

**IMPORTANCE OF WORKING CAPITAL MANAGEMENT AND RELATIONS WITH THE PERFORMANCE
AND LIQUIDITY POSITIONS OF THE COMPANY**

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Abstract

In this study, I empirically investigate the effect of working capital management on firm's financial performance and liquidity position of the company in an emerging market. It's hypothesized that working capital management leads to improved profitability. My data set consists of firms listed in the Cyprus Stock Exchange for the period 2000-2014. Using multivariate regression analysis, our results support my hypothesis. Specifically, results indicate that the cash conversion cycle and all its major components; namely, days in inventory, day's sales outstanding and creditor's payment period - are associated with the firm's profitability. The results of this study should be of great importance to managers and major stakeholders, such as investors, creditors, and financial analysts, especially after the recent global financial crisis and the latest collapses of giant organizations worldwide.

This paper seeks to assess efficient utilization of the firm's resources, as it relates to working capital management, means that executives should find effective and efficient ways to deal with the cash available for the day-to-day operations in order to achieve the optimum impact. Good working capital management leads to increased cash flows, and thus leads to lesser need on external financing; therefore, the probability of default for the firm is reduced. A key factor in the working capital management is the cash conversion cycle (DeLoof, 2003). Cash conversion cycle is defined as the time lag between the purchasing of raw materials or rendering of services and the collection of cash from the sale of goods or services rendered. The longer the lag, the greater the investment in working capital, and thus the financing needs of the firm will be greater. Interest expense will be also higher, which leads to higher default risk and lower profitability.

Key words: Capital markets; working capital management; empirical; organizational performance