



THE IMPACT OF WORKING CAPITAL ON THE PROFITABILITY OF LISTED COMPANIES IN THE PALESTINE STOCK EXCHANGE

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Abstract:

This study aims to identify the impact of working capital on the profitability of public shareholding companies on the Palestine Stock Exchange. For the study period, which is 9 years from 2011 to 2019, was financially analyzed using financial ratios, and using the SPSS program. The results of the study showed the interpretation of all independent variables with the presence of a statistically significant relationship on the profitability of Palestinian industrial companies; among the most prominent recommendations is the need for industrial companies to increase the payment period, which will lead to an increase in the return on assets and return on ownership directly, and to increase the interest of Palestinian industrial companies in following up the management of working capital with all its components represented by the average storage period, the average collection period, and the average payment period The cash transfer cycle when carrying out the various operations of the company.

JEL: D20; D24; H54

Keywords: working capital, profitability, inventory, accounts receivable

1. Introduction

The emergence of economic development and the expansion of the business of large international companies have led to the existence of economic consequences in the performance of industrial companies through making sound decisions for the continuation of work and competition in the markets, which calls for urgent need to draw roads and determine how to properly manage its resources, and that the survival of the institution depends on the level of its financial performance and its market value, and the capital structure is one of the most important things that measure the company's profitability and its ability to continue through the optimal management of its financial resource and the employment of each of them in its place (Al-Alwani & Boukafa, 2021).

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Working capital management is related to current assets and current liabilities, which take up an important part of the total corporate assets (Tsagem, Aripin & Ishak, 2015). On the other hand, maintaining excessive levels of current assets in companies leads to achieving unrewarding profits on their total investments, especially short-term, on the other hand, the company's retention of ratios Few current assets makes it more vulnerable to situations (short-term insolvency) or problems and perhaps failures in managing its operational operations in a more streamlined manner, which may sometimes lead to institutional failure, so working capital management plays an important and vital role in influencing the operational performance of resources and properties owned by companies, given its clear impact on both profitability (performance) and liquidity, and thus on the value of the company as a whole and in the long run.

The optimal access to the capital structure is through achieving a balance between returns and risks by reducing the costs of the investments in which the company enters, which maximizes its profitability. Therefore, the management should determine the right policy and strategy to rationalize its investment and financing decisions to achieve the highest return on profits, by reducing costs to at least one person and benefit from bank and external financing if there are investment opportunities to enter into it (Sharaf, Gauri, 2021).

Returning to the Palestine Stock Exchange to count the number of public equity firms, their areas and the environment in which they operate, divided as follows: the banking and financial services sector: (7), the insurance sector: (7), the investment sector: (10), the industry sector: (13), the services sector: (9). (www.pex.ps, 20/03/2022)

2. Theoretical Framework and Review of Literature

Padachj (2006) defined working capital as the capital used to meet short-term financial obligations in economic activity, and it is also the volume of investments invested in short-term current assets that include liquid cash, short-term securities, accounts receivable, commodity inventory and others working capital management is related to the policies and decisions related to managing the assets and liabilities traded in the company (Al-Amri, 2007).

Working capital management is one of the financial management concepts that focus on short-term financing and the balance between profitability and liquidity for companies and helps them improve their daily activities, and increase their ability and ability to meet their short-term liquidity needs, such as paying checks to suppliers, as well as paying workers' salaries, purchasing raw materials one of the positive aspects of managing working capital effectively is accelerating the ability of companies to pay their financial obligations in the short term, and ensuring that there is adequate liquidity for economic growth in the long term (Ahmed, 2021).

The relationship between working capital management and profitability can be studied in several indicators such as collection and repayment period, company size and

financial leverage (Hamid, 2017). As a result of these measures, working capital management has a negative impact on profitability, it is also possible to achieve the determinants of working capital through the variables of the size of the company, profitability, leverage, growth rates and activity, these measures indicate a negative relationship for working capital management on the size of the company and it is positively related to activity ratios (Zahoor& Qurashi, 2017).

The profitability of companies is affected by working capital, and a measure of the cash transfer cycle can be used as it affects the increase in profitability by reducing the cash transfer cycle (Möner, 2017), Moreover, the working capital component most influencing profitability is the monetary transformation cycle. The smaller the monetary transformation cycle, the greater the profitability (Bagchi & Khamrui, 2012). The working capital components can be used to find out their impact on profitability by dividing current assets into net assets and the turnover rate of accounts receivable and payables so that there is an inverse relationship between these variables and the profitability variable (Pimplapure & Kulkarni, 2011).

2.1 Accounts Receivable

Accounts receivable constitute an element of determining the terms of deferred sale and terms of payment and upon which, when granting credit, the receivable can be managed by ensuring the following: the personality of the customer and is judged by his credit reputation and ability to pay and it is judged by the reality of the financial statements and guarantees that he will provide and his efficiency in managing his project It is judged through the analysis of its financial statements (Towerish, 2018).

2.2 Inventory

It is considered one of the basic elements of current assets, and it is one of the indispensable elements in most companies and the financial management focuses on controlling it (Mosawadah, Khashan, 2016). Increasing inventory is a problem, and decreasing it is another problem. Decreasing inventory leads to disruption of production while increasing inventory means not investing the value of excess inventory and exploiting space. Storage without interest, so companies keep stock for several to meet the potential demand for their products, in order for the production stages not to be affected, when there is a large stock of manufactured products, any problem in the previous production stage will not affect the next stage and also benefit from economies of scale. When purchasing a large number of raw materials, a reduced price can be obtained.

3. Methodology

The measurement of variables in this study requires that the quantitative research methodology be the methodology used in this study, as it is based on the collection of

financial data, access to the depth of phenomena, and the interaction of the researcher with the financial data of the study sample companies.

The study population is represented by the 13 industrial companies operating in Palestine, where 7 sample companies will be taken for this paper, and secondary data will be collected from the financial reports of the study sample company and analyzed using the SPSS program.

4. Statistical Analysis

Table 1 shows the correlation coefficient and determination of the relationship between the average storage period on the profits of public shareholding companies in Palestine:

Table 1: Correlation for relationship between the average storage period on the profits

Model	R	S square	Adjusted R square	Std. Error of the Estimate
1	0.775	0.845	0.838	0.1952

Table 2 shows the significance of the regression model test for the relationship between the average storage period on corporate profits:

Table 2: Regression for the relationship between the average storage period on the profits

Model		Sum of Squares	DF	Mean Square	F	Sig
	Regression	4.454	1	4.545	123.545	0.045
	Residual	0.015	3	0.005		
	Total	4.469	4			

Table 1 shows that the value of the correlation coefficient is equal to 0.775, which indicates that the relationship between the effect of the average storage period and the profits of industrial public shareholding companies is a strong direct relationship, and the value of the coefficient of determination shows that 84.5% of the changes in the profits of industrial companies. The general contribution is related to the storage period and the rest is due to other factors.

Table 2 shows the significance of the regression model test, as the value of F equals 123.245 is greater than the tabular value of 8.17 at two degrees of freedom (3,1) and the level of significance is 5%, and the probability of significance is $0.05 > 0.045 p =$, therefore, the regression model is significant.

Table 3 shows the correlation and determination coefficient of the relationship between the average payment period and the profits of public shareholding companies in Palestine:

Table 3: Correlation for relationship between the average payment period and the profits

Model	R	S square	Adjusted R square	Std. Error of the Estimate
1	0.815	0.885	0.845	0.1274

Table 4 shows the significance of the regression model test for the relationship between the average repayment period and corporate profits:

Table 4: Regression for relationship between the average repayment period and corporate profits

Model		Sum of Squares	DF	Mean Square	F	Sig
	Regression	4.855	1	4.855	177.514	0.033
	Residual	0.045	3	0.015		
	Total	4.900	4			

Table 3 shows that the value of the correlation coefficient is equal to 0.815, which indicates that the relationship between the effect of the average payment period and the profits of public joint-stock companies is a strong direct relationship, and the value of the coefficient of determination shows that 88.5% of the changes in the profits of public joint-stock companies It relates to the repayment period and the rest is due to other factors.

Table 4 also shows the significance of the regression model test, as the value of F equals 177.514 is greater than the tabular value of 10.24 at the two degrees of freedom (3,1) and the significance level is 5%, and the significance probability is $0.05 > 0.033 p =$, therefore, the regression model is significant.

Table 5 shows the correlation and determination coefficient of the relationship between the average collection period and the profits of public shareholding companies in Palestine:

Table 5: Correlation for relationship between the average collection period and the profits

Model	R	S square	Adjusted R square	Std. Error of the Estimate
1	0.816	0.846	0.827	0.1101

Table 6 shows the significance of the regression model test for the relationship between the average collection period and corporate profits:

Table 6: Regression for relationship between the average collection period and the profits

Model		Sum of Squares	DF	Mean Square	F	Sig
	Regression	4.242	1	4.242	157.514	0.000*
	Residual	0.036	3	0.12		
	Total	4.278	4			

Table 5 shows that the value of the correlation coefficient is 0.816, which indicates that the relationship between the effect of the average collection period and the profits of industrial public shareholding companies is a strong direct relationship, and the value of the coefficient of determination shows that 84.6% of the changes in the profits of industrial companies. The public contribution is related to the collection period and the rest is due to other factors.

Table 6 also shows the significance of the regression model test, as the value of F equals 157.514 is greater than the tabular value of 9.24 at the two degrees of freedom (3,1)

and the significance level is 5%, and the significance probability is $0.000 > 0.05$ $p = p$ and therefore the regression model is significant.

Table 7 shows the correlation coefficient and determination of the relationship between the cash transfer cycle and the profits of public shareholding companies in Palestine:

Table 7: Correlation for relationship between the cash transfer cycle and the profits

Model	R	S square	Adjusted R square	Std. Error of the Estimate
1	0.912	0.932	0.927	0.1621

Table 8 shows the significance of the regression model test for the relationship between the cash transfer cycle and corporate profits:

Table 7: Regression for relationship between the cash transfer cycle and the profits

Model		Sum of Squares	DF	Mean Square	F	Sig
	Regression	4.840	1	4.480	187.573	0.018*
	Residual	0.060	3	0.20		
	Total	4.900	4			

Table 7 shows that the value of the correlation coefficient is equal to 0.912, which indicates that the relationship between the effect of the cash transfer cycle and the profits of industrial public shareholding companies is a very strong and direct relationship, and the value of the coefficient of determination shows that 93.2% of the changes in corporate profits. The industrial public shareholding is related to the cash transfer cycle, and the rest is due to other factors.

Table 8 also shows the significance of the regression model test, as the value of F equals 187.573 is greater than the tabular value of 10.32 at the two degrees of freedom (3,1) and the significance level is 5%, and the significance probability is $0.05 > 0.018$ $p =$ and therefore the regression model is significant.

5. Conclusion

There is a direct relationship between the collection period and the profits of public joint-stock companies, and this explains that the shorter the collection period will speed up and increase the cash flow and this increases profits. There is a direct relationship between the payment period and the profits of public joint-stock companies. There is a direct relationship between the cycle of transferring points and the profits of public joint-stock companies, and there is a direct relationship between the storage period and the profits of public joint-stock companies.

6. Recommendations

- 1) The necessity of the industrial companies' keenness to extend the payment period, which will lead to an increase in the return on assets and the return on ownership directly.
- 2) The need for industrial companies to reduce the storage period because the longer this period is, the value of the return on assets and the return on ownership will decrease.
- 3) Increasing the interest of Palestinian industrial companies in following up the management of working capital with all its components represented by the average storage period, the average collection period, the average payment period, and the cash transfer cycle when carrying out the various operations of the company.
- 4) Increasing the interest of Palestinian industrial companies in defining the policies related to determining the collection period, and the factors affecting these policies, especially since it was found that there is a significant negative impact on the average collection period and profit variance in Palestinian industrial companies listed on the Palestine Stock Exchange.

Acknowledgement

I pledge full responsibility and the scientific secretariat in this scientific paper.

Conflict of Interest Statement

The authors declare no conflicts of interest.

About the Authors

Mohab Hassoun is a student at the Faculty of Graduate Studies at the Arab American University in Palestine. He is interested in research related to accounting, auditing, financial and administrative sciences, and social sciences.

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