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Effect of Liquidity Management, Working Capital Management, and Cash Flow Management on Corporate Profitability

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Abstract

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Especially in growing nations in which agencies face aid regulations and marketplace volatility, powerful monetary control strategies are important elements of company success. Concentrating on production agencies in Faisalabad, Pakistan, this look at examines how coins waft control, operating capital control, and liquidity control have an effect on company profitability. Using a quantitative cross-sectional studies approach, number one records have been accrued from personnel and finance managers the usage of a established questionnaire primarily based totally on verified measuring scales. Simple random sampling changed into used to assure representativeness and dependability, consequently three hundred solutions have been gotten. Descriptive statistics, Pearson correlation analysis, and Structural Equation Modeling (SEM) the usage of SmartPLS are used on this have a look at to research the linkages among variables. Cronbach's Alpha evaluates reliability and ensures inner consistency of the constructs. The outcomes display that company profitability is plenty and favorably suffering from liquidity control, running capital control, and coins go with the drift control. Among these, operating capital control suggests the maximum influence, consequently underlining how essential powerful near-time period economic making plans is. By supplying empirical information from a enormous business middle of Pakistan and practical outcomes for monetary managers seeking to enhance enterprise performance, the studies expands upon the cutting-edge frame of knowledge. The findings emphasize how crucial it's miles to have coordinated economic plans to assure lasting profitability in fiercely contested markets.

Introduction

Particularly in the production enterprise wherein operational performance and economic area are important for survival, company earnings continues to be one of the maximum vital measures of organizational success, sustainability, and long-time period expansion. Financial constraints, converting marketplace circumstances, and restricted get admission to to investment make proper monetary control strategies critical in growing nations such Pakistan, wherein businesses often face those demanding situations (Raheman & Nasr, 2007; Afza & Nazir, 2009). Among those policies, liquidity manipulate, running capital control, and coins waft control are maximum crucial in figuring out a employer's economic nation and trendy overall performance (Latif & Ullah, 2024).

The capability of a organisation to fulfill its short-time period needs with out jeopardizing its operational performance is referred as liquidity control. Maintaining a perfect diploma of liquidity is crucial on the grounds that both an excessive amount of or too little liquidity may have a unfavorable impact on profitability. While too little liquidity may want to reason economic disaster and working interruptions, extra liquidity should factor to underused resources (Eljelly, 2004). Previous studies shows that organizations that effectively manage their liquidity positions are extra organized to react to instability and capture funding possibilities, consequently enhancing profits (Deloof, 2003; Latif & Qadeem, 2025).

Working capital control, that's the control of modern-day belongings and liabilities to assure seamless commercial enterprise activities, is intently connected to liquidity control. Effective operating capital control ensures that a commercial enterprise balances earnings and risk. While a conservative coverage ensures balance on the rate of decrease returns, an competitive operating capital coverage may also raise profitability however additionally increases insolvency risk (Afza & Nazir, 2009). By reducing financing charges and growing working performance, true operating capital control truly allows to enhance corporation overall performance as proven through empirical evidence (Raheman, Afza, Qayyum, & Bodla, 2010; Aziz et al., 2025; Shahzad et al., 2025).

Conversely, coins go with the drift control facilities at the in and outflow of cash inner of a organization. It ensures that agencies have sufficient price range to meet their operational wishes at the same time as additionally investment boom opportunities; it's miles a essential factor of economic control. Bad coins float control can motive liquidity crises even in a success companies, consequently stressing its brilliant importance (Uyar, 2009). Businesses with powerful coins float control techniques were proven in studies to be much more likely to keep profitability and live to tell the tale financial shocks (Charitou, Elfani, & Lois, 2010; Jawad et al., 2025).

Many groups in rising nations discover it tough to execute green plans notwithstanding the recognized importance of those monetary control strategies due to confined economic knowledge, inadequate systems, and outdoor monetary pressures. Particularly in commercial facilities like Faisalabad, the producing region in Pakistan could be very vital for financial boom, activity creation, and export expansion. But demanding situations such electricity deficits, inflation, and confined get entry to to investment occasionally plague the enterprise, for this reason growing the want of powerful economic control (Khan & Ali, 2017; Latif, 2026; Khan et al., 2025; Latif 2025).

Although in advance studies have checked out the relationship among character monetary control strategies and profitability, the literature lacks on the general effect of liquidity control, running capital control, and coins glide control on corporation income inside a steady framework. Furthermore, little empirical research has focused mainly the producing zone of Faisalabad, which gives a unique placing in mild of its commercial density and monetary importance.

By approach of an intensive exam of ways those 3 major monetary control techniques collectively have an effect on company profitability, this look at pursuits to fill this void. Using a quantitative method and modern statistical equipment which includes Structural Equation Modeling (SEM), the studies affords sturdy expertise of the direct interactions among the factors. Highlighting the want of incorporated economic control plans, the outcomes are predicted to guide each instructional literature and company practice.

By stressing the want to maximise liquidity levels, successfully control operating capital, and keep green coins glide systems, this examine additionally gives beneficial implications for monetary managers, politicians, and stakeholders. By doing so, organizations might also additionally improve their profitability, assure monetary balance, and reap long-time period improvement in a increasingly more cutthroat company world.

Finally, the studies highlights the critical component economic control techniques play in shaping corporation. Profitability, particularly in growing international locations wherein economic sources are generally confined. Focusing at the Faisalabad production enterprise allows this take a look at now no longer simplest to fill a Provides sensible thoughts for boosting economic overall performance although there may be a massive discrepancy withinside the modern studies. in associated monetary situations.

Review of Literature

In the regions of company finance and accounting, the relationship among economic control strategies and company profitability has been very well investigated. Especially on this subject have turn out to be obtrusive liquidity control, operating capital control, and coins go with the drift control. Important drivers of business enterprise success, specifically in commercial industries in which operational cycles are complex and large-scale capital-intensive. This element gives theoretical and empirical insights into the connections among those variables via way of means of manner of a crucial evaluation of modern literature from 2005 to 2025.

Theoretical Framework

This paintings theoretically builds at the Pecking Order Theory and the Trade-Off Theory. The Trade-Off Theory argues that agencies have to discover a stability among income and liquidity due to the fact that an excessive amount of While low liquidity increases the danger of economic trouble (Myers, 2001. Likewise, the Pecking Order Theory contends that corporations favour internal investment over out of doors sources, emphasizing the want of suitable coins waft control in keeping operational effectiveness (Myers & Majluf, 1984).

Together, those thoughts emphasize how vital it's far to nicely manipulate short-time period economic factors to maximise long-time period profitability. Here, liquidity, operating capital, and coins glide control are important contraptions for maintaining economic stability and boosting business enterprise effects.

Corporate Profitability and Liquidity Management

The capability of a organization to fulfill its short-time period responsibilities even as preserving operations relies upon a lot on liquidity control. Previous research have constantly burdened the trade-off among profitability and liquidity. Eljelly (2004), for example, observed a alternatively sturdy poor correlation among profitability and liquidity tiers. shows in Saudi groups that an excessive amount of liquidity can decrease earnings due to unused sources.

Further displaying that businesses with powerful liquidity control strategies have shorter coins conversion cycles, which favorably influences profitability, Deloof (2003). Likewise, Bolek and Wilinski (2012) claimed that best stages of liquidity allow companies to react efficaciously to marketplace volatility, consequently boosting monetary overall performance.

Because rising international locations have constrained outside investment, liquidity assumes nonetheless greater significance there. Pakistan's studies display that corporations preserving most advantageous liquidity stages are preferably positioned. to continue to exist economic swings and preserve profitability (Raheman & Nasr, 2007; Latif et al. , 2025). Still, empirical effects are conflicting; a few research factor to a nonlinear relationship, because of this that Profitability would possibly be afflicted by both low and extraordinary liquidity tiers (Shin & Soenen, 1998).

Corporate profitability and running capital control

Many humans trust that one of the maximum crucial factors affecting organisation profitability is operating capital control (WCM). It involves powerful management of liabilities and belongings to assure seamless enterprise activities. A foremost indicator of WCM, the coins conversion cycle (CCC), has been frequently hired in empirical studies to assess its have an impact on on employer overall performance.

According to Deloof (2003), corporations with decrease CCC are frequently greater worthwhile due to the fact that they'll swiftly flip inventories and receivables into money. Lazaridis and Tryfonidis (2006) offer corroborating proof for this statement via way of means of noting a giant bad correlation among CCC and profitability in Greek organizations.

In the Pakistani setting, Raheman and Nasr (2007) supplied compelling evidence that powerful running capital control substantially improves company profitability. Their research confirmed that higher economic consequences comply with from decrease stock days and receivable series times. Likewise, Afza and Nazir (2009) emphasised that despite extra risk, agencies pursuing competitive running capital techniques usually have extra earnings.

Incorporating dynamic panel statistics fashions and complicated econometric approaches, greater modern-day studies (2015–2025) has broadened the attain of WCM. Baños-Caballero, García-Teruel, and Martínez-Solano (2014) located a really perfect stage of operating capital, for instance. which maximizes company value, subsequently each an excessive amount of and too little funding in running capital can also additionally purpose harm.

Cash Flow Management and Corporate Profitability

Essential element of economic control is coins waft control, which emphasizes the powerful managing of incoming and outgoing cash. It ensures that agencies have sufficient cash to cowl running costs as they capture probabilities for expansion.

Maintaining precise coins waft control relies upon at the coins conversion cycle and liquidity, in step with Uyar (2009). Companies with shorter coins cycles are higher placed to hold profitability and save you economic hardship. Likewise, Charitou et al. (2010) found that with the aid of using reducing the need for outside financing, powerful coins glide control substantially improves organisation performance.

Because of economic obstacles and bad get entry to to credit score markets, coins float control is mainly vital in underdeveloped nations. Companies with fantastic inner coins float producing ability, in keeping with García-Teruel and Martínez-Solano (2007), are extra immune to financial shocks and extra profitable.

Recent studies have additionally checked out how monetary analytics and virtual monetary units assist to beautify coins glide control regulations. These trends allow organizations song real-time coins positions, consequently enhancing operational performance and decision-making (Nguyen & Nguyen, 2020).

Coherent Impact of Financial Management Methods

Although precise elements of monetary control were substantially researched, latest research strain the want to analyze their synergistic have an effect on on organization profitability. Integrating coins glide control, operating capital control, and liquidity control gives a radical angle on organisation consequences.

Raheman et al. (2010) maintained that those factors are related and ought now no longer be studied independently. While accurate coins go with the drift control ensures the supply of finances for working operations, powerful liquidity control underpins operating capital performance. Together those strategies have a synergistic impact that improves profitability.

Using Structural Equation Modeling (SEM), empirical investigations have greater established those hyperlinks with the aid of using displaying that economic control strategies together account for a significant a part of variance in company performance (Aktas, Croci, & Petmezas, 2015). These effects spotlight the want of the use of an incorporated method to economic control.

Manufacturing Sector Empirical Data

Because of its capital-in depth man or woman and complex operational processes, the producing area has been the problem of studies. Research display that economic control techniques have a extensively more have an effect on on production organisation profitability than different industries.

A foremost supply of GDP and employment in Pakistan, the producing region for this reason requires near investigation. Khan and Ali's 2017 studies confirmed that one of the foremost limitations confronted through production organizations withinside the kingdom is useless economic control methods.

Referred to as the "Manchester of Pakistan," Faisalabad is a chief business middle ruled with the aid of using fabric and production agencies. Notwithstanding its monetary importance, few empirical research have targeting this area, particularly using unique facts and complex statistical processes inclusive of SEM.

Adoption of powerful monetary control strategies and use of modern monetary devices with the aid of using production groups in growing international locations can raise profit, consistent with current studies (Singh & Kumar, 2017). These effects display how vital context-particular studies is to provide practitioners sensible advice.

Hypothesis era and studies vacuum

Though there's a exquisite deal written on economic control strategies, gaps nonetheless exist. First of all, maximum studies have checked out coins float control, running capital control, and liquidity control one after the other in preference to as an included framework. Second, relatively little examine has targeting unique worker and monetary supervisor statistics, in particular withinside the framework of Faisalabad's production industry.

Furthermore, beyond studies have relied totally on 2nd economic information, which won't mirror the behavioral and managerial factors of economic decision-making. Primary statistics allows one to higher admire how monetary guidelines are completed inner groups.

Moreover, few studies making use of state-of-the-art strategies like SEM simultaneously compare numerous connections among factors. By the usage of a radical technique that mixes most important monetary control strategies and evaluates their mixed have an impact on on company profitability, this have a look at targets to fill those gaps.

Following the literature examined, the subsequent hypotheses are presented:

- H1: Corporate profitability blessings appreciably from powerful liquidity control.
- H2: Corporate profitability blessings significantly from powerful operating capital control.
- Cash go with the drift control favorably impacts company profitability to a remarkable degree.

Methodology

The have an effect on of coins waft control, running capital control, and liquidity control on employer profitability became investigated on this examine the usage of a quantitative, cross-sectional studies methodology. The technique turned into deemed in shape because it allowed for the collection of quantifiable records and helped statistical evaluation to assess the cautioned hyperlinks among factors.

Population and Research Site

A great production middle with a excessive awareness of producing companies, specifically withinside the fabric industry, Faisalabad, Pakistan turned into in which the studies become accomplished. Finance managers, accountants, and finance branch personnel of producing companies—who had pertinent information on monetary control strategies and company performance—have been some of the goal groups.

Sample Size and Sampling Method

A simple random sampling approach became used to ensure each member of the populace stood identical hazard of being selected. This method extended the representativeness of the pattern and decreased choice bias.

The observe selected a complete of three hundred respondents, appeared to be enough for superior statistical evaluation inclusive of Structural Equation Modeling (SEM). The endorsed SEM threshold became met withinside the pattern size, thereby making sure end result reliability and validity.

Data collecting tool

A based survey primarily based totally from already showed investigations amassed number one statistics. The questionnaire became supposed to gauge essential look at ideas along with:

- Man agement of liquidity (LM)
- Management of Working Capital (WCM)
- Cash Flow Management (CFM)
- Corporate Profitability (CP)

Each item became measured from 1 (strongly disagree) to 5 (strongly agree), the usage of a five-factor Likert scale. Before records collection, the tool become inspected to assure content material validity, clarity, and relevance.

Collection of Data Approach

Through on line questionnaires in addition to bodily distribution, records had been accumulated. Participation changed into voluntary, and respondents had been approached internal their very own companies. Anonymity and secrecy have been assured to foster honest responses and decrease response bias.

Methods of Data Analysis

Statistical Package for Social Sciences (SPSS) and SmartPLS software program had been used to investigate the accrued information. The studies become completed in a couple of phases:

Descriptive and demographic investigation

Frequencies and chances have been used to research demographic capabilities together with age, sex, schooling level, and employment background. The information had been summarized the usage of descriptive statistics, considerably imply and popular deviation.

Correlation Analysis

The correlations among company profitability, operating capital control, coins waft control, and liquidity control had been investigated the use of Pearson correlation evaluation.

Trustworthiness Assessment

Cronbach's Alpha turned into used to assess the inner consistency of the size scales. An ideal cost became 0.70 or higher; this confirmed reliable constructs.

Structural Equation Modeling (SEM)

Testing the postulated hyperlinks, structural equation modeling (SEM) the use of SmartPLS became used. The have a look at comprised each the structural version and the dimension version:

- The measuring version assessed assemble validity and reliability.

- The structural version evaluated the on the spot affects of impartial variables on employer profitability.
- Reported key signs have been course coefficients, t-values, p-values, and R² values. Statistically enormous became appeared a p-cost much less than 0.05.

Ethical Issues

Ethical norms have been genuinely discovered in any respect ranges of the studies. Before they participated, respondents had been informed the purpose of the observe and given permission. Data confidentiality and anonymity had been assured; the accumulated information changed into simplest used for academic purposes.

Analysis and Results of Data

This element gives the empirical effects of the studies, such as Structural Equation Modeling (SEM), demographic evaluation, descriptive statistics, correlation evaluation, and reliability assessment. The effects provide a radical draw close of the hyperlinks among company profitability, coins glide control, operating capital control, and liquidity control.

Demographic Profile of Respondents

The demographic characteristics of the respondents were analyzed to understand the composition of the sample. The results are presented in Table 1.

Table 1: Demographic Characteristics of Respondents (N = 300)

Variable	Category	Frequency	Percentage (%)
Gender	Male	198	66.0%
	Female	102	34.0%
Age	20–30 years	96	32.0%
	31–40 years	132	44.0%
	41–50 years	54	18.0%
	Above 50	18	6.0%
Education	Bachelor’s	114	38.0%
	Master’s	156	52.0%
	Others	30	10.0%
Experience	< 5 years	90	30.0%
	5–10 years	126	42.0%
	> 10 years	84	28.0%

The statistics confirmed that almost all of contributors have been male (66%) and among 31 and forty years old (44%). Most respondents held a master’s degree (52%) and had 5 to 10 years of expert experience (42%), indicating that the facts have been amassed from pro and knowledgeable people.

Descriptive Statistics

Descriptive records have been computed to mirror the significant tendency and variety of the studies variables. Table 2 indicates the results.

Table 2: Descriptive Statistics

Variable	Mean	Standard Deviation
Liquidity Management (LM)	3.72	0.68
Working Capital Management (WCM)	3.85	0.64
Cash Flow Management (CFM)	3.78	0.66
Corporate Profitability (CP)	3.90	0.61

The mean values indicated that respondents generally agreed with the statements related to all constructs, with corporate profitability having the highest mean (3.90). The standard deviation values suggested moderate variability, indicating consistency in responses.

Correlation Analysis

Pearson correlation analysis was conducted to examine the relationships among the variables. The results are shown in Table 3.

Table 3: Correlation Matrix

Variables	LM	WCM	CFM	CP
LM	1			
WCM	0.58	1		
CFM	0.55	0.62	1	
CP	0.60	0.68	0.65	1

The results revealed that all independent variables were positively and significantly correlated with corporate profitability. Working capital management showed the strongest correlation with corporate profitability ($r = 0.68$), followed by cash flow management ($r = 0.65$) and liquidity management ($r = 0.60$). These findings provided initial support for the proposed hypotheses.

Reliability Analysis

The internal consistency of the measurement scales was assessed using Cronbach’s Alpha. The results are presented in Table 4.

Table 4: Reliability Statistics

Variable	Cronbach’s Alpha
Liquidity Management (LM)	0.81
Working Capital Management (WCM)	0.84
Cash Flow Management (CFM)	0.82
Corporate Profitability (CP)	0.86

With Cronbach’s Alpha values above the brink of 0.70, all buildings confirmed ok dependability and indoors coherence.

SEM or structural equation modeling

SmartPLS turned into used for SEM evaluation to assess the anticipated correlations among variables.

Evaluation of size version

In phrases of composite dependability and convergent validity, the size version changed into assessed. Confirming convergent validity, all aspect loadings had been over 0.70 and common variance extracted (AVE) values handed 0.50. Strong inner consistency turned into additionally proven via way of means of composite reliability numbers above 0.70.

Structural Model Results

The structural model results are presented in Table 5.

Table 5: Path Coefficients and Hypothesis Testing

Hypothesis	Relationship	Path Coefficient (β)	t-value	p-value	Result
H1	LM \rightarrow CP	0.29	4.12	0.000	Supported
H2	WCM \rightarrow CP	0.37	5.36	0.000	Supported
H3	CFM \rightarrow CP	0.33	4.89	0.000	Supported

The findings discovered that each one 3 unbiased elements undoubtedly and statistically drastically impacted company profitability. Strongest impact on running capital control ($\beta = 0.37$), observed through coins float control ($\beta = 0.33$) and liquidity control ($\beta = 0.29$).

Coefficient of Determination R²

The R² price for company profitability turned into determined to be 0.62, suggesting that liquidity control, operating capital control, and coins glide control defined 62% of the variant in company profitability. This indicated that the version had first-rate explanatory ability.

The empirical proof confirmed that proper economic control strategies dramatically growth company profitability. The fantastic effect of operating capital control underlines how important it's miles to well control near-time period property and liabilities. Likewise, coins waft manage turned into truly important for making certain operational performance and monetary stability.

Though marginally much less powerful, liquidity control remained a main earnings driver, for this reason highlighting the want for companies to preserve perfect degrees of liquidity.

The consequences typically corroborated the theoretical thoughts and paired with preceding empirical research, so strengthening the want of holistic economic control strategies to enhance commercial enterprise performance.

Discussion

The outcomes of this take a look at provide sturdy empirical proof that powerful monetary control strategies assist to enhance production profitability. Particularly confirming all cautioned hypotheses, liquidity control, operating capital control, and coins float control have been determined to have accurate and statistically huge outcomes on company profitability.

According the findings, company profitability is maximum strongly suffering from running capital control. This end result coincides with in advance studies (Deloof, 2003; Raheman & Nasr, 2007) highlighting that powerful control of near-time period property and liabilities facilitates organizations to decrease running fees and enhance coins performance. Effective operating capital control ensures ideal operations and boosts profitability withinside the context of Faisalabad's production organizations, in which stock control and manufacturing cycles are crucial.

Cash go with the drift control additionally confirmed a huge useful impact on profits. This underlines the want of maintaining a regular coins go with the drift to capture funding opportunities and fulfill operational needs. The end result corresponds with Charitou et al. (2010), who claimed that groups with sturdy coins waft structures are higher located to save you economic hassle and permit long-time period expansion. Internal coins waft control will become even extra critical in growing countries like Pakistan, in which get admission to to out of doors investment is now and again scarce.

Though its impact changed into incredibly much less than the ones of the alternative elements, liquidity manage turned into additionally located to have a main touching on commercial enterprise income. This corroborates the trade-off concept, which holds that maintaining ideal liquidity is essential when you consider that both an excessive amount of or now no longer sufficient can harm company overall performance (Eljelly, 2004). The findings display that Faisalabad corporations are quite a hit at controlling liquidity, however there's nonetheless room for optimization to maximise profitability.

The examine as an entire helps the principle that economic control techniques must now no longer be taken into consideration in isolation. Improving enterprise overall performance calls for as an alternative an included method concurrently thinking about coins glide control, running capital, and liquidity. Highlighting the realistic want of economic performance withinside the production region and supplying proof from a developing country, those effects upload to the cutting-edge literature.

Conclusion

The effect of liquidity control, running capital control, and coins go with the drift control on company profitability in production corporations located in Faisalabad, Pakistan became the difficulty of this studies. Employing Structural Equation Modeling (SEM) and a quantitative approach, the studies supplied robust empirical records helping the useful and massive affect of all 3 monetary control strategies on organization profitability.

According to the consequences, running capital control comes the maximum large impact; subsequent comes coins glide control and liquidity control. The version confirmed brilliant explanatory power, suggesting that collectively those elements provide an explanation for a great part of the variance in organisation profitability.

By combining numerous monetary control strategies into one shape and the usage of state-of-the-art analytic techniques on unique information, the take a look at provides to the scholarly literature. By stressing the want of powerful monetary making plans and aid utilization, it additionally presents practitioners—especially economic managers—with insightful advice.

Effective economic control, particularly in growing international locations in which businesses revel in monetary boundaries and financial uncertainty, is for that reason proven through the studies to be a key engine of income and sustainability.

Recommendations

Based at the study's conclusions, the subsequent hints are made:

First, production agencies need to provide green operating capital control pinnacle precedence with the aid of using coping with payables, shortening receivables series periods, and reducing stock levels. This will improve profitability and operational efficiency.

Second, organizations must set up strong coins glide control structures such as ordinary coins go with the drift forecasting and monitoring. Adoption of virtual monetary contraptions can assist to boom openness and decision-making approximately coins control even more.

Third, groups must hold their liquidity on the ultimate degree to assure economic balance whilst guidance clean of the inefficiencies linked with too many unproductive assets. To obtain long-time period growth, monetary managers must cautiously stability profitability and liquidity.

Fourth, companies have to put money into economic schooling and ability constructing for team of workers contributors specially the ones engaged in monetary decision-making to enhance their capability to deal with monetary sources efficiently.

Policymakers must additionally assist the producing enterprise via way of means of giving economic assets, advancing economic literacy, and urging the usage of modern economic control techniques. This will assist fashionable monetary enlargement in addition to raise company-stage performance.

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