



Evaluation of Working Capital Management and Financial Performance

Aarya Nalawade¹

Student, MBA Department

Dhole Patil College of Engineering, Pune

Prof. Shrikant Jagtap²

Project guide, MBA Department

Dhole Patil College of Engineering, Pune

Author Email: aaryanalawade38@gmail.com

How to Cite this Article:

Nalawade, A. (2026). Evaluation of Working Capital Management and Financial Performance. International Journal of Creative and Open Research in Engineering and Management, <i>02</i>(04).
<https://doi.org/10.55041/ijcope.v2i4.756>

License:

This article is published under the terms of the Creative Commons Attribution 4.0 International License (CC BY 4.0), which permits unrestricted use, distribution, and reproduction in any medium, provided the original author(s) and the source are credited.

© The Author(s). Published by International Journal of Creative and Open Research in Engineering and Management.



<https://doi.org/10.55041/ijcope.v2i4.756>

Abstract—

The management of working capital has a significant influence on the determination of the financial condition, liquidity, and efficiency of organizations. It entails the management of short-term resources within organizations in order to enable their operations. Working capital management enables organizations to strike an ideal balance between profitability and liquidity, a factor that facilitates sustainable growth. This study seeks to assess the efficiency of working capital management and investigate its effects on financial performance. The research will utilize a descriptive research approach where data will be collected through both primary and secondary sources. Primary data will be sourced through structured questionnaires administered to 100 respondents involved in the areas of finance and accounting in organizations. Secondary data will be obtained from financial statements and other sources of information. The analysis of working capital will include the investigation of factors such as the management of inventory, accounts receivable and payable, as well as cash flow. The results indicate that working capital management increases profitability, liquidity, and organizational efficiency. More than half of the respondents (72%) indicated that efficient working capital management contributes to financial stability, while 68% witnessed improvements in profitability.

But the research also highlights various issues like receivable delays, poor inventory management, and insufficient financial planning that may impact the performance of organizations adversely. The research thus comes to the conclusion that efficient working capital management is important in order to achieve success in the field of finance.

Keywords-

Working Capital; Financial Performance; Liquidity; Profitability; Inventory Management; Receivables.



I. INTRODUCTION

In today's competitive world, the financial management process is vital in ensuring the continuity and growth of enterprises. In financial management, one of the most crucial areas is working capital management that entails managing current assets and current liabilities to ensure that the organization has adequate liquidity to manage its immediate liabilities and maintain operational efficiency.

Working capital is considered the lifeblood of any business, and any mismanagement may result in issues such as liquidity, low profits, and eventual collapse of the firm. Effective working capital management can be used to achieve a balance between liquidity and profitability.

Key elements of working capital management include cash, inventory, account receivables, and payables.

The efficient management of working capital elements results in improved efficiency of organizational operations. The objective of this study is to assess the impact of working capital management on financial performance and determine some of the factors associated with the management process.

A firm with sound liquidity position and effective usage of resources is said to be a good and dependable business enterprise. In a scenario where there is stiff competition and changing economic environment, there is a need for constant review and improvement of working capital management. The adoption of modern approaches to finance can help improve the decision making and management of the short term finances of the business firm.

II. LITERATURE REVIEW

The significance of working capital management has been thoroughly explored as one of the most influential variables impacting the financial performance of companies.

All previous studies have established a clear connection between effective working capital management and enhanced profitability. In particular, it has been noted that those companies that successfully manage their working capital assets and obligations achieve higher financial results and a steady liquidity status. One of the aspects worth mentioning in this context is inventory management since effective inventory control ensures savings on expenses related to its storage and minimization of possible losses in terms of excessive inventories and waste.

Likewise, receivables management is another crucial component since proper receivable management ensures continuous cash flow and reduced losses due to bad debts. Furthermore, it has been established that having an optimal amount of working capital is crucial for business success because excess working capital leads to inefficient use of company resources, whereas lack of sufficient working capital creates risks of experiencing cash shortage problems.

Cash Conversion Cycle has been highlighted as one of the most important indicators of working capital management efficiency by many scholars. The reduced Cash Conversion Cycle implies increased speed in converting assets to cash, which results in greater liquidity and profitability.



III. METHODOLOGY

The descriptive research design will be used in order to conduct an assessment of the efficiency and impact of working capital management on the financial performance of businesses. Descriptive research will be used since it will assist in analyzing existing practices and relationship among the various working capital components.

Primary data was collected by means of using structured questionnaires which were sent to 100 respondents who work in the fields of finance and accounting. Questionnaires contain questions about working capital management practices, problems, and influence on financial performance of a company.

Secondary data was collected from financial reports, journals and any other sources available in order to provide additional support to the study. Convenience sampling technique was chosen because it allows researchers to quickly collect information by interviewing convenient respondents.

Several instruments were used in order to present the findings in the most effective way possible. These instruments include percentage analysis, comparison analysis and analysis of trends. The main focus of the study is the evaluation of different components of working capital. These components are inventory management, receivables management, payables management and cash management.

IV. RESULTS AND DISCUSSION

The results of this study indicate that working capital management is a vital factor for the performance of organizations. Almost all respondents (about 90%) know about the need for efficient working capital management to ensure financial stability and operational effectiveness.

Moreover, most (68%) respondents have experienced positive impacts on their profit margins through effective working capital management. Similarly, 72% of participants believe that working capital management has a

considerable effect on achieving liquidity and financial stability.

Nevertheless, the study also presents some drawbacks associated with working capital management. Approximately half (55%) of the participants faced challenges related to inefficient inventory management that resulted in higher expenses and wastage.

Likewise, 60% of the respondents were unable to collect payments promptly because of delays in receivables, which affected their daily transactions. The study demonstrates that efficient working capital management ensures better cash flows and resource usage.

However, practices like inventory surplus, collection delays, and poor credit management may have adverse effects on financial performance. Finally, the research suggests that effective financial planning and monitoring are essential for efficient working capital management, which improves financial outcomes in organizations.

V. CONCLUSION

The study concludes that working capital management plays a vital role in determining the financial performance of an organization. Efficient management of working capital not only improves liquidity and profitability but also enhances overall operational efficiency. It ensures that organizations can meet their short-term obligations while maintaining smooth business operations.

In conclusion, working capital management should not be viewed as just a routine financial activity but as a strategic function that contributes to long-term business success, sustainability, and growth in a competitive environment.



REFERENCES

- [1] R. H. Smith, "Working Capital Management and Profitability," *Journal of Finance*, 2018.
- [2] D. Gitman, *Principles of Managerial Finance*, Pearson, 2019.
- [3] I. Pandey, *Financial Management*, Vikas Publishing, 2020.
- [4] J. Van Horne and J. Wachowicz, *Fundamentals of Financial Management*, 2017.
- [5] M. Shin and L. Soenen, "Efficiency of Working Capital Management," *Financial Practice*, 1998.
- [6] K. V. Smith, "State of the Art of Working Capital Management," *Financial Management*, 1980.
- [7] Brigham and Houston, *Financial Management*, Cengage Learning, 2021.
- [8] S. Bhattacharya, *Working Capital Management Strategies*, 2019.
- [9] McKinsey & Company, "Corporate Finance and Working Capital," 2022.
- [10] Reserve Bank of India Reports on Corporate Finance, 2023.