

THE IMPACT OF WORKING CAPITAL FINANCING ON FIRM PROFITABILITY: A STUDY OF RETAIL FIRMS

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The way a firm finances its working capital may have a decisive influence on the firm's profitability and liquidity. In view of the prominent role that the retail industry plays in the South African economy, the purpose of this study was to investigate the impact of working capital financing and the profitability of South African retail firms. Eighteen retail firms listed on the Johannesburg Stock Exchange for a period of nine years (2004-2012) were analysed and categorised based on the financing approach they followed. The findings showed that a strategy of financing working capital with predominantly short-term debt appeared to improve the profitability of South African retail firms. However, before financing working capital with predominantly short-term debt management should consider the stability of future sales. Results further suggested that firm value could be compromised owing to an increase in risk associated with short-term financing and should be considered by management before implementing a financing policy.