

**THE IMPACT OF WORKING CAPITAL MANAGEMENT ON  
PROFITABILITY: THE MEDIATING ROLE OF LIQUIDITY IN  
PAKISTAN'S TEXTILE SECTOR**

**THESIS**

Submitted in partial Fulfillment of the Requirements

For a Master's Degree in Management

Faculty of Economics and Business



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**JAWA TIMUR**

**SURABAYA**

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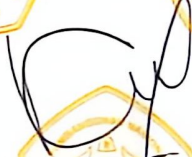
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## ACKNOWLEDGEMENTS

All praise and gratitude are due to Allah SWT for His blessings, mercy, and guidance, which have enabled the author to complete this thesis entitled “The Impact of Working Capital Management on Profitability: The Mediating Role of Liquidity In Pakistan’s Textile Sector”

The author would like to express sincere gratitude to Dr. Muhadjir Anwar, M.M, CFP as Supervisor I and DR. G. Oka Warmana, SE, MM as Supervisor II for their invaluable guidance, support, and encouragement throughout the completion of this thesis. The author would also like to extend appreciation to:

1. Prof. Dr. Ir. Akhmad Fauzi, M.MT, Rector of Universitas Pembangunan Nasional “Veteran” Jawa Timur.
2. The Dean, academic staff, and all lecturers of the Master of Management Program, Universitas Pembangunan Nasional “Veteran” Jawa Timur.
3. Dr. Dhani Ichsanuddin Nur, S.E, M.M, CFP, as Examiner I, and Dr. Krido Eko Cahyono, SE, MM, as Examiner II, for their constructive comments, suggestions, and guidance.
4. The author’s parents and entire family, whose unwavering support, prayers, and encouragement have been the greatest source of motivation throughout this journey.
5. Fellow students of the 2024 Master of Management cohort, who have shared this academic journey and enriched it with meaningful experiences, collaboration, and friendship.
6. All parties who cannot be mentioned individually but who have continuously supported, encouraged, and inspired the author to persevere under all circumstances.

The author realizes that this thesis is far from perfect due to limitations in knowledge and experience. Nevertheless, it is hoped that this study will contribute

to the advancement of knowledge and provide benefits to society, the nation, and the state.

Surabaya, June 4<sup>th</sup>, 2026

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## TABLE OF CONTENTS

CHAPTER I INTRODUCTION.....	1
1.1. Background of the Study .....	1
1.2 Research Questions.....	9
1.3 Research Objectives.....	9
1.4 Research Purpose.....	10
1.5 Benefits of research .....	10
CHAPTER II LITERATURE REVIEW .....	13
2.1. PREVIOUS STUDIES.....	13
2.2.2. Signaling Theory .....	20
2.2.3. Agency Theory .....	21
4. The Mediating Role of Firm Liquidity.....	28
2.3. Conceptual Framework.....	34
2.4. Hypothesis Development.....	35
CHAPTER III RESEARCH METHODOLOGY .....	36
3.1 Research Design .....	36
3.2 Research Variables .....	37
3.3 Operational Definition of Variables.....	38
3.4 Population and Sample .....	42
Sample:.....	42
Table 3.1: Sample of Textile Firms Listed on PSX and Financial Report Availability (2020–2024).....	44
3.6 Data Collection Method.....	45
3.7 Measurement of Variables .....	45
3.8 Econometric Model Specification.....	46
Model 1: Liquidity Equation.....	46
Model 2: Profitability Equation .....	46
3.9 Data Analysis Technique .....	47

3.10 Path Analysis and Mediation Testing.....	48
3.11 Hypothesis Testing .....	50
Hypothesis 1 .....	51
Hypothesis 2 .....	51
Hypothesis 3 .....	52
Hypothesis 4 .....	52
3.12 Ethical Considerations .....	53
CHAPTER IV RESULTS AND DISCUSSIONS .....	54
4.1 Introduction .....	54
4.2 Descriptive Statistics.....	54
4.3 Correlation Analysis .....	58
4.4 Estimator Comparison and Selection of System GMM .....	60
4.5 Regression Results: Two-Step System GMM.....	61
4.2.1 Direct Hypothesis Testing: Preliminary Evidence from Descriptive Data ...	63
4.5.1 Dynamic Persistence of Profitability.....	69
4.5.2 Effect of Cash Conversion Cycle on Profitability (H1).....	70
4.5.3 Effect of Inventory Turnover on Profitability (H2).....	72
4.5.4 Effect of Working Capital Management on Firm Liquidity (H3).....	73
4.5.5 Mediating Role of Firm Liquidity: Separate Paths for CCC and ITO (H4)..	76
4.6 Panel Cointegration Test: Pedroni Procedure.....	77
Table 5.4 Hypothesis Testing Summary .....	80
CHAPTER V CONCLUSION AD RECOMMENDATION .....	82
5.1 Conclusions .....	82
References .....	86

## LIST OF TABLES

<b>Table 3.1:</b> Sample of Textile Firms Listed on PSX and Financial Report Availability (2020–2024).....	45
<b>Table 4.1:</b> Descriptive Statistics of Study Variables.....	56
<b>Table 4.1a:</b> Year-by-Year Sector Average Values of Study Variables (FY2020–FY2024).....	58
<b>Table 4.2:</b> Pairwise Correlation Matrix.....	59
<b>Table 4.3:</b> Comparison of Lagged Profitability Coefficient Across Estimators.....	61
<b>Table 5.1:</b> Two-Step System GMM Regression Results — Dependent Variable: Profitability (ROA %).....	63
<b>Table 5.2:</b> Two-Step System GMM Estimation Results — Dependent Variable: Firm Liquidity (Current Ratio).....	76
<b>Table 5.3:</b> Pedroni Panel Cointegration Test Results.....	79
<b>Table 5.4:</b> Summary of Hypothesis Testing Results.....	81
<b>Table E1:</b> Variable Definitions and Expected Signs — Equation 1 (ROA Model).....	98
<b>Table E2:</b> Variable Definitions and Expected Signs — Equation 2 (Liquidity Model).....	99
<b>Table A1:</b> Complete Panel Dataset — Pakistan Textile Sector (FY2020–2024).....	100
<b>Table A2:</b> Descriptive Statistics — Key Variables (N = 40 Firm-Year Observations).....	102

## LIST OF FIGURES

<b>Figure 1.1:</b> Pakistan’s Textile Export Performance (FY2020–2024) .....	2
<b>Figure 1.2:</b> Profitability Trend of PSX-Listed Textile Firms (FY2020–2024) .....	6
<b>Figure 1.3:</b> Conceptual Framework — Working Capital Management, Firm Liquidity, and Profitability.....	35

# **The Impact Of Working Capital Management On Profitability: The Mediating Role Of Liquidity In Pakistan's Textile Sector**

## **ABSTRACT**

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This study investigates the impact of working capital management (WCM) on the profitability of textile firms listed on the Pakistan Stock Exchange (PSX), with a specific focus on the mediating role of firm liquidity. Pakistan's textile sector, which contributes approximately 8.5% to GDP, accounts for 46% of total manufacturing output, and generates over

60% of national export earnings, operates under persistent macroeconomic pressures including energy shortages, currency depreciation, volatile cotton prices, and constrained access to short-term financing. The study employs a panel dataset comprising eight PSX-listed textile firms over the period FY2020-FY2024, yielding 40 firm-year observations; the dynamic GMM profitability model uses 30 observations because CCC and ITO data were unavailable for selected firm-years. The primary measures of working capital efficiency are the Cash Conversion Cycle (CCC) and Inventory Turnover (ITO), while firm profitability is measured by Return on Assets (ROA) and firm liquidity is captured through the Current Ratio. The empirical results show a positive and significant relationship between CCC and ROA ( $\beta = 0.068$ ,  $p = 0.028$ ), a strong positive relationship between ITO and ROA ( $\beta = 1.847$ ,  $p = 0.015$ ), and a dominant positive effect of liquidity on profitability ( $\beta = 28.640$ ,  $p = 0.002$ ). Firm liquidity partially mediates the relationship between working capital management and profitability, and panel cointegration tests confirm a stable long-run equilibrium among the study variables.

**Keywords:** Working Capital Management, Profitability, Firm Liquidity, Cash Conversion Cycle, Inventory Turnover, Pakistan Textile Sector