

CHAPTER V

CONCLUSION AD RECOMMENDATION

5.1 Conclusions

This chapter presents the conclusions of the study, grounded directly in the empirical results reported in Chapter IV. It evaluates each of the four research hypotheses formulated in Chapter II against the quantitative evidence produced by the Two-Step System Generalized Method of Moments (GMM) estimation and the Pedroni panel cointegration test. The chapter is organized as follows: Section 5.2 provides a concise summary of the study's scope and methodology. Section 5.3 draws conclusions hypothesis by hypothesis from the empirical findings. Sections 5.5 and 5.6 outline the theoretical contributions and practical recommendations. Section 5.7 acknowledges limitations, and Section 5.8 offers concluding remarks on the study's overall contribution.

This study investigated the impact of working capital management on the profitability of eight textile firms listed on the Pakistan Stock Exchange (PSX) over the period FY2020 to FY2024, yielding a panel dataset of forty firm-year observations. The central research problem was to determine whether working capital efficiency variables specifically the Cash Conversion Cycle (CCC) and Inventory Turnover (ITO) exert a significant effect on firm profitability (Return on Assets, ROA), and whether firm liquidity (Current Ratio, CR) mediates this relationship. The study was designed around four formal hypotheses derived from prior theory and the literature reviewed in Chapter II.

The descriptive analysis revealed substantial variation across the sample: the CCC ranged from 26.6 days (Ghazi Fabrics, FY2024) to 181.4 days (Masood Textile Mills, FY2020), with a mean of 90.643 days. ITO ranged from 1.90 to 12.39 times per year, the Current Ratio from 0.760 to 1.761, and ROA from -6.94% to +7.84%. The primary estimation was conducted using the Two-Step System GMM estimator, chosen based on the Blundell and Bond (1998) criterion, with the lagged profitability coefficient of 0.358 falling within the theoretically expected bounds

set by the Fixed Effects lower bound (0.287) and the Pooled OLS upper bound (0.571). All diagnostic tests the Sargan over identification test ($p = 0.792$), and the Arellano–Bond AR(2) test ($p = 0.382$) confirmed instrument validity and the absence of second-order serial correlation.

5.2 Recommendations

Based on the empirical findings of this study, several recommendations are put forward for financial managers of textile firms, policymakers, and future researchers. These recommendations are derived directly from the patterns and relationships observed in the data and are intended to guide both practical decision-making and future academic inquiry.

For financial managers of listed textile firms, the most important recommendation is to treat inventory turnover as the primary profitability lever within their working capital strategy. The evidence consistently shows that firms achieving faster inventory cycles generate meaningfully higher returns on assets across all economic conditions, including periods of macroeconomic stress. Managers should therefore invest in demand forecasting systems, lean inventory practices, and supplier partnerships that enable faster stock movement without disrupting production continuity. Alongside this, maintaining adequate firm liquidity should be treated as a non-negotiable treasury priority rather than a residual outcome. The findings demonstrate that firms holding stronger current ratios are better positioned to exploit demand opportunities during upturns and absorb shocks during contractions. Financial managers should encode a minimum current ratio target into formal treasury policy and treat any breach of this threshold as a trigger for immediate corrective action, regardless of prevailing demand conditions.

With respect to the Cash Conversion Cycle, managers are advised to abandon any fixed-target approach and instead adopt a dynamic policy calibrated to the demand environment. During periods of strong export demand, strategically extending trade credit to international buyers can be value-creating, as the revenue gains outweigh the liquidity costs. During contractions, however, a prolonged cycle

becomes a cash drain that amplifies losses, and firms should move swiftly to accelerate receivables collection, extend payables where possible, and reduce inventory holding periods. Critically, these three variables — the Cash Conversion Cycle, inventory turnover, and the current ratio — should not be managed in isolation. The mediation evidence confirms that they operate as an interconnected system, and a decline in one invariably affects the others. Firms are therefore advised to implement integrated working capital scorecards with predefined response triggers that activate automatically when any variable deteriorates beyond a defined threshold.

For policymakers and regulators, the findings carry clear implications. The evidence shows that during periods of elevated interest rates and energy cost pressures, current ratios across the sector declined and average profitability turned negative. Given that liquidity emerged as the dominant driver of firm performance, expanding preferential working capital financing schemes for export-oriented textile firms would have a meaningful impact on sectoral profitability. The State Bank of Pakistan should consider simplifying access to existing export finance facilities to reduce the cost of short-term working capital funding and enable firms to maintain adequate liquidity buffers during downturns. Additionally, the Securities and Exchange Commission of Pakistan should mandate standardized quarterly disclosure of key working capital metrics by all listed textile firms. The absence of complete data for certain firms in this study limited the scope of the analysis, and consistent public reporting would improve investor benchmarking, strengthen lender credit analysis, and provide a richer data foundation for future empirical research.

For future researchers, this study opens several important avenues of inquiry. Scholars are encouraged to develop and test a formal non-linear threshold model of the Cash Conversion Cycle using a longer panel and a broader sample of firms, in order to identify the precise point at which extending the cycle transitions from value-creating to value-destroying at different stages of the demand cycle. The mediation framework established in this study — in which working capital

management affects profitability through the intervening channel of firm liquidity — should also be tested across other capital-intensive Pakistani industries such as cement, fertilizers, and sugar, to determine whether the dominant role of liquidity is specific to the textile sector's export-dependent environment or a more general feature of emerging-market manufacturing. Future studies would also benefit from incorporating primary survey data on managerial working capital decisions, which would allow researchers to examine whether the relationships documented here reflect deliberate strategic choices or operational constraints. Finally, testing the stability of the findings across alternative profitability measures such as return on equity and gross operating profit would strengthen the generalizability of the theoretical conclusions drawn from this research.