Economic Sciences
https://economic-sciences.com
ES (2025) 21(1), 269-272 | ISSN:1505-4683

Working Capital Strategies and Financial Performance of Non-Financial Firms Listed in BSE SENSEX

Waseem Bashir[1], Aamir Rashid Bhat[2], N.Periyasami[3]
[1]Assistant Professor, Department of Corporate Secretaryship and Account and Finance, SRMIST, Chennai, Tamil Nadu, India.
[2] Assistant Professor, Department of Corporate Secretaryship and Account and Finance, SRMIST, Chennai, Tamil Nadu, India.
[3] Professor of Commerce, Annamalai University, Annamalainagar, Chidambaram, Tamil Nadu, India
E-mail: waseemkhan974@gmail.com

Abstract
The main aim of our study is to assess the influence of working capital investment and financing strategy on the return of non-financial enterprises listed in BSE SENSEX over 15 years from 2005-2006 to 2019-2020. While studying the impact, descriptive statistics, correlation analysis, and ordinary least square have been used. In order to test the stationary in the time series data, the Augmented Dickey-Fuller test has been used to *determine whether or not a particular time series is stationary. The study found that the companies listed in BSE SENSEX follow a moderate policy for managing their working capital. This means that these companies use a relatively small portion of their current assets and current liabilities to finance their overall capital. The study found a negative correlation between the level of aggressiveness in a company's working capital investment policy and its success. The study proposes that companies listed in the BSE SENSEX should fund their assets using short-term obligations rather than long-term borrowing. This can be attributed to the fact that current liabilities are more cost-effective than long-term borrowing. The study suggests that companies listed on the BSE SENSEX should increase the ratio of current assets to total assets and raise the share of current liabilities in their overall capital in order to enhance their financial performance.*

Keywords: Augmented Dickey-Fuller *Test, Non-Financial Firms, Firms Performance, Working Capital Policies.*

Introduction

The financial decisions that financial managers must make in corporate finance include decisions regarding capital structure, capital budgeting, profit allocation, and working capital. These decisions encompass long-term investment choices, determining the optimal mix of debt and equity financing, distributing profits to shareholders, and managing short-term cash flow needs. (Adam, Quansah & Kawor, 2017). All of these decisions are equally significant, thus an effective financial manager should provide equal attention to each decision in order to increase the value. In contrast, the corporate finance literature mostly focuses on analysing long-term financial decisions, such as investments, dividends, capital structures, and business valuation. (Jensen & Smith, 1984). However, short-term financial decisions are a vital component of the entire business and financial strategy. Working capital is one of the most significant short-term financial strategies for increasing profitability and producing shareholder value (Shin & Soenen, 1998). Decisions about working capital management (WCM) focus on short-term assets and obligations, but they can have both immediate and long-lasting effects on profitability and shareholder value. Thus, they must be carefully considered (Afza & Nazir, 2007). Working capital decisions encompass the management of a company's short-term assets and obligations. The objective is to ensure the company's ability to sustain operations and generate sufficient cash flow to cover both maturing short-term debts and upcoming operational expenses. This should be done at the most cost-effective rate possible, ultimately enhancing corporate profitability (Bashir & Periyasami, 2022). Working capital management

is crucial in corporate financial management as it has a direct impact on a company's profitability. Working capital management is crucial due to its influence on a company's profitability, risk, value, and survival, as stated in the existing literature (Vijayakumaran, 2019; Cumbie & Donnellan, 2017; Rasyid, 2017).

Working Capital Management (WCM) encompasses decisions about the size and makeup of current assets and current liabilities (Gul et al., 2013). The determination of the size and makeup of a company's current assets and current liabilities is contingent upon the firm's working capital policy (WCP) (Javid & Zita, 2014). Brigham & Houston (2021) propose that WCP can be categorised into two components: working capital investment policy (WCIP) and working capital finance policy (WCFP). According to Darwish (2014), working capital policies can be classified into aggressive and conservative categories based on WCIP and WCFP. Both WCIP and WCFP are closely linked to the firm's policy of balancing risks and returns (Al-Mawsheki, Ahmad & Nordin, 2019).

If a company keeps a low level of receivables, cash, inventories, and marketable securities, this indicates aggressive or restricted WCIP (Brigham & Houston, 2021). An aggressive investment policy enhances profitability by investing more in fixed assets but also reduces liquidity and increases the risk of insolvency of the firm (Nazir & Afza, 2009). Whereas in Conservative WCIP, a company keeps a high level of receivables cash, inventories, and marketable securities, and sales are encouraged by way of liberal credit policy (Brigham & Houston, 2021). Maintaining a high amount of current assets indicates a strong degree of liquidity, which aids a company in avoiding future liquidity issues. However, a high amount of liquidity restricts a company from making the profits that could have been made if that liquidity had been invested (Aktas, Croci & Petmezas, 2015). Moderate WCIP falls in between conservative and aggressive WCIP. Most of the firm's current assets investment policy falls in moderate WCIP (Pandey, 2010).

In aggressive WCFP, the company keeps a high level of current liabilities as compared to total assets. It also shows that the company chooses short-term financing rather than long-term financing to fund its financial commitments using short-term financing rather than long-term financing. Utilizing short-term financial sources may be less expensive than using long-term financial sources (Weinraub & Visscher, 1998). If the fixed or permanent assets are financed through long-term loans, and fluctuating current assets are financed through short-term loans, it is known as the moderate/hedging approach (Nadeem et al., 2020), whereas, in a conservative approach, the company finances its permanent current assets or a part of its temporary current assets through long-term sources (Adam & Quansah, 2019). When a large number of permanent current assets, temporary or fluctuating current assets, are financed through short-term debt, it is known as the aggressive approach (Adam & Quansah, 2019).

The existing research on Working Capital Management and profitability in India has predominantly concentrated on examining the correlation between the components of WCM and firm performance. However, there has been limited investigation into the specific strategies adopted by companies listed in BSE SENSEX and their impact on financial performance. Our study aims to address this significant lacuna by investigating the working capital strategies and performance of companies listed on BSE SENSEX. The primary objective of our study is to determine the influence of working capital investment and financing policy on the financial returns of companies listed in BSE SENSEX.

Literature Review

Previous literature provides varied results regarding working capital management policies and profitability. While Wichitsathian (2019); Naqi & Siddiqui (2020); Sohail, Rasul, & Fatima (2016); Mohamad, Rehman, & Saad (2017) and Rasyid (2017) argue that aggressive investment policy of working capital improves the financial performance, other studies show that conservative investment policy considerably enhances the financial performance of the firm (Nazir & Afza, 2009; Yahaya & Sani, 2018; Adam & Quanash (2019; Al-Mwalla 2012; Salawu, 2006). When it comes to working capital financing, Hassani & Tavosi (2014); Almerria & Al-Okdehb (2020); and Charitou, Lois,

& Christoforou (2016) all agree that aggressive working capital financing strategies improve profitability. While Sunardi (2021), Hassani & Tavosi (2014); Ishak, Ahamd, & Abdul (2020), and Nazir & Afza (2009) found that conservative working capital financing strategies boost profitability and produce shareholder value. Naqi & Siddiqui (2020); Taani (2012); and Gill, Biger, & Mathur (2010) found no significant association between working capital policies (Investment and Financing) and financial performance in Pakistan, Jordan, and America.

The effect of an aggressive investment strategy on profitability was explored by Naqi & Siddiqui (2020), who discovered that aggressive investment policy had a considerable negative influence on profitability and company value. According to the study, firms may improve their profitability by maximizing current asset investment and putting a share of long-term funding into working capital. Al-Mawsheki, Ahmad & Nordin (2019) discovered that a conservative investment approach had a favourable and considerable impact on profitability. According to the study, Malaysian manufacturing firms may enhance their economic value added by implementing efficient working capital management, which in turn diminishes their cash conversion cycle.

In their study**,** Rasyid, Lukman, and Husni (2018) investigated how the profitability of a company influences the relationship between aggressive working capital management and the value of 158 non-financial firms listed on the Indonesia Stock Exchange. The study reveals that implementing an aggressive finance policy significantly reduces the profitability and value of the firms. Conversely, adopting an aggressive investment policy has a significant beneficial influence on profitability. Shajar (2018) observed that adopting an aggressive investment policy has a notable and favourable impact on profitability. Conversely, implementing an aggressive financing policy has a considerable and unfavourable effect on firms value.

For the period spanning from 2010 to 2016, Al-Mawsheki, Ahmad, & Nordin (2019) evaluated the impact of working capital policies on the profitability of 143 Malaysian manufacturing firms. The findings reveal that working capital investment policies have a considerable positive impact on the performance of firms, but working capital financing policies do not show any effect on the firm's performance. According to the study, Malaysian manufacturing firms may increase their economic value added by following a conservative investment approach. On the Contrary, Obeng, Enos, & Yensu (2021) discovered that managers might generate value by pursuing an aggressive working capital financing strategy.

Nabi et al. (2016) conducted a study in Pakistan to examine how working capital policies affect the returns and shareholder value of thirty-eight companies listed on the Karachi stock exchange. The study analysed data from 2006 to 2012. The findings of the study indicate that firms who pursue aggressive investment and financing strategies will not be able to generate greater profit since both policies harm profitability and shareholder value. The degree of aggression has an unfavourable connection with profitability and shareholder value. Quy (2017) conducted a study that revealed a negative correlation between an aggressive working capital strategy and a firm's profitability and value. Conversely, a conservative working capital strategy was found to have a positive impact on firm profitability and value in 21 fisheries companies listed on Vietnam's stock exchange from 2008 to 2012.

More recently, Zimon & Tarighi (2021) looked at the bearing of COVID-19 on working capital policies among SMEs in Poland. Their empirical findings reveal that SMEs in Poland follow a conservative working capital management approach and that SMEs do not adjust their working capital policies in response to the COVID-19 pandemic crises.

Based on the study, SMEs with a strong liquidity ratio, quick ratio, and cash conversion cycle (CCC) have attempted to attract new customers in the market by extending the due date for accounts receivable. This strategy aims to enhance sales performance. Additionally, these SMEs have reduced their liabilities turnover to engage with a greater number of suppliers in the market. Obeng et al., (2021) investigated whether effective working

Economic Sciences
https://economic-sciences.com
ES (2025) 21(1), 269-272 | ISSN:1505-4683

capital management increases the performance and value of 19 Ghanaian firms. The study discovered that company performance, firm value, and working capital policies are all statistically significant. The research also demonstrates that managers may increase shareholders' value by taking an aggressive strategy.

The authors discovered scant empirical studies in India that linked WCM strategies to the performance of non-financial performances. The study was done by Farhan et al., (2021) on the impact of policies of working capital on the performance of 829 Indian manufacturing companies spanning from 2011 to 2017. The findings of the study depict that investors, financial managers, and policymakers are recommended to adopt conservative financing and investment policies that are effective in improving firms' profitability and achieving financial sustainability. As a result, manufacturing companies should put more money into current assets to extend their inventories and exchange credit with their customers. Furthermore, financial managers are encouraged to select a low amount of debt in terms of financing assets. Similarly, Vishnani & Shah (2007) revealed that working capital strategies significantly influence the profitability of 23 Indian consumer goods companies.

Methodology

The study mainly investigates the effect of working capital policies on a firm's performance listed in BSE SENSEX. For achieving this purpose, the present study has been undertaken by taking a sample of 30 companies indexed in BSE SENSEX. The study's final sample consists of 20 non-financial firms chosen by dropping all financial firms, including banks and insurance companies. The reason for dropping financial firms is that they have different accounting requirements and specific nature of their business (Alipour, 2011; Tauringana & Arifa, 2013; Hill, Kelly & Highfield, 2010; Deloof, 2003; Moussa, 2018) and have different regulations as compared to other companies (Rasyid, 2017). Moreover, companies with different financial years and missing data were also deleted. Data for these companies were extracted from the "PROWESS" Database, monitored by the Centre for Monitoring the Indian Economy for 15 years, ranging from 2006 to 2020. *In order to test the stationary in the time series data, the Augmented Dickey-Fuller test (ADF test) has been used to* determine whether or not a particular time series is stationary. The data obtained were analyzed using Descriptive Statistics, Correlation Analysis, and Regression Analysis through STATA 13 and SPSS 22.

Variables Used in the Study

We measured working capital strategies using WCIP and WCFP and working capital management using CCC. Furthermore, we employed a well-known indicator of profitability, return on assets, to assess the performance of firms. Furthermore, in order to limit the possible bias caused by missing variables, we adjust for other general firm features by including the size of the firm, debt ratio, and liquidity as control variables. Furthermore, the selection of variables is directed by past WCM literature. Table I contains the acronyms and definitions for all of the variables used in the study.

Table 1: List of Variables

Variable	Acronym	Definition
Dependent Variables		
Return on Assets	**ROA**	Net Income after Tax/Total Assets
Independent Variables		
Working Capital Investment Policy	**WCIP**	Total Current Assets/Total Assets
Working Capital Financing Policy	**WCFP**	Total Current Liabilities/Total Assets
Cash Conversion Cycle	**CCC**	ARP + ICP – APP
Control Variables		
Size of Firm	**Size**	Natural Log of Sales
Debt Ratio	**DR**	Total Debt/Total Assets
Liquidity	**LQ**	Current Assets/ Current Liabilities

Economic Sciences
https://economic-sciences.com
ES (2025) 21(1), 269-272 | ISSN:1505-4683

Empirical Models

Ordinary Least Square

The following model is established to determine whether working capital management strategies influence firm returns listed on the BSE SENSEX.

$$ROA = \alpha + \beta1\ WCIP + \beta2\ CCC + \beta3\ SIZE + \beta4\ DR + \beta5\ LQ + \varepsilon \quad (1)$$

$$ROA = \alpha + \beta1\ WCFP + \beta2\ CCC + \beta3\ SIZE + \beta4\ DR + \beta5\ LQ + \varepsilon \quad (2)$$

Where, ROA = Return on Assets, WCIP =Working Capital Investment Policy, WCFP = Working Capital Financing Policy, CCC = Cash Conversion Cycle, Size = Size of Firm, LQ = Liquidity, α = constant, $\beta1$ ..... $\beta5$ = Regression Coefficients, ε = Error Term.

Unit Root Test

In order to test the stationary in the time series data, we employed the Augmented Dickey-Fuller test (ADF test) to determine whether or not a particular time series is stationary**.** The ADF test is used to identify the long-term qualities of the variables under consideration. When a time series is proven to be stationary, it signifies that its variance, mean, and covariance stay unchanged throughout time and that the outcome of its assessment is consistent and may be used to estimate future results (Padder and Mathavan, 2021). The ADF test is performed with the models described below.

$$\Delta ROA_t = \alpha_0 + \alpha1 ROA_{t-1} + \sum_{j=1}^{k} \alpha\Delta ROA; + e_t \quad (3)$$

$$\Delta WCIP_t = \alpha_0 + \alpha1 WCIP_{t-1} + \sum_{j=1}^{k} \alpha\Delta WCIP; + e_t \quad (4)$$

$$\Delta WCFP_t = \alpha_0 + \alpha1 WCFP_{t-1} + \sum_{j=1}^{k} \alpha\Delta WCFP; + e_t \quad (5)$$

$$\Delta CCC_t = \alpha_0 + \alpha1 CCC_{t-1} + \sum_{j=1}^{k} \alpha\Delta CCC; + e_t \quad (6)$$

$$\Delta SIZE_t = \alpha_0 + \alpha1 SIZE_{t-1} + \sum_{j=1}^{k} \alpha\Delta SIZE; + e_t \quad (7)$$

$$\Delta DR_t = \alpha_0 + \alpha1 DR_{t-1} + \sum_{j=1}^{k} \alpha\Delta DR; + e_t \quad (8)$$

$$\Delta LQ_t = \alpha_0 + \alpha1 LQ_{t-1} + \sum_{j=1}^{k} \alpha\Delta LQ; + e_t \quad (9)$$

Where ΔROA_t, $\Delta WCIP_t$, $\Delta WCFP_t$, ΔCCC_t, $\Delta SIZE_t$, ΔDR_t and ΔLQ_t are Data Series, t = linear time trend; Δ = first difference operator; α_0 = constant; k = optimum number of lags in the development variable e_t = pure white noise term, m = length of lagged dependent variable

Results and Discussions

Table 2 depicts the stationary test of the time series utilized in this investigation using the Augmented Dickey-Fuller (ADF) test. The ADF test results show that all data series are non-stationary at the 5% and 10% levels. As a result, the series prior to detrending cannot be utilized for further analysis, which may produce erroneous results. The ADF test on the first difference, on the other hand, strongly suggests that all data series are stationary at the first difference. The ADF results point out that all of the variable series were integrated series of order I. (1), which signifies that their variance, mean, and covariance stay unchanged throughout time and that the series' long-term attributes are determined.

Table 2: Unit Root Test in order one (first difference)

Variable	ADF Statistics	5% Critical Level	10 % Critical Level	p-value	ADF Statistics	5% Critical Level	10 % Critical Level	p-value
ROA	-5.04	-2.88	-2.57	0.00	-4.94	-2.88	-2.57	0.00
WCIP	-4.08	-2.88	-2.57	0.00	-3.70	-2.88	-2.57	0.00
WCFP	-3.96	-2.88	-2.57	0.00	-3.67	-2.88	-2.57	0.00
CCC	-6.16	-2.88	-2.57	0.00	-5.20	-2.88	-2.57	0.00
SIZE	-5.21	-2.88	-2.57	0.00	-5.11	-2.88	-2.57	0.00
DR	-4.90	-2.88	-2.57	0.00	-4.54	-2.88	-2.57	0.00
LIQ	-4.36	-2.88	-2.57	0.00	-4.07	-2.88	-2.57	0.00

Economic Sciences
https://economic-sciences.com
ES (2025) 21(1), 269-272 | ISSN:1505-4683

Table 3 displays the descriptive statistics analysis of companies listed in the BSE SENSEX. The return on assets ranges from -0.19 to 0.36. The average value of return on assets is 0.13, demonstrating management's proficiency in generating revenue from their assets. The mean value of WCIP is 0.32 with a standard deviation of 0.19. The mean value of less than 0.50 gives an indication that the sample companies are following an aggressive investment policy of working capital. The average value of WCFP is 0.20 with a standard deviation of 0.12, which shows that the sample companies are conservative while managing their current liabilities. Thus the overall policy for managing the working capital by the companies listed in BSE SENSEX is a moderate policy of working capital management which shows that sample companies are using a low proportion of current assets as a percentage of total assets as well as a low proportion of current liabilities to fund their overall capital. These results are consistent with Adam, Quansah & Kawor, 2017. The mean value of CCC is 52.79, implying that sample companies take around two months to obtain cash from their customers and pay their suppliers after purchasing raw materials. The size of the firm on average is 9.99, with a standard deviation of 1.18, which indicates that the data are clustered around the mean value. The average debt ratio was 0.16, indicating that firms listed on the BSE SENSEX have more assets than debt. Finally, liquidity recorded an average value of 2.05**,** indicating a favourable liquidity condition for the sample companies.

Table 3: Descriptive Statistics

	Observations	**Minimum**	**Maximum**	**Mean**	**Std. Deviation**
ROA	300	-0.19	0.36	0.13	0.09
WCIP	300	0.03	0.86	0.32	0.19
WCFP	300	0.01	0.64	0.20	0.12
CCC	300	-135.81	485.65	52.79	66.21
SIZE	300	7.09	12.90	9.99	1.18
DR	300	0.00	0.67	0.16	0.19
LIQ	300	0.24	17.06	2.05	2.21

Table 4 presents the Pearson correlation matrix among the variables of the study. The results revealed that ROA is having moderate positive relation with WCIP suggesting that companies with higher ROA tend to have a higher proportion of working capital relative to their total assets.. The results are the same in line with Ogundipe, Ldowu & Ogundipe, (2012). A positive and insignificant association is observed between ROA and WCFP, which is consistent with Cumbie & Donnellan (2017); and Shajar (2017). The CCC is significantly negatively related to the performance of the firm implying that companies with higher ROA tend to exhibit shorter CCC, which can be indicative of efficient working capital management practices.The size of the firm is negatively and insignificantly related to the firm's performance. Leverage and liquidity are significantly associated with a firm's performance, but leverage is negatively related to firm performance, whereas Liquidity is positively related to a firm’s performance.

Table 4: Pearsons Correlation Matrix

	ROA	WCIP	WCFP	CCC	SIZE	DR	LIQ
ROA	1						
WCIP	.363**	1					
WCFP	.055	.272**	1				
CCC	-.349**	.211**	-.250**	1			
SIZE	-.087	-.104	.042	-.008	1		
DR	-.376**	-.049	-.141*	.230**	-.075	1	
LIQ	.205**	.516**	-.382**	.297**	-.297**	.072	1

**, * significant at 1 ,5 perecent levels, respectively.

Economic Sciences
https://economic-sciences.com
ES (2025) 21(1), 269-272 | ISSN:1505-4683

Multiple regression analysis

We estimate all of our models using the OLS as provided by Gujarati, 2015 in order to scrutinize the influence of working capital policies on a firm's performance. Tables 4 and 5 illustrate the results of such estimation; the findings in Table 4 are derived after using ROA as a dependent variable. The D value of Durban Watson statistics in both models is less than 2.5, indicating that autocorrelation is absent in both models. Furthermore, to ensure the absence of multicollinearity, Variance Inflation Factors (VIFs) were computed for all independent variables, and all VIF values were found to be less than 10, suggesting no multicollinearity issues.

Table 5: Regression Results for WCIP

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
	B	Std. Error	Beta			Tolerance	VIF
(Constant)	.000	.002		.072	.943		
WCIP	.210	.032	.351	6.625	.000	.718	1.393
CCC	.000	.000	-.406	-8.335	.000	.852	1.174
SIZE	-.002	.004	-.028	-.596	.551	.897	1.115
DR	-.140	.023	-.279	-5.974	.000	.929	1.077
LIQ	.007	.003	.156	2.756	.000	.634	1.577
F(5, 293)				40.42			
Prob > F				0.0000			
R-squared				0.4082			
Adj R-squared				0.3981			
Durbin-Watson				2.174			

Dependent Variable: ROA

It is evident from Table 5 that the value of adjusted R^2 is 0.3981, which suggests that selected independent variables explained the ROA to the extent of 39.81 percent. The model is overall statistically significant at a 5 percent significance level [F (5, 293) = 40.42, P < 0.05]. The results show a statistically significant positive effect of WCIP on firm performance. The results match with the studies of (Wanguu, 2015; Shajar, 2018; Afza & Nazir, 2007; Al-Mawsheki, Ahmad & Nordin (2019). According to Afza & Nazir (2007), the presence of a positive and significant effect of WCIP shows that there is a negative link between the degree of aggressiveness of an investment policy and the return on invested capital.

Table 6: Regression Results for WCFP

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
	B	Std. Error	Beta			Tolerance	VIF
(Constant)	-.000	.002		-.011	.992		
WCFP	.051	.050	.054	1.026	.306	.822	1.217
CCC	.000	.000	-.370	-7.076	.000	.845	1.183
SIZE	-.001	.004	-.010	-.193	.847	.894	1.119
DR	-.156	.025	-.309	-6.204	.000	.932	1.073
LIQ	.017	.003	.355	6.300	.000	.729	1.371
F(5, 293)				27.828			
Prob > F				0.0000			
R-squared				0.322			
Adj R-squared				0.310			
Durbin-Watson				2.269			

Dependent Variable: ROA

Economic Sciences
https://economic-sciences.com
ES (2025) 21(1), 269-272 | ISSN:1505-4683

The degree of aggression diminishes as the WCIP grows, and the return on assets increases as the WCIP increases suggesting that firms with more conservative WCIP tends to perform better. Therefore, there is a negative relationship between the relative degree of aggressiveness of working capital investment policies of firms listed in BSE SENSEX and the performance of firms which indicate that WCIP is a significant predictor of firm performance, with higher WCIP values associated with improved ROA. This underscores the importance of strategic management of working capital in enhancing overall financial performance.

It is evident from Table 6 that the value of adjusted R^2 is 0.310, which suggests that selected independent variables explained the ROA to the extent of 31.0 percent. The model is overall statistically significant at a 5 percent significance level [F (5, 293) = 27.828, P < 0.05]. The results demonstrate that WCFP has a favourable but insignificant impact on firm performance, indicating that there is no statistically significant connection between WCFP and the ROA of firms listed on the BSE SENSEX. The findings are congruent with those of Mwangi, Makau & Kosimbei (2014); and Afza & Nazir (2007). The positive coefficient of working capital financing policy indicates a favourable association between the aggressiveness of working capital financing policy and return on assets implies that firms with more aggressive financing policies may potentially experience better returns on assets. The greater the aggressive financing policy ratio, the more aggressive the financing strategy will be, and the better the return on assets will be for the firms listed in BSE SENSEX. The results are contradictory to the results found by Javid & Zita (2014); Adam & Quansah (2019); Al-Mawsheki, Ahmad & Nordin (2019); Sefideh & Asgari (2016), who found that WCFP is negatively associated with the performance of the firm. The overll results indicate a positive relationship between WCFP and firm performance, this relationship is not statistically significant. Therefore, the impact of WCFP on ROA may vary depending on other factors also.

Both models' control variables have a considerable and insignificant influence on the explained variables. With an insignificant p-value, company size has a detrimental effect on a firm's performance. Mwangi, Makau & Kosimbei (2014), Adam, Quansash & Kawor (2017), and Thakur & Muktadir-Al-Mukit (2017) found the same pattern. Debt ratio has a negative impact on a firm's return with a significant p-value, which is similar to research conducted by Shajar (2018), Al-Mawsheki, Ahmad & Nordin (2019), Javid & Zita (2014), and Nurein & Din (2017), but liquidity is favourably and substantially connected with firm's return. These findings contradict with Nurein & Din (2017) but agree with Sonwaney (2019).

Conclusion

Working capital management plays a crucial role in the financial performance of firms, particularly in the short term. This study aimed to investigate the impact of WCIP and WCFP on ROA of companies listed on the BSE SENSEX. The findings shed light on the significance of these policies and their implications for firm performance. The study established that the sample companies exhibit a proactive approach towards investing in working capital. On average, they tend to be conservative in managing their current obligations. Thus, the overall strategy for handling working capital among the BSE SENSEX-listed companies leans towards moderation, indicating that these companies utilize a relatively low portion of current assets and liabilities to finance their operations. Additionally, the study reveals a positive correlation between the level of aggressiveness in working capital investment policies and firm performance. It suggests that as companies become more aggressive in their investment policies, their return on invested capital decreases. Conversely, as the aggressiveness of investment policies decreases, the return on assets tends to increase. Consequently, there exists an inverse relationship between the level of aggressiveness in working capital investment policies and firm performance. The study recommends that companies listed on the BSE SENSEX should prioritize financing their assets using current liabilities instead of long-term debt, likely because current obligations are less costly than long-term debt. The findings underscore the critical role of working capital management in driving firm performance. Companies that adopt

conservative WCIP and maintain favorable liquidity levels are likely to achieve higher profitability and enhance shareholder value. However, it is essential to consider the specific circumstances and industry dynamics when formulating working capital policies, as the impact on firm performance may vary across different contexts. Moreover, it suggests that these firms should aim to increase the proportion of current assets relative to total assets and elevate the proportion of current liabilities in overall capital to enhance their performance. The study recommends that Future research could delve deeper into the nuances of working capital policies across different industries and explore additional factors that may influence their effectiveness in driving firm performance.

References:

1. Adam, A. M., & Quansah, E. (2019). Effects of working capital management policies on shareholders' value: Evidence from listed manufacturing firms in Ghana. *Panoeconomicus*, *66*(5), 659-686.
2. Adam, A. M., Quansah, E., & Kawor, S. (2017). Working capital management policies and returns of listed manufacturing firms in Ghana. *Scientific Annals of economics and business*, *64*(2), 255-269.
3. Afza, T., & Nazir, M. S. (2007). Is it better to be aggressive or conservative in managing working capital. *Journal of quality and technology management*, *3*(2), 11-21.
4. Aktas, N., Croci, E., & Petmezas, D. (2015). Is working capital management value-enhancing? Evidence from firm performance and investments. *Journal of Corporate Finance*, *30*, 98-113.
5. Alipour, M. (2011). Working capital management and corporate profitability: Evidence from Iran. *World applied sciences journal*, *12*(7), 1093-1099.
6. Al-Mawsheki, R. M., Ahmad, N. B., & Nordin, N. B. (2019). The effects of efficient working capital management and working capital policies on firm performance: Evidence from malaysian manufacturing firms. *International Journal of Academic Research in Accounting, Finance and Management Sciences*, *1*(3), 59-69.
7. Almerria, S., & Al-Okdehb, S. K. (2020) The Impact of Working Capital Management Policies on Financial Performance of Mining and Extraction Companies Listed on Amman Stock Exchange. International Journal of Innovation, Creativity and Change, 14(2), 581-601.
8. Al-Mwalla, M. (2012). The impact of Working Capital Management Policies on firm's Profitability and Value: the case of Jordan. *International Research Journal of Finance and Economics*, *85*(4), 1450-2887.
9. Bashir, W., & Periyasami, N. (2022). Efficiency of Working Capital Management using Y-Score Model: An Evidence of BSE SENSEX. *European Online Journal of Natural and Social Sciences*, *11*(1), 73-85.
10. Brigham, E. F., & Houston, J. F. (2021). *Fundamentals of financial management, 15e*. Cengage Learning.
11. Charitou, M., Lois, P., & Christoforou, A. (2016). The relationship between aggressive and conservative working capital management policies and profitability: An empirical investigation. *International journal of arts and commerce*, *5*(5), 143-150.
12. Cumbie, J. B., & Donnellan, J. (2017). The impact of working capital components on firm value in US Firms. *International Journal of Economics and Finance*, *9*(8), 138-150.
13. Darwish, S. (2014). Education and Human Capital Development in Bahrain: Future International Collaboration with Malaysia. *International Journal of Academic Research in Management (IJARM)*, *3*(4), 321-334.
14. Deloof, M. (2003). Does working capital management affect profitability of Belgian firms? Journal of business finance & Accounting, vol. 3, issue 4, pp. 573-588.
15. Farhan, N. H., Almaqtari, F. A., Al-Matari, E. M., Senan, N. A. M., Alahdal, W. M., & Hazaea, S. A. (2021). Working Capital Management Policies in Indian Listed Firms: A State-Wise Analysis. *Sustainability*, *13*(8), 4516.
16. Gill, A., Biger, N., & Mathur, N. (2010). The relationship between working capital management and profitability: Evidence from the United States. *Business and economics journal*, *10*(1), 1-9.
17. Gujarati, D. N. (2011). *Econometrics by example* (ed 2nd). New York: Palgrave Macmillan.
18. Gul, S., Khan, M. B., Raheman, S. U., Khan, M. T., Khan, M., & Khan, W. (2013). Working capital management and performance of SME sector. *European Journal of Business and management*, *5*(1), 60-68.
19. Hassani, M., & Tavosi, A. R. (2014). To survey the effect of working capital policies (investing and financing) on profitability risk (evidence

from Tehran stock exchange). *Journal of Investment and Management*, *3*(1), 30-36.
20. Hill, M. D., Kelly, G. W., Highfield, M. J., 2010. Net operating working capital behavior: a first look. *Financial Management*, 39, 783–805.
21. Ishak, M. S., Ahmad, N., & Abdul Rahim, F. (2020). Practices and stability of Working capital investment and financing Policies: evidence from Malaysia Public listed companies. *Social and Management Research Journal (SMRJ)*, *17*(2), 311-341.
22. Javid, S., & Zita, V. P. (2014). Impact of working capital policy on firm's profitability: A case of Pakistan cement industry. *Research journal of Finance and Accounting*, *5*(5), 182-191.
23. Jensen, M. C., & Smith, C. W. (1984). The theory of corporate finance: a historical overview. *New York: McGraw-Hill*
24. Mohamad, N. E. A. B., Abd Rahman, N. R. B., & Saad, N. B. M. (2017). *Linking working capital policy towards financial performance of small medium enterprise (SME) in Malaysia*. In SHS Web of Conferences.
25. Moussa, A. A. (2018). The impact of working capital management on firms' performance and value: Evidence from Egypt. *Journal of Asset Management*, *19*(4), 259-273.
26. Mwangi, L. W., Makau, M. S., & Kosimbei, G. (2014). Effects of working capital management on performance of non-financial companies listed in NSE, Kenya. *European journal of business and management*, *6(*11), 195-205.
27. Nabi, G., Yousaf, M. S., Ali, I., & Najaf, R. (2016). Impact of working capital management approaches (aggressive/conservative) on the profitability and shareholder's worth: Comparative analysis of cement and sugar industry. *Research Journal of Finance and Accounting*, *7*(5), 60-65.
28. Nadeem, M., Waris, M., Asadullah, M., & Kamran, M. (2020). Impact of Working Capital Policies on Firm's Performance, Evidence from Pakistan. *Journal of International Business and Management*, *3*(1), 01-20.
29. Naqi, A., & Siddiqui, D. A. (2020). The Impact of Aggressive Working Capital Management Policy on Firm's Value: A Mediating Effect of Company's Profitability. Available at SSRN 3683016.
30. Nazir, M. S., & Afza, T. (2009 A). A panel data analysis of working capital management policies. *Business Review*, *4*(1), 143-157.
31. Nazir, M. S., & Afza, T. (2009 B). Impact of aggressive working capital management policy on firms' profitability. *IUP Journal of Applied Finance*, *15*(8), 19-30.
32. Nurein, S., & Din, S. (2017, October). *Working Capital Management and Firm Value: the Role of Firm Innovativeness*. In *Proceedings of The International Conference on Economics and Development*.
33. Obeng, H., Enos, B. K., & Yensu, J. (2021). Working Capital Management, Working Capital Policy, and Firm Performance in Ghana: Empirical Evidence Using a Dynamic System GMM. *African Journal of Business & Economic Research*, *16*(1).
34. Ogundipe, S. E., Idowu, A., & Ogundipe, L. O. (2012). Working capital management, firms' performance and market valuation in Nigeria. *World Academy of Science, Engineering and Technology*, *61*(1), 1196-1200.
35. Padder, A. H., & Mathavan, B. (2021). The Relationship between Unemployment and Economic Growth in India: Granger Causality Approach. *NVEO-Natural Volatiles & Essential Oils Journal*, 8(4), 1265-1271.
36. Pandey, Indra M. 2010. Financial Management. 10th ed. New Delhi: Vikas Publishers.
37. Quy, V. T. (2017). Effects of working capital management on firm performance and firm value–A study of the fisheries industry in Vietnam. *Economics and Business Administration*, *7*(2), 42-52.
38. Rasyid, R. (2017, November). *Impact of the aggressive working capital management policy on firm's profitability and value: Study on non-financial listed firms in Indonesia Stock Exchange*. In International Conference on Business and Management Research.
39. Rasyid, R., Lukman, S., & Husni, T. (2018). The Impact of Aggressive Working Capital Management Policy on Firm's Value: A Mediating Effect of Company's Profitability. *Journal of Business and Management Sciences*, *6*(1), 16-21.
40. Salawu, R. O. (2006). Industry practice and aggressive conservative working capital policies in Nigeria. *European journal OF Scientific research*, *13*(3), 294-304.
41. Sefideh, S. R., & Asgari, M. R. (2016). The impact of working capital policy on risk management in the companies listed in Tehran Stock Exchange. *Problems and perspectives in management*, *14*(3), 364-371.
42. Shajar, S. N. (2018). Impact of working capital policies on market value of firm: a study of selected Indian manufacturing companies.

Vidyasagar University Journal of Commerce, *23*, 72-83.
43. Shin, H. H., & Soenen, L., (1998). Efficiency of working capital and corporate profitability. *Financial Practice and Education*, *8*, 37-45.
44. Sohail, S., Rasul, F., & Fatima, U. (2016). Effect of aggressive & conservative working capital management policy on performance of scheduled commercial banks of Pakistan. *European Journal of Business and Management*, *8*(10), 40-48.
45. Sonwaney, V. (2019). Enhancing Operational Efficiency by Optimizing Working Capital Management of Manufacturing Firms. *International Journal of Recent Technology and Engineering*, *8*(3), 2695-2705.
46. Sunardi, S. (2021). Conservative Working Capital Policy: Can it Increase Profitability and Sustainable Growth Rate?. *Turkish Journal of Computer and Mathematics Education*, *12*(3), 5630-5637.
47. Taani, K. (2012). Impact of working capital management policy and financial leverage on financial performance: Empirical evidence from Amman stock exchange–listed companies. *International Journal of Management Sciences and Business Research*, *1*(8), 10-17.
48. Tauringana, V., and Afrifa, G. A. (2013). The relative importance of working capital management and its components to SMEs' profitability. Journal of Small Business and Enterprise Development, 20(3), 453-469.
49. Thakur, O. A., & Muktadir-Al-Mukit, D. (2017). Working capital financing policy and profitability: empirical study on Bangladeshi listed firms. *Journal of Economics, Management and Trade*, *17*(1), 1-6.
50. Vijayakumaran, R. (2019). Efficiency of working capital management and firm value: Evidence from Chinese listed firms. *International Journal of Financial Research*, *10*(6), 133-144.
51. Vishnani, S., & Shah, B. K. (2007). Impact of working capital management policies on corporate performance-An empirical study. *Global business review*, *8*(2), 267-281.
52. Wanguu, K. C. (2015). The Effect of Aggressive Working Capital Policy on Profitability of Non Financial Firms Listed at Nairobi Securities Exchange. *International journal of Commerce & Business studies*, *3*(4), 15-24.
53. Weinraub, H. J., & Visscher, S. (1998). Industry practice relating to aggressive conservative working capital policies. *Journal of Financial and Strategic Decision*, *11*(2), 11-18.
54. Wichitsathian, S. (2019). Working capital management and its impacts on profitability: the case of small and medium food enterprises in Nakhon Ratchasima, Thailand. *International Journal of Economic Policy in Emerging Economies*, *12*(2), 113–120.
55. Yahaya, Y., & Sani, M. (2018). Working capital management policy and the financial performance of food and beverages companies in Nigeria. International Business and Accounting Research Journal, 2(2), 75-86.
56. Zimon, G., & Tarighi, H. (2021). Effects of the COVID-19 global crisis on the working capital management policy: Evidence froms Poland. *Journal of Risk and Financial Management*, *14*(4), 1-17.