

## **THE IMPACT OF WORKING CAPITAL MANAGEMENT COMPONENTS ON THE PROFITABILITY OF BASIC MATERIALS INDUSTRY LISTED ON THE JOHANNESBURG STOCK EXCHANGE**

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### **ABSTRACT**

This study investigates the impact of working capital management components on the profitability of basic materials companies listed on the Johannesburg Stock Exchange for the period 2002 to 2013. It used a sample of twenty-one (21) basic materials firms and employed a fixed effect regression method to establish the causal relationship between working capital management components and profitability. A negative and statistically significant causal relationship was established between average inventory days, accounts receivable days, the cash conversion cycle, and the profitability of basic materials firms. A positive and statistically significant causal relationship existed between accounts payable days and profitability. Based on these findings, managers of basic materials firms are advised to be proactive in designing and implementing strategies that will reduce the operating cycle. Moreover, strategic managers are advised to build unshakable relationships with suppliers before negotiating longer payment periods. This practice will ensure that an organisation quickly unlocks funds previously tied up in working capital.

**Keywords:** Capital management components, basic materials.