Impact of Working Capital Management on Firm's Performance: A Case of Textile Spinning Sector in Pakistan

SIDRAH RIZWAN [1], FAIZA MAQBOOL SHAH[2]

DEPARTMENT OF BUSINESS ADMINISTRATION, JINNAH UNIVERSITY FOR WOMEN

KARACHI, PAKISTAN

[1]SIDRAH.RIZWAN@YAHOO.COM, [2]SHAHFAIZA@HOTMAIL.COM

ABSTRACT: THE aim of this study is to examine the impact of working Capital Management on firm's performance for textile spinning companies in Pakistan listed in KSE. A panel data has been used in this study for 10 sample companies that cover the period of 7 years from 2008 to 2014. Return on Equity (ROE) and Return on Assets (ROA) are selected as dependent variables for profitability while for working capital management; Account Receivable turnover (ARTO), Account Payable turnover (APTO) and Inventory Turnover (INV.TO) are selected as independent variables. The results are analyzed by using Spearman's Correlation and linear regression Analysis for identifying the relationship between working capital management and firms' performance. The study finds a very weak negative relationship ARTO, APTO and INV.TO with ROE and ROA but statistically no relationship exists between WCM and Profitability, It might not be a surprise because WCM have a very weak negative association with the profitability. However, a weak negative relationship exists between INV.TO and ROA. Furthermore, it is suggested that particular norms for inventory management should be followed to reduce inventory turnover days in order to increase the profitability. If the firm's efficiently handled the inventory turnover can produce the positive significant impact on textile spinning sector.

KEYWORDS: Textile Spinning Sector, ARTO, APTO, INV.TO, ROA, ROE

1. INTRODUCTION

Smith (1980) recognized that working capital management (WCM) plays a key role in financial management as its effects on firms performance, risk and thus on its value. It is important to all firms whether they are small and large in size. Jose, Lancaster, & Stevens, (1996), Deloof, (2003) & Sen and Oruc, (2009) reported that working capital management consists of current assets and current liabilities which can handled by financial managers of the corporations. It deserves an attention and time of executive managers in finance decisions. Moreover, Ross & Jaffe (2002) highlights that Inventories, account receivables and account payables are the most important element of working capital management Horne and Wachowicz (2004) documented that Profitability of a firm reduces by the excess of current assets whereas, the probability of bankruptcy enhances by the scarcity of current assets.

Shin and Soenen (1998), Deloof (2003) & Rehman and Nasar (2007) found that there is a negative relationship between inventories turnover, account receivable turnover and cash conversion cycle with firm's profitability. While, Lazaridis & Tryfonids (2006) founds a positive relationship between Account payable turnover and firms profitability

Furthermore, Rehman and Nasar (2007) cited that profitability and liquidity is directly affected by working capital. Thus, (Padachi, 2010) reported that by the implementation of good policies for management of working capital may leads to the profitability creation on firm's value.

1.1 PROBLEM STATEMENT:

Shin and Soenen (1998), Deloof (2003) & Rehman and Nasar (2007) found that there is a negative relationship between inventories turnover, account receivable turnover and cash conversion cycle with firm's profitability. While, Lazaridis & Tryfonids (2006) founds a positive relationship between Account payable turnover and firm's profitability but such relationship have not been identified for textile spinning companies in Pakistan. This study aims to examine "The impact of working capital management on firm's performance of textile spinning sector in Pakistan listed in KSE -100".

1.2 RESEARCH QUESTION:

Does Account receivable turnover impact on the profitability of textile spinning companies?

Does Account payable turnover impact on the profitability of textile spinning companies?

Does inventory turnover impact on the profitability of textile spinning companies?

1.3 SIGNIFICANCE OF THE STUDY:

This study is important for the finance managers in making tradeoff decision between their liquidity and firm's performance. The study gives the direction to make the performance up to the mark that at what extent they should increase their profitability. They will also be able to know the optimal level of inventories and receivables level that will be useful for their

inventory control and receivable control management.
Moreover, the study is also helpful to the future researcher to understand the relationship between WCM and profitability. In future, the researcher will investigate the findings on textile composite and textile weaving sector in Pakistan. Further, research will be extended to the working capital components including cash, marketable securities etc.

1.4 OBJECTIVE OF THE STUDY:

The following objectives are accomplished by this study:
To explore the impact of Account receivable turnover on the profitability of textile spinning companies.
To ascertain the impact of Account payable turnover on the profitability of textile spinning companies.
To evaluate the impact of inventory turnover on the profitability of textile spinning companies.
Moreover, the study has to found the relationship between working capital management and firm's performance by considering Return on Assets and Return on Equity.

1.5 LIMITATIONS:

This study is limited to the sample of spinning companies listed in Karachi stock exchange -100 indexes. The finding of this study can be supportive to textile sector which is divided into textile composite, weaving and spinning sectors because working capital management is the necessary part of a business.

1.6 DE-LIMITATIONS:

The study is de-limited to all non-financial sectors.

2. LITERATURE REVIEW

Irfan Ahmed (2013) examines the impact of working capital management (WCM) on the firms' performance by using the financial statement data of 253 non-financial firms listed in Karachi Stock Exchange (KSE). The Data was analyzed by Ordinary Least Square (OLS) logistic regression and Pearson's correlation. The result seems that current asset to total sales has a negative relation with profitability while, WCM has a positive relation to the firm's performance. However, the logistic result gives the suggestion that firm profitability is highly determined by the current ratio, assets to total asset & total sales ratio.
Muhammad Usama (2012) explored the effect of WCM on firm's liquidity and profitability in the case of 18 companies of other food sector that are listed on KSE. 2006-2010 time periods had been covered in this study. And To analyze the data pooled least regression and common effect model were used. A positive relationship is found between WCM on profitability and liquidity of firms. Moreover, it has also been observed that the size of the firm and Cash Conversion Cycle has a significant positive effect while the financial asset to total asset ratio and the size of the firm has a positive relationship.
Samra Kiran, Shahid Jan Kakakhel and Farzana Shaheen (2015) investigated the impact of corporate social responsibility (CSR) on firm's profitability, in the case of 10 companies of oil and gas sector that are listed on KSE. The study covered 8 years period from 2006-2013. Furthermore, correlation and regression test were used to analyze the data. he investigation said that there is an insignificant impact of CSR activities on firms profitability and a negative correlation between total asset and CSR furthermore, it was recommended that a positive correlation between Net profit and CSR.
Magpayo (2009) examined the effect of financial leverage on firm's performance and WCM by using Philippines 110 firms randomly chosen from top 1000s Philippine firms in the business world.2009 data was used for analyzing this study by the testing methodology of Pearson correlation, ANOVA test, and multiple regressions. It has been showed in the study that there is a direct relationship between the policy of WCM of firm's financial leverage and size with profitability. Moreover, the study of the data said that firm's size and WCM has a positive effect on firm's net income, whereas net income has a negative effect on financial leverage and ROE has an insignificant positive effect on financial leverage.
Sayeda Tahmina Quayyum (2011) scrutinizes the efficiency and effectiveness of Working Capital Management by maintaining liquidity on Profitability. For this reason cement sector listed in a Dhaka stock exchange was selected that analyze the data from 2005-2009 through person correlation model. The study shows a significant relationship between WCM and Profitability as well as Liquidity indices.
Mehdi Elhaei Sahar and Mohammad Reza Yalali (2014) investigated the effect of R&D expenditure on firm's profitability and value of stock in Iran' capital market. The sample contains 86 companies from the stock exchange of Tehran that cover the 5 years period from 2005-2008. To get the finding regression model was used and it has been observed that if companies want to earn an additional profit in future so, they have to spend on R&D activities in current years. Therefore, it proves that there is a direct relationship between R&D expenditure and profitability.
Dr. Muhammad Azam, (2011) explored the impact of WCM on the firm's performance. 21 (KSE-30) listed non-financial institutions were selected and the data was taken from the year 2001-2010. The result that are achieved by using Canonical Correlation shows a positive impact of WCM on firm's profitability and it was suggested that by reduction in inventory size, NTC, and CCC managers be able to increase the value of shareholder.
Sumaira Tufail (2013) determined the impacts of WCM policies on profitability.117 textile firms were selected from KSE and the data was taken from the year 2005-2010. The result that is found by analyzing data through regression model shows that policies of WCM are negatively impacting on profitability. Moreover, the size and liquidity have a positive relationship with firm's profitability but a negative correlation between debt to equity and profitability has been observed.
Mobeen Ur Rehman and Naveed Anjum (2013) conducted an empirical study on the impact of assets management on firm's profitability in the case of Pakistani cement companies. The

data was collected from financial reports from 2003-2008 of 10 sample companies. The results analyze by correlation and regression method and it is found that there is an opposite and positive connection between working capital management and firm's performance.

Agyemang Badu Ebenezer and Michael Kwame Asiedu (2013) studied the relationship between profitability and WCM of manufacturing companies of Accra metropolis listed in Ghana Stock Exchange for the period of 2007-2011.it was found by the study that there is a significant impact of CCC, inventory days and account payable on manufacturing companies profitability. The study suggested that a good policy should be adopted by companies for managing components of WCM.

Barot Haresh (2012) conducted an empirical study that identifies the relationship between the firms' profitability and the components of WC. For this study, a sample of CNX pharmaceutical companies listed in National Stock Exchange of India was selected that cover the period of 5 years from 2005-2010 data. This study showed that a negative relation-ship exists, between AR and corporate profitability and a positive relation-ship between AP and profitability.

B Bagchi and B Khamrui (2012) aims to observe the variables that are essential to firm's profitability by managing WCM. 10 fast moving consumer goods companies in India were chosen as a sample and to test the problem of the study pooled OLS regression and Pearson's correlation were used by collecting the data from Center for monitoring Indian economy (CIME) data for the periods of 10 years from 2001-2010.The study examined that a small negative relation-ship exists between profitability and debt. Further, it has also been shown that a strong negative relation exists between firms' profitability and WCM.

Akinyomi Oladele John and Olagunju Adebayo (2013) made an analysis on firm's size effect on profitability. Five beverages companies were selected from the manufacturing sector of Nigeria and Panel data was used to analyze the annual reports from 2005-2012.The analyzation of data concluded that total sales and total assets have a positive relation with the size of a firm's of Nigeria.

Rehman and Nasr (2007) explored the effect of WCM on profitability.94 non-financial companies of Pakistan were taken as a sample, for the period of 1999-2004. The study shows that increase in CCC profitability decreases. At last, it was recommended that shareholder's value can be enhancing by reduction the minimum level CCC.

Deloof (2003) determined the study of WCM impact on profitability.1009 sample companies had been selected from non-financial firms in Belgium. The study of the data supported by the previous studied that negative relation-ship exists between profitability and WCM. The study suggested, that by the reduction in Account receivables shareholder's value can be enhanced while for short-term investment account payable provide an opportunity.

3. METHODOLOGY

3.1 TYPES OF DATA:

Secondary data is used for this study.

3.2 SOURCE OF DATA:

Firstly, Textile Spinning companies selected from the KSE website, www.kse.com.pk. After that, secondary data has been collected from the annual reports of the selected companies. This source is the better reliability of financial statement data because these reports are legally audited, published and easily access for researcher.

3.3 SAMPLING METHOD AND SIZE:

Convenience sampling is used for the study which is the type of non-probability sampling method. This method choose because non availability of data and limited time constraint. A sample of 10 spinning companies is selected that cover the period of 7 years from 2008-2014.

3.4 SELECTED VARIABLES AND COMPUTATIONS:

Table: 1 Selected Variables and their computations

Variables	Abbreviation	Computation of variables
Dependent Variables		
Return On Assets	ROA	Net income/Total assets
Return On Equity	ROE	Net income/Total equity
Independent Variables		
Account Receivables Turnover in days	ARTO	Acc. receiveabvables/(sales/360)
Account Payables Turnover in days	APTO	Acc. payables/(cogs/360)
Inventory Turnover in days	INV.TO	Inventory/(sales/360)

3.5 HYPOTHESIS OF THE STUDY:

1. **H_0:** There is no relationship between ROE and Account Receivable turnover.
   H_1: There is a relationship between ROE and Account Receivable turnover.
2. **H_0:** There is no relationship between ROE and Account payable turnover.
   H_2: There is a relationship between ROE and Account payable turnover.
3. **H_0**: There is no relationship between ROE and Inventory turnover.
   H_3: There is a relationship between ROE and Inventory turnover.

4. H_0: There is no relationship between ROA and Account Receivable turnover.
   H_4: There is a relationship between ROA and Account Receivable turnover.
5. H_0: There is no relationship between ROA and Account payable turnover.
   H_5: There is a relationship between ROA and Account payable turnover.
6. H_0: There is no relationship between ROA and Inventory turnover.
   H_6: There is a relationship between ROA and Inventory turnover.

3.6 Statistical technique:

3.6.1Measurement and Analysis Plan:

This research provides two different types of data analysis that are descriptive and quantitative and for that panel data is applied.

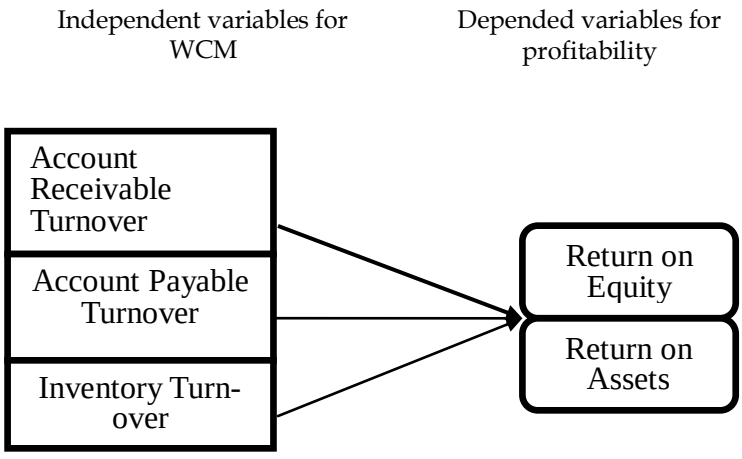
3.6.2Descriptive Analysis:

It provides the detail information about each depended and independent variables of the study. SPSS software used for analysis the data.

3.6.3 Quantitative Analysis:

In quantitative analysis Spearman's correlation and linear regression is applied to measure the association between WCM and profitability. Moreover, it also tests the hypothesis of the study.

3.7 Conceptual Frame Work:



4. Result and discussion

4.1 Descriptive Analysis

Table 2: Descriptive Statistics for all variables tested for 10 Textile spinning companies over a period of 7 year

Variables	N	Min	Max	Mean	Std. Deviation
	Statistic	Statistic	Statistic	Statistic	Statistic
ROA	70	-37	27	2.90	10.381
ROE	70	-84	45	9.75	22.688
ARTO	70	4	108	40.47	23.635
APTO	70	7	122	28.13	19.065
INV.TO	70	23	149	80.31	32.240
Valid N (list wise)	70				

Table 2 show the descriptive statistic of all depended and an independent variables of 10 textile spinning companies over the 7 year period. All variables were calculated through finance ratio. To make the analysis & interpretation more accurate and precise, the values of Minimum, Maximum, Mean, and Std. Deviation are computed from the ratios.

ROA and ROE take as depended variable that are the main measure of profitability indicators. ROA shows that how an efficiently company used their assets to generate earning. Minimum value of -37% shows that the company is not properly managing its capital .While, the maximum value of ROA is 27% and average return on assets is 2.90% and std.deviation is about 10.381%. Moreover, ROE shows the efficiency of a company to generate profit at each unit of equity. The minimum value of -84% shows that company is not properly managing its equity. While, the maximum value of ROE is 45% and average return on assets is 29.75% and std.deviation is about 22.6%.

ARTO, APTO and INV.TO take as independent variables that are the measure of working capital management. The average receivable payment period of selected companies is 40 days whose std.deviation is about 24 days whereas; it takes minimum 4 days and maximum 108 days to collect payment from debtors. The average payable period of selected companies is 28 days whose std.deviation is about 19 days whereas; it takes minimum 7 days and maximum 122 days to pay the payment to creditors.

Furthermore, the selected textile spinning companies takes an average 80 days to sell inventories with std.deviation 32 days. However, it takes maximum

149 days and minimum 23 days to converting inventory into sales.

4.2 Quantitative Analysis:

Hypothesis: 1

H_0: There is no relationship between ROE and Account Receivable turnover.
H_1: There is a relationship between ROE and Account Receivable turnover.

a) Spearman's Correlation Analysis

Table 3: Spearman's Correlations				
			ROE	ARTO
Spearman's rho	ROE	Correlation Coefficient	1.000	-.282*
		Sig. (2-tailed)	.	.018
		N	70	70
	ARTO	Correlation Coefficient	-.282*	1.000
		Sig. (2-tailed)	.018	.
		N	70	70
*. Correlation is significant at the 0.05 level (2-tailed)				

The table displayed the spearman's correlation between the firm's performance variable ROE and ARTO. The result showed that Return on Equity has a weak negative relationship with Account Receivable Turnover.

b) Regression Statistic Analysis

Table:4 Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.131[a]	.017	.003	22.656
a. Predictors: (Constant), ARTO				

Model 1 (table 4) produces an R2 figure of 0.017 indicates that reliance on this model will account for only 1.7% of the variations in the dependent variable (ROE)

Table:4.1 Coefficients[a]					
Model	Un standardized Coefficients		Standardized Coefficients	T	Sig.
	B	Std. Error	Beta		
(Constant)	14.851	5.398		2.751	.008
ARTO	-.126	.115	-.131	-1.09	.278
a. Dependent Variable: ROE					

Model 1: ROE= b0+bi (ARTO) Thus,

ROE= 14.851-0.126(ARTO)

The p- value .278 shows that account receivable turnover in days is statistically insignificant with ROE. For this model H_0 failed to reject. It might not be a surprise because Account receivable turnover have a very weak negative association with the profitability (ROE). The constant value shows that when ARTO held to zero, then the amount of ROE is 14.851. The ARTO (bi) with negative sign explains that one day increase in number of days account receivable will bring decrease in return on equity by -.126.

Hypothesis: 2

H0: There is no relationship between ROE and Account payable turnover
H2: There is a relationship between ROE and Account payable turnover.

a) Spearman's Correlation Analysis

Table 5: Spearman's Correlations				
			ROE	APTO
Spearman's rho	ROE	Correlation Coefficient	1.000	-.148
		Sig. (2-tailed)	.	.223
		N	70	70
	APTO	Correlation Coefficient	-.148	1.000
		Sig. (2-tailed)	.223	.
		N	70	70

Table 5 displayed the spearman's correlation between the firm's performance variable ROE and APTO. The result showed that Return on Equity have a very weak relationship with Account Payable Turnover.

b) Regression Statistic Analysis

Table:6 Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
2	.214[a]	.046	.032	22.327
a. Predictors: (Constant), APTO				

Model 2 (table 6) produces an R2 figure of 0.046 indicates that reliance on this model will account for only 4.6% of the variations in the dependent variable (ROE).

Table:6.1 Coefficients [a]						
Model		Un standardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
2	(Constant)	16.898	4.781		3.535	.001
	APTO	-.254	.141	-.214	-1.803	.076
a. Dependent Variable: ROE						

Model 2: ROE= $b_0 + b_i$ (APTO) Thus,
ROE=16.898 - 0.254(APTO)

The p- value .076 that is greater than 0.05 thus, for this model H0 is failed to reject and it shows that account payable turnover in days is statistically insignificant with ROE. The constant value shows that when APTO held to zero, then the amount of ROE is 16.898 and APTO (b_i) with negative sign explains that one day increase in number of days account payableleable will bring decrease in return on equity by -.254.

Hypothesis: 3

H_0: There is no relationship between ROE and Inventory turnover

H_3: There is a relationship between ROE and Inventory turnover.

a) Spearman's Correlation Analysis

Table 7 :Spearman's Correlations				
			ROE	INV.TO
Spearman's rho	ROE	Correlation Coefficient	1.000	-.169
		Sig. (2-tailed)	.	.163
		N	70	70
	INV.TO	Correlation Coefficient	-.169	1.000
		Sig. (2-tailed)	.163	.
		N	70	70

The above table displayed the spearman's correlation between the firm's performance variable ROE and INV.TO. The result showed that Return on Equity have a very weak relationship with Inventory Turnover.

b) Regression Statistic Analysis

Regression test Table:8 Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
3	.226[a]	.051	.037	22.265
a. Predictors: (Constant), INV.TO				

The model 3 (table 8) produces an R2 figure of 0.051 indicates that reliance on this model will account for only 5.1% of the variations in the dependent variable (ROE).

Table:8.1 Coefficients[a]						
Model		Un standardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
3	(Constant)	22.496	7.188		3.130	.003
	INV.TO	-.159	.083	-.226	-1.91	.060
a. Dependent Variable: ROE						

Model 3: ROE= b0 + bi (INV.TO) Thus,
ROE= 22.496-0.159 (INV.TO)

The P-value is 0.60 that is greater than 0.05 0f the significance level thus, for this model H0 is failed to reject it shows that inventory turnover in days is statistically insignificant with ROE. The constant value shows that when INV.TO held to zero, then the amount of ROE is 22.496 and INV.TO (bi) with negative sign explains that one day increase in number of days account receivable will bring decrease in return on equity by -.159.

Hypothesis: 4

H0: There is no relationship between ROA and Account Receivable turnover

H4: There is a relationship between ROA and Account Receivable turnover.

a) SPEARMAN'S CORRELATION ANALYSIS

Table 9:Spearman's Correlations				
			ROA	ARTO
Spearman's rho	ROA	Correlation Coefficient	1.000	-.204
		Sig. (2-tailed)	.	.090
		N	70	70
	ARTO	Correlation Coefficient	-.204	1.000
		Sig. (2-tailed)	.090	.
		N	70	70

Table 9 displayed the spearman's correlation between the firm's performance variable ROA and ARTO. The result showed that Return on Assets have a weak negative relationship with Account Receivable Turnover.

b) REGRESSION STATISTIC ANALYSIS

Regression test Table:10 Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
4	.024[a]	.001	-.014	10.454
a. Predictors: (Constant), ARTO				

The model 4 (table 10) produces an R2 figure of 0.001 indicates that, reliance on this model will account for only 0.1% of the variations in the dependent variable (ROA).

Table:10.1 Coefficients[a]						
Model		Un standardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
4	(Constant)	3.319	2.491		1.332	.187
	ARTO	-.010	.053	-.024	-.194	.846
a. Dependent Variable: ROA						

Model 4: ROA= $b_0 + b_i$ (ARTO) Thus
ROA= 3.319-.010 ARTO
The p- value .846 that is greater than 0.05 0f the significance level thus, for this model H_0 is failed to reject and it shows that account receivable turnover in days is statistically insignificant with ROA. The constant value shows that when INV.TO held to zero, then the amount of ROA is 3.319 and ARTO (b_i) with negative sign explains that one day increase in number of days account receivable will bring decrease in return on assets by -.010.

HYPOTHESIS: 5

H_0: There is no relationship between ROA and Account payable turnover
H_5: There is a relationship between ROA and Account payable turnover.

a) SPEARMAN'S CORRELATION ANALYSIS

Table 11:Spearman's Correlations				
			ROA	APTO
Spearman's rho	ROA	Correlation Coefficient	1.000	-.012
		Sig. (2-tailed)	.	.923
		N	70	70
	APTO	Correlation Coefficient	-.012	1.000
		Sig. (2-tailed)	.923	.
		N	70	70

Table 11 displayed the spearman's correlation between the firm's performance variable ROA and APTO. The result showed that Return on Assets have a very weak negative relationship with Account Payable Turnover.

B) REGRESSION STATISTIC ANALYSIS

Regression test Table:12 Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
5	.119[a]	.014	.000	10.383
a. Predictors: (Constant), APTO				

The model 5 (table 12) produces an R2 figure of 0.014 indicates that, reliance on this model will account for only 1.4% of the variations in the dependent variable (ROA)

Table:12.1 Coefficients[a]						
Model		Un standardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
5	(Constant)	4.724	2.223		2.125	.037
	APTO	-.065	.066	-.119	-.989	.326
a. Dependent Variable: ROA						

Model 5: ROE= $b_0 + b_i$ (APTO) Thus
ROA= 4.724-.065 APTO
The p- value .326 that is greater than 0.05 0f the significance level thus, for this model H_0 is failed to reject and it shows that account payable turnover in days is statistically insignificant with ROA. The constant value shows that when APTO held to zero, then the amount of ROA is 4.724 and APTO (b_i) with negative sign explains that one day increase in number of days account payable will bring decrease in

return on Assets by -.065.

HYPOTHESIS: 6

H_0: There is no relationship between ROA and Inventory turnover

H_6: There is a relationship between ROA and Inventory turnover.

a) SPEARMAN'S CORRELATION ANALYSIS

Table 13:Spearman's Correlations

			ROA	INV.TO
Spearman's rho	ROA	Correlation Coefficient	1.000	-.195
		Sig. (2-tailed)	.	.106
		N	70	70
	INV. TO	Correlation Coefficient	-.195	1.000
		Sig. (2-tailed)	.106	.
		N	70	70

The above table displayed the spearman's correlation between the firm's performance variable ROA and INV.TO. The result showed that Return on Assets has a very weak negative relationship with Inventory Turnover.

b) REGRESSION ANALYSIS

Regression test Table:14 Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
6	.256[a]	.066	.052	10.109

a Predictors: (Constant), INV.TO

The model 6 (table 14) produces an R^2 figure of 0.066 indicates that, reliance on this model will account for only 6.6% of the variations in the dependent variable (ROA)

Table:14.1 Coefficients[a]

Model		Un standardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
6	(Constant)	9.519	3.263		2.917	.005
	INV.TO	-.082	.038	-.256	-2.18	.032

a. Dependent Variable: ROA

Model 6: ROA= $b_0 + b_i$ (INV.TO) Thus,

ROA= 9.519-0.082 (INV.TO)

The p- value .032 that is lower than 0.05 0f the significance level thus, for this model H_0 is reject and it shows that inventory turnover in days is statistically significant with ROA. The constant value shows that when INV.TO held to zero, then the amount of ROA is 9.519 and INV.TO (b_i) with negative sign explains that one day increase in number of days inventory turnover will bring decrease in return on Assets by .082.

5 CONCLUSIONS AND RECOMMENDATIONS

5.1 CONCLUSION

After evaluating the textile spinning sector of Pakistan, it is concluded that WCM is not affecting the productivity, efficiency and performance of textile spinning sector. However, this sector considered as an important investment sector in Pakistan, which help to boost Gross Domestic Product (GDP) and National Income (NI) of the country.

Therefore, to study textile spinning sector WCM components Account Receivable turnover, Account Payable turnover and Inventory Turnover are selected as independent variables. Return on Equity and Return on Assets are as selected dependent variables for profitability. These variables helped to know the relationship and the Impact of Working Capital Management on Firm's Performance of textile spinning Sector in Pakistan.

The spearman's correlation show the weak negative relationship between ARTO, APTO and INV.TO with ROA and ROE but the hypotheses used in this study show "No" impact (except Inv.To) on Profitability. Thus, it can be concluded that Inventory turnover has a relationship with profit (ROA) only but it's a weak negative relationship, which is interpreted as the inventory turnover impact on firm's performance which lead to decreasing firm's profitability.

5.2 RECOMMENDATION:

- According to the finding of this study it is suggested that particular norms for inventory management should be followed to reduce inventory turnover days in order to increase the profitability.
- If the firm's efficiently handled the inventory turnover can produce the positive significant impact on textile spinning sector.

5.3 AREA FOR FURTHER STUDY:

- It is suggested for the future researcher that such relationship can also be investigate in textile composite and textile weaving sector in Pakistan.
- Due to time constraint only 10 spinning companies selected as a sample, a further research can be conducted in this area by selecting more than 10 sample companies.

REFERENCES:

1. Abdul Raheman, T. A. (2010). Working Capital Management and Corporate. *International Research Journal of Finance and Economics* , 151-163.
2. Adagye., D. I. (2015). EFFECTIVE WORKING CAPITAL MANAGEMENT AND THE PROFITABILITY OF QUOTED BANKS IN NIGERIA. *European Journal of Accounting Auditing and Finance Research* , 97-107.
3. Adebayo, A. O. (2013). Effect of Firm Size on Profitability: Evidence from Nigerian Manufacturing Sector. *Prime Journal of Business Administration and Management (BAM)* , 1171-1175.
4. Adeel Mumtaz, M. R. (n.d.). Impact of Working Capital Management on firms' performance: Evidence from Chemical sector listed firms in KSE-100 index. *IOSR Journal of Business and Management (IOSR-JBM)* , 93-100.
5. Agyemang Badu Ebenezer, M. K. (2013). THE RELATIONSHIP BETWEEN WORKING CAPITAL MANAGEMENT AND PROFITABLITY OF LISTED MANUFACTURING COMPANIES IN GHANA. *International Journal of Business and Social Research (IJBSR)* , 25-34.
6. Ahmad, H. B. (2013). Does Efficient Working Capital Management Enhance Profitability of Pakistani Firms? *Academy of Business & Scientific Research* , 715-720.
7. Ahmed, I. (2013). Impact of Working Capital Management on Performance of Listed Non Financial Companies of Pakistan: Application of OLS and LOGIT Models. *Proceedings of 2nd International Conference on Business Management (ISBN: 978-969-9368-06-6)*, (pp. 1-22). Sargodah.
8. B Bagchi, B. K. (2012). Relationship between Working Capital Management and Profitability: A Study of Selected FMCG Companies in India. *Business and Economics Journal, Vol. 2012: BEJ-60* , 1-11.
9. Dr. Muhammad AZAM, S. I. (2011). Impact of Working Capital Management on Firms' Performance:. *INTERDISCIPLINARY JOURNAL OF CONTEMPORARY RESEARCH IN BUSINESS* , 481-492.
10. Haresh, B. (2012). Working Capital Management and Profitability: Evidence from India – An Empirical Study. *GFJMR* , 1-16.
11. Hassan Aftab Qazi, S. M. (2011). Impact of working capital on firms' profitability. *African Journal of Business Management Vol. 5(27),* , 11006-11010.
12. Hoque, J. (2013). Impact of Working Capital Policies on Financial Performances in Some Selected Private Manufacturing Firms in Bangladesh. *Proceedings of 9th Asian Business Research Conference* (pp. 1-15). bangladesh: BIAM Foundation.
13. Jegers.M, D. a. (1996). Trade credit,product Quality,and Intra Group Trade:Some European evidence. *Financial Management,25(3)* , 33-43.
14. Mehdi Elhaei Sahar, M. R. (2014). Effect of R&D Spending on Firm Profitability and Stock Market Value. *Management and Administrative Sciences Review* , 657-664.
15. Mirko Draca, S. M. (2008). MINIMUM WAGES AND FIRM PROFITABILITY. *NATIONAL BUREAU OF ECONOMIC RESEARCH* , 1-70.
16. Mobeen Ur Rehman, N. A. (2013). DETERMINATION OF THE IMPACT OF WORKING CAPITAL MANAGEMENT ON PROFITABILITY: AN EMPIRICAL STUDY FROM THE CEMENT SECTOR IN PAKISTAN. *Asian Economic and Financial Review* , 319-332.
17. NasarM., r. a. (2007). working Capital managent an profitibility-case of Pakistani firms. *International Review of Business Research Papers ,3(1)* , 279-300.
18. OWOLABI, S. A. (August, 2012). EFFECTIVE WORKING CAPITAL MANAGEMENT AND PROFITABILITY:. *Economics and Finance Review Vol. 2(6)* , 55 – 67.
19. QUAYYUM, S. T. (2011). Effects of Working Capital Management. *Journal 38 of Business and Technology (Dhaka)* , 38-47.
20. RAMANA, N. V., RAMAKRISHNAIAH, K., & CHENGALRAYULU, P. (2013). IMPACT OF RECEIVABLES MANAGEMENT ON WORKING CAPITAL AND PROFITABILITY: A STUDY ON SELECT CEMENT COMPANIES IN INDIA. *International Journal of Marketing, Financial Services & Management Research* , 163-171.
21. Samra Kiran, S. J. (2015). CORPORATE SOCIAL RESPONSIBILITY AND FIRM PROFITABILITY: A CASE OF OIL AND GAS SECTOR OF PAKISTAN. *City University Research Journal* , 110-119.
22. Shafi, D. M. (2014). MANAGEMENT OF INVENTORIES IN TEXTILE INDUSTRY: A CROSS COUNTRY RESEARCH REVIEW. *SINGAPOREAN JOuRNAl Of buSINESS EcONOmIcS, ANd mANAGEmENt StudIES VOl.2, NO.7* , 45-59.
23. Tufail, S. (2013). Impact of Working Capital Management on Profitability of Textile Sector of Pakistan. *Proceedings of 3rd International Conference on Business Management (ISBN: 978-969-9368-07-3)*, (pp. 1-29). lahore.
24. Usama, M. (2012). Working Capital Management and its affect on firm's profitability and liquidity: In Other food sector of (KSE) Karachi Stock Exchange. *Arabian Journal of Business and Management Review (OMAN Chapter) Vol. 1, No.12;* , 62-73.