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Enhancing Shareholder Value Through Efficient Working Capital Management : An Empirical Evidence From India

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Abstract

WCM is important owing to its effects on the ûrm's proûtability, liquidity and more importantly on its value.In the current study, we investigated the link between efficiency of WCM and value of the firm in the Indian contextduring the period 2004 to 2015. We deployed accounting as well as market based metrics to decipher the relationship between firm value and cash conversion cycle. Using panel data regression model, we found that shorter cash conversion cycle leads to higher firm value;further, we observed a non-linear relationship between cash conversion cycle and firm value indicating optimal level of investment in working capital enhances shareholders' value. Majority of the independent variables including control variables in the model are found to be highly significant. Further, our results are robust and are in consonance with the theory and have far reaching implications for the corporate finance managers, prospective investors, lenders, suppliers, government and regulatory authorities.

I. Introduction

EFFICIENT MANAGEMENT OF working capital is a pre-requisite for enhancement of shareholders' value. Working capital management involves maintaining optimum level of inventories, accounts receivable and accounts payable(Lazaridis and Tryfonidis, 2006; Vurel, Sokmen and Cetenak, 2012; Ramiah, et al., 2014) it also includes efficient management of cash and other current liabilities without compromising on liquidity and profitability of the firm(Smith, 1980; Shin and Soenen, 1998; Aktas, Croci and Petmezas, 2015). In other words, it isefficient management of current assets and current

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