DETERMINANTS OF WORKING CAPITAL MANAGEMENT OF MANUFACTURING COMPANIES IN ETHIOPIA: EVIDENCE FROM MANUFACTURING COMPANIES IN AND AROUND ADDIS ABABA

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ABSTRACT

The Ethiopian government has endeavoured to boost the contribution of manufacturing firms to the gross and domestic product as to bring structural change of the country’s economy which has been dominated by agriculture at low production. But, it has been unsuccessful to achieve the targeted plan. Working capital management is among the most important concerns of financial management that plays a paramount role for the success of firms basically in their financial performance; yet has got less attention. Therefore, this paper investigated factors that determine working capital management of manufacturing firms in Ethiopia. It was based on data obtained from financial statements of 56 large manufacturing firms in Ethiopia headquartered in and around Addis Ababa for the year spanning from 2006 to 2015. Random effects general least square regression model was applied for analysis on the panel data set. The results showed that among considered variables only inflation rate has insignificant influence to the variation of working capital management of large manufacturing firms in Ethiopia. While operating cycle, firm’s market power, return on assets, sales growth, and liquidity have positive association, capital expenditure, firm size, debt ratio, and gross and domestic product rate have negative association with working capital management. The firm’s industry category has also important effect on working capital management. Thus, managers of large manufacturing firms in Ethiopia can boost their firm’s financial performance by considering these variables in the process of working capital management.

KEYWORDS: Determinants, Ethiopia, Manufacturing Firms, Panel Data Set, Random Effects Model, Working Capital Management.

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