short term debts. The Working Capital of any firm reflects the sum of total Current assets minus the sum of total Current liabilities.

The Current assets composed of such things that can be easily transferred into cash within a year, which can be concluded as company's most highly liquid assets. The Current assets mainly comprised of cash, accounts receivable, inventory, and short-term investments.

Saravanan (2018 ) investigated about the taking of stock of what has been studied on WCM so far and the factors which are more likely to be affected by poor Working Capital Management. Similarly its objective is to find more areas of research in this regard to expand the body of knowledge. By using Google scholar an organized literature review of the research works on the topic has been performed. Papers with more than 50 citations as on June 5, 2018 have been considered. Moreover common theme of the paper was also kept in mind during analysis of the content. Based on citations of the paper it can be concluded that there is popularity of the topic i.e. WCM in the present days. However most of these papers are published in lower category journals. Such studies will further be investigated in this paper. On the basis of contents, the papers are listed under five themes. In most of the studies the relation between the WCM and profitability of the companies has been examined. The repetitions of few proxies were seen in most of these papers. This study most likely explores the causes of highly cited papers publications in the lower rank journals. Moreover this paper will identify research gap on the topic and will raise the questions which will open doors for further research on Working Capital Management. This paper firstly provides idea of the frequently cited articles on WCM

and will shed light on its growth in this domain. On the basis of proxies used in the articles and its results may provide further areas of research for academicians. On the other hand it will provide path of publishing the articles on WCM which will encourage further research in the area. Moreover managers can use the findings of the paper and the cost of poor Working Capital Management. Lastly, it can provide ideas as reference point related to Working Capital Management. Paper classifies the current literature on WCM in five main themes. It is important as the content analysis printout different proxies as inputs which drive WCM in a better way. Further, the paper explores the research gap on the domain of the topic. Studies with more than 50 citations on Google Scholar were considered for the analysis. This can be concluded from the analysis that in present time the popularity of the articles related to WCM is increasing. Although, most of the articles on the topic published in the lower category journals. Similarly the contents of the paper can be written under five themes. Most of these articles have checked the relation between WCM and profitability of the company. Further, repetitions in the uses of the few proxies can be noticed.

## **2.2 Importance of Working Capital Management**

Van horn (1995) asserted that WCM is very essential in order to identify the effect of corporate CH of a firm. He investigated the relationship of the various dimensions of WCM and corporate CH and suggest that each component of WCM can contribute positively in the firm's capital adequacy and profitability. He further investigated the relationship of these variables by using correlation and regression tools in order to predict that what type of relation exist between various variables.

In the previous studies the Venkatachalam (2016) also investigated that working capital

playing a very vital role for maintaining the smooth functioning of any kinds of business i.e. whole sale business or retail business or any other large business organization. He added that any kinds of business organization can smoothly functioning along with sufficient amount of Working Capital none of business organization can run properly without having adequate amount of funds for their day to day business obligations. They also stress that WCM needs skills and abilities to manage the things efficiently assets. Working Capital represents that Current assets must be equal to the amount of Current liabilities. Working Capital can be expressed mathematically as Current assets minus Current liabilities equal to Working capital. Moreover, WCM is very vital for smooth running of the business enterprise in this dynamic situation.

Similarly, WCM played very active and dynamic role in the success of any kinds of business or private organization to meet his day to day needs. They also found that sufficient level of liquidity is much needed for the spontaneous finance of the any kinds of business firms. He also interpreted that Working capital has positive and significant impact on firm's financial performance. The researcher also added his view according to his findings where they concluded that maintenance of adequate amount of Working Capital is very much vital for corporations to meet his current obligations throughout the year. The concepts and theories are to be taken about WCM components may be vary from different scenarios in which the stakeholders and agency, high risk and high return theory, conversion of cash cycle, the operational cycle and the resource-based theory. In this research paper it is will be quiet found necessary in order to view the base of literature of different of its kinds and more specially in the area of Working Capital Management. In the phenomenal view of this study is addressing about the research

design concepts about the WCM components and concepts .It will be finally deserve to established a uniform relationship between the Working capital concepts and components and the Conceptual theories. In Proper managing of the Current assets of any business in WCM concepts, These concepts of WCM will also explore more specifically in order to predict and monitor the effect of WCM techniques on firm CH by studying overall structures of business firms adopted by the top management to get best possible incomes and results of business firms specially banks regarding their performance according to CH scenarios , in which the comparisons be made amongst the banks included conventional and Islamic banks in Pakistan. The Working Capital management is a great platform for each any every type of business portfolios and also for better financial position and health of the business. Firstly, often there is a large amount employed in the Working Capital than total asset, therefore it is important to use it in effective way. Secondly, The best allocating of Working Capital management of every firms or business may directly impact on the companies returns and also its liquidity and also the total worth of the business scenarios. So therefore it is quiet necessary for the man- agent of the business to keep its Working Capital in a highly uniformed way in order to maintain average balance between the liquidity and return of the business with uniformed and routine business operations for the business. Any firms that does not have efficient Working Capital management system may face consequences like bankruptcy, despite its positive profitability. A business may invests its funds in long-terms and short-terms funds. Long-term investment may be called as ‘fixed investment.’ Its main part is usually in fixed assets. These assets are then use for profit generation during its useful life. Short-term investments are required for the operations of business in a highly

effective and corporate way to gain maximum gaining in the business market. It has always been fruitful way to gain highest profit in a market and also very essential for better survival of the business. A lot of attempts has been taken out for reviewing the concepts and components of Working capital which includes the conversion cycle of cash and also the components of CCC, conversion cycle ratio of inventories , Average collection period and Average payout ratio period and also to help to relates and establishing relation with such types of theories considering more relevant to explain these concepts.

Afza & Adnan (2007) also confined that the decision of WCM are considered one of the most crucial decision for any kinds of business organization either they are large or small in size they have needs to maintain adequate amount of Working Capital to run the business smoothly without any interruption. They also explained the importance of maintaining adequate level of Working Capital to meet routine transaction for their survival. WCM playing very much important role in the company uplifting and financial position among their others competing firms in the existing environment in the same or different nature of business or commercial activities. The researcher of the study has found statistically positive and significant relationship between the WCM tools and profitability. While some other researchers in the same nature of study literature are showing negative impact of firm's liquidity over its profitability with respect to WCM issues. They also highlighted the importance of WCM and its relationship with the firm's corporate cash holding through which the firms can predict and defined the best possible outcomes and also to measure their performance level by taking different scenarios of their profitability ratios. They also help to defines the best gaining of any firm or business

for the purpose of which all business operates in business environment. In this study they have taken the panel data analyses techniques through which the data can be analyzed in the banking sectors of Ghana for the span of 1999-2008. This study oriented a different views about Working capital and its relationship with cash holding of the firms. The study also highlighted the significance of WCM in way of holding cash of the financial institutes like Banks. It was also found that Accounts Receivables turnover mainly positively contributes to the firm cash holding which directly impacts on the firms gaining ratios. A lot of many others ratios also have shown great positive relationship with the firms' cash holding position of the banks. The study also give a great view for the positioning of Cash handling for the banks which meets best possible outcomes and business requirements for the banks. The study further stated that it is highly important for any financial institutes or firms to better perform their business activities by keeping in mind about to handle their cash in both short run as well as in long run. Those banks Or financial institutions will survive bitterly which are able to utilize their resources in a highly efficient and effective way by proper monitoring of this cash handling activities.

Pike and Passe ( 1987) argued that Working Capital management is a great platform for each any every type of business portfolios and also for better financial position and health of the business. Firstly, often there is a large amount employed in the Working Capital than total asset, therefore it is important to use it in effective way. Secondly, The best allocating of Working Capital management of every firms or business may directly impact on the companies returns and also its liquidity and also the total worth of the business scenarios. So therefore it is quiet necessary for the man- agent of the business to keep its Working Capital in a highly uniformed way in order to maintain average balance

between the liquidity and return of the business with uniformed and routine business operations for the business. The liquidity scenario is the most important factor for any business or firms in which the business can be able to silicate the available resources especially financial resources to build high standards of profitability index or return for the business.

Kargar and Bluementhal (1994) have explained that any firms that does not have efficient Working Capital management system may face consequences like bankruptcy, despite its positive profitability. A business may invests its funds in long-terms and short-terms funds. Long-term investment may be called as 'fixed investment.' Its main part is usually in fixed assets. These assets are then use for profit generation during its useful life. Short-term investments are required for the operations of business in order to analyses the performance level of the firms. So its very important for the firms or business to allocate their best management skills for best taking operational practices by organizing the overall working capital of the firms in highly professional and accurate way to build high standards of business quality and able to gain maximum power for profit and return in the business industry. So for each business success its quiet important to perfectly study and oblige the working capital concepts in all business scenarios.

Amarjit Gill (January 1, 2012 ) defines and analyzed the firms or Institutes of the Indian era for the period of 2002- 2007. In this study the researcher has taken all the financial data of these firms listed in the Indian stock by taking the data from their financial reports for the period of 2002 to 2007. The data has been analyzed by taking different statistical techniques such as regression in order to find out the profitability index of these banks which can be predicted from their WCM portfolios. The study also



learn out about the WCM and gaining ratios of these banks. The study suggest that a firms or business having a uniform way of cash handlings processes will greatly be able to allocates their business objectives and also will be able to get high marks of Profitability indexes through gaining high potential of management goals.

The study also analyzed about the WCM and the firms Profitability by taking the firms of these indian industries for the period of 2002-2007. In these industrial firms most of the sectors taken from manufacturing industry. The data of these manufacturing firms are analyzed through the process of different statistical techniques generally regression analyses techniques is taken for the study period. The finding of the data about these firms generated through different models used in this study highlighted that if Working capital variables increase then it definitely negatively affect the profitability of the firms. So the study recommend that every financial instates or industries should makes their all of its WCM ratios in a highly competent and carefully way for better understanding of their cash handling positions because these types of ratios are very vital for the profitability of any business or Firms.

Aminu and Zain (2015) predicts about the reliability of WCM theories and scenarios through which it can be possible to identify main components of working capital, can be taken as a all the essential concepts for the management to properly managed the account receivable , managing of inventory systems and also payout ratios with the help of which management can get the most possible and respective proxies about the average periods of receivables, conversion ratios of inventory and also the payment average period ratio. when theories are taken about to study the components of WCM in a sense of philosophically view that it can be more importance to analyses in a competent

way. This types of theories are structured through instruments which not necessary to answer all types of enigmas, but these can more predictable according to their relevancy to the scenarios and can enormously help by explaining all such types of concepts and not easy to be ignored. Therefore, this research study tried to review the concepts and components of WCM and also provide a platform to make a suitable relations and links with other some of the exact theories and concepts in order to proceeds to be more relevant in explaining them. The concepts and theories are to be taken about WCM components may be vary from different scenarios in which the stakeholders and agency, high risk and high return theory, conversion of cash cycle, the operational cycle and the resource-based theory. In this research paper it is found necessary in order to view the base of literature of different of its kinds and more specially in the area of Working Capital Management. In the phenomenal view of this study is addressing about the research design concepts about the WCM components and concepts .It will be finally deserve to established a uniform relationship between the Working capital concepts and components and the Conceptual theories. In Proper managing of the Current assets of any business in WCM concepts, it has always been fruitful way to gain highest profit in a market and also very essential for better survival of the business. A lot of attempts has been taken out for reviewing the concepts and components of Working capital which includes the conversion cycle of cash and also the components of CCC, conversion cycle ratio of inventories , Average collection period and Average payout ratio period and also to help to relates and establishing relation with such types of theories considering more relevant to explain these concepts. Having kept in mind the procedures and concepts taken about the different scenarios of WCM theories

and concepts which can be properly relates with the concepts of WCM by taking and establishing uniform way of understanding and also to assert integration methods. so for any business survival and accomplishment it is more important to focus on such types of research study to bring more theories in to this field in order to get more concepts about the antecedents of Working Capital, for better showing of strategic importance.

Osuma and Ailemen et al. (2018) studied about the banking sectors of Nigeria in which they have given a great importace to WCM which is declared is a germane for the banks in order to get success in the field of business. In a moment when the oil prices has been declined globally then these banks have gets certain forward steps like non-performing loans, demolishing of the Quality of banks products/ asset , laying off of staff amongst others. So the main reasons for the gaining of banking industry may quiet depend upon the uniform way of utilizing the working capital of the banks.

Therefore, the main aim of this study is to view thoroughly that how the WCM of the banks can bitterly enhance their gaining and profitability. In this study overall seven banks has been taken by performing the panel data for the analysis of data empirically in which Ten (10) deposit money banks in Nigeria is taken by applying certain models like fixed asset model, panel data model and random effect in order to measure the banks profitability proxies, in which ROA (Return on asset) and ROE (return on equity) to be taken for better examining of gaining of the bank.

Onyeji and Ifeanyi (2013) concluded that in the financial era of global scenarios the WCM is all important way for each business to survive perfectly. so its quiet for the management of each firms that take their working capital in a highly effective manner in order to overcomes on such types of illiquidity situations in which the firms are able to

ensure the necessity of cash requirements for the business to handle the break even point and also able to survive in distressed situation in which credit not goes easily towards firms business requirements.

So in this study the main objective is taken out to predict the presents empirical perspective of the impacts of WCM on corporate CH and also to confirm the earning of firms specially in Nigeria banking industry using annual financial report data for the duration of 1998-2003. These data were analyzed using descriptive statistics and Financial Analysis Techniques of Working Capital ratios. In the content of most critical techniques taken previously, the operating period of cash will relates significant and positive relations with banks. Working Capital Management, is act like Account receivables cash collection period, whiles Account payable period cycle impact a significant negative relation. However Nigeria banks appear to perform poorly in these working ratios.

This method of study is a recently conducted in which the researcher has tried to analyze the WCM mostly relates to banks in Nigeria. In this research analyses all commercial banks in Nigeria, over an eleven-year period (2000-2010) is taken out for the study. The study used data from Banks' Annual Reports and CBN publications. Using descriptive research methodology, within the framework of Financial Analyses Techniques of Liquidity Sufficiency (Working Capital ratios), the study concludes that while cash operating cycle has a significantly positive relationship with banks' Working Capital efficiency, just like receivables cash collection period, whiles Account payable period cycle impact a significant negative relation with point of optimality of Working capital. Surprisingly, however majority of the banking sectors has merely low

performance by comparing to universal acceptable bench marks.

### **2.3 Relationship between WCM and CH**

Alan in (2011) examined the relationships of the various dimensions of wcm and CH. He used the data of different manufacturing firms by using the estimators like correlation and regression and assessed that firm cash flow has a vital role in the firm CH. He also predicted the other dimensions of WCM like inventory turnover, payable turnover also have significant effect on the firm CH

In this context Saqib et al. (2005) also studied that how WCM and corporate cash(CH) relates with each other by using secondary data of financial firms. This study applied multilevel statistical techniques such that descriptive statistics and co-relation and regression. The result suggested that WCM can be the best predictor which effect the CH practices of a firm. The study suggested that optimal level of CH will positively effect on the gaining of the business firms.

Jon et al. (2004)) discussed about the effect of WCM on firm performance by applying both regression and co relational techniques to asses the effect of WCM on the firm liquidity and advocacy. The result documented that CCC has positively significant effect on firms CH. The result also investigated and confirmed about the various impact of WCM and CH on firm ability and consistency to gain the profitability of the firm.

Adnan (2006) also concluded that WCM has an greatly impact on firms CH by defining various components of WCM such as net Working capital, leverages ratios and firm size etc on firms capability to maximize the profitability of the firm by relating different variables through regression and correlational techniques. He also investigated about the various relationship exist between WCM and CH of the firms by using these variables of

the research study.

Joseph et al. (2009) also examined the various impacts of WCM in order to relate the CH with WCM by explaining various relations of the variables by taking various techniques and tools of regression and statistics in order to predict firms ability to gain high profitability and liquidity. He also worked out in order to know about what type of relation exist between WCM and CH of the firm by allocating various variables including dependent and independent variables.

Afees and Mustapha (2015) analyzed and measures that how the WCM and cash holding may relate with each other and also to define the effect of WCM on the growth of public registered firms in Malaysia. Specifically, the study examines the relationships amongst the four elements of Working Capital Management, namely, CCC, receivable conversion cycle, inventory conversion cycle, payable conversion cycles rates and the growth of Malaysian publicly listed companies. The study utilizes the financial historical data obtained from the Data Stream from December 2003 to December 2010. The one hundred top public-listed companies main (based on market capitalization) in the Main Board of Bursa Malaysia are selected as a sample. The testing for hypotheses involved examining the relationship between the dependent variable (growth of Malaysia companies) and the independent variables (CCC, receivable conversion period, inventory conversion period, and payable conversion period). Analysis shows that all the independent variables have positive relationships with firm growth, but only CCC has a significant relationship. It is concluded that companies should focus and establish the policy of WCM in an efficient manner to serve their shareholders in maximizing their wealth.

Yunos and Ghapar (2018) examine that the CCC (Cash Conversion cycle) is one of the most important WCM measures tool through which the time frame between cash outflow on purchasing materials until the money is received from sales of the products are determined. Simply put, CCC is a number of days of operation either account receivables, inventory and payable. The higher the number of CCC in days, the costly investment is required in Working capital. The length number of days of the CCC depends on the length of the number of sales inventory days (DSI), the number of account receivable days (DSO) and the number of account payable days (DPO).

The number of DSI is the average time taken to use the raw material in the company, change the raw materials into finished goods, and finally sell the finished goods to customers. The number of DSI may take monthly for a few sectors such as manufacturing company, or a few hours for some other sectors such as service sector. When focus on investment and profitability is placed at the forefront, it may confront with liquidity crisis. Thus, companies need to strategize to ensure they will not neglect both liquidity and profitability. The purpose of this study is to identify whether WCM has influence on the Malaysian firm's profitability, measured by Tobin Q and ROA. The result indicates that none of the Working Capital measure has impact on Tobin Q. Nevertheless, lower DSI and DSO are associated with higher ROA and how fast companies pay to its supplier does not matter to their profitability.

Syed Mustapha (2015) have also predicted about what kind of relationship exist between WCM and corporate cash holding in financial firms or business in all listed companies in Malaysian stock exchange. Specifically, the study examines the

relationships between the four components of Working Capital Management, namely, CCC, receivable conversion period, inventory conversion period, payable conversion period and the growth of Malaysian publicly listed companies. The study utilizes the financial historical data obtained from the Data Stream from December 2009 to December 2013. The one hundred top public-listed companies mainly based on market capitalization in the Main Board of Bursa Malaysia are selected as a sample. The testing for hypotheses involved examining the relationship between the dependent variable (growth of Malaysia companies) and the independent variables (CCC, receivable conversion period, inventory conversion period, and payable conversion period). Analysis shows that all the independent variables have positive relationships with firm growth, but only CCC has a significant relationship. It is concluded that companies should focus and establish the policy of WCM in an efficient manner to serve their shareholders in maximizing their wealth.

The results from this study suggests that if firms need to increase its ROA, they should be efficient and sell fast its inventory and speed up collection of debt from the customers. However, caution is needed to generalized the findings from this study due to shorter period under study and limited sample. He suggested that WCM has no significant effect on the market valuation of the companies. Plausibly internal factors are not as strong as external factor to affect the company's market value have led to this finding. The results of ROA however, show that the faster the company sell its inventory and collect debt from its customers, the higher is its ROA. The findings of this study also indicate that the speed of payment made to supplier does not matter to company's profitability. As long as company pays within reasonable time that do not adversely affect customer-supplier



relationship and the suppliers are willing to continue to do business with the company, it may have no impact on its financial performance. Companies should focus more on its sales part to drive better financial performance.

#### **2.4 WCM and Firm Profitability.**

In this context of WCM and firm Profitability the Smith and karlin et al. (2001) discussed about the importance of WCM and cash holding of any firms which have greatly impacts on the profitability of the firms. In this study they have also assessed the contribution of the WCM of any firm in gaining of high potential of profit index for the firms. In this study the data mainly composed of about 10 central banks of America based on financial firms in which the data of these firms are analyzed with the help of panel data techniques and methods. The result of the study lighted that cash conversion cycle is mainly impact negatively on the profitability and cash position of these firms. They have also add certain circumstances in order to examined the effect of WCM on firm performance by applying both regression and co relational techniques to assess the effect of WCM on the firm liquidity and advocacy. The result documented that CCC has positively significant effect on firms CH. The result also investigated and confirmed about the various impact of WCM and CH on firm ability and consistency to gain the profitability of the firm.

The study also found that the Account payable period can also dangerous for the position of cash holding and status of gaining for the firms or industries. The study suggested as a recommendation that the firms or industries may be careful in the financing activities about the various dimensions of WCM for great business portfolios. The result of the study also show a negative relationship towards account receivables turn over and also

the Account payables turnover of the firms.

Aaramand and Nimalathan (2014) also highlighted the importance of WCM and its relationship with the firm's corporate cash holding through which the firms can predict and defined the best possible outcomes and also to measure their performance level by taking different scenarios of their profitability ratios. They also help to defines the best gaining of any firm or business for the purpose of which all business operates in business environment. In this study they have taken the panel data analyses techniques through which the data can be analyzed in the banking sectors of Ghana for the span of 1991-2000. This study oriented a different views about Working capital and its relationship with cash holding of the firms. The study also highlighted the significance of WCM in way of holding cash of the financial institutes like Banks. It was also found that Accounts Receivables turnover mainly positively contributes to the firm cash holding which directly impacts on the firms gaining ratios. A lot of many others ratios also have shown great positive relationship with the firm's cash holding position of the banks. The study also give a great view for the positioning of Cash handling for the banks which meets best possible outcomes and business requirements for the banks. The study further stated that it is highly important for any financial institutes or firms to better perform their business activities by keeping in mind about to handle their cash in both short run as well as in long run. Those banks Or financial institutions will survive bitterly which are able to utilize their resources in a highly efficient and effective way by proper monitoring of this cash handling activities.

Jyoti and Jagannathan (2006) defines and analyzed the firms or Institutes of the Indian era for the period of 2004- 20011. In this study the researcher has taken all the financial

data of these firms listed in the Indian stock by taking the data from their financial reports for the period of 2004 to 2011. The data has been analyzed by taking different statistical techniques such as regression in order to find out the profitability index of these banks which can be predicted from their WCM portfolios. The study also learn out about the WCM and gaining ratios of these banks. The study suggest that a firms or business having a uniform way of cash handlings processes will greatly be able to allocates their business objectives and also will be able to get high marks of Profitability indexes through gaining high potential of management goals.

Shubita in (2013) also analyzed about the WCM and the firms Profitability by taking the firms of Jordan industries for the period of 2007-2014. In these industrial firms most of the sectors taken from manufacturing industry. The data of these manufacturing firms are analyzed through the process of different statistical techniques generally regression analyses techniques is taken for the study period. The finding of the data about these firms generated through different models used in this study highlighted that if Working capital variables increase then it definitely negatively effect the profitability of the firms. So the study recommend that every financial instates or industries should makes their all of its WCM ratios in a highly competent and carefully way for better understanding of their cash handling positions because these types of ratios are very vital for the profitability of any business or Firms.

In some Sort of study both Sharif and Hadad (2015) also added about the importance of WCM and cash holding of any firms which have greatly impacts on the profitability of the firms. In this study they have also assessed the contribution of the WCM of any firm in gaining of high potential of profit index for the firms. In this study the data mainly

composed of about 43 American based industrial firms in which the data of these firms are analyzed with the help of panel data techniques and methods. The result of the study lighted that cash conversion cycle is mainly impact negatively on the profitability and cash position of these firms. The study also found that the Account payable period can also dangerous for the position of cash holding and status of gaining for the firms or industries. The study suggested as a recommendation that the firms or industries may be careful in the financing activities about the various dimensions of WCM for great business portfolios. The result of the study also show a negative relationship towards account receivables turn over and also the Account payables turnover of the firms.

Yeboah and Samuel (2012) have studied the effect of WCM on profitability among 30 manufacturing companies listed on Chinese stock exchange. The data collected from Data Stream for the year 2000 to 2008 was analyzed using panel data analysis. It was found that number of sales inventory days and number of account receivable days determine profitability of Malaysian public listed companies. Additionally, the debt to equity ratio, current ratio and firm size also has significant effects on the firm's profitability. Working Capital can be seen statically as the harmony between Current assets and Current liabilities. Alternatively, it can be seen as the harmonization between profit generating and material purchasing actions of a company. CCC (CCC), one of the WCM measures, is the time frame between cash outflow on purchasing materials until the money is received from sales of the products. Simply put, CCC is a number of days of operation account receivables, inventory and payable. The higher the number of CCC in days, the costly investment is required in Working capital. The length number of days of the CCC depends on the length of the number of sales inventory days (DSI), the number

of account receivable days (DSO) and the number of account payable days (DPO).

The number of DSI is the average time taken to use the raw material in the company, change the raw materials into finished goods, and finally sell the finished goods to customers. The number of DSI may take monthly for a few sectors such as manufacturing company, or a few hours for some other sectors such as service sector. The number of DSO is the average time taken by credit customers to settle their accounts, while the number of DPO is the average time taken by a company to pay its trade payables. Planning and controlling the Current assets and Current liabilities is necessary for effective cash management in many companies. When companies prefer to stay liquid, they can miss the profitable investment chances. When focus on investment and profitability is placed at the forefront, it may confront with liquidity crisis. Thus, companies need to strategize to ensure they will not neglect both liquidity and profitability. The purpose of this study is to identify whether WCM has influence on the Malaysian firm's profitability, measured by Tobin Q and ROA. The result indicates that none of the Working Capital measure has impact on Tobin Q. Nevertheless, lower DSI and DSO are associated with higher ROA and how fast companies pay to its supplier does not matter to their profitability.

Bukhari and Malik (2014) tried to define that how the WCM and cash holding may relates with each other and also to defines the effect of WCM on the growth of private registered firms in Spain. Specifically, the study examines the relationships amongst the four elements of Working Capital Management, namely, CCC, receivable conversion cycle, inventory conversion cycle, payable conversion cycles rates and the growth of Malaysian publicly listed companies. The study utilizes the financial historical data

obtained from the Data Stream from December 2002 to December 2011. The one hundred top public-listed companies main (based on market capitalization) in the Main Board of Spanish stock exchange are selected as a sample. The testing for hypotheses involved examining the relationship between the dependent variable growth of Spanish companies and the independent variables (CCC, receivable conversion period, inventory conversion period, and payable conversion period). Analysis shows that all the independent variables have positive relationships with firm growth, but only CCC has a significant relationship. It is concluded that companies should focus and establish the policy of WCM in an efficient manner to serve their shareholders in maximizing their wealth.

Eljelly, (2004) predicted that the effects showing by the WCM on firms cash handling situation will greatly role out the gaining power of the firms ability to maximize the earning power for the firms.

In this paper the researcher has attempted to assess the effect of WCM on profitability using a seven year from 2001-2007 data set on 15 manufacturing firms listed in CSE. The result shows that a liberal credit policy tends to decrease the profitability which will predict that the firms have no efficient way of handling their cash balancing of these manufacturing firms which may highlight the fear way of managing the working capital which will directly impacts on the profitability of theses manufacturing firms.

Bhattacharya (2006) demonstrated about the importance of WCM and its relationship with the firm's corporate cash holding through which the firms can predict and defined the best possible outcomes and also to measure their performance level by taking different scenarios of their profitability ratios. They also help to defines the best gaining

of any firm or business for the purpose of which all business operates in business environment. In this study they have taken the panel data analyses techniques through which the data can be analyzed in the banking sectors of Ghana for the span of 1999-2008. This study oriented a different views about Working capital and its relationship with cash holding of the firms. The study also highlighted the significance of WCM in way of holding cash of the financial institutes like Banks. It was also found that Accounts Receivables turnover mainly positively contribute to the firm cash holding which directly impacts on the firms gaining ratios. A lot of many others ratios also have shown great positive relationship with the firms cash holding position of the banks. The study also give a great view for the positioning of Cash handling for the banks which meets best possible outcomes and business requirements for the banks. the study further stated that it is highly important for any financial institutes or firms to better perform their business activities by keeping in mind about to handle their cash in both short run as well as in long run. Those banks Or financial institutions will survive bitterly which are able to utilize their resources in a highly efficient and effective way by proper monitoring of this cash handling activities.

Adjapong et al (2016) have worked out about the WCM and the firms Profitability by taking the firms of cement industries in india for the period of 2010-2016. In these industrial firms most of the sectors taken from manufacturing industry. The data of these manufacturing firms are analyzed through the process of different statistical techniques generally regression analyses techniques is taken for the study period. The finding of the data about these firms generated through different models used in this study highlighted that if Working capital variables increase then it definitely negatively effect the

profitability of the firms. So the study recommend that every financial instates or industries should makes their all of its WCM ratios in a highly competent and carefully way for better understanding of their cash handling positions because these types of ratios are very vital for the profitability of any business or Firms. The study suggest that WCM is the most considerable measure in the firm financial performance perspective due to which for each firms or business the WCM is to be considered an important hurdle in order to overcome in a highly professional way. So the top management executives specially financial department may focus more to produce more values and wealth for the shareholders of the business firms .the financial manager and executives should give more preference to the shareholder value creation by adopting all the procedures and measures of acquiring WCM concepts more precisely and accurately in the progressive and tough timing belongs to shareholders . Moreover, the WCM is the best choice for the firms specially for a small firms to highly progressive firm in the manner the firms adopt best concepts of WCM in short term financing as well. This types of small firms may faced some financial barriers in a highly competent environments of business whether they require more financial resources. so in order to avoid such types of financial constraint these types of small firms may taken the financial discrepancies from the banks by taking short term loans , trade credits and also self sharing of shareholders' financing to the firm's ability to gain maximum profitability.

Benjamin and Michael (2104) analyzed about the uniform way of handling the different way of WCM and cash holding for better treatment of the financial resource of any firms or business. They have greatly emphasizes on the cash handling of any firms or business is a vital for any business growth or gaining high effective portfolio all the



business environment. In this study all the commercial banks operated in China financial industries are taken in order to predict the relationship of WCM and Profitability of these banks. This study is mostly taken out in order to find out the Implications of Debtors Average Collection Period On Liquidity Risk In Quoted Commercial Banks in China. The findings show that there is a significant relationship between debtors average collection period and liquidity risk in quoted commercial banks of China. Debtors' average collection period has a significantly negative relationship with the liquidity of banks; banks are able to increase their liquidity when they shorten their debtors' collection period. All other researchers of this field also agree that a smaller number of days accounts receivable improved liquidity and profitability of firms.

The findings show that there is a significant relationship between creditors average payment period and liquidity risk in quoted commercial banks for well-deserved achievements and success in their business structure of competition specially in financial sectors. Creditors' average payment period has a significantly positive relationship with the liquidity of banks; banks are able to increase their liquidity when they increase their creditors' payment period. These results show that as banks increase the length of time it takes to pay for loans, it reduces the burden on their cash and therefore gives them the opportunity to hold cash and cash equivalents. Banks should stretch the payments for a better liquidity position.

Some of all other researchers have also found out the same results that the more the time taken to disburse the creditors, the liquidity and profitability will increase. Implications Of CCC On Liquidity Risk In Quoted about these Commercial Banks which are very dominant in the financial sectors of China. The findings show that there is

a significant relationship between CCC and liquidity risk in quoted commercial banks in China. CCC has significantly negative relationship with the liquidity of banks which directly enforces the banking sectors in order to increase their liquidity when they shorten their CCC. Some of other researcher also supports the findings that reducing the CCC improved liquidity and profitability of firms.

Richard, Vitor and Angmor (2013) predicted about to find that what kind of relationship exist between WCM and corporate cash holding in financial firms or business in all listed companies in African stock exchange. Specifically, the study examines the relationships between the four components of Working Capital Management, namely, CCC, receivable conversion period, inventory conversion period, payable conversion period and the growth of African publicly listed companies. The study utilizes the financial historical data obtained from the Data Stream from December 2005 to December 2011. The one hundred top public-listed companies mainly based on market capitalization in the Main Board of African stock exchange are selected as a sample. The testing for hypotheses involved examining the relationship between the dependent variable (growth of Malaysia companies) and the independent variables (CCC, receivable conversion period, inventory conversion period, and payable conversion period). Analysis shows that all the independent variables have positive relationships with firm growth, but only CCC has a significant relationship. It is concluded that companies should focus and establish the policy of WCM in an efficient manner to serve their shareholders in maximizing their wealth.

The results from this study suggests that if firms need to increase its ROA, they should be efficient and sell fast its inventory and speed up collection of debt from the customers.

However, caution is needed to generalize the findings from this study due to shorter period under study and limited sample. He suggested that WCM has no significant effect on the market valuation of the companies. Plausibly internal factors are not as strong as external factor to affect the company's market value have led to this finding. The results of ROA however, show that the faster the company sell its inventory and collect debt from its customers, the higher is its ROA. The findings of this study also indicate that the speed of payment made to supplier does not matter to company's profitability. As long as company pays within reasonable time that do not adversely affect customer-supplier relationship and the suppliers are willing to continue to do business with the company, it may have no impact on its financial performance. Companies should focus more on its sales part to drive better financial performance.

Afrifa, (2016) Assessed to study the effect of WCM on profitability among all financial institutions operating in the business circle by providing comprehensive support to the financial positions of the firms or companies listed . The various type of data has been collected from Data Stream for the year 1998 to 2004 was analyzed using panel data analysis. CCC (CCC), one of the WCM measures, is the time frame between cash outflow on purchasing materials until the money is received from sales of the products. Simply put, CCC is a number of days of operation either account receivables, inventory and payable. The higher the number of CCC in days, the costly investment is required in Working capital. The length number of days of the CCC depends on the length of the number of sales inventory days (DSI), the number of account receivable days (DSO) and the number of account payable days (DPO).

The number of DSI is the average time taken to use the raw material in the company,

change the raw materials into finished goods, and finally sell the finished goods to customers. The number of DSI may take monthly for a few sectors such as manufacturing company, or a few hours for some other sectors such as service sector. When focus on investment and profitability is placed at the forefront, it may confront with liquidity crisis. Thus, companies need to strategize to ensure they will not neglect both liquidity and profitability. The purpose of this study is to identify whether WCM has influence on the Malaysian firm's profitability, measured by Tobin Q and ROA. The result indicates that none of the Working Capital measure has impact on Tobin Q. Nevertheless, lower DSI and DSO are associated with higher ROA and how fast companies pay to its supplier does not matter to their profitability.

Godfred and Tingbani (2017) have taken comprehensive study in order to define and predict about what kind of relationship exist between WCM and corporate cash holding in financial firms or business in all listed companies in Singapore stock exchange. Specifically, the study examines the relationships between the four components of Working Capital Management, namely, CCC, receivable conversion period, inventory conversion period, payable conversion period and the growth of Singaporean publicly listed companies. The study utilizes the financial historical data obtained from the Data Stream from 2006 to 2011. The one hundred top public-listed companies mainly based on market capitalization in the Main Board of Bursa Malaysia are selected as a sample. The testing for hypotheses involved examining the relationship between the dependent variable (growth of Malaysia companies) and the independent variables CCC, receivable conversion period, inventory conversion period, and payable conversion period. Analysis shows that all the independent variables have positive relationships with firm growth, but

only CCC has a significant relationship. It is concluded that companies should focus and establish the policy of WCM in an efficient manner to serve their shareholders in maximizing their wealth.

The results from this study suggests that if firms need to increase its ROA, they should be efficient and sell fast its inventory and speed up collection of debt from the customers. However, caution is needed to generalized the findings from this study due to shorter period under study and limited sample. He suggested that WCM has no significant effect on the market valuation of the companies. Plausibly internal factors are not as strong as external factor to affect the company's market value have led to this finding. The results of ROA however, show that the faster the company sell its inventory and collect debt from its customers, the higher is its ROA. The findings of this study also indicate that the speed of payment made to supplier does not matter to company's profitability. As long as company pays within reasonable time that do not adversely affect customer-supplier relationship and the suppliers are willing to continue to do business with the company, it may have no impact on its financial performance. Companies should focus more on its sales part to drive better financial position of every business or firms.

They have concluded overall result of the research study by taking all the taken variable to be determined for finding that both AP and AR are important for the profitability of the SMEs is consistent with the findings by the different researcher taken in different aspects of their study.

Jayarathnea (2014) emphasizes that the effects showing by the WCM on firms cash handling situation will greatly role out the gaining power of the firms ability to maximize the earning power for the firms. In this paper the researcher has attempted to assess the

effect of WCM on profitability using a five year (2008-2012) data set on 20 manufacturing firms listed in CSE. The result shows that a liberal credit policy tends to decrease the profitability which will predict that the firms have no efficient way of handling their cash balancing of these manufacturing firms which may highlight the fear way of managing the working capital which will directly impacts on the profitability of these manufacturing firms.

James and Benson et al. (2014) said that WCM has greatly emphasizes on the cash handling of any firms or business. In this study all the commercial banks operated in Kenya financial industries are taken in order to predict the relationship of WCM and Profitability of these banks. The study is mostly taken out in order to find out the Implications of Debtors Average Collection Period On Liquidity Risk In Quoted Commercial Banks in Kenya. The findings show that there is a significant relationship between debtors average collection period and liquidity risk in quoted commercial banks in Kenya. Debtors' average collection period has significantly negative relationship with the liquidity of banks; banks are able to increase their liquidity when they shorten their debtors' collection period. All other researchers of this field are also agree that smaller number of days accounts receivable improved liquidity and profitability of firms.

The findings show that there is a significant relationship between creditors average payment period and liquidity risk in quoted commercial banks in Kenya. Creditors' average payment period has significantly positive relationship with the liquidity of banks; banks are able to increase their liquidity when they increase their creditors' payment period. These results show that as banks increase the length of time it takes to pay for loans, it reduces the burden on their cash and therefore gives them the opportunity to hold

cash and cash equivalent. Banks should stretch the payments for better liquidity position.

Some of all others researcher have also found out the same results that the more the time taken to disburse the creditors, the liquidity and profitability will increase. Implications Of CCC On Liquidity Risk In Quoted Commercial Banks In Kenya. The findings show that there is a significant relationship between CCC and liquidity risk in quoted commercial banks in Kenya. CCC has significantly negative relationship with the liquidity of banks; banks are able to increase their liquidity when they shorten their CCC. Some of other researcher also supports the findings that reducing the CCC improved liquidity and profitability of firms.

G.A. (2016) worked and generalized about the steps of decision of WCM are considered one of the most crucial decision for any kinds of business organization either they are large or small in size they have needs to maintain adequate amount of Working Capital to run the business smoothly without any interruption. They also explained the importance of maintaining adequate level of Working Capital to meet routine transaction for their survival. WCM playing very much important role in the company uplifting and financial position among their others competing firms in the existing environment in the same or different nature of business or commercial activities. The researcher of the study has found statistically positive and significant relationship between the WCM tools and profitability. While some other researchers in the same nature of study literature are showing negative impact of firm's liquidity over its profitability with respect to WCM issues.

## **2.5 WCM and Firm performance.**

Shin and Soenen, (1998) undergoes in order to know about the main scenarios about the WCM and cash holding of any business firms. The study further examines that the WCM is very essential in order to identify the effect of corporate CH of a firm. He investigated the relationship of the various dimensions of WCM and corporate CH and suggests that each component of WCM can contribute positively in the firm's capital adequacy and profitability. He further investigated the relationship of these variables by using correlation and regression tools in order to predict that what type of relation exist between various variables.

In this regard Abuzayed in (2012) also describe the importance of Working capital management on the firms or company performance. He further analyzed about the WCM and the firms performance by taking the firms of Jordan banking sectors in which the data is taken for the period of 2000- 2006. In these banking sectors most of the banks are taken which have a great economic stability growth ratio in the economic situation of the Jordan economy. The data of these banking sectors are analyzed through the process of different statistical techniques generally regression analyses techniques is taken for the study period. The finding of the data about these firms generated through different models used in this study highlighted that if Working capital variables increase then it definitely negatively effect the performance rate of the firms. So the study recommend that every financial instates or industries should makes their all of its WCM ratios in a highly competent and carefully way for better understanding of their cash handling positions because these types of ratios are very vital for the gaining of the firms which directly shows great positive impacts on the firms performance.

In the light of previous study taken by different researcher the Beaumont in (1997)



also added to show about the importance of WCM and cash holding of any firms which have greatly impacts on the performance of the firms. In this study they have also assessed the contribution of the WCM of any firm in gaining of high potential of profit index for the firms. In this study the data is generally has been taken out from the Chinese's Industries specially the Health sectors, In which the data of these health sectors are analyzed with the help of panel data techniques and methods for the analyses of these data taken out from these sectors. The result of the study lighted that cash conversion cycle is mainly impact negatively on the profitability and cash position of these firms. Which is directly impacting on these firms or Companies. The study also found that the Account payable period can also dangerous for the position of cash holding and status of gaining for the firms or industries. The study suggested as a recommendation that the firms or industries may be careful in the financing activities about the various dimensions of WCM for great business portfolios. The result of the study also show a negative relationship towards account receivables turn over and also the Account payables turnover of the firms.

Usmana, Bashir, and Faiq et al. (2017) argues that WCM is the most considerable measure in the firm financial performance perspective due to which for each firms or business the WCM is to be considered an important hurdle in order to overcome in a highly professional way. So the top management executives specially financial department may focus more to produce more values and wealth for the shareholders of the business firms .the financial manager and executives should give more preference to the shareholder value creation by adopting all the procedures and measures of acquiring WCM concepts more precisely and accurately in the progressive and tough timing

belongs to shareholders . Moreover, the WCM is the best choice for the firms specially for a small firms to highly progressive firm in the manner the firms adopt best concepts of WCM in short term financing as well. This types of small firms may faced some financial barriers in a highly competent environments of business whether they require more financial resources. so in order to avoid such types of financial constraint these types of small firms may taken the financial discrepancies from the banks by taking short term loans , trade credits and also self sharing of shareholders' financing to the firm's ability to gain maximum profitability.

Abuzayed, (2012) proclaimed about to study the different global scenarios of WCM in the financial era of all important way for each business to survive perfectly by accelerating their business activities for best performance activities which can help to get better success of business scenarios. so its quiet for the management of each firms that take their working capital in a highly effective manner in order to overcomes on such types of illiquidity situations in which the firms are able to ensure the necessity of cash requirements for the business to handle the break even point and also able to survive in distressed situation in which credit not goes easily towards firms business requirements.

So in this study the main objective is taken out to predicts the presents empirical perspective of the impacts of WCM on corporate CH and also to confirm the performance of firms specially in oil sectors or industry by taking and using annual financial report data for the duration of 2004 to 2010. These data were analyzed using descriptive statistics and Financial Analysis Techniques of Working Capital ratios. In the content of most critical techniques taken previously ,the operating period of cash will relates significant and positive relations with banks. Working Capital Management, is act

like Account receivables cash collection period, while Account payable period cycle impact a significant negative relation. However these oil sectors appear to perform poorly in these working ratios.

This method of study is a recently conducted in which the researcher has tried to analyse the WCM mostly relates to oil industries. In this research analyses all oil sectors business, over an seven year period (2004-2010) is taken out for the study. The study used data from Annual Reports of these listed oil sectors . Using descriptive research methodology, within the framework of Financial Analyses Techniques of Liquidity Sufficiency (Working Capital ratios), the study concludes that while cash operating cycle has a significantly positive relationship with banks' Working Capital efficiency, just like receivables cash collection period, while Account payable period cycle impact a significant negative relation with point of optimality of Working capital. Surprisingly, however majority of the oil sectors has merely low performance by comparing to universal acceptable bench marks. Thus, even though banks are advised to increase their CCC, they are to do so cautiously since the level of income earned by oil sectors depends largely on the level of credit available to them for investment. Consequently, banks should match their assets against their liabilities appropriately by finding the optimal combination of Current assets and Current liabilities that would enable them to stay profitable in the entire business if the firm.

Raji Sadiq (2017) studied that WCM is the blueprint for the every firms or business through which a firm can measure the annual performance, The WCM concepts may able the firms to predict their annual growth in a marginal way by clearly indicating the risk factors as well as effectiveness of the firm performance appraisal. All the firms or

business must aware about their short and long term investments portfolios in order to maintain the business mentality and survival for a long time. This research study is taken out in order to predict the effect of WCM on small and medium enterprises' performance in Nigeria, in which most of the stud data is taken out from the Osun State as a focus area for the duration of 2001-2007 by taking all the firms financial position and annual income statement. The results of this research study is taken out by calculating return on assets as a tool to measure firms' performance in Nigeria.

In this analyses method the Data were analysed using ordinary least square method to test the hypothesis formulated which were further generates different statistical measures by giving a different form of results. Our findings indicate a mixed effect of WCM on performance. It was concluded that account payables period, CCC and net trading cycle has positive effect on performance. Account receivables period and inventories turnover in days has negative relationship with performance of the firms.

Ishmael et al. (2017) has taken the research study in order to investigate the relationship between WCM and Small and medium enterprises performance by taking into consideration the desire impact of cash flow on the firm working capital. This research study adopted in order to take the panel data random analysis on the data taken from a sample of 100 listed small and medium enterprises in Bangladesh on the Alternative Investment Market for the period from 2007 to 2014.

The results of the study suggested that the importance of cash flow on SMEs' Working Capiatl is very important for the performance evaluation of these small and medium enterprises. According to his findings, WCM has a significantly more impact on SME performance.

Isyaku (2016) aim is to study to provide empirical evidence on the impact of Working Capital Management, debt and size on SMEs' performance in Malaysia focusing on the manufacturing sector. A panel data sample of 40 listed firms for the study was obtained from the Companies' Commission of Malaysia (CCM) for the period from 2007 to 2015. The Generalized Least Square (GLS) was used for testing the hypotheses of the study. The regression results show that accounts receivable period, inventory holding period, debt and size are significantly related to performance, whereas accounts payable period and CCC are insignificantly related to performance.

This study has concluded the results that AR period, AP period and debt to has negative relationship with the firms ability and also performance. But the remaining independent variables have relationship with performance. Furthermore, these results has very crucial adaptation for financial managers of the firm ability to measure performance and also the HR policy-makers which are able to exercise and regulate the financial policies and also select best mechanisms for Small and medium enterprises development.

Furthermore, The results have also shown that managers can able to allocate various resources for considering their firms cash flow when determining the appropriate investment to be made in Working capital, in order to able the firm to get their success by improving performance. The Overall results giving the clear picture about to investing of available cash in Working Capital which clarify that firms maximiz of the firms.

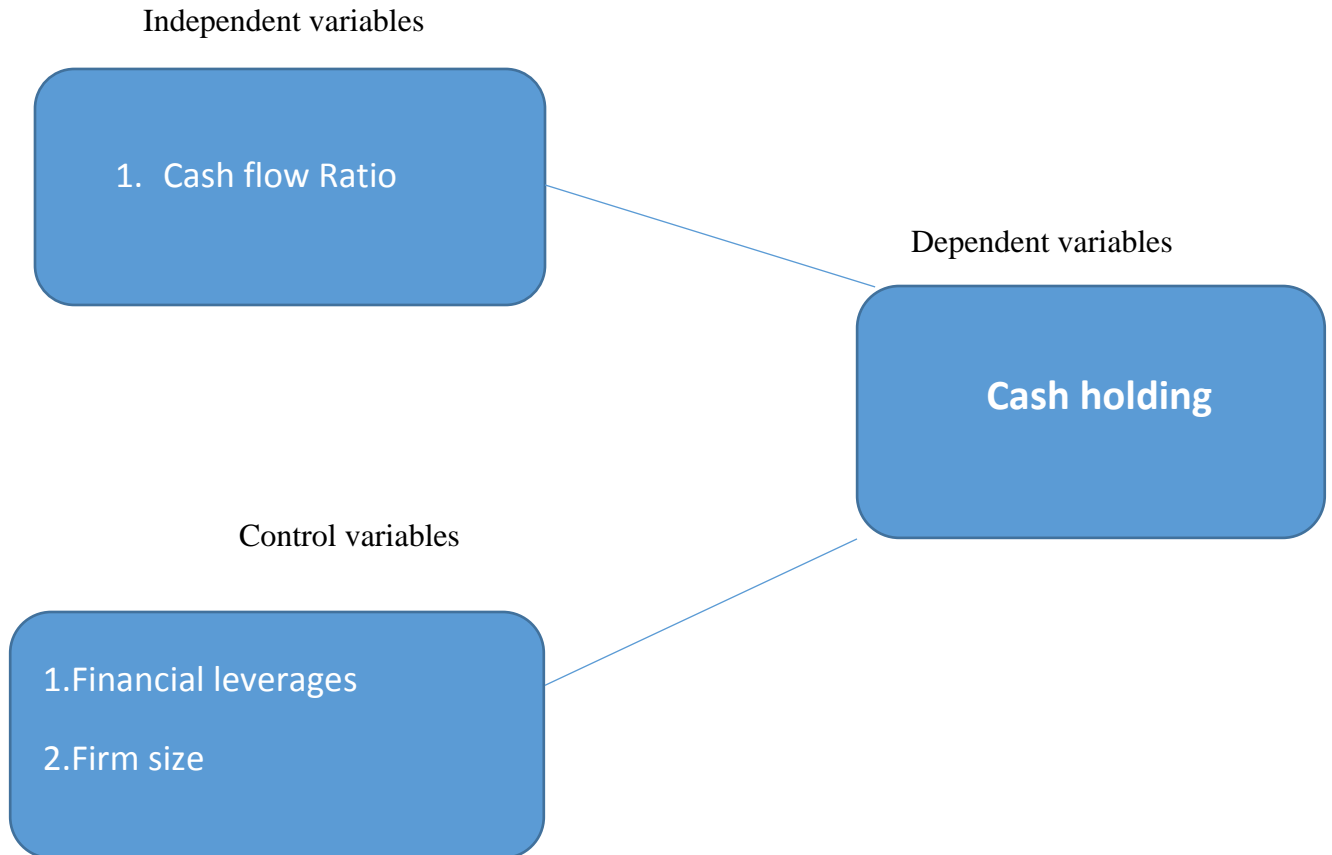
Bates et al (2006) has taken the research study about the U.S. industrial firms from 1998 to 2004 in which the study is taken in order to investigate that how can working capital playing a very vital role for maintaining the smooth functioning of any kinds of business i.e. whole sale business or retail business or any other large business

organization. He added that any kinds of business organization can smoothly functioning along with sufficient amount of Working Capital none of business organization can run properly without having adequate amount of funds for their day to day business obligations. They also stress that WCM needs skills and abilities to manage the things efficiently assets. Working Capital represents that Current assets must be equal to the amount of Current liabilities. Working Capital can be expressed mathematically as  $\text{Current assets} - \text{Current liabilities} = \text{Working capital}$ . Moreover, WCM is very vital for smooth running of the business enterprise in this dynamic situation.

Similarly, WCM played very active and dynamic role in the success of any kinds of business or private organization to meet his day to day needs. They also found that sufficient level of liquidity is much needed for the spontaneous finance of the any kinds of business firms. He also interpreted that Working capital has positive and significant impact on firm's financial performance. The researcher also added his view according to his findings where they concluded that maintenance of adequate amount of Working Capital is very much vital for corporations to meet his current obligations throughout the year.

## 2.6 THEORETICAL FRAMEWORK

The Theoretical framework of the research study has been structured with the combination of Dependent variables;(Cash Holding), Independent variables; Cash Flow Ratio (CFR) and Control variables(Financial Leverages,(FL), Size of the Firm (FS))



## **2.7 Hypothesis of the study**

H2: The Cash Flow Ratio has Positive effect on the firm CH.

H3: Financial leverages have negative relation with CH.

H4: Firm size has also greatly positive relation with CH.



## Chapter 3

### Research methodology

#### 3.1 Research design

Adi Bhatt has explained that Research design is a basic framework of methods and techniques chosen by a researcher to combine various components of research in a reasonably logical manner so that the research problem is efficiently handled. A research design is a structure taken by the researcher in order to construct a uniform way of defining and explaining the research thesis in a highly efficient and professional way for better understanding of the research study and also able to manipulate the outcomes taken from the research analyses for better structural view for the learner and also for good research in future study.

**Table 3.1 Research Design Steps**

Main Aim of Research study	Hypothesis testing
Nature of Research	Quantitative Research base study
Types of the study or investigation	regression, correlation and casual study
Study setting	Contrived study

Sampling	Random sampling
Instruments and measurement	Pre-Used variables
Data collection	Secondary
Data analysis	Descriptive, correlation and regression

### **3.2 Type of research**

This research study has been conducted on the basis of quantitative research method due the reason that the data of this study is quantitatively analyzed. This Quantitative research method that relies on measuring variables using a numerical system, analyzing these measurements using any of a variety of statistical models, and reporting relationships and associations among the studied variables. In this quantitative method the data will be analyzed on the basis of descriptive and correlation techniques amongst these variables taken in the research study. The Quantitative methods emphasize objective measurements and the statistical, mathematical or numerical analysis of data collected through polls, questionnaires and surveys or by manipulating pre-existing statistical data using computational techniques. Quantitative research focuses on gathering numerical data and generalizing it across groups of people or to explain a particular phenomenon.

The overarching aim of a quantitative research study is to classify features, count them, and construct statistical models in an attempt to explain what is observed.

### **3.3 Type of study**

This research study is conducted by using correlation and Regression base study in which we have examine the correlation between Working Capital and CH structure. In this study the correlation and regression analyses techniques are used in order to determine relationship between these variables and also to describe that how the independent variables numerically related to dependent variables.

A Simple regression is a model which is taken in order to predict the relations exist

between the desired variables includes about one dependent and one independent variable. When analyses is run or furnished after that the regression statistics can be utilized to know the dependent variable when the independent variable is already known.

### **3.4 Population of the study**

The population of this study is comprised of all listed conventional and Islamic banks in Pakistan which are listed in Pakistan stock exchange. In these banks most of the banks are taken which are highly effective and high ranking in most of the business firms which are listed in Pakistan stock exchange.

#### **Table 3.2 Number of Banks which are listed in Pakistan Stock Exchange**

The following are the list of both conventional and Islamic banks which are taken in the research study are;

MCB BANK LTD , UNITED BANK LTD , ASKARI BANK LTD, BANK OF PUNJAB LTD,BANK OF KHYBER LTD, SINDH BANK LTD, BANK AL HABIB LTD, HABIB METRO BANK LTD, U BANK LTD, ZARAI TARKIATI BANK LTD,, SAMBABANK LTD, SUNERI BANK LTD, CITI BANK LTD, SILK BANK LTD,HABIB BANK LTD, ALLIED BANK LTD, NATINAL BANK LTD, JS BANK LTD, AL BARKA BANK LTD, FIRST WOMEN BANK LTD, SUMMIT BANK LTD, BANK AL FALAH LTD, STANDARD CHARTERED BANK LTD, FAYSAL BANK LTD.

DUBAI ISLAMIC BANKS, BANK ISLAMI, MEEZAN BANK LTD, MCB ISLAMIC BANK LTD, JS ISLAMIC BANK LTD, UBL ISLAMIC BANK LTD, NBP ISLAMIC BANK LTD.

### **3.5 Sample size and Sample techniques**

A Sample size is the part of statistical sample determination in which the researcher mentioned the required numbers of observations or replicates include in data analyses of the research study. The sample size is the statistical way through which a sample is made or taken from the population of the study which is more an important aspects of any empirical study. In practical view, the sample size is the best sufficient statistical power of data analyses which is to be determined by taking in view the cost factors, also the time factors and the required convenient way of collecting the data.

Sample size is the way of counting the overall observations taken in the survey of the study analyses by taking the expo of scientific calculations of the individual samples or a public opinion survey. In the light of straight forward concept, the selection of sample size is a difficult task for any research data analyses.

The sample size of this study is generally composed of about 31 banks taken from both conventional and Islamic banks in Pakistan. In this study the sample size will contain about 24 conventional banks and 7 Islamic banks which are operating in banking sector of Pakistan. Those banks will be analyses which have a positive ROA and ROE for the study period.

This research study in hand will be based on secondary data which will be collected from the annual reports of these conventional and Islamic banks and also some data will be taken from Pakistan stock exchange site about these listed banks. Moreover, state bank sites is also been searched in order to find and collect data of different proxies of this research. This data of this study has been taken and analyzed for the period of 2011 to 2017.

### **3.6 Statistical Tools and Techniques for Data Analyses.**

Statistical tools and techniques is the discipline that concerns the collection, organization, displaying, analysis, interpretation and presentation of data.

The data has to be analyzed through various techniques such as descriptive statistic, correlation and dummy based Regression to capture the difference between conventional and Islamic banks portfolios. More ever t-test is also be used to document more Robustness in the comparison of these Islamic and conventional banks listed in Pakistan stock exchange.

#### **3.6.1 Correlation**

A correlation is a statistical way of defining the different dependence or relations made through any statistical relationship of the variables , either made causal or not. In the broad view the correlation is a any statistical association, in which the variables are distinguish to the certain extents through the process of linear regression analyses way.

A Correlation is generally very predictive and useful because of the results shown in a form of predictive relationship practically can be exploited generally. A correlation is mainly the co-relational synonymous with dependence of the relation exist between these variables which are taken in the main research thesis prediction about the WCM and Corporate cash holding by comparatively analyses of conventional and Islamic banks in Pakistan.

#### **3.6.2 Regression analyses**

A Regression analyses is a technique used in statistics in order to define the relation exist between the variables taken in research analyses which includes the Dependent variables

and Independent variables. In statistical methods the generally most common is the linear regression analyses technique, which is used to find the relationship exist between the variable such as dependent and independent variables which show the result through linear functions taken in the research study. In the view specific mathematical calculation steps it shows that how the conditional expectations can be formulized of the dependent and independent variables by giving the uniforms way of results shown.

The main and primary usage of regression analyses is to predict and forecast the results of the variables taken in research study and further it is used to define the exact relationship between the dependent variables and independent variables.

### **3.7 Operational definitions and measurements.**

#### **3.7.1 Dependent variable.**

##### **3.7.1.1 Cash Holding**

Cash Holding is generally is the amount available with the firms in their cash vault and also available in order to invest in their working assets and also to divide to the shareholders or investors of the firms or company. In Economical perspective, the cash is the form of money which is physically represented as a currency, just like bank notes and coins. In the view of finance and book keeping the cash is comprised of Current assets which include currency or currency equivalents that should be access for immediately or near-immediately cash payments. Cash is a kind of reserve generally used for different payment dues, where there is a deficiency of cash availability or in the situation when there is a downfall of cash flow or downtime of financial discrepancy occurs in a financial market structure. CH is generally can be viewed or displayed as a cash that can be easily adjustable in the way of acquiring cash. In this context. A firms

ability can be measure in the context of paying all their Current liabilities with the help cash or cash equivalents will be expressed as a cash liquidity in the forms of cash ratio or cash coverage ratio

The cash ratio is much more restrictive than the current ratio or quick ratio because no other Current assets can be used to pay off current debt.

CH can be calculated as

Cash ratio =  $\text{cash} + \text{cash Equivalents}' / \text{Current liabilities}$

### **3.7.2 Independent Variable;**

#### **3.7.2.1 Cash Flow Ratio (CFR)**

A CFR (Cash Flow Ratio) is the measurement device through which a firms can able to define that how will the Current liabilities are able to covered flow of cash evaporates from a operational activities of the company. A cash Flow acts like a cleaner or more precise measurement tool for the measurement of income level of the company. This method was also used by Raheman et al., 2010.

A cash flow ratios are commonly composed of Cash flow coverage ratio. Which are can be predicted or Calculated by dividing the overall operating cash flows by total amount of debts. These types of ratios are able to clearly indicates that an organization are able to pay their dues or debts which are to be payable for principal schedule payments of firms.

Another ratio is the Cash flow margin ratio which is predicted by dividing all the amount of sales on the total cash flow generated from the operational activities of the company or firms. The below formula are used for the analysis or measurement of cash flow ratio.



Cash Flow Ratio = (Earning after Interest and Tax + Depreciation) / Total Assets

### **3.7.3 Control variables**

#### **3.7.3.1 Financial Leverage**

A financial leverage is the way through which a company or firm make their business by using their equity by allocating the different circulars loans for better treatment of firms assets to be utilized in a effective manner. A financial leverages approach is used in order to get high command on greater amount of assets by lending money for will directly impacts on returns will amplify on the investments taken by the owners through cash. A leverage ratio is the tentative measurement device through which the firms can capable to manage that how the working capital of the firms to managed for the process of avaluating and supporting the financial requirements of the firms by taking different forms of loans. In such situation the firms can capable in order to meets their all obligation when ever the firms comes into financial distress situation for which they have a lot of money in the form of cash to handle the situations where the firms can pay their debts when they comes on due on the firms.

Financial leverage Ratio= Tot debts / tot assets

#### **3.7.3.2 Firm size**

A size of the firm is generally known as A market capacity of the firms through which it can be measure by comparing a all the shares of the firms which are outstanding with a present market value of the single shares. A company size is analyzed by the investors by managing and predicting such types of figures evaluations by determining the shares price of the company in a recent stock prices and also see the sales current value of the

company assets. Rashid et al (2014),

A business industry mainly composed of different firms of different sizes in which each firms have their own different level of productions which have definitely different productions cost and expenses. So in business concern the investors or Economists mainly take their interests in a high best size of a business unit, which means that they will take great interest in those firms which have the minimum and lowest average production cost per unit .

So the size of the firms can be calculated by taking all the assets operates in production level of the business in which per unit cost of production can be determined for market evaluations.

The formula used for calculating size of the firms are as;

Firm size = log of(firm total assets)

## Chapter 4

### Results and Discussions

#### 4.1 Diagnostic Test

The study applied various data diagnostic tests like checking hetro and autocorrelation. The Wooldridge test was applied to know the serial correlation in the data. The reported value is insignificant at 5 % level , which means that no autocorrelation in the data and the data is free from such problem, further provides signal for statistical tools to be used. The study also conducted Breush-pagan/Cook- Weisberg test for heteroscedasticity and reported Prob> chi2= 0.0790, which confirmed that there is no existence of hetero problem in the data.

#### 4.2 Hausmen Test

The Hausman Test or the Hausman specification test clearly detects regressors ' (predictor variables) in a regression model which clearly determines the Endogenous variables have values that are determined by other variables in the system. This is what the Hausman test will do about the specific variables. The **panel data analysis** (the analysis of data over time), the Hausman test can help you to choose the best model between fixed effects model or a random effects model by clearly indicating the desired results or outcomes of the regression analyses by taking dependent variables and independent variables of the research study.

### 4.3 Corelational Analyses of Conventional banks

<b>Variable</b>	<b>lnCH</b>	<b>lnCFR</b>	<b>FS</b>	<b>FL</b>
<b>Ln CH</b>	1.0000			
<b>Ln CFR</b>	0.7164	1.0000		
<b>FS</b>	0.4184	0.4567	1.0000	
<b>FL</b>	0.1687	0.1507	0.3176	1.0000

The above table shows that correlation analysis of the relationship of the various variables which are taken in the research study in order to predict the WCM and CH. These all results predicting about the positivity of correlation between the proxy of Working Capital management, cash flow ratio and corporate CH. The coefficient of determinant is ( $r=0.71$ ) which indicates that there is strong positive correlation between corporate CH and cash flow ratio the result also determined that firm size also showing positive correlation with CH, which shows that as the size of the firm is to increases, the CH of the firm also tends to increase. The firm leverage ratio shows negative relationship with CH. This means that as the level of leverage of a firm increases, than the CH of the firm tends to decrease.

#### 4.4 Regression Analysis of Conventional Banks

##### 4.4.1 Fixed Effect Model of Conventional Banks

. InCH	Coefficient	Standard Error	T Value	P. Value	[95% conf. Interval]	
<b>InCFR</b>	.0358652	.0641579	0.56	0.577	.0908526	.162583
<b>FS</b>	.9138122	.0850708	10.74	0.000	.7457895	1.081835
<b>FL</b>	.0809083	.0245184	3.30	0.001	.0324822	.1293345
<b>Cons</b>	1.700687	1.030497	1.65	0.101	3.736013	.3346386

**F-value , 213.89, R-square, 0.72**

This table shows the effect of various independent variables on the firms CH. the result showing that cash flow ratio has positive effect on the firm CH, as the value of P is insignificant at 5% probability, which determined that CFR has positive but insignificant effect on CH.

The firm size shows positive but significant effect on CH which means that more mature firms will have positive effect on the firm CH . while the result of FE Model shows that the leverage of the firm shows positive significant effect on the firm CH ,as the P value is significant at 5 % probability level.

The F value is significant at 5 % probability level, which means that overall model is significant. The R2 which can explain power of the model shows is 0.72 which means that 72 % changes are mainly due to the various IVS used in the Model.

#### 4.4.2 Random Effect Model of Conventional Banks

InCH	Coefficient	Standard Error	T Value	P. Value	[95% conf.Interval]	
<b>InCFR</b>	.0368218	.0626279	0.59	0.557	.0859267	.1595702
<b>FS</b>	.9072672	.0817632	11.10	0.000	.7470142	1.06752
<b>FL</b>	.0779371	.0240807	3.24	0.001	.0307398	.1251345
<b>Cons</b>	1.584298	.9902571	1.60	0.110	3.525166	.3565705

Wald chi2(3) = 430.51, R-square, 0.81

This random effect model table indicates the correlation of the various independent variables of the firms which predict that cash flow ratio is greatly insignificant and positive effect on the firm CH, as the value of Z is significant as 5% probability, which determined that CFR has positive but insignificant effect on CH.

The firm size shows positive but significant effect on CH which means that more mature firms have positive effect on the firm CH. while the result of FE Model shows that the leverage of the firm shows positive significant effect on the firm CH, as the Z value is significant at 5% probability level.

The Z value is significant at 5% probability level, which means that overall model is significant. The R2 which can explain power of the model shows is 0.81 which means that 81% changes are mainly due to the various IVS used in the Model.

#### 4.5 Hausman Test

	(b)	(B)	(b-B)	sqrt (diag (V_b-V_B))
<b>Coeffient</b>	sfe	re	Difference	S.E.
<b>InCFR</b>	.0358652	.0368218	.0009566	.0139279
<b>FS</b>	.9138122	.9072672	.006545	.0234909
<b>FL</b>	.0809083	.0779371	.0029712	.0046122

b = consistent under Ho and Ha; obtained from xtreg

B = inconsistent under Ha, efficient under Ho; obtained from xtreg

Test: Ho: difference in coefficients not systematic

$$\begin{aligned} \text{chi2}(3) &= (b-B)'[(V_b-V_B)^{-1}](b-B) \\ &= 0.63 \end{aligned}$$

$$\text{Prob}>\text{chi2} = 0.8899$$

The hausman test is an Model which is taken in order to identify that which one is the best model test for this research analyses of the data in both Random effect model and fixed effect model.

The above Housman test showing that the random effect model is an appropriate model, as the probability value is insignificant at 5 % level determining, the RE model is the good choice for the analysis of the data.

#### 4.6 Correlational analyses of Islamic banks

<b>Variable</b>	<b>lnCH</b>	<b>lnCFR</b>	<b>FS</b>	<b>FL</b>
<b>lnCH</b>	<b>1.0000</b>			
<b>lnCFR</b>	<b>0.0098</b>	<b>1.0000</b>		
<b>FS</b>	<b>0.5189</b>	<b>0.0189</b>	<b>1.0000</b>	
<b>FL</b>	<b>0.2909</b>	<b>0.2399</b>	<b>0.0850</b>	<b>1.0000</b>

The above table of correlation analysis of the Islamic banks predicts that CH has a unanimous relation between these variables which are taken in the research study. These all results are predicting about the positivity and insignificance of correlation between the proxy of Working Capital management, cash flow ratio and corporate CH. The coefficient of determinant is very low which is ( $r=0.098$ ) which indicates that there is positive correlation between corporate CH and cash flow ratio. These result also determined that firm Size also showing slightly positive correlation with CH, which shows that as the Size of the firm when gradually increases, the CH of the firm also tends to increase. The firm leverage ratio shows positive relationship with CH. This means that as the level of leverage of a firm increases, than the CH of the firm tends to decrease.



#### 4.7 Fixed effect model of Islamic Banks

InCH	Coefficient	Standard Error	T Value	P. Value	[95% conf. Interval]	
InCFR	.0288492	.2945879	0.10	0.922	.5670112	.6247095
FS	1.415986	.3917099	3.61	0.001	.6236777	2.208294
FL	2.805487	1.64978	1.70	0.097	.5315079	6.142481
Cons	9.492946	4.414872	2.15	0.038	.5630246	18.42287

#### R-square, 0.33, F-value, 34.98

This above table of fixed effect model shows the effect of various independent variables on the firms dependent variables which is CH. These above result indicates that cash flow ratio (CFR) has positive effect on the firm CH, as the value of P is slightly insignificant as 7% probability, which determined that CFR has more positive but slightly insignificant effect on CH.

The firm size shows positive and significant effect on CH which means that more mature firms will have great effect on the firm CH . while the result of FE Model shows that the leverage of the firm shows positive significant effect on the firm CH ,as the P value is significant at 7 % probability level.

The F value is insignificant at 5 % probability level, which means that overall model is insignificant. The R2 which can explain less power of the model shows is 0.33 which means that 33 % changes are mainly due to the various IVS used in the Model.

#### 4.8 Random effect of Islamic Banks

InCH	Coefficient	Standard Error	T Value	P. Value	[95% conf. Interval]	
InCFR	.0919755	.2690176	0.34	0.732	.4352893	.6192403
FS	1.478464	.3646807	4.05	0.000	.7637033	2.193225
FL	2.927538	1.42433	2.06	0.040	.1359031	5.719173
Cons	8.441127	3.876168	2.18	0.029	.8439778	16.03828

**Wald chi2(3) = 22.40, R-square, 0.77**

This random effect model table indicates the correlation of the various independent variables of the firms which predict that cash flow ratio is greatly insignificant and positive effect on the firm CH, as the value of Z is significant, which determined that CFR has positive but insignificant effect on CH of various independent variables.

The firm size shows positive but insignificant effect on CH which means that more firms age has continuous effect and also will have positive effect on the firm CH. While the result of FE Model shows that the leverage of the firm shows negative significant effect on the firm CH, as the Z value is significant at 5% probability level.

The T value is significant at 5% probability level, which means that overall model is significant. The R-square which can explain power of the model shows is 0.77 which means that 77% changes are mainly due to the various IVS used in the Model.

#### 4.9 Hausman test

	(b)	(B)	(b-B)	sqrt (diag (V_b-V_B))
<b>Coefficients</b>	fe	re	Difference	S.E.
<b>InCFR</b>	.0288492	.0919755	.0631263	.1200483
<b>FS</b>	1.415986	1.478464	.0624785	.1429849
<b>FL</b>	2.805487	2.927538	.1220513	.8325012

b = consistent under Ho and Ha; obtained from xtreg

B = inconsistent under Ha, efficient under Ho; obtained from xtreg

Test: Ho: difference in coefficients not systematic

$$\chi^2(3) = (b-B)'[(V_b-V_B)^{-1}](b-B)$$

$$= 0.39$$

$$\text{Prob}>\chi^2 = 0.9415$$

The hausman test is an Model which is taken in order to identify that which one is the best model test for this research analyses of the data in both Random effect model and fixed effect model.

The above table of Housman test effect model predicts that the random effect model is an appropriate model for the analysis of various dependent and independent variables which are taken in the research study, this models governs that as the probability value is insignificant at 8% level determining, the RE model is the good choice for the analysis of the data.

## CHAPTER 5

### FINDINGS, CONCLUSIONS AND FUTURE DIRECTION

#### 5.1 Findings

The findings of this study of conventional banks found that Cash flow ratio (CFR) has a Positive but insignificant relation with the firm CH as the T-Value in the following analyses tables is insignificant at 5% probability level.

The results from the analyses of the data tables of conventional banks also found that firm size (FS) has greatly positive significant effect on corporate CH due to significant correspondence p- value in both models.

The results from the analyses of the data also demonstrated that firm leverage (FL) has a great positive results and also have significant effect on the CH of conventional banks, due to the significant p-value.

The findings of this study of Islamic banks found that Cash flow ratio (CFR) has a Positive but insignificant relation with the firm CH as the T-Value is less than 2 in the following analyses tables which indicates insignificance at 5% probability level.

The results from the analyses of the data tables of Islamic banks also found that firm size (FS) has greatly positive significant effect on corporate CH due to significant correspondence p- value in both models.

The results from the analyses of the data also demonstrated that firm leverage (FL) has a great positive results but have insignificant effect on the CH of Islamic banks, due to the insignificant p-values Which is 9% which means more than 5% of probability level.

## 5.2 Conclusion

This study was conducted in order to understand the impact of WCM on corporate Cash Holding in the context of conventional and Islamic banks in Pakistan. Working Capital is the life blood for all types of business. In this study the panel data is used of 31 banks in which 24 banks are conventional and 7 banks are Islamic banks. In this study the data was collected from the annual reports of both conventional and Islamic banks for the period of 2011 to 2017. The data was analyzed through various statistical techniques such that descriptive statistic and co relational and also panel data techniques used like Fixed effect model, random effect model and Hausman Effect model.

The results of all the above statistical techniques demonstrated that the proxy of WCM such that cash Flow ratio (CFL) has greatly positive Insignificant effect on the corporate Cash Holding of conventional banks in Pakistan. The study has also elaborated the positive and Significant effect of both firm size and firm leverages on the corporate Cash Holding of conventional banks.

The study has also predicted very similar results for Islamic banks portfolio. In this regards, the results have also shown positive insignificant effect of cash flow ratio (CFR) on the corporate Cash Holding of the Islamic banks.

The results have also confirmed the positive significance effect of control variables such that financial leverages and firm size on the corporate Cash Holding of the Islamic banks portfolios. The contains certain managerial implications for both policy makers and investors. The study has also highlighted the importance of WCM in managing corporate Cash Holding for the management of both conventional and Islamic banks in Pakistan.

### **5.3 Recommendation for future Study**

In future when researchers who wants to conduct similar study can compare financial and non-financial firm in the context of Pakistan specially banking sectors. Similar studies can also add more proxies for measuring Working Capital to deliver better results for researchers. In future if researchers want to explore Pakistani firms with Indian firms to conduct comparative study will be in addition to the existing literature. Similar studies can also use the effect of any moderated variables in between relative of WCM and corporate Cash Holding in banking sectors as well as other financial and non-financial firms. This research study will be very fruitful by comparing such types of financial sectors means banks which are operating in both conventional and Islamic forms of operations in the business environment. This research study will also accommodate the researcher to conduct comparative study between financial and non-financial firms or business.

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