

Impact of Working Capital Management on Firm Profitability in a Developing Economy: Evidence from Manufacturing Firms in Afghanistan

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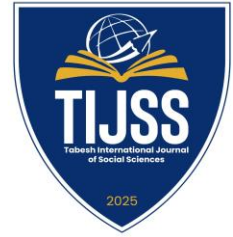
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ABSTRACT

This study examined the impact of working capital management practices on perceived profitability among manufacturing firms in Afghanistan. Although a lot of research has been done on the relationship between working capital and profitability, Afghanistan's data is still scarce. This study examines how Afghan manufacturing firms assess their profitability in terms of inventory, cash, payables, receivables, and liquidity management. A quantitative cross-sectional methodology was employed to collect data from 384 managers, accountants, finance officers, and business owners using a standardized questionnaire. Multiple regression analysis was used to test the proposed connections. The results show that perceived profitability is positively and significantly impacted by all five aspects of working capital management. Cash management emerged as the strongest predictor ($\beta = 0.271$, $p < 0.001$), followed by receivables management ($\beta = 0.264$, $p < 0.001$), liquidity management ($\beta = 0.258$, $p < 0.001$), inventory management ($\beta = 0.223$, $p < 0.001$), and payables management ($\beta = 0.093$, $p = 0.015$). The model proved to be highly explanatory, as it could explain 56.7% of profitability variance ($R^2 = 0.567$). Apart from contributing to a better understanding of the theories of Working Capital Management, Cash Conversion Cycle, and Resource-Based View in Afghanistan, this study provided empirical evidence to support them. The results highlight the importance of cash, inventory, payables, receivables, and liquidity management in enhancing profitability and competitiveness, particularly in emerging markets.

KEYWORDS: Working capital, profitability, manufacturing firms, Afghanistan, liquidity management

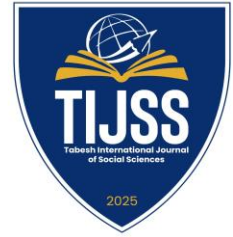


1. INTRODUCTION

Working capital management (WCM) is directly related to liquidity, operational effectiveness, and profitability; therefore, it is considered an essential aspect that determines the performance of a firm. The basic challenge almost every firm faces is the maintenance of sufficient cash for operations while maximizing profit. According to Brigham and Houston (2022), it is possible for firms to improve financial performance and achieve continuity by managing working capital effectively. In the same manner, Gitman et al., (2015) explained that a firm's performance is determined by its ability to manage existing assets and obligations. Therefore, in the current challenging business environment, it is essential for firms to manage spares, cash flow, consumer credit, and liquidity to enhance profitability and meet shareholders' expectations. The issue of working capital management and profitability has been widely studied and reviewed in corporate finance literature. Smith, (1980) was the first to document the relationship by noting that there is a trade-off between profitability and liquidity in working capital management decisions.

The management of working capital entails numerous related components which together contribute to the short-term financial efficiency of an organization. The cash management involves the coordination of cash flows such that an organization ensures sufficient liquidity for conducting its operations (Brigham & Houston, 2022). On the other hand, the inventory management is concerned with determining the optimum level of inventories to reduce holding costs and to avoid stockouts (Muller, 2019). The receivables management deals with assessing the credit rating of customers to facilitate the efficient collection of outstanding balances in time (Brealey et al., 2020). The payables management, however, involves the proper management of payable liabilities to firms and creditors in order to maintain liquidity and good relations between organizations (Ross et al., 2019). Liquidity management is the capacity of a firm to meet its financial obligations and continue its operations using liquid assets (Van Horne & Wachowicz, 2008). The management of these components can enhance profitability by improving efficiency and reducing financing costs (Smith, 1980; Richards & Laughlin, 1980).

Companies with shorter cash conversion cycles are generally more lucrative, as Shin and Soenen (1998) later demonstrated. Deloof (2003) also found that reducing inventory holding periods and accelerating receivables collection significantly improves corporate performance. Similar results were obtained by



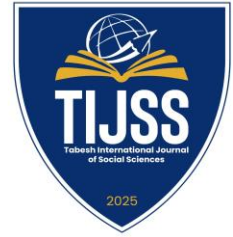
Lazaridis and Tryfonidis (2006), who concluded that efficient working capital management increases profitability. Research conducted in emerging economies has yielded similar conclusions. For example, Raheman and Nasr (2007) found a significant relationship between working capital efficiency and profitability among Pakistani businesses, while Mathuva (2010) noted that effective management of receivables, inventory, and payables enhances financial performance among Kenyan businesses. More recent studies have emphasized the significance of working capital management. Working capital management is even more important to profitability, especially in uncertain economic conditions, Enqvist et al., (2014). A firm can generate value through effective working capital policy and the reduction of short-term asset management costs Aktas et al., 2015. At the same time, Afrifa and Padachi, 2016, have shown that working capital management decisions can significantly influence the performance of firms with limited cash resources. In particular, this factor has a considerable impact on the survival ability of businesses. Thus, it is possible to conclude that working capital management plays an important strategic role in the survival and competitiveness of firms.

The link between working capital management and profitability is far from being clear since the multiple research reports on this topic yield inconclusive results. The variance in results could be explained by differences in the institutional settings in which firms operate. For instance, Nazir and Afza, 2009, have found that aggressive working capital policies have the potential to affect negatively firms' risk levels in some cases and increase profitability in others. Moreover, Gill et al., 2010, have found that organizational characteristics and market conditions could moderate the relationship between the two. Working capital policies depend on financing capabilities and market conditions, which is evident from the findings of García-Teruel and Martínez-Solano, 2007. The dependence of working capital management on firm-specific factors and institutional characteristics implies that more research is needed to better understand this relationship. In the context of emerging economies, the issue of working capital management is even more acute. This is explained by the fact that firms operating in developing countries face significant institutional barriers, have limited access to alternative sources of financing and experience severe liquidity constraints. Financial constraints are a major inhibitor of firms' growth in emerging markets (Beck et al., 2005). According to Abuzayed, 2012, working capital management is particularly important for firms with limited access to external financing, as it allows them to rely on their own financial resources to fund

operations. Similarly, Padachi, 2006, has found that working capital mismanagement is a major contributor to cash flow and profitability problems that firms with limited external financing experience on a regular basis. Thus, the need to explore the relationship between working capital management and profitability is particularly pressing in the context of emerging economies.

Afghanistan is a particularly important context for examining this connection. The country's manufacturing sector makes a substantial contribution to employment creation, value creation, and industrial development. However, supply chain disruptions, poor infrastructure, limited financing options, and economic uncertainty characterize the challenging business environment in which manufacturing enterprises operate. Businesses are more dependent on effective cash, inventories, payables, receivables, and liquidity management as a result of these conditions. Recent studies conducted in Afghanistan have highlighted the importance of resource use and managerial effectiveness in improving organizational performance. For example, Zaheer and Sadiq (2024) highlighted that effective management practices enhance firm performance, while Nael et al. (2026) stressed the need of sound financial decision-making for corporate success. Empirical research on working capital management in Afghanistan is largely lacking, nevertheless. Another disadvantage is the way profitability is calculated in the already published literature. Most studies have used objective accounting measures such return on equity, return on assets, and net profit margin (Deloof, 2003; Raheman & Nasr, 2007; Mathuva, 2010). Although these measures provide valuable information, obtaining them from privately held enterprises operating in developing countries is often difficult. Researchers such as Dess and Robinson (1984) and Venkatraman and Ramanujam (1986) argued that subjective performance indicators can provide reliable assessments of organizational achievement when objective financial data is unavailable. Furthermore, Santos and Brito (2012) demonstrated that perceived profitability is a trustworthy indicator of company performance and is particularly useful when financial disclosure is limited.

To reduce these differences, this study looks at how five aspects of working capital management cash management, inventory management, payables management, receivables management, and liquidity management affect the perceptions of profitability of Afghan manufacturing businesses. Unlike many other studies that view working capital management as a monolithic entity, this study examines the distinct



contributions of each component. This approach provides a more advanced understanding of how specific financial management strategies affect the profitability of businesses.

The study's underlying ideas are Resource-Based View Theory (Barney, 1991), Working Capital Management Theory (Smith, 1980), and Cash Conversion Cycle Theory (Richards & Laughlin, 1980). Individually considering the presented theoretical positions allows for comprehending how the efficiency of short-term financial resource management may improve the firm's performance and create competitive advantages. By providing research results based on the industry characteristics of the Afghan market, this work adds value to addressing the management of working capital in emerging markets. Additionally, it offers politicians and managers who want to boost corporate profitability helpful information. The remainder of the paper is organized in this manner. The following part develops the research hypotheses and reviews the relevant literature. Next are the sections on results, technique, and criticism. The paper's conclusion includes limitations, theoretical and practical implications, and recommendations for additional research.

1.1 Problem Statement

Working capital management is considered to be one of the key factors influencing the firm's liquidity, operational capabilities, and overall profitability. The situation in the manufacturing sector in developing countries such as Afghanistan is especially challenging for firms due to financing difficulties that arise from instability in the national economy and supply chains. Despite the importance of this matter, little research has been conducted on the subject with regard to working capital management practices and their subsequent influence on the firms' profitability levels. Financial performance of private companies is difficult to estimate objectively due to insufficient reporting of financial details. For this reason, this study aims to investigate cash, inventory, accounts receivable, accounts payable, and overall liquidity management and their impact on the manufacturing firms' profitability in Afghanistan.

1.2 Research Objectives

The general objective of this study is to examine the influence of working capital management practices on the perception of profit of manufacturing firms in Afghanistan.

Specifically, this study aims to:

- Examine the effect of cash management practices on the perception of profit of manufacturing firms in Afghanistan.
- Examine the effect of inventory management practices on the perception of profit of manufacturing firms in Afghanistan.
- Examine the effect of receivables management practices on the perception of profit of manufacturing firms in Afghanistan.
- Examine the effect of payables management practices on the perception of profit of manufacturing firms in Afghanistan.
- Examine the effect of liquidity management practices on the perception of profit of manufacturing firms in Afghanistan
- Establish the working capital management practices dimension that has the highest influence on the perception of profit of manufacturing firms in Afghanistan.

1.3 Research Questions

The study seeks to address the following research questions:

1. Does cash management have effect on the perception of profitability of manufacturing firms in Afghanistan?
2. Does inventory management affect the perception of profitability of manufacturing firms in Afghanistan?
3. Does receivables management influence on the perception of profitability of manufacturing firms in Afghanistan?
4. Does payables management on the perception of profitability of manufacturing firms in Afghanistan?
5. Does liquidity management affect perception of profitability of manufacturing firms in Afghanistan?
6. Which of the component of working capital management has the highest influence on the perception of profitability of manufacturing firms in Afghanistan?

1.4 Research Hypothesis

Based on the theoretical foundations of Working Capital Management Theory, Cash Conversion Cycle Theory and Resource-Based View Theory, and the empirical literature reviewed in this study, the following hypotheses are proposed:

H1: Cash management has a significant positive effect on perceived profitability among manufacturing firms in Afghanistan.

H2: Inventory management has a significant positive effect on perceived profitability among manufacturing firms in Afghanistan.

H3: Receivables management has a significant positive effect on perceived profitability among manufacturing firms in Afghanistan.

H4: Payables management has a significant positive effect on perceived profitability among manufacturing firms in Afghanistan.

H5: Liquidity management has a significant positive effect on perceived profitability among manufacturing firms in Afghanistan.

2. LITERATURE REVIEW

2.1 Theoretical Foundation

The Resource-Based View (RBV) Theory, Cash Conversion Cycle Theory, and Working Capital Management Theory form the basis of the present research. Combined together, these theories provide an accurate indication of how short-term processes influence the business's success. According to working capital management theory, it is possible to maximize the firm's value by maintaining the adequate balance between profitability and liquidity (Smith, 1980). Liquidity shortages may result in the business's potential inability to meet its obligations, whereas the overinvestment in current assets entails a risk of decreased profitability due to the opportunity cost of alternate investments. Hence, cash conversion, inventory,

accounts receivable and payable, liquidity management, and other elements should be used in order to achieve the maximum performance level. The Cash Conversion Cycle Theory helps to understand the interrelations between elements and describes how the firm transforms the investment in inventory and receivables to cash (Richards & Laughlin, 1980). The main idea of Cash Conversion Cycle Theory is that profits can be maximized if the time of suppliers' payments to customers in the supply chain is minimized. As a result, the working capital management allows an organization to shorten the cash conversion cycle and maximize profit while minimizing the need for financing, thus ensuring the firm's profitability and liquidity.

The Resource-Based View (RBV) Theory states that resources of organizations and abilities can create long-term competitive advantages if they are valued, rare, difficult to duplicate, and well utilized (Barney, 1991). As a result, financial management abilities, such as effective working capital management strategies, can be viewed as strategic assets that promote improved organizational performance. Businesses that effectively manage their short-term financial resources are likely to be more profitable than their rivals. This perspective is consistent with research from Afghanistan that shows how managerial abilities, like effective leadership and emotional intelligence, have a significant impact on organizational performance results (Zaheer & Barakzai, 2026). When considered collectively, these theoretical positions suggest that effective working capital component management should positively affect company profitability. In the sections that follow, the research hypotheses are created and the literature on each facet of working capital management is reviewed.

2.2 Cash Management and Firm Profitability

The importance of cash management as an important determinant for the performance of an organization has been recognized over time as it supports providing enough liquidity to conduct operations, indicates the ability to respond to potential investments and essentially the ability to maintain the liquidity of the business. Firms keep cash for a variety of reasons, including transaction, precautionary, and speculative reasons (Keynes, 1936), which illustrates how important cash can be as it pertains to doing business. According to the theory of Working Capital Management, maximizing the value of the firm requires that firms maintain an adequate balance between liquidity and profitability (Smith, 1980). Additionally, the Cash

Conversion Cycle Theory suggests that firms that manage their cash inflows/outflows in an efficient manner and reduce unnecessary costs of financing improves financial performance (Richards & Laughlin, 1980).

The positive correlation between profitability and cash management is regularly supported by empirical data. Effective cash cycle management increases liquidity and operational efficiency, which boosts business profitability, according to Uyar (2009). According to Gill et al. (2010), companies that have stronger cash management procedures typically have higher financial results. According to Enqvist et al. (2014), financial management becomes even more crucial during uncertain economic times. More recently, Otoo (2024) shown how financial management techniques, such as efficient cash management, greatly boost an organization's competitiveness and performance. Effective cash management is anticipated to boost profitability in manufacturing companies because ongoing spending on personnel, raw materials, and production activities are necessary. Therefore, the following hypothesis is proposed:

H1: Cash management has a significant positive effect on firm profitability.

2.3 Inventory Management and Firm Profitability

Inventory management is the planning, regulating, and monitoring of inventory levels to ensure the availability of production inputs while lowering inventory-related costs (Muller, 2019). Since inventory constitutes a substantial proportion of current assets, its management is often a critical determinant of the performance of manufacturing firms. Proper inventory management facilitates uninterrupted production processes, lowers storage costs, minimizes wastage, and enhances overall productivity. Inventory management theories argue that effective inventory management improves an organization's viability by enhancing its operating performance and working capital management. Working Capital Management theory posits that excessive inventory levels lower profitability by increasing working capital needs (Smith, 1980). On the contrary, inadequate stock levels tend to cause production shutdowns and loss of potential sales. The EOQ (Economic Order Quantity) model maintains that profits are maximized when stocks are handled in a manner that minimizes ordering and holding costs (Harris, 1913). Several researchers have identified a positive relationship between proper inventory management and organizational performance.

For example, Padachi (2006) found that appropriate inventory management practices in industrial organizations enhance profitability. Similarly, Deloof (2003) concludes that shorter inventory periods tend to correspond with higher profit margins. Lazaridis and Tryfonidis (2006) also report a positive relationship between working capital management and the performance of businesses. Specifically, the researcher concludes that improved working capital management often leads to higher profits for firms. Using data collected from enterprises in Kenya, Mathuva (2010) arrives at similar conclusions about the positive connection between inventory turnover and profitability. Dong and Su (2010) also report similar findings made in Vietnamese companies regarding inventory turnover and organizational performance.

Inventory management practices are especially essential in industrial organizations due to the critical need for continuous supplies of finished goods and raw materials. The ability of a firm to appropriately manage stock to meet its needs at all stages leads to its operational efficiency and financial success (Stevenson, 2021). According to the recent study conducted by Asare et al. (2026), businesses that implemented inventory control strategies observed improved financial performance. Therefore, the current research tests the following hypothesis:

H1: Inventory control strategies have a positive effect on the financial performance of firms.

2.4 Receivables Management and Firm Profitability

Receivables management is a concept that covers procedures and policies intended to help a business assess a buyer's creditworthiness, analyze the state of trade debts, and recover them promptly (Brealey et al., 2020). Trade credit can help a company raise its sales and strengthen relationships with partners, but at the same time, it reduces the inflow of cash and creates risks for collection. Thus, it is essential for a firm to manage its receivables to ensure that it has an excellent cash flow and profit. According to the Cash Conversion Cycle Theory, decreasing the time of receivable collection helps firms get more cash flow and profit and reduce the need for external financing (Richards & Laughlin, 1980). A company that manages its accounts receivable well can boost its liquidity and profitability by converting sales into cash quickly. Similar to this, Working Capital Management Theory emphasizes how effective accounts receivable management improves current asset utilization and boosts profitability. Numerous empirical studies have shown a positive correlation between profitability and receivables management. Deloof (2003) found that

shortening the time it takes for businesses to recover accounts receivable can boost profitability. Lazaridis and Tryfonidis (2006) found similar outcomes among Greek businesses. Raheman and Nasr (2007) shown that receivables management significantly affects profitability in Pakistan, while Falope and Ajilore (2009) found comparable results among Nigerian businesses. Furthermore, according to Mathuva (2010), efficient receivables management improves cash flow efficiency and reduces bad debt risks, both of which have a positive effect on financial performance.

According to Atrill (2020), businesses that apply effective credit policies and collection procedures are more likely to achieve greater liquidity positions and profitability outcomes. García-Teruel and Martínez-Solano (2007) state that cutting down on collection delays enhances both financial performance and operational efficiency. More recently, Otoo (2024) emphasized how effective receivables management strategies significantly improve an organization's performance and competitiveness. Because trade credit is often used to maintain customer connections and increase market share, receivables management is particularly important for manufacturing enterprises. Companies that successfully manage customer credit and collection processes are therefore more likely to maintain robust cash flows and achieve greater profitability. Consequently, the following theory is proposed:

H3: Receivables management has a significant positive effect on firm profitability.

2.5 Payables Management and Firm Profitability

According to Cash Conversion Cycle theory, there is potential for improving profitability through proper management of payment periods and making good use of supplier credit (Richards & Laughlin, 1980). Delaying payments while adhering to the terms set out in credit policies results in the retention of cash for longer periods and thus improved liquidity and reduced need for borrowing from costly external sources. The same holds for Working Capital Management Theory that claims effective management of short-term liabilities enhances profitability through better optimization of the relationship between short-term debts and resources (Smith, 1980). There is general agreement that the payables management process is a positive predictor of profitability. According to Petersen and Rajan (1997), trade credit is one of the main financing

channels especially for those firms that lack access to credit markets. Deloof (2003) found that accounts payable management has a strong impact on the efficiency of working capital and profitability of firms. Similar findings were obtained by Mathuva (2010) who found that firms that manage supplier credit properly are likely to perform well in terms of profitability. Furthermore, Lazaridis and Tryfonidis (2006) concluded that improved cash flow management through effective payables management contributes positively to profitability. García-Teruel and Martínez-Solano (2007) similarly argued that effective management of supplier obligations can improve financial performance while maintaining strong supplier relationships. More recently, Chamma and Hijazi (2025) argued that payables management practices are critical for ensuring liquidity and financial sustainability, especially in the current unpredictable business environment. Supplier credit is particularly essential for manufacturers since the continuous procurement of raw materials and other industrial supplies is required. Therefore, it is expected that firms that can effectively manage suppliers' accounts and payments terms tend to maintain higher levels of liquidity and, consequently, have improved profitability performance. Thus, the following hypothesis was developed:

H4: Payables management has a significant positive effect on firm profitability.

2.6 Liquidity Management and Firm Profitability

Liquidity management is generally defined as the ability of a company to operate while possessing cash resources necessary to satisfy its immediate payment obligations (Brigham & Houston, 2022). In other words, businesses with sufficient liquidity can fund their operations, adapt to unexpected occurrences, and take advantage of emerging opportunities. Thus, it is reasonable to conclude that effective liquidity management plays a critical role in ensuring financial management and organizational survival. The issue of profitability and liquidity has been a subject of extensive research in financial management. According to Keynes (1936), liquidity is required to meet transaction needs, act as a precautionary measure, and speculate on investments. Van Horne and Wachowicz (2008) explain that maintaining the level of liquidity necessary to ensure financial responsibility and avoid hazards is essential for any business. Although high levels of liquidity can lead to low-profit margins and underperformance, insufficient liquidity poses survival risks for a firm. Consequently, profitability and liquidity have to be balanced according to the working

capital management theory proposed by Smith (1980). Multiple researchers have identified the significant influence of liquidity management on the profitability of businesses. According to Gill et al. (2010), firms with higher levels of liquidity tend to have improved profitability. Liquidity management, therefore, impacts a firm's financial performance positively by enhancing its performance and financial management capabilities (García-Teruel & Martínez-Solano, 2007). Enqvist et al. (2014) note that liquidity management gains paramount importance during periods of economic uncertainty as enterprises face financial risks and challenges brought about by instability. It is essential to understand the role of liquidity management, particularly in emerging economies, as businesses face unique challenges brought about by limited access to external financing. Abuzayed (2012) explains that firms in developing countries rely on liquidity management to a greater extent than those in developed countries. Mathuva (2010) observes that firms with higher levels of liquidity are better positioned to maintain profitability. Chamma and Hijazi (2025) note that financial sustainability and organizational resilience are dependent on the level of liquidity management. According to Otoo (2024), financial performance management practices related to liquidity contribute to organizational performance and competitiveness.

The need for liquidity management is particularly acute for manufacturing firms. This is because such firms need cash to fund the procurement of raw materials, employ labor, and meet other expenses related to production activities. Firms with sufficient liquidity can facilitate manufacturing processes and satisfy short-term obligations while taking advantage of emerging opportunities. Thus, it is essential to propose that liquidity management significantly impacts the profitability of manufacturing firms. Therefore, the following theory is proposed:

H5: Liquidity management has a significant positive influence on the profitability of firms.

2.7 Conceptual Framework

This study indicates that working capital management strategies have a significant impact on firm profitability based on Resource-Based View Theory, Cash Conversion Cycle Theory, and Working Capital Management Theory. In particular, it is anticipated that cash management, inventory management, payables management, receivables management, and liquidity management have a favorable effect on the perceived profitability of Afghan manufacturing companies. The conceptual framework in Figure 1 illustrates the suggested connections between the study variables. Cash management, inventory management, receivables

management, payables management, and liquidity management are the independent variables, and firm profitability is the dependent variable. The paradigm is based on the notion that increased organizational profitability results from advancements in all aspects of working capital management.

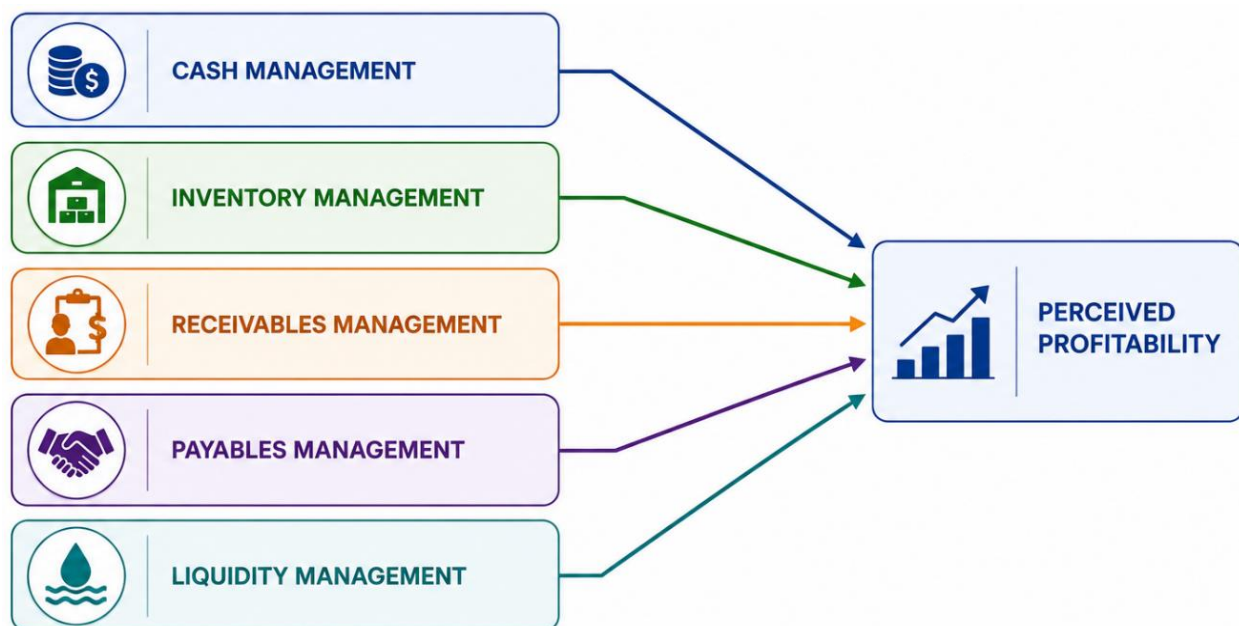


Figure 1. Conceptual Framework of the Study

Source: Developed by the researcher based on Smith (1980), Richards and Laughlin (1980), Barney (1991), Deloof (2003), Lazaridis and Tryfonidis (2006), Raheman and Nasr (2007), and Mathuva (2010).

Figure 1 displays the study's conceptual structure. The framework states that the perceived profitability of Afghan manufacturing enterprises is influenced by five components of working capital management: cash management, inventory management, receivables management, payables management, and liquidity management. The model makes the assumption that perceived profitability and each working capital management factor are directly positively correlated. The framework is based on three theories: Resource-Based View Theory, which emphasizes the strategic importance of financial management capabilities; Cash Conversion Cycle Theory, which focuses on working capital efficiency; and Working Capital Management Theory, which emphasizes striking a balance between liquidity and profitability. The stated assumptions are thus empirically examined using the framework as a foundation.

3. METHODOLOGY

This study examined how working capital management strategies impacted the profitability of Afghan manufacturing firms using a quantitative research methodology. In line with the positivist research paradigm, the study employed a cross-sectional survey approach to collect empirical data and assess the proposed hypotheses. Quantitative techniques are appropriate when examining links between quantifiable factors and generating objective evidence through statistical analysis (Creswell & Creswell, 2018; Saunders et al., 2019).

3.1 Population, Sample and Data Collection

The target population included managers, accountants, finance officers, owners, auditors, and other personnel involved in financial matters in Afghan manufacturing firms. Due to the absence of complete information about the number of manufacturing companies and potential respondents in Afghanistan, Cochran's (1977) formula was applied to calculate the sample size at 95% confidence level and 5% margin of error. According to the formula, at least 384 respondents should be recruited for the study. Consequently, 384 participants were selected through purposive sampling from various manufacturing companies nationwide to participate in the research study. The respondents were requested to provide their professional expertise in finance and management, and both electronic and paper copies of the questionnaire were distributed among the participants. In addition, respondents were assured of confidentiality and anonymity of their responses.

3.2 Measurement of Variables

The study includes five working capital management areas as independent variables, namely cash, inventory, payables, receivables, and liquidity management. The firm's profitability was considered as the dependent variable. The study used multiple-item measures that were modified to meet the study's objectives and were based on previous studies conducted on the topic to operationalize the concepts of working capital management. The measures were modified to suit the Afghan manufacturing companies' context.

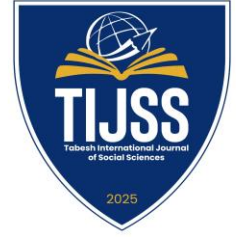


Table 1: Operationalization of Variables

Variable	Type	Number of Items	Sample Measurement Statement	Key Supporting Sources
Cash Management (CM)	Independent	4	Our firm effectively manages cash inflows and outflows to support daily operations.	Gitman et al. (2015); Ross et al. (2019)
Inventory Management (IM)	Independent	4	Inventory levels are maintained efficiently to minimize holding costs and stock shortages.	Muller (2019); Stevenson (2021)
Receivables Management (RM)	Independent	4	Customer payments are collected promptly according to established credit terms.	Brealey et al. (2020); Gitman et al. (2015)
Payables Management (PM)	Independent	4	The organization effectively manages supplier payment obligations.	Petersen and Rajan (1997); Ross et al. (2019)
Liquidity Management (LM)	Independent	4	The organization maintains sufficient liquidity to meet short-term obligations.	Brigham and Houston (2022); Van Horne and Wachowicz (2008)
Perceived Profitability (PP)	Dependent	4	Our organization has achieved satisfactory profitability during recent years.	Venkatraman and Ramanujam (1986); Santos and Brito (2012)

Source: Developed by the researcher based on the reviewed literature.

Since respondents have in-depth knowledge about organizational performance and practice, all variables are operationalized in terms of respondent perceptions. This approach has proven to be effective because perceptual measures generally have good validity and reliability, and have been widely used in management and organizational studies literature (Dess & Robinson, 1984; Santos & Brito, 2012). Thus, it can be asserted that the approach taken in the study allows using quantitative analysis procedures to examine the relationships between working capital management practices and respondents' perceptions of profitability.

3.3 Reliability and Validity

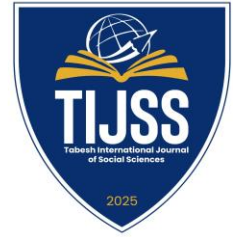
The items in the questionnaire were adapted from validated measures and were evaluated by experts in the field of financial management procedures to ensure measurement accuracy. This approach helped to ensure that the items developed addressed the objectives of the study, thus establishing the content validity of the instrument. Additionally, Cronbach's alpha was used to assess the internal consistency reliability of the items. According to Hair et al. (2019), scales with Cronbach's alpha scores higher than 0.70 are considered reliable. The analysis revealed that the items had Cronbach's alpha scores ranging between 0.86 and 0.89, which means they were highly reliable.

3.4 Data Analysis

The data was analysed using Stata. Analysis was done in stages. First there was an examination of the distribution of the research variables and the descriptive statistics of the respondents. The sample and respondents' views on working capital management techniques and profitability were presented using mean, standard deviation, frequency and percentage. Second, the direction and strength of the relationships between the research variables were examined using Pearson correlation analysis. Initial evidence of the relationships between working capital management characteristics and profitability was gathered through correlation analysis. Third, diagnostic tests were run to evaluate the multiple regression analysis's underlying presumptions. Kurtosis and skewness tests were used to assess normality. Multicollinearity was examined using the Variance Inflation Factor (VIF), and heteroskedasticity was assessed using the Breusch–Pagan/Cook–Weisberg test. These diagnostic methods ensured that the data was appropriate for regression analysis. Lastly, the suggested ideas were tested and the impact of working capital management techniques on firm profitability was ascertained using multiple linear regression analysis. Regression analysis is frequently used in management and finance research because it allows the simultaneous evaluation of the impact of several independent factors on a dependent variable (Hair et al., 2019).

The following describes the regression model estimated in this study:

$$PP = \beta_0 + \beta_1 CM + \beta_2 IM + \beta_3 RM + \beta_4 PM + \beta_5 LM + \varepsilon$$



where:

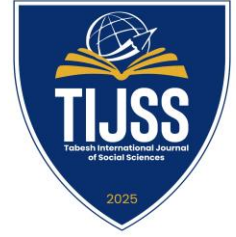
- PP = Firm Profitability
- CM = Cash Management
- IM = Inventory Management
- RM = Receivables Management
- PM = Payables Management
- LM = Liquidity Management
- β_0 = Constant term
- β_1 – β_5 = Regression coefficients
- ε = Error term

A significance level of 5% was applied to each statistical test. The hypothesis was accepted when the matching p-values were less than 0.05.

4. RESULTS AND DISCUSSION

Table 2: Respondent Profile (N = 384)

Variable	Category	Frequency	Percentage (%)
Gender	Male	346	90.1
	Female	38	9.9
Age	Under 25	57	14.8
	25–34	162	42.2
	35–44	115	29.9
	45 and above	50	13.0
Education	Diploma	52	13.5
	Bachelor's Degree	214	55.7
	Master's Degree	102	26.6

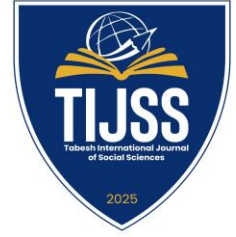


Position	Other	16	4.2
	Finance Officer	83	21.6
	Accountant	132	34.4
	Manager	86	22.4
	Owner	37	9.6
Work Experience	Other	46	12.0
	Less than 3 years	68	17.7
	3–5 years	128	33.3
	6–10 years	113	29.4
	More than 10 years	75	19.5
Firm Size	Small (1–49 employees)	161	41.9
	Medium (50–249 employees)	169	44.0
	Large (250+ employees)	54	14.1

The respondents' demographics are presented in Table 2. The respondents with the highest representation were male (90.1%), which can be explained by the prevailing presence of males in the manufacturing industry in Afghanistan. Most respondents were aged between 25 and 44 (72.1%), and most of the respondents had a bachelor's degree or higher (82.3%), which suggests that the sampled population consisted mainly of educated individuals. The majority of the respondents were accountants, managers, and finance officers (78.4%). This can be explained by the fact that the respondents were intentionally selected among people making financial decisions. Over 80% of the respondents had more than three years of work experience, while the majority of the respondents represented medium (44.0%) and small (41.9%) enterprise organization sizes, which implies that the respondents on behalf of organizations with different levels of economic impact were involved in the study.

Table 3: Reliability Test

Variable	Items	Cronbach's Alpha
Cash Management (CM)	4	0.88
Inventory Management (IM)	4	0.89
Receivables Management (RM)	4	0.88



Payables Management (PM)	4	0.86
Liquidity Management (LM)	4	0.88
Perceived Profitability (PP)	4	0.88

The reliability results of the research constructs are presented in Table 3. Nunnally and Bernstein (1994) and Hair et al. (2019) suggest that the reliability index should be at least 0.70; however, the reliability scores ranged between 0.86 and 0.89. The lowest reliability score was found for the Payables Management construct ($\alpha = 0.86$) whereas the highest one was observed for Inventory Management ($\alpha = 0.89$). The results indicate that all items have a satisfactory reliability score of Cronbach's Alpha that suggests internal consistency of the items taken together, meaning that all the constructs were measured accurately and can be used for further statistical analysis.

Table 4: Descriptive Statistics

Variable	Obs	Mean	Std. Dev.	Min	Max
PP	384	3.376	.667	1.75	5
LM	384	3.438	.663	1.5	5
PM	384	3.5	.636	1.5	5
RM	384	3.435	.667	1.75	5
IM	384	3.428	.688	1	5
CM	384	3.503	.679	2	5

The descriptive statistics of the study variables are presented in Table 4. The mean scores, which ranged between 3.38 and 3.50, suggested that respondents agreed that their companies applied effective working capital management practices and were profitable. Payables Management ($M = 3.50$, $SD = 0.64$) and Cash Management ($M = 3.50$, $SD = 0.68$) were the independent variables with the highest mean scores, which implied that manufacturing companies adopted them extensively. The Perceived Profitability had the lowest mean score ($M = 3.38$, $SD = 0.67$), which suggested that the respondents had a slightly positive perception of their company's performance. The standard deviation scores, which ranged between 0.64 and 0.69, did not indicate any extreme responses, which would have implied respondents' inconsistency or uncertainty about their responses. Additionally, there was no substantial variability in the respondents' answers. Overall, the

descriptive results indicate that the sampled firms demonstrate moderate to high levels of working capital management practices, which may contribute to improved profitability outcomes.

Table 5: Skewness/Kurtosis tests for Normality ----- joint -----

Variable	Obs	Pr(Skewness)	Pr(Kurtosis)	adj_chi2(2)	Prob>chi2
Residual	384	0.934	0.871	0.030	0.983

Table 5 presents the results of the Skewness/Kurtosis test for normality. The joint test produced a non-significant result ($\text{Prob} > \chi^2 = 0.983$), indicating that the residuals are normally distributed. In addition, the p-values for both skewness ($p = 0.934$) and kurtosis ($p = 0.871$) exceed the recommended significance level of 0.05. According to Gujarati and Porter (2021), non-significant normality test results suggest that the assumption of normality is satisfied. Therefore, the data are considered appropriate for subsequent regression analysis.

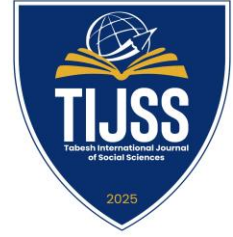
Table 6: Breusch–Pagan/Cook–Weisberg Test for Heteroskedasticity

Test	χ^2	df	p-value
Breusch–Pagan/Cook–Weisberg Test	0.87	1	.352

Table 6 reports the results of the Breusch–Pagan/Cook–Weisberg test for heteroskedasticity. The test produced a non-significant result ($\chi^2 = 0.87$, $p = 0.352$), indicating that the variance of the residuals is constant across observations. According to Gujarati and Porter (2021), a p-value greater than 0.05 suggests the absence of heteroskedasticity. Therefore, the assumption of homoscedasticity is satisfied, implying that the regression estimates are reliable and unbiased.

Table 7: Variance Inflation Factor

	VIF	1/VIF
CM	1.329	.752
LM	1.285	.778
IM	1.266	.79
RM	1.192	.839
PM	1.143	.875
Mean VIF	1.243	.

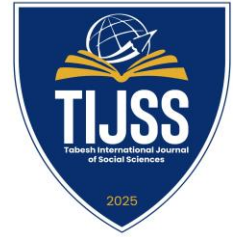


The Variance Inflation Factor (VIF) statistics used to assess the presence of Multicollinearity in the model are provided in Table 7. It can be seen that the mean value of VIF is 1.243, with individual values ranging between 1.143 and 1.329. This suggests that Multicollinearity is not present in the model, as the values are significantly lower than the threshold value of 10 proposed by Gujarati and Porter (2021) and Hair et al. (2019). This implies that no independent variable is highly correlated with the other variables in the model. Therefore, the estimates of the regression coefficients can be reliably interpreted since the presence of Multicollinearity would have inflated the standard errors of the estimates.

Table 8: Matrix of Correlations

Variables	(1)	(2)	(3)	(4)	(5)	(6)
(1) PP	1.000					
(2) LM	0.533	1.000				
(3) PM	0.334	0.271	1.000			
(4) RM	0.498	0.289	0.272	1.000		
(5) IM	0.507	0.322	0.202	0.253	1.000	
(6) CM	0.557	0.374	0.211	0.284	0.400	1.000

The Pearson correlation coefficients of the research variables are presented in Table 8. The results indicate that there is a positive correlation between firm-profitability and each of the working capital management components. In particular, the strongest positive relationship was found between perceived profitability and cash management ($r = 0.557$). Other components of working capital management also demonstrated a positive association with profitability, although to a lesser extent, including inventory ($r = 0.507$), liquidity ($r = 0.533$), and receivables ($r = 0.498$) management. In turn, payables management showed a weak positive correlation with profitability ($r = 0.334$). In general, the results demonstrate that the improvement of the selected components of working capital management leads to an increase in the profitability of organizations. Furthermore, it can be noted that the correlation coefficients of the independent variables were positive and moderate ($0.202 - 0.400$). This indicates that the independent variables are moderately related and do not overlap significantly. According to Hair et al. (2019), if the correlation coefficients are



below 0.8, then Multicollinearity is not a problem. Thus, in general, the results of the correlation analysis confirm the initial hypotheses and allow proceeding to multiple regression analysis.

Table 9: Regression Output

PP	Coef.	St.Err.	t-value	p-value	[95% Conf	Interval]	Sig
LM	.258	.039	6.68	0	.182	.334	***
PM	.093	.038	2.44	.015	.018	.167	**
RM	.264	.037	7.14	0	.191	.336	***
IM	.223	.037	6.04	0	.15	.296	***
CM	.271	.038	7.07	0	.195	.346	***
Constant	-.454	.182	-2.50	.013	-.811	-.096	**
Mean dependent var		3.376	SD dependent var			0.667	
R-squared		0.567	Number of obs			384	
F-test		99.185	Prob > F			0.000	
Akaike crit. (AIC)		468.142	Bayesian crit. (BIC)			491.846	

*** $p < .01$, ** $p < .05$, * $p < .1$

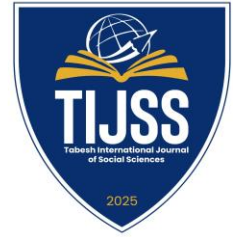
Table 9 shows the results of the regression analysis. The table shows the relationship between independent and dependent variables in the study. In other words, the table reflects the effect of working capital management practices on company profitability. The independent variables were found to be significant predictors of profitability with an overall model fit of $F = 99.185$ and $p < 0.001$ respectively. The model was found to explain 56.7% of the variance in perceived profitability as indicated by the R^2 value of 0.567. The results further revealed that all the five working capital management dimensions had a positive and significant effect on business profitability. Cash management was found to have the highest influence on business profitability at $\beta = 0.271$ and $p < 0.001$ respectively. The result further revealed that effective cash management and planning lead to increased profitability. This result is in line with the findings of Uyar (2009), Gill et al. (2010), and Enqvist et al. (2014), who found cash management to have a significant

positive relationship with financial performance. In addition, the analysis found that receivables management had a positive and significant effect on company profitability at $\beta = 0.264$ and $p < 0.001$ respectively. The finding suggests that effective receivables management leads to increased cash flow and improved performance. This result is consistent with the findings of Deloof (2003), Raheman and Nasr (2007), and Mathuva (2010), who found that effective receivables management leads to improved business profitability. Liquidity management was found to have a significant positive effect on business profitability at $\beta = 0.258$ and $p < 0.001$ respectively. The finding suggests that effective liquidity management leads to improved performance. This result is in line with the findings of Chamma and Hijazi (2025) and Abuzayed (2012), who found liquidity management to have a significant positive relationship with financial performance.

Inventory management was found to have a positive and significant effect on company profitability at $\beta = 0.223$ and $p < 0.001$ respectively. The finding suggests that effective inventory management leads to reduced carrying costs and improved performance. This result is in line with the findings of Padachi (2006), Lazaridis and Tryfonidis (2006), and Dong and Su (2010), who found inventory management to have a significant positive relationship with financial performance. Finally, payables management was found to have a positive and significant effect on company profitability at $p < 0.0010$ and $p < 0.0011$ respectively. Although the effect size was smaller compared to the other dimensions, the finding suggests that effective payables management leads to improved working capital management. This result is consistent with the findings of Mathuva (2010), Chamma and Hijazi (2025), and Petersen and Rajan (1997), who found payables management to have a significant positive relationship with financial performance. Overall, the results support Cash Conversion Cycle Theory and Working Capital Management Theory. In addition, the results provide empirical evidence that effective working capital management leads to improved business performance. As such, the study found all the five hypotheses (H1-H5) to be true.

Table 10: Hypothesis Testing Summary

Hypothesis	Relationship	Coefficient (β)	p-value	Decision
H1	Cash Management $\rightarrow$ Perceived Profitability	0.271	0.000	Supported
H2	Inventory Management $\rightarrow$ Perceived Profitability	0.223	0.000	Supported



Hypothesis	Relationship	Coefficient (β)	p-value	Decision
H3	Receivables Management $\rightarrow$ Perceived Profitability	0.264	0.000	Supported
H4	Payables Management $\rightarrow$ Perceived Profitability	0.093	0.015	Supported
H5	Liquidity Management $\rightarrow$ Perceived Profitability	0.258	0.000	Supported

Table 10 summarizes the results of hypothesis testing. The findings indicate that all proposed hypotheses are supported. Cash Management ($\beta = 0.271$, $p < 0.001$) emerged as the strongest predictor of firm profitability, followed by Receivables Management ($\beta = 0.264$, $p < 0.001$), Liquidity Management ($\beta = 0.258$, $p < 0.001$), and Inventory Management ($\beta = 0.223$, $p < 0.001$). Although Payables Management exhibited the smallest coefficient ($\beta = 0.093$, $p = 0.015$), its effect remained positive and statistically significant. Overall, the results confirm that effective working capital management practices contribute significantly to enhanced profitability among manufacturing firms in Afghanistan.

4.1 DISCUSSION

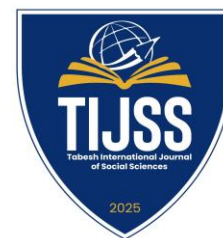
This study looked at how working capital management strategies affected the profitability of Afghan manufacturing firms. The results show that perceived profitability is positively and significantly impacted by cash management, inventory management, receivables management, payables management, and liquidity management. These findings lend credence to the theories put out and the idea that efficient short-term financial resource management significantly improves organizational performance. The results also support earlier findings from Afghanistan, where organizational methods were found to have a favourable impact on perceived profitability. This suggests that managerial and financial skills continue to be significant drivers of firm performance in the local setting (Zaheer & Sadiq, 2025). The results show that the best indicator of profitability is cash management. This implies that companies are more likely to achieve better financial success if they can efficiently plan and manage cash inflows and outflows. Maintaining sufficient cash resources seems to be especially crucial in Afghanistan, since access to outside funding is frequently restricted and business uncertainty is still considerable. This finding is particularly relevant in Afghanistan, where businesses frequently experience financing constraints and depend heavily

on internal financial resources for growth and continuity (Assadullah et al., 2026). In line with Uyar's (2009) argument, the result shows that effective cash management practices improve organizational profitability by elevating liquidity and operational performance. Besides, the study result conforms to the Working Capital Management Theory in showing that a firm's capacity to balance liquidity and profitability determines its performance.

In addition, it was established that effective receivables management practices enhance profitability. The study results show that manufacturing companies need to adopt appropriate invoicing and collection policies to improve cashflows. By reducing the collection period, firms can increase the amount of cash available for use. In this regard, the result agrees with Deloof's (2003) claim that shorter receivables periods lead to higher profits. On the same note, Raheman and Nasr's (2007) study also supports the current finding by showing that effective management of accounts receivable leads to improvements in financial performance. Moreover, the study result supports the Cash Conversion Cycle Theory since it shows that shortening the credit sales cycle facilitates increased profits.

It was also found that liquidity management has a beneficial effect on profitability. According to the study result, firms need to invest in maintaining high liquidity levels since it enables them to meet short-term obligations, maintain production levels, and respond to unpredictable developments. For instance, in an unstable business environment such as Afghanistan, liquidity helps in sustaining operations when financial difficulties are encountered. In this regard, the result confirms Abuzayed's (2012) assertion regarding the need to emphasize proper liquidity management in emerging markets. In addition, the study result supports Chamma and Hijazi's (2025) claim on the direct relationship between liquidity management and organizational resilience.

It was revealed that inventory management has a substantial positive effect on profitability. As shown by the study result, manufacturing firms need to have effective inventory management practices to ensure continuous production while meeting customer demand. By having effective systems, firms can avoid losses associated with poor storage while also maximizing the use of their resources. In this regard, the study result supports Padachi's (2006) recommendation regarding the need for effective inventory management for improving organizational performance. Besides, based on Lazaridis and Tryfonidis's



(2006) study, the current result supports their assertion that effective inventory management usually leads to improved financial performance.

Despite having the lowest coefficient, it was found that payables management also has a significant positive effect on organizational performance. According to the study result, effective management of payables increases profitability by allowing firms to utilize short-term financing facilities. In this regard, prudent management of trade payables allows firms to maintain good cash flow positions while also maintaining operational continuity. The result conforms to Petersen and Rajan's (1997) claim that trade credit is an integral component of short-term financing, especially for smaller organizations. Besides, the study result supports Mathuva's (2010) finding that effective management of payables leads to improved performance. In this regard, the study result supports Working Capital Management Theory, Cash Conversion Cycle Theory, and Resource-Based View Theory.

Working Capital Management Theory's claims regarding the inverse relationship between working capital and organizational performance are supported by the study results since it shows that all aspects of working capital management have a positive effect on profitability. On the other hand, Cash Conversion Cycle Theory's argument highlights the importance of working capital management in sustaining organizational performance is supported by the study results since it shows that inventory, payables, receivables, and liquidity management all contribute to organizational performance. In addition, the study results support the Resource-Based View Theory by showing that financial management aspects such as liquidity, payables, receivables, and inventory management are key resources that firms need to leverage to gain an advantage over their competitors. The study shows that apart from factors associated with production efficiency and market forces, working capital management practices play a critical role in determining the profitability of manufacturing firms. As shown by the study result, effective cash, inventory, receivables, payables, and liquidity management contribute to elevating financial performance, thereby enhancing competitiveness.

5. CONCLUSION

This study aimed to determine how working capital management techniques influenced the profitability of Afghan manufacturing enterprises. The study established the effect of inventories, cash, payables, receivables, and liquidity management on the perceived profitability of the enterprises. The study results

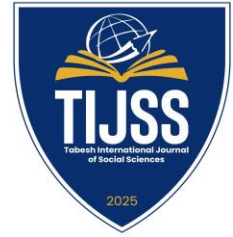
indicate that all the five working capital management components had a positive and significant effect on the profitability of the manufacturing enterprises. However, the effect of cash management was the highest, indicating that cash management has the highest predictive capacity among the five variables. Therefore, this study concludes that effective management of working capital leads to improved financial performance of the enterprise. This study makes a significant contribution to knowledge by providing empirical evidence on the effect of working capital management on enterprise profitability in Afghanistan, which has not been studied before. The study's results support the working capital management, cash conversion cycle, and resource-based view theories by demonstrating that financial management skills are key competencies that enhance organizational performance and give firms a competitive advantage.

5.1 Practical Implications and Recommendations

- Manufacturing firms should strengthen cash planning and monitoring systems, as cash management was found to be the strongest predictor of profitability.
- Firms should improve receivables collection procedures and credit evaluation practices to accelerate cash inflows and reduce bad debt risks.
- Managers should adopt effective inventory control systems to minimize holding costs and avoid production disruptions.
- Manufacturing firms should strategically manage supplier credit and payment schedules to improve liquidity and financial flexibility.
- Firms should maintain adequate liquidity reserves to ensure smooth operations and meet short-term obligations during periods of uncertainty.
- Government agencies, business associations, and financial institutions should provide training and capacity-building programs to enhance working capital management capabilities among manufacturing firms.

5.2 Limitations

Due to the nature of the primary data employed, this research contains several limitations. Firstly, the study is based on participants' responses that could be exposed to various biases, notably the response bias and social desirability. Secondly, the study employed a cross-sectional design, thus limiting the researchers to analyzing changes over time. Thirdly, due to the initial selection strategy, the study cannot be generalized



to all manufacturing companies in Afghanistan. Lastly, the analysis of profitability and working capital management was subjective because the respondents' perceptions were employed.

5.3 Future Research Directions

Future studies should attempt to address the limitations discussed in this paper by using a longitudinal research design when investigating the effect of working capital management on company performance. Subsequent studies should adopt objective financial indicators such as profit margin, return on equity, and return on assets to assess the impact of working capital management on company performance. Comparative research across different firms or geographic regions would also help provide more information on the contextual variables that moderate and/or mediate the relationship between working capital management practices and business performance. Future studies could also identify and evaluate the role of contextual variables such as firm size, financial sophistication, availability of financing, technology, and organizational capabilities in the relationship between working capital management and business profitability.

5.4 Funding

This work did not receive any funding for the research, writing, and publication of the article by the authors.

5.5 Data Availability Statement

The corresponding author should be contacted upon request for the data supporting the study's information.

5.6 Authors' Contributions

The article's final version has been approved by all the authors who contributed to the research, design, gathering of data, study analysis, interpretation of study results, and writing of the article.

5.7 Conflict of Interest

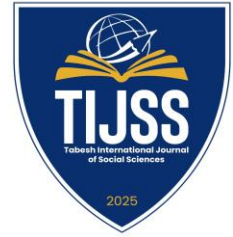
The study's authors confirm there are no conflicts of interest.

5.8 Ethical Approval

The study has been conducted according to the ethical principles of research. Privacy and identities of participants were protected, and the survey was offered to people on a voluntary basis.

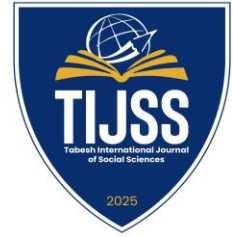
5.9 Acknowledgments

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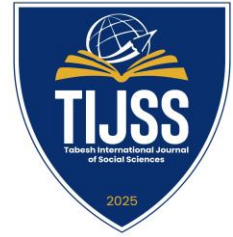


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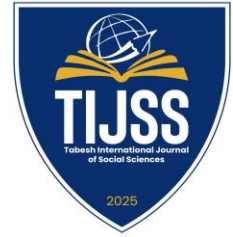
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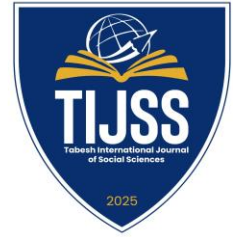
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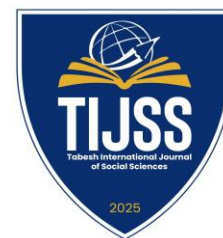
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