The effect working capital management on the profitability of listed firms in Tanzania: a case of Manufacturing and merchandising firms listed at the DSE

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Over the past few decades firms have been keen to understand how working capital management (WCM) can be carried out effectively such that their sustainability as well as profitability may not be compromised. This research was intended at establishing the effect of WCM on the profitability of listed firms at DSE. The study assesses how the nature of working capital management with regards to WCM policies employed affects the firms earning potential. The study is guided by the Cash Conversion Cycle Theory that demonstrates how working capital is managed. Quantitative research has been deployed whereby secondary data was extracted from annual reports of 5 listed firms. The data collected was analysed by descriptive statistics, correlation as well as regression analysis. findings from the analysis suggested that inventory conversion period (ICP) and accounts receivable period (ARP) are both negatively related to return on asset (ROA), of which the former association is insignificant and the latter being rather significant. Accounts payable period (APP) on the other hand, has a positive insignificant association with ROA. Therefore, the findings suggest that in order to enhance profitability of a firm, the focus should be directed towards early collection from debtors. Furthermore, firms should take advantage of less stringent credit terms to enable them enhance profitability by delaying to make payments. Moreover, firms should be urged to lower inventory conversion period (ICP) by speeding up manufacturing process to increase the ROA.