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THE INFLUENCE OF WORKING CAPITAL MANAGEMENT UPON PROFITABILITY: AN EMPIRICAL STUDY OF PAKISTANI FIRMS

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KEYWORDS

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ABSTRACT

The main objective of research to know that working capital management impacts significantly on the profitability of Pakistani firms. An analysis of 35 large manufacturing companies listed on Pakistan Stock Exchange (PSE) was carried out in study using panel data. The firs' annual financial reports from 2012 to 2024 were the sources used to obtain this information. Using pair wise correlation analysis, it was examined that how working capital management affected businesses in Pakistan. For this purpose, statistical procedures were used to examine the assumed relationships among the research issues under consideration. The results show that liquidity (current ratio) has a beneficial effect on the profitability. An organization's bottom line takes a hit when accounts receivable are overdue. The influence of inventory (days) is negative. Equally detrimental to profitability is the cash conversion cycle, but accounts payable due dates are a positive indicator. The profitability of a corporation is positively affected by its size and sales growth, but negatively affected by financial debt. In this regard, the results provide significant information in reaching the desired conclusion in order to make some suitable decisions about the assumed relationships that may be supportive for the investors and decision-makers in particular situatiuons and contexts.

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INTRODUCTION

The working capital management is used by businesses to monitor their liquidity, which is influenced by their current liabilities and assets. Similarly, inadequate rules may be the reason for company's collapse (Sharma & Kumar, 2023). A company's downfall may result from scarce working capital management planning (Raheman, Afza, Qayyum & Bodla, 2021). Improving working capital management should be the main focus of any company's strategy in order to

boost the development of shareholder value. Moreover, since it boosts their value, businesses strive to have a certain level of working capital on hand. Smith proposed in 1980s that WCM has an impact on business value, risk, and profitability (Altaf & Shah, 2020). Anuar and Tahir conducted a study in 2016. Working capital management is vital because of its significance and effect on business liquidity and profitability. Working capital management (WCM) is liable for making decisions on investments and managing short-term funds (Sharma & Kumar, 2023). According to Akoto, Awunyo-Vitor, and Angmor (2023), decision-making and action-taking procedures that make up WCM are what actually affect amount and effectiveness of working capital.

The goal of working capital management is to manage a business's commitments and maintain efficient operations (Eljelly, 2004). Gill, Biger, and Mathur (2010) define cash conversion cycle as the period of time between paying for raw materials and receiving payments for completed goods. This is one way to show that the working capital management is functioning. Managing current resources and commitments is the definition of the WCM. From previous two to three decades, authors from the different countries are working on working capital management. All those studies provided different results relating to this topic. study found that relation exists among working capital administration and profitability. Efficient and effective working capital management brings the benefit for non-financialfirms for improving viability. 35 non financial firms from the PSE were used for examination the influence of working capital management on profitability. Various elements such as current ratio, accounts receivable, accounts payable, cash conversion cycle and inventory have been used as independent variables in the study. To find the better results size of firm, growth in sales and financial debt were used as the control variables.

Moreover, data is based on panel data which was composed from the annual reports of various manufacturing companies from 20012 to 2024. Ukaegbu (2020) says that cash alteration cycle has adverse influence on the profitability. Enqvist, Graham and Nikkinen (2024) states that conversion cycle of cash has adverse effect on productivity. Gill (2010) clinched that conversion cycle of cash has positive impact on profitability. Abuhommous (2017) collect the data of 144 publicly traded firms and show that account receivable has positive impact on profitability. Kayani, Silva and Gan (2018) write that account receivable has negative effect on profitability. Mathuva (2015) concluded that account receivable has negative impact upon the profitability. Enqvist et al. (2014) find-out that account receivable has negative impact on profitability. Ukaegbu (2020) used the 102 large firms of different countries and says that accounts receivable negatively affect the profitability in organizations. Tahir and Anuar (2016) collect data of 127 textile firms of Pakistan and find that accounts payable has optimistic effect on profitability in firms. Napompech (2012) showed in his study that accounts-payable has adverse influence on viability.

Yazdanfar and Öhman (2016) write that accounts payable has negative effect on profitability. (Lyngstadaas & Berg, 2016) by using data of 21,075 Norwegian SME documented that accounts -payable has adverse influence on profitability. Lyngstadaas and Berg (2016) used the data of

21,075 Norwegian SMEs, and write in study that inventory has negative effect on profitability. Napompech (2012) collect the data of 225 companies and showed that inventory has negative effect on profitability. Pais and Gama (2015) collect the data of 6063 companies and write in study that inventory has negative effect on profitability. Thus, the WCM is vital because of its significance and effect on a business's liquidity and profitability. Alarussi and Alhaderi (2018) investigated and collect the data of 120 Malaysian companies which shows that profitability is positively impacted by the current ratio. Nanda and Panda (2018) probe the management of working capital and profitability and results states that current ratio depicts positive influence on profitability.

Problem Statement

Study worked on influence of management of working capital on firm's profitability. Several articles have been published relating to this topic but the results shows thatproblem still exists such as (Tahir & Anuar, 2021) find that cycle of cash conversion positively affects the viability. The data of 127 textile firms of Pakistan was used by him. (Chang, 2022) used the data of 31,612 companies from the different countries and depicts that CCC negatively affects. The currency conversion cycle is a barrier to success, according to Altaf and Shah's (2024) examination of 437 non-financial companies in India. Based on the previously reported outcomes, we still have a lot to learn about how working capital management affects business performance. The study's dependent variable is profitability. By employing working capital components as independent variables, this study adopts a novel methodology for examining the connection amid working capital management (WCM) and business profitability. Thus, these elements consist of the cash conversion cycle, current ratio, accounts payable, accounts receivable, and inventory. In order to investigate the link between WCM and company profitability, this study takes fresh approach by using working capital components as independent variables. Among these components are inventories, accounts payable, accounts receivable, the current ratio, and the cash conversion cycle.

LITERATURE REVIEW

The trade-off hypothesis states that businesses should balance the benefits and drawbacks of holding onto cash in order to determine the ideal level of liquidity. There are two advantages to always having small quantity of cash on hand: 1. By expanding its money supply, company can reduce transaction costs and prevent liquidation of assets. 2. If alternative financial choices are unavailable, liquidated assets may be used to meet operational and investment demands. Crum, Klingman, and Tavis (1983), Knight (1972), and Glautier (1971). This theory tells that which employs long-term obligations to finance some fixed assets and current liabilities to fund some current assets, is riskiest and most lucrative option (Tahir & Anuar, 2021). Because short-term loans lower interest rates than long-term capital, aggressive management practices typically use them instead (Weinraub & Visscher, 1998). Short-term liquidity issues are more likely to arise when capital costs are reduced. Tahir and Anuar (2021) investigate the WCM and profitability of 127 textile companies that were listed on the Pakistan Stock Exchange between 2001 and 2012. Using interactive panel, they illustrated how cash conversion cycle improves profitability.

Chang (2020) examined data from 31,612 businesses across 46 nations between 1994 and 2011. He came to conclusion that the cash conversion cycle decreased profitability after using pooled ordinary least squares analysis. A ten-year data set from 437 Indian non-financial enterprises was employed in study (Altaf & Shah, 2020). Using a generalized method of moments model with two stages, they exposed that cash conversion cycle significantly increased profitability. The impact of working capital management on profitability was examined by (Alipour, 2021) using data from 1,063 Iranian businesses from 2001 to 2006. The cash conversion cycle has a detrimental effect on profitability, according to results of multiple regressions and Pearson's correlation model. Alipur (2021) looked at WCM and profitability from 2001 to 2006, searched Tehran Stock Exchange for data on 1,063 firms. He used multiple regression and correlation model to show negative bond amid profitability and number of days that accounts receivable were outstanding. (Abuhommous (2017) examined the data of 144 Jordanian publicly traded companies from 1999 to 2015 to ascertain how trade credit affected these companies' return on investment.

The accounts receivable had a favorable effect on profitability after applying Deloof's (20030) regression model. Tahir and Anuar (2021) collected data from 127 textile companies in Pakistan between 2001 and 2012 in order to investigate the connection between WCM and profitability. The Dynamic Panel (GMM) generalized method of moments model was used to demonstrate that how average collection length reduces profitability. (Muhammad, Rehman & Waqas, 2016) analyze the association among management of working capital and profitability in Tobacco industry of Pakistan. The data was obtained from the financial statements of Pakistan Tobacco Company and Philips Morris (Lakson) Tobacco Company for duration of 2005 to 2014. Multiple regression models were used which shows that conversion cycle of cash adversely influence the profitability of the companies. Le (2019) probe working capital management and company valuation, profitability and risk, by using panel data of 497 companies for the duration of 2007 to 2016. He applied the fixed-effects model and results shows organization profitability is adversely affect by conversion cycle of cash. Tahir and Anuar (2021) gathered information on 127 large Pakistani companies that were listed on the Karachi Stock Exchange between 2001 and 2012.

They used the Dynamic Board GMM (summed up strategy for minutes) prototype to show the positive effect of a regular installment period on benefit. Information from 255 firms listed on the Thailand Stock Exchange between 2007 and 2009 was gathered by "Napompech, 2012" in order to assess the efficacy and efficiency of working capital management. He concluded that the payables deferral time had a negative impact on output using the relapsing model. 15,897 SMEs from five distinct Swedish business sectors were selected between 2009-2012 to analyze trade credit and profitability (Yazdanfar & Öhman, 2021). Using the multiple OLS model, they demonstrated that trade credit, accounts payable, lowers earnings. Simialarly, Ukaegbu (2020) investigated the significance of working capital management in determining firm profitability. The data of large 102 companies of various countries such as Egypt, Nigeris, Kenya and South Africa for period of 2005 to 2009 was collected. He used fixed-effect and random-effect model

and publish that profitability is negatively influenced by accounts receivable of the inspected companies.

Muhammad et al. (2016) examined relationship between WCM' and profitability' of Tobacco industry of Pakistan, they get the data of companies from the financial statements of Pakistan Tobacco Company and Philips Morris (Lakson) Tobacco Company from the year of 2005 to 2014. They applied multiple regression models & states that profitability is positively affected by accounts receivable. Langstadaas and Berg (2016) used data from 21,075 Norwegian SMEs between 2010 and 2013 to study advantages and management of working capital. The fixed -impact relapse model was used to demonstrate that stocks diminished benefits. In order to ascertain how WCM affects benefits. Napompech (2012) gathers data from 225 businesses that were listed between 2007 and 2009 on Thailand Stock Exchange. He found that stock changeover time had a negative impact on output when board information technique was put into practice. Data from 6063 non-monetary SMEs in Portugal from 2002 to 2009 was compiled by Pas and Gama (2015) in order to ascertain the advantages of working capital management for SMEs. They concluded that stock had negative influence on output after using fixed-impact method.

Sharma and Kumar (2023) Use information from 263 non-monetary BSE 500 firms that were listed on the Bombay Stock Exchange (BSE) between 2000 and 2008 to examine the connection between working capital management and productivity in associations. Using data from seven (7) KSE-listed automakers from 2000 to 2008, Zubairi's 2010 study examines the relationship between capital structure, profitability, and working capital management. H1d shows that the profitability is negatively impacted by inventory." He used the pooled regression method to recast the liquidity ratio's positive effect on company's bottom line. Enqvist et al. (2014) used data from Finnish companies registered between 1990 and 2008 to investigate the impact of working capital management on business efficiency. They found that benefit is significantly impacted by current proportion (CR) using the relapse model. Lyngstadaas and Berg (2016), examine WCM and productivity using data gathered from 21,075 Norwegian SMEs between 2010 and 2013. Using the fixed-impact relapse model, they showed that benefit was positively impacted by link strength. Data gathered from 6063 non-monetary SMEs in Portugal between 2002 and 2009 is used to analyze working capital management and productivity (Pais & Gama, 2015).

They found that a company's benefits increased with its size using the fixed-impact approach. Charitou et al. (2010) looked into how WCM affected company profitability. Data was collected from 43 distinct Cyprus-based businesses between 1998 and 2007, excluding the non-financial businesses. Their investigation, which makes use of a multivariate regression model, shows that an increase in sales positively impacts the company's profitability. (Lyngstadaas & Berg, 2016) investigated working capital administration and benefit and they utilize the information of 21,075 Norwegian SMEs, for period of 2010 to 2013. They applied the fixed-impact relapse model and demonstrated that stock has negative impact on benefit. (Napompech, 2012) study the impacts of working capital administration on benefit and he gather the information of 225 organizations, recorded in Thailand stock exchange for range of 2007 to 2009. He embraced the

board information technique and found the negative impact of stock transformation period on productivity. Pais and Gama (2015) dive about working capital administration, SMEs benefit and agglomerate the information of 6063 non-monetary Portuguese SMEs, for the range of 2002 to 2009.

They utilized the fixed-impact procedure and make an inference that stock has negative impact on productivity. Ukaegbu, (2020) inspected the meaning of working capital administration in deciding firm benefit and he utilized the information of 102 huge assembling firms of Egypt, Nigeria, Kenya and South Africa for range of 2005 to 2009. They utilized fixed-impact model and understood that Size of company's has constructive outcome on benefit. Trade credit and profitability assessed by (Yazdanfar & Öhman, 2016), and they ingathered the data of 15,897 SMEs from the five specific industries of Sweden from 2009 to 2012 duration. They applied the multiple OLS model and identified the positive impact of firm's size on profitability. Raheman et al. (2010) evaluated WCA and corporate execution of assembling area in Pakistan, recorded in the Karachi Stock Exchange for the range off 1998 to 2007. They gather the information of 204 firms and by applying the fixed-impact model they uncovered that SIZE emphatically affects company's benefit. WCM and profitability' is investigated by (Akoto et al., 2013) and and they gathered the information of 13 firms in Ghana, for range of 2005 to 2009. By executing the OLS (normal least square) model they unveil that size emphatically affects company's benefit.

RESEARCH METHODOLOGY

The three primary categories of the study variables are independent, dependent, and control variables. Return on Assets is dependent variable used in this study to calculate profitability. Return on assets, or ROA, is a helpful indicator of a company's financial health. The formula for calculating return on assets is as follows: Net revenue divided by total assets, followed by the result divided by independent variables, yields the return on assets for an organization. Therefore, among the working capital management elements that have been incorporated as independent variables in this analysis are the cash conversion cycle, inventory, the accounts payable, current ratio and accounts receivable. The following are calculated values for these variables:

Current Ratio = current assets / current liabilities
No. of days of account receivable = 365* average accounts receivable / sales
No. of days of Inventory" = 365* Average Inventory / CGS
No. of days of Account payable = 365 * average AP / CGS
CAC = No of Days of accounts receivable + no. of days of inventory - no. of the days of AP

Control Variables

Three Control variables' are included in this study. Firm size, Sales growth and Financial debt. Method of measuring these variables is written below:

Firm's size = Natural Logarithm of Sales
Sales Growth = Sale1 – Sale0 / sale0
Financial Debt = Total Debt / Total Assets

Population & Sample

Study chooses population of research from listed firms Pakistan Stock Exchange in Pakistan. Our study is based merely on Pakistani firms. Firms of other countries are not included as the population of study. Financial firms and banking sectors are also not included in study. Study took sample of 35 non financial firms from Pakistan. Financial firms and banks are excluded from study.

Econometric model

Econometric equation is designed as follow:

$PROFi,t = \beta o + "\beta 1CRi,t + "\beta 2SIZEi,t + "\beta 3SGROWi,t + \beta 4DEBTi,t + \varepsilon i,t"$ (1′)

$PROFi,t = \beta o + \beta 1ARi,t" + \beta 2SIZEi,t" + \beta 3SGROWi,t" + \beta 4DEBTi,t + \varepsilon i,t"$ (2′)

$PROFi,t" = \beta o + \beta 1INVi,t" + \beta 2SIZEi,t + \beta 3SGROWi,t" + \beta 4DEBTi,t + \varepsilon i,t"$ (3′)

$PROFi,t = \beta o + \beta 1APi,t + \beta 2SIZEi,t + \beta 3SGROWi,t + \beta 4DEBTi,t + \varepsilon i,t$ (4′)

$PROFi,t = \beta o + \beta 1CCCi,t + \beta 2SIZEi,t + \beta 3SGROWi,t + \beta 4DEBTi,t + \varepsilon i,t$ (5′)

In this Case

PROF	=	Profitability of the Firm
CR	=	Current Ratio measured by liquidity
AR	=	No. of Days of Account Receivable"
INV	=	"No. of Days of Inventory"
AP	=	No. Of Days of Accounts Payable
CCC	=	"Cash Conversion Cycle"
SIZE	=	"Firm's Size Measured by Logarithm of Sales"
SGROW	=	"Sales Growth"
DEBT	=	Financial Debt
i	=	No. Of Firms
t	=	"Time Period"
ε	= the "Error Term"	

Analysis Tools

In this study different analysis tools were used to calculate the results. The tools which were used, purpose of using that analysis tools are measure descriptive statistics and correlation analysis.

RESULTS & DISCUSSIONS

Table 1

Descriptive Statistics for all variables

	No. of obs.	Mean	Min	Max	S. D
PROF	418	.1000702	-.0800999	.4079675	.0830585
CR	418	1.751315	.2179751	17.31429	1.384094
AR	418	44.37734	0	401.3015	67.16004
INV	418	67.52034	0	443.6416	62.82375

AP	418	93.4712	11.66164	1298.198	86.10917
CCC	418	18.42649	-1175.313	549.1108	106.9733
SIZE	418	16.93944	13.58683	19.66284	1.239352
SGROW	383	.1474928	-.6339366	2.783422	.3023109
DEBT	418	.518261	.1112898	2.188321	.2323532

For your information, company panel data is available for years 2006–2018. Days of accounts receivable (AR), current ratio (CR), and profitability (PROF) are three performance indicators. The inventory days (INV) and accounts payable (AP) are two different metrics. The acronyms for sales growth, cash conversion cycle (CCC), business size (SIZE), and financial debt (DEBT) are used.

Table 2
Correlation analysis

	PROF	CR	AR	INV	AP	CCC	SIZE	GROW	DEBT
PROF	1.0000								
CR	0.3416***	1.0000							
	0.0000								
AR	-0.1111**	0.0596*	1.0000						
	0.0231	0.2239							
INV	-0.1410***	-0.0053*	-0.1902***	1.0000					
	0.0039	0.9137	0.0001						
AP	0.1061**	-0.0235*	0.3888***	-0.1547***	1.0000				
	0.0302	0.6326	0.0000	0.0015					
CCC	-0.2380***	0.0532*	0.2031***	0.5924***	-0.6517***	1.0000			
	0.0000	0.2780	0.0000	0.0000	0.0000				
SIZE	0.0947*	-0.0123*	0.3044***	-0.4322***	0.1476***	-0.1815***	1.0000		
	0.0531	0.8027	0.0000	0.0000	0.0025	0.0002			
SGROW	0.0365	-0.0740*	-0.0993*	-0.0113*	-0.1339***	0.0108*	-0.0901*	1.0000	
	0.4762*	0.1486	0.0522	0.8253	0.0087	0.8336	0.0781		
DEBT	-0.3332***	-0.6017***	0.1888***	-0.1047**	0.3785***	-0.2476***	0.2377***	0.0595*	1.0000
	0.0000	0.0000	0.0001	0.0323	0.0000	0.0000	0.0000	0.2455	

The findings of the analysis of pairwise correlation coefficients are shown in the table. Table 4.2 displays all of variables. **, *, and ** significance levels are 0.05, 0.1, 0.01 respectively. Pairwise correlation coefficient analysis was utilized in this study to determine the correlations between the variables. The findings of our profitability (PROF) correlation analysis, which are shown in table 2, be summed up as follows: At 1% level, there is a positive and statistically significant relationship between "profitability" and "current ratio". To put it another way, there is a 99% chance that the firm's profitability will increase in tandem with an increase in the current ratio (CR). Accounting receivables (AR) and business profitability have a negative correlation at the 5% level of significance. This implies that corporate profitability decreases in tandem with an increase in AR days. It is almost a given that firm's profitability would decrease as inventory levels increase because inventory and profitability have a negative significant association at the 1% level.

At the 5% level, there is a positive and statistically significant correlation between accounts payable and profitability, indicating that an increase in accounts payable will raise the firm's profitability. At the 1% level, there is a strong negative correlation between the cash conversion cycle and the profitability of the business. This implies that if the cash conversion period were to increase, a decline in profitability would almost certainly take place. At the 10% level, there is a positive and statistically significant relationship between company size and profitability. Thus, a company's profitability will increase as it grows. At the 10% level, there is a positive and significant correlation between sales growth (SGROW) and earnings per share (EPS). Thus, the company's bottom line will increase in tandem with an increase in sales. Furthermore, the negative and significant correlation amid company's debt and profitability implies that higher debt levels are linked to poorer business success. Effective debt management is essential for business looking to optimize their earnings. According to the study used correlation analysis, the current ratio has a positive and significant relationship with account receivable at the 10% significant level.

At the 10% level of significance, there is a negative correlation between the current ratio (CR) and inventory (INV). Furthermore, at the 10% significance level, there is a strong negative correlation between the accounts payable (AP) and current ratio (CR). At the 10% significance level, there is a positive and statistically significant relationship between the cash conversion cycle (CCC) and the current ratio (CR). At the 10% significance level, the current ratio (CR) and firm size (SIZE) have a strong inverse connection. At the 10% level of significance, there is a negative correlation between the current ratio (CR) and sales growth (SGROW). At the 1% significance level, there is a statistically significant negative correlation between the total amount of debt and the current ratio (CR). According to the findings of the accounts receivable (AR) correlation research, inventory, AR have negative relationship. A significant discovery was made at the 1% level. At the 1% significance level, it was demonstrated that there was a positive and statistically significant correlation between AR and AP. The study discovered a positive and statistically significant correlation between AR and CCC, even at the 1% level of significance.

At 1% significance level, a positive and statistically significant correlation between accounting receivables (AR) and firm size (Size) was discovered. There is a statistically significant negative correlation between accounts receivable components and sales growth (SGROW) at the 10% level of study. At 1% significance level, there is a strong positive correlation between financial debt (DEBT) and accounts receivable (AR). At the 1% significance level, there is a negative correlation between inventory (INV) and accounts payable (AP), according to the results of a correlation analysis on the inventory (INV). At the 1% significance level, there is a positive and statistically significant relationship between inventory (INV) and cash conversion cycle (CCC). At 1% level of significance, there is a negative and statistically significant relationship between inventory (INV) and company size (SIZE). At the 10% relevance level, inventory (INV) and sales growth (SGROW) have a significant inverse connection. At 5% level of significance, there is a negative correlation between inventory on hand (INV) and interest paid on debt (DEBT). The following are findings of accounts payable correlation analysis: At 1% significance level,

there is a substantial negative correlation between cash conversion cycle (CCC) and accounts payable (AP).

At the 1% significance level, there is a positive correlation between accounts payable (AP) and business size (SIZE). Sales growth (SGROW) and accounts payable (AP) have a substantial negative correlation at the 10% level of significance. At 10% significance level, there is a very strong positive correlation amid accounts payable and debt. The following findings emerged from the examination of the relationship between currency conversion cycles (CCCs): At the 1% significance level, there is a significant inverse relationship between cash conversion cycle (CCC) and company size (Size). At the 10% significance level, there is a positive and substantial correlation between SGROW and cash conversion cycle. At the 1% level, there is a considerable inverse correlation between financial debt (DEBT) and cash conversion cycle (CCC). At 10% level of significance, correlation analysis revealed a negative relationship between SIZE (firm size) and SGROW (sales growth). At 1% level of significance, there is a significant inverse link between financial debt (DEBT) and firm size (SIZE). At 10% significance level, the correlation study showed a robust and favorable association between SGROW (sales growth) and DEBT (financial debt).

CONCLUSION

The data used in this study came from 35 manufacturing companies that were listed on the Pakistan Stock Exchange. In this connection, financial institutions will not be surveyed at this time. While accounts payable, accounts receivable, cash conversion cycle, current ratio, and inventory were the independent workings, profitability was dependent variable. The control factors included the company size, revenue growth rate, and debt load. The study conclusions were derived using panel data and linear regression. The trials' findings indicate that current ratio significantly and favorably affects the firms' profitability. Because of this, the study comes to the conclusion that the business's profitability is positively correlated with its level of the liquidity.

Real-World Significance

Because our study focuses on Pakistani enterprises, the results may be useful to non-financial corporations in Pakistan. Most of the findings support those of earlier research that looked at the relationship between financial performance and working capital management. Businesses in Pakistan can increase their profits by utilizing our results. Our study focused on the aspects of working capital management that affect a business's profitability. Our research indicates that controlling a company's liquidity, or current ratio, is essential to smooth execution of daily business activities and can boost profitability. If company closely monitors its AR and receives its money promptly, it can increase its profit margin by reducing AR days outstanding statistic. It will be able to keep its liquidity and pay its receivables as a result. Businesses can improve bottom line by reducing inventory hold times. This is because longer holding periods may result in higher holding period charges, which could reduce a company's profit. By postponing payments to suppliers and creditors, the business can reinvest money and momentarily boost profitability.

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