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## **FIRM PROFITABILITY AND WORKING CAPITAL MANAGEMENT. EMPIRICAL EVIDENCE FROM THE POLISH LISTED FIRMS**

### **Abstract:**

The aim of our paper is to investigate the relationship between working capital and firm profitability in an emerging economy (Poland) over the period 2007-2016. Poland is a representative example on how working capital-profitability connection may change in different macroeconomic conditions. The study employs a sample of 719 Polish listed firms with data retrieved from Amadeus. We propose a panel data methodology, by employing OLS model as a benchmark and, respectively, a panel model with fixed effects, where the dependent variable is considered Return on Assets and the independent variable is working capital ratio. Additionally, firm control variables (debt ratio, growth opportunities, and cash holdings) have been considered. The study reports an inverted U-shape relationship between working capital level and firm profitability, meaning that firms may have an optimal level of working capital ratio that maximizes their performance. The non-linear relationship between operating liquidity and profitability brings new implications on the importance of efficient working capital practices in financial planning of companies.

### **Keywords:**

working capital management, profitability, emerging economy

**JEL Classification:** G31, G32