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EVIDENCE FROM UK NON-FINANCIAL FIRMS DEMONSTRATES THE MODERATING EFFECT OF ECONOMIC POLICY UNCERTAINTY ON THE RELATIONSHIP BETWEEN WORKING CAPITAL MANAGEMENT AND PROFITABILITY

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Abstract

Uncertainty in financial coverage is undoubtedly regarded as one of the numerous factors that could impacttherelationship between operating capital and profitability.

The EPU can lead to greater uncertainty in the business environment, which can affect a company's ability to effectively manage its working capital. This study investigates the extent Our study's objective is to determine how the UK's financial coverage uncertainty (EPU) index,The Fixed Effect Method, Random Effect Method, and two-level Generalized Method of Moments (GMM) to analyze the records for 199 UK production companies Methodology: Fixed Effect Method, Random Effect Method, and two-level Generalized Method of Moments (GMM) was used to analyze the records for 199 UK production companies in order to solve the endogeneity issue and reliable results. Results: The results of the analysis showed that financial coverage uncertainty (EPU) had a statistically significant impact on the relationship between Cash conversion cycle (CCC) and profitability. Conclusion :Working capital is typically a significant investment for companies. Contribution: Companies need make sure they have the liquidity they need to fulfill their immediate obligations, they should concentrate on streamlining their working capital management procedures.

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Introduction

Economic recessions have increased companies' awareness of working capital management and changed their attitudes towards it to improve their performance (Zimon and Tarighi, 2021). The cash conversion cycle (CCC) is the management of a company's shortterm capital, or the finances needed to finance its daily operations. Working capital management (WCM) should allow the company to generate the liquidity needed to meet short-term debt, optimizing the relationship between risk and return. (Chalmers et al., 2020). Therefore, all companies, regardless of size, must be attentive to managing specific working capital issues. Financial decisions that affect working capital are critical to the survival, growth, and profitability of a business. The purpose of our study is to examine the moderating effects of the EPU index on the relationship between WCM, return on operating activities (ROOA) and other profitability indicators, including return on assets (ROA) and return on equity (ROE), in several companies listed on the UK stock exchange. Understanding the relationship between economic policy uncertainty, working capital management, and profitability can help companies develop better working capital management practices that enable them to better manage liquidity and respond to changes in the business environment. Companies can develop strategies to reduce the negative effects of uncertainty on profitability, take advantage of opportunities that arise during times of uncertainty, and make strategic decisions regarding capital allocation, product development, and market expansion. The UK market parameters serve as the driving force behind this study. This study is important for business decisionmakers to integrate flexibility into their operations by implementing agile strategies, such as lean manufacturing or just-intime inventory management,which would help them quickly adjust their operations in response to changes in economic policy uncertainty to maintain a balance between working capital and profitability.

Literature Review and Hypotheses Development

Many studies have examined the relationship between WCM and company profitability (Deloof, 2003; Farhan &Yameen, 2020; Gul et al., 2013;C. T. Nguyen, 2020). ToprovehowCCCaffectsacompany'sprofitability,itisessentialtostudy the impact of WCM on profitability. Previous studies haveinvestigated the relationship between CCC and profitability in different economic conditions and industries (Panda& Nanda, 2018).Some studies in developed marketshave found a negative relationshipbetweenWCMandprofitability(Akgu€n&MemisKaratas,2021;Dalcietal.,2019;Lyngstadaas&Berg,2016).InasampleofSpanishmanufacturingcompaniesfrom 2010 to 2016, Ferna´ndez-Lo´pezet al. (2020) found a negativerelationshipbetweenvariouscomponentsofworkingcapital and firm performance. The relationship betweenCCCandprofitabilityof285Germannon-financialcompaniesfrom2006to2013wasstudiedbyDalci et al. (2019). The findings suggested that reducing CCC would improve the profitability of SMEs. Yusof et al. (2018) studied 100 Malaysian manufacturing companies to investigate how WCM affected firm performance. The study found that profitability is strongly negatively relatedto the CCC component.Ahmadetal(2022)alsofoundinhis study in IndiathatlongerdelaysinCCCnegativelyimpactprofitability.Somestudies,suchasthosebyFarhanandYameen(2020)andAfrifa(2016),point out tippingpoints in working capital investmentsthatcompanies can consolidate to achievebetterperformance.

Hamre and Wright (2021) argue that UK financial markets are wellestablished and processed over 80% of all daily business transactions. According to Ban˜osCaballero et al. (2014), trade credit accounts for around 41% of all debt and 50% of shortterm debt of mediumsized businesses in the UK. Although the UK is a financebased country, the contribution of manufacturing companies to UK output in 2020 According to Ramezani (2022), manufacturing in the UK accounted for 2.7 million jobs, or 8% of all jobs in the country, £191 billion of economic output, or £10 billion of economic output, or 5% (£2.116 billion of real GDP). Second, the motivation for this study is the recent interest in studies examining how working capital affects firm performance, particularly in the UK, US and European economies (Aktas et al., 2015; Dalcie et al., 2019; Gonxcalves et al., 2018; C.T.Nguyen, 2020).

Methodology

This study used data from nonfinancial corporations in the UK from 2006 to 2021. The study used data from UK financial markets as they are well developed (Hamre & Wright, 2021), and there are few studies on the impact of w

orking capital management on profitability using ROA, ROE and ROOA as profitability indicators as discussed. T he financial position and income statement which constitute the bulk of the data are extracted from the Thomson R euters Eikon database and Baker et al. (2016) built for UK manufacturing companies. Similarly, Arhinful and Rad mehr (2023) used data from Thomson Reuters Eikon.

The study used three variables as indicators of the profitability of the company. The strategy used to overcome the outliers was Winsor2 (10 and 90 percentile). The study applies Winsor2 for the following variables: ROA, ROE, R OOA, FAT EPU and SG. An offset was applied to CCCWUI and CCC 3 EPU.

The first measure of the profitability of a company was ROA. ROA compares A company's profitability is the valu e of all its assets and measures its profitability. Company management, analysts, and investors use ROA to assess how well a company is using its resources to generate profits.

The second profitability measure used for the study was ROE. It is an indicator of financial success used to measur e the return on a company's net assets. ROE can also be thought of as return on net assets, since equity is determin ed by subtracting a company's liabilities from its assets. Therefore, ROE is periodically used to determine how effe ctively a company's management can generate profits with the assets under its control.

The third profitability measure used is ROOA. It is a measure of how effectively a company uses its revenue-generating assets. These are resources that are used every day. This value is often calculated to determine the inco me that these assets produce. The following variables are used in the study as independent variables:

CCC is a measure of the time it takes a company to recover the cash from inventory costs by selling its goods. Wh en a company has less cash tied up in accounts receivable and inventory, its CCC is shorter. It is calculated as a cre dit period, combining the time taken to convert inventories into credits with the time taken to pay (Vu Thi & Phun g, 2021).

Table 1. Variable Descriptions and Code.

Code	Indicators	Description	Source
Dependent variables			
	ROA	Return on assets	Comparesthecompany's profitabilitytothevalueofall itsassetsandmeasuresits profitability.
	ROE	Return on equity	It is afinancialsuccessindicator usedtomeasuretheyieldon net assets of a company
	ROOA	Return on operating assets	It is a measure that Demonstrates how effectively a business uses it revenue- generating assets. DataStream*Moderating variable*
	EPU	Economic policy uncertainty	Bakeretal.(2016) indexconstructed
	Independentvariables		
	CCC	Cash conversion cycle	A measure of how long it takes A business to recoup the money from its expenditures on inventory by selling its goods
	FAT	Fixed assets turnover	Measureshoweffectivelya business generates net sales from its fixed-asset investments
	SG	Sales growth	ameasurethatassessesthe company'ssalesteam's capacitytoboostrevenue overapredeterminedlength of time
	LEV	Leverage	The quantity of debt a company usestofinanceassets

Study Model

Inthisstudy, three methods wereused to evaluate the positive effect of CC. These are fixed effects model, random effects model, and generalized method of moments (GMM). GMM was used to control for endogeneity issues. Endogenous bias is the cause of these technical estimates (Ullah et al., 2018). We used GMM in Stata to obtainthe results. Twolevelsofstabilitywere used rather than a single scale.

Table2.SummaryofVariablesandFormulae.

Variable	Acronyms	Formula	Source
Dependentvariables			
Return on assets	ROA	Net income/Total assets 3100	NuzullaandMurtianingsih(2022)
Return on equity	ROE	Net income/Total equity 3100	NuzullaandMurtianingsih(2022)

Return on operating assets	ROOA	Net income/Operating assets	Zhang (2006)
Moderatingvariable			
EconomicpolicyuncertaintyEPU	CCC3EPU	Author	
Independentvariable			
Hassanetal.(2023)			
Fixedassetsturnover	FAT	(Netsales/Fixedassets)	Das(2017).
Leverage	LEV	(Debt/equity)	Khalidetal.(2018)
Vijayakumaran(2019)			
Controlvariables			
Size	Size	(The natural logarithm of total assets)	LaghariandChengang(2019) World
uncertainty	WUI		World uncertainty index

Table3.Information About Sample Statistics in a Descriptive Manner.

Industry	No.of industries in sample	%
Aeroplananddefense	8	4.0
Beverage	7	3.5
Chemicals	8	4.0
Constructionandmaterials	13	6.5
Electricityandelectricalequipment	6	3.0
Mediaandfixedlinetelephone	14	7.0
Generalindustry	17	8.5
Generalretailers	13	6.5
Foodproduction	13	6.5
Pharmaceuticaland healthcareequipment	12	6.0
Household and home construction	19	9.5
Industrialengineeringandtransportation	19	9.5
Leisuregoodsandtravel	19	9.5
Oilandgasequipment	12	6.0
Personalgoods	6	3.0
Softwareandcomputer	14	7.0
Technologyhardwareandequipment	8	4.0
Total	199	100

Model3:

ROE=a+b1CCC*tF*+b2FAT*tF*+b3SG*tF*+b4LEV*tF*+b5EPU*tF*+b6SIZE*tF*+b7WUI*t F*+e

Model4:

ROE=a+b1CCC*tF*+b2FAT*tF*+b3SG*t F*+b4LEV*tF*+b5EPU*tF*+b6SIZE*tF*+b7WUI*t F*+b8 (CCC3EPU) *t F*+e

Model5:

ROOA=a+b1CCC*tF*+b2FAT*tF*+b3SG*t F*+b4LEV*tF*+b5EPU*tF*+b6SIZE*tF*+b7WUI*t F*+e

Model6:

Model1:

ROA=a+b1CCC*tF*+b2FAT*tF*+b3SG*t F*+b4LEV*tF*+b5EPU*tF*+b6SIZE*tF*+b7WUI*t F*+e

Model2:

ROA=a+b1CCC*tF*+b2FAT*tF*+b3SG*t F*+b4LEV*tF*+b5EPU*tF*+b6SIZE*tF*+b7WUI*t F*+b8 (CCC3EPU) *t F*+e
ROOA=a+b1CCC*tF*+b2FAT*tF*+b3SG*t F*+b4LEV*tF*+b5EPU*tF*+b6SIZE*tF*+b7WUI*t F*+b8 (CCC3EPU) *t F*+e

Where, the dependent variables are represented by ROA(ReturnonAsset),ROE(ReturnonEquity),and, ROOA(ReturnonOperatingAssets).Inaddition,CCC(Cash ConversionCycle), Fixed

AssetsTurnover(FAT), Sales Growth (SG), and Leverage (LEV) are the Independent variables. Size, and World Uncertainty (WU) are the control variables, and Economic Policy Uncertainty (EPU)ismoderatingvariable,*t*(time)and*F*(company).

Empirical Results

Table 4 shows a description of the variables used in the study.TheaveragemeanROAforUKfirmsis4.8%.

Table4.DescriptiveStatistics.

Variable	Obs.	Mean	*SD*	Min.	Max.
ROA	3,184	0.048	0.056	20.048	0.14
ROE	3,184	0.107	0.133	20.135	0.328
Returnonoperatingassets	3,184	0.076	0.092	20.072	0.248
Cashconversioncycle	1,738	11.916	2.559	3.751	20.274
Leverage	3,184	0.381	7.971	2251.309	97.937
Size	3,184	12.803	2.547	2.763	19.746
Fixedassetsturnover	3,184	10.634	12.942	0.351	40.894
Salesgrowth	3,184	1.959	15.604	229.176	25.331
Economicpolicyuncertainty	3,184	53.7	125.121	74.216	75.844
Worlduncertainty	3,184	9.885	0.257	9.488	10.235

Accordingto the results,thecompanywasableto generate aprofitof 4.8% from its total assets. This means that the manufacturing companies surveyedwereprofitable. The ROA valueswere higher than thoseofDalci et al. (2019).Thepercentageof German non-financial companies in 2019 (1.1%)reportedbyEnqvistetal(2014)is much lower than thepercentageofFinnishcompanies(8.4%) reported byEnqvistetal(2014)andthepercentageof Spanish SMEs (7.9%)reported by Garcia-Teruel and Martinez-Solano in 2007.TheaverageROEofmanufacturing companies in the UK was 10.7%. The resultsshow how effectively management ismanagingshareholders' funds and generating profits for shareholders.Furthermore, the resultsshow that the companyhas a high turnover of fixed assets due to thereplacementofagingequipment. The average return on operating assets ofUKcompanieswas0.076foreverypoundinvestedinthecompany'soperatingassets. Returnonoperatingassetsindicates how well acompanyutiliseditsassets to generate operating profits.These assets were used in the company'sday-to-dayoperations and their income was frequently calculated. Furthermore, therewastalkofrestrictingtheuseofnon-revenuegeneratingfacilities.The return on ROOA of7.6%indicatesthatthecompanymadeaprofitof 0.076 cents for every pound investedintheoperationofitsfacilities.ROOAvaluescanbeaffectedbystaffsalaries,operationalcostsandthecost of products offered, making it a fragileindicator.Ittook12daysforthe CCC to turninventory,receivables and payables into cash. The CCC resultsshowed that UK companies had shorter cash conversion cycles (Sensini, 2020). Ourresultsshow that companiesthatmanagedtheircashflowseffectivelygeneratedmorerevenueperdollar of invested capital. This result explains why the companydoes not require external financingwhenthecashconversioncycleisshort,lowering borrowing costs, interest expenses and profitability. The average fixed asset turnover was 10,634 times. This indicatedgoodefficiencyastheassetvaluewas lower than the revenuegeneratedbyit. The higherthefixedassetturnoverratio,themoreefficientlythecompany utilizes its fixed assets to generate revenue from its tangiblefixedassets.Thecompany'soperatingefficiency was foundtobegood. According to studies by Sari and Brata (2020), FebriantiandBasri(2022),andPuspitaetal.(2021),fixed asset turnover affects profitability. The averagecompanysizewas12.8%.LookingattheCCCbycompanysize,itwasfound that the CCC is shorter forsmallercompanies and longer forlargercompanies.Theresultssuggest that UK companieshavereduced their CCC by reducinginventoryandreceivablesagesandlengthening accounts payable ages. The average annual revenue growth rate for UK companies was almost 2%. Increasing net profits relative to stock pricescanleadtobroaderincomestreams.Thevalue of

abusinessincreaseswithincreasedsalesandimprovedearlypaymentdiscounts due to increased working capital (Deloof, 2003). Financial decisions thataffect working capital are thereforecrucial to a company's survival, growth and profitability (Di Minin et al., 2014; Sensini, 2020).TheaveragedebtlevelforUKcompanieswas38%,suggesting that companieshave a low debttototalassets ratio. Therewas a negative relationship betweendebtandcompanyperformance (Aktas et al., 2015). Ourfindingsshowthatcompaniesbenefit from low debt and generate good profits. Moreover,asAllinietal(2018)suggests, the most successful companies are less likelytopreferdebtfinancing. The average level of economic policy uncertaintyintheUKis 53.7%, which may affect companies' investment decisions.This increase in economic policy uncertainty

Table5.MatrixofCorrelations.

Variables	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
(1)ROA	1.000									
(2)ROE	0.721	1.000								
(3)Returnonoperatingassets	0.760	0.695	1.000							
(4)Cashconversioncycle	0.161	0.262	0.161	1.000						
(5)Leverage	0.018	0.083	20.005	20.017	1.000					
(6)Size	0.134	0.262	0.104	0.768	20.027	1.000				
(7)Fixedassetsturnover	0.016	20.066	20.026	0.044	0.007	20.061	1.000			
(8)Salesgrowth	0.316	0.224	0.125	20.037	20.011	0.096	0.138	1.000		
(9)Economicpolicyuncertainty	20.022	20.018	20.001	0.088	20.055	0.122	0.047	0.100	1.000	
(10)Worlduncertainty	20.036	20.009	20.013	0.121	20.032	0.089	20.012	20.122	0.764	1.000

variables (ROA, ROE, and ROOA). The size result indi- cated that the firms are experiencing market growth and responding positively.

The greater the operating assets andsales,thelargerthefirm’sscale.Thelargerthefirm,

Worlduncertainty	2.684	0.373
Economicpolicyuncertainty	2.678	0.373
Size	2.643	0.378
Cashconversioncycle	2.613	0.383
Salesgrowth	1.174	0.852
Fixedassetsturnover	1.061	0.942
Leverage	1.004	0.996
MeanVIF	1.979	.

both the macro and micro levels, adversely affecting the labor market and the output of goods and services pro- vided by UK businesses (Barua, 2020).

Correlation matrix for each variableisincluded.Correlation study wasusedtodeterminewhetherthe dependent and independent variables hadmulticollinearity. The dependent variables were ROA, ROE, and ROOA. The independent variables were CCC, leverage, asset turnover, and sales growthrate, and the control variableswere size, economic policy, and global uncertainty. CCC had a positive relationship with ROA, ROE, and ROOA. The notion that resources are freed up at variousstagesof the supplychainandoperationalcyclesareshortenedisconsistentwiththepositivecorrelationofCCC.Ifthecost of tying up money is lower than the benefits of holding more inventory and givinghigher trade credit to consumers, itmayleadtoincreased profits due to increased sales (Ebire et al., 2024). Debtratioswerepositivelycorrelated with ROA and ROE and negativelycorrelated with ROOA. The resultsfordebt indicated that companiesfinance their operating resourceswiththeirowncapital.Companieswithhigherleverageratiosusuallyhave more debt than othercompanies. Higher fixed costs indicate higher levelsofoperatingleverage.Loweroperating leverage indicateshigher sensitivity to changes in sales,and a positive correlationisfound between ROA and ROE. The larger the companysize, the longer the CCC overthenumber of days,themorepositivetheoveralldependencyeffect.Smallbusinessesare known tohavetofightwitccandliquiditymanagementveriss,sosmall businesses can receive warnings to control inventory and sales within afewdays.Usingcompanysizes,we can evaluatethemnomatter how big or small it is (Jaworski& Czerwonka, 2022). Largecompaniesneedto have high capital to fund their investments. The greater the value of the

company, the better the company operates in the eyes of theinvitedguests. Fixed assetssaleswerepositivelycorrelated with ROA, butnegativelycorrelated between ROANDROO.Thisportraitefficiencyof management in transformingcompanyresourcesandprofits(Akhter,2018).Thisresultspresent asset returnsand lower returns (profitability). Sales growth waspositivelyassociated with all dependent variable returns. Sales growth affects profitability, which affects net profit margins. None of the independent variables went over the 10 upper limit, as shown in Table 6. To demonstrate that the samples were not multiple linear, we also computed the variance coefficients (VIFs) for each independent and control variable. The VIF value of each descriptive component was used to analyze the data's lack of multicollinearity. The multicollinearity of panel data on average above 10 as polycholines is verified using VIFs (Hussain et al., 2020). Growth in sales has a positive effect on stock prices because net income rises. Increased sales and better early payment discounts made possible by higher working capital levels can increase a company's value (Deloof, 2003). Therefore, financial choices that impact working capital are essential to a business's ability to survive, expand, and turn a profit (Akbar et al., 2021; Sensini, 2020). ROA will rise by 0.094, 0.099, and 1.00 for every 1% increase in leverage, fixed asset turnover, and sales growth, respectively. At the 1% and 10% levels, respectively, firm size and economic policy uncertainty had statistically significant negative effects, and ROA is negatively impacted by global uncertainty. The outcome demonstrated how profit-ability was impacted by global uncertainty and an increase in economic policy.Theidea that firm size has a negative effect on return on assets (ROA) suggests that larger companies generally have lower ROA than smaller companies. Put another way, a company's profitability as measured by ROA decreases as it gets bigger. This implies that the ROA will fall by 0.005, 0.053, and 0.009 for every 1% increase in global uncertainty and economic policy, respectively.

Furthermore, the relationship between CCC and ROA was negatively impacted by the moderating variable in a statistically significant way at 10%.Based on the corresponding Hausman specification test value, a fixed effect regression model was chosen. Model 2's Rsquared is 21%. The independent variables in this model accounted for 21% of the variation in ROA. Furthermore, the relationship between CCC and ROA was negatively impacted by the moderating variable in a statistically significant way at 10%. Based on the corresponding Hausman specification test value, a fixed effect regression model was chosen. Model 2's R-squared is 21%. The Prob.Fis0.000, which is below 0.05, had a variance of 21%. The model is important as a result. explained in ROA by the model's independent variables.

EPU's Impact on the Connection Between CCC and ROE The results indicated that revenue was positively impacted by the CCC. Amponsah-KwatiahandAsiamah (2021) looked at the impact of WCM on the profitability of Ghanaian listed manufacturing companies between 2015 and 2019. Their results showed a strong positive and significant correlation between inventory management, accounts payable, accounts receivable, cash conversion cycle, current assets, current ratio, firm size, and ROA and ROE. A positive CCC indicates that even though the company has not yet received payment from customers, it still needs to pay its supplier for the inventory purchase. Equity suggests that a low cash conversion cycle is not always necessary for a high profitability assessment.Return on equity provides managers and shareholders of the company with a clear indication that the longer the CCC turnover in days, the less capital will be invested in current assets; ultimately, the more capital investment, the more profitable the company will be. ROE is positively impacted by the CCC at 1%, so raising the CCC by 1% will increase ROE by 0.023. At the 1% level, leverage and sales growth had a statistically significant positive impact on ROE. Keeping everything else equal, a 1% increase in leverage and sales growth could raise ROE by 2.00 and 2.00, respectively. ROE was statistically significantly impacted negatively by size, fixed asset turnover, world uncertainty, economic policy uncertainty, and the interaction variable. Increasing total asset turnover is one strategy to raise ROE. This implies that the value of ROE will increase in response to a change in the total asset turnover value. ROE will drop by 0.21, 1.00, 0.127, 0.032, and 0.027 for every 1% increase in size, fixed asset turnover, economic policy uncertainty, global uncertainty, and the interaction variable. Based on the findings of the individual Hausman specification tests, the fixed effect regression model was selected. The model's R-squared was 19%. The independent variables in Model 4 account for the 19% variation in ROE.The probability was less than 0.05, at 0.000.

According to the results, ROOA was positively impacted by the CCC in a statistically significant way. This

indicates that when choosing the appropriate amount of working capital, money is released. ROOA was positively impacted by the CCC by 1%, meaning that a 1% increase in the CCC would result in a 0.021 increase in ROOA. At the 10% level, sales growth had a statistically significant positive impact on ROOA.

Table7.The Moderating Role of EPU.

	Model 1	Model2	Model3	Model 4	Model 5	Model 6
Panel A:Fixedeffects						
Cashconversioncycle	20.001	0.012	20.005*	0.023	0.004**	0.021*
Leverage	0.009	0.094	0.002***	0.002***	20.145	20.137
Size	20.006**	20.005**	20.021***	20.021***	20.03***	20.029***
Fixedassetsturnover	0.010	0.099	20.001***	20.001***	20.001***	20.001***
Salesgrowth	0.001***	0.001***	0.002***	0.002***	0.001***	0.001***
Economicpolicyuncertainty	20.016	20.053*	0.020	20.127*	20.084	20.728
Worlduncertaintyindex	20.005	20.009	20.025	20.032**	20.021*	20.025**
CCC3EPU	—	20.013*	—	20.027*	—	20.016
F-tests(*p*-value)	30.510	27.171	21.881	19.540	14.506	12.956
Hausmantests(*p*-value)	.0007	.0019	.0000	.0000	.0000	.0000
R^2	0.190	0.210	0.189	0.190	0.161	0.162
PanelB:Randomeffect						
Cashconversioncycle	0.001	0.016**	0.002	0.037**	0.008***	0.028**
Leverage	0.100	0.107	0.002***	0.002***	20.108	20.099
Size	0.430	0.391	0.003	0.003	20.010***	20.010***
Fixedassetsturnover	0.809	0.077	20.001***	20.001***	20.001***	20.001***
Salesgrowth	0.001***	0.001***	0.002***	0.002***	0.001***	0.001***
Economicpolicyuncertainty	20.072	0.053*	20.196	0.117*	20.258	0.053
Worlduncertaintyindex	0.001	0.006	0.013	0.023	0.015	0.020*
CCC3EPU	—	20.015**	—	20.035**	—	20.020*
x^2	2 17.122	222.327	134.503	139.668	61.864	65.001
Hausmantests(*p*-value)	.0007	.0019	.0000	.0000	.0000	.0000
R^2	0.130	0.170	0.130	0.170	0.230	0.250
PanelC:TwostepsRobustGMML						
	0.32***	0.296***	0.190***	0.173	0.158	0.134***
Cashconversioncycle	20.002***	0.016***	20.007***	0.021	20.001	0.020***
Leverage	20.111***	20.001***	0.001***	0.001	20.753	20.516
Size	20.005***	20.004***	20.030***	20.029	20.054	20.053***
Fixedassetsturnover	0.001***	0.001***	0.193	0.028	20.001	20.001***
Salesgrowth	0.001***	0.001***	0.002***	0.002	0.001	0.001***
Economicpolicyuncertainty	20.096	0.070***	0.050	0.110	0.030	0.113***
Worlduncertaintyindex	20.003	20.002	20.017***	20.017	20.001	20.001
CCC3EPU	—	20.019***	—	20.028	—	20.022***
Arellano-BondtestforAR(1)	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000
Arellano-BondtestforAR(2)	0.2029	0.2024	0.8930	0.9126	0.3504	0.3154
Sargan(*p*-value)	.2432	.3242	.3658	.3766	.2398	.2227

*Source.*Authors.
Significanceat***1%,**5%,*10%,levels,respectively.

Data in Table 7. Furthermore, there was no over-identification problem found in the moment condition test results from Matemilola and Ahmad (2015), which are shown in Table 7. For every model, the results showed values that were not significant. Profitability, ROA (0.2024), ROE (0.9126), and ROOA (0.3154) all showed that endogeneity was not an issue. This supported the validity of the instrument. The corresponding Sargan values for ROA, ROE, and ROOA are 0.3242, 0.3766, and 0.2277. Results from the GMM approach were comparable to those from the other approaches.Additionally, Arellano-Bond statistics demonstrated the absence of both first- and second-order autocorrelation. These results showed that there was no first-order or second-order autocorrelation and that the instrument was valid (Arellano & Bond, 1991).

A hypothesis. H1: CCC has a detrimental effect on UK non-financial firms' return on assets (ROA). Model 1 showed that the coefficient of CCC was 0.001, which was negative, and that the p.(z) was 0.000, where CCC was the indicator of working capital and ROA for profitability. ROA decreased by 0.1% for every 1% increase in CCC. H1 was thus approved. H2: CCC has a detrimental effect on UK non-financial firms' return on equity. Model 3 showed that the p.(z) was 0.000, with CCC serving as the indicator of CCC and ROE for profitability.

Table8.Robustness Test/IndustrialDummies.

Variables	ROA	ROE	ROOA

Cashconversioncycle	0.016**(0.007)	0.038**(0.016)	0.029**(0.012)
Leverage	0.011(0.134)	2.00***(0.305)	20.011(0.022)
Size	0.001(0.001)	0.005(0.003)	0.010***(0.002)
Fixedassetsturnover	0.079(0.158)	21.00***(0.363)	20.010***(0.027)
Salesgrowth	0.001***(0.076)	0.020***(0.017)	0.010***(0.013)
Economicpolicyuncertainty	20.052*(0.031)	20.012*(0.071)	20.054(0.051)
Worlduncertainty	20.005(0.007)	20.020(0.016)	20.020*(0.012)
CCC3EPU	20.015**(0.007)	20.035**(0.016)	20.020*(0.012)
Aeroplaneanddefense	20.008(0.210)	0.029(0.049)	20.015(0.390)
Beverage	0.016(0.021)	0.052(0.050)	0.042(0.039)
Chemicals	20.005(0.019)	20.001(0.046)	20.009(0.036)
Constructionandmaterials	20.010(0.018)	0.017(0.043)	20.014(0.034)
Electricityandelectricalequipment	0.013(0.021)	0.006(0.056)	20.010(0.040)
Mediaandfixedlinetelephone	20.023(0.021)	0.029(0.049)	0.051**(0.038)
Foodproduction	20.013(0.020)	20.008(0.046)	20.005(0.036)
Generalindustry	20.017(0.018)	0.013(0.042)	20.006(0.033)
Generalretailers	0.003(0.017)	0.044(0.042)	0.009(0.033)
Pharmaceuticalandhealthcareequipment	20.017(0.018)	20.018(0.042)	20.010(0.033)
Householdandhomeconstruction	20.010(0.017)	0.007(0.041)	20.019(0.032)
Industrialengineeringand transportation	0.002(0.019)	0.018(0.045)	20.021(0.036)
Leisuregoodsandtravel	0.011(0.021)	0.040(0.050)	20.003(0.039)
Oilandgasequipment	20.035*(0.019)	20.045(0.044)	20.032**(0.035)
Personalgoods	0.019(0.021)	0.062(0.049)	0.007(0.038)
Softwareandcomputers	0.023(0.019)	1.00**(0.046)	0.020(0.036)
Technologyhardwareandequipment	—	—	—
Constant	20.043***(0.068)	20.038***(0.155)	20.020(0.113)
Numberofobservations	1,738	1,738	1,738
R^2	0.171	0.155	0.135
F-tests(*p*-value)	244.996(.000)	160.052(.000)	76.208(.000)

***p\.01. **p\.05. *p\.1.

Model 5, which used CCC as an indicator of working capital and ROOA for profitability, showed a positive coefficient of CCC (0.004) and a p-value of 0.000.ROE increased by 0.4% for every 1% increase in CCC. H3 would therefore be approved. H H4: Uncertainty in economic policy affects the relationship between CCC and the profitability of non-financial firms in the UK. Because of the results that supported this hypothesis, we decided to accept H4. The study looked at how industry affected the moderating effect of EPU on the relationship between CCC and (profitability); to test this, we included industry dummies in the analyses using random effects. The interaction effect of leverage and CCC has a negative impact on ROA, ROE, and ROOA when the random effect method is applied, as shown in figure 8. Even after industry dummies were incorporated into the analyses, this remains the case. Additionally, CCC continues to improve profitability (ROA, ROE, and ROOA). These findings suggested that the relationship between CCC and the dependent variables ROA, ROE, and ROOA was unaffected by industrial variations. This validated the results' validity.

Conclusion

Working capital is typically a significant investment for companies. Therefore, it is reasonable to assume that working capital management will have an effect on a business's profitability (Mehtap, 2016). The moderating effect of economic policy uncertainty on the relationship between working capital and profitability of 199 non-financial firms listed in the UK 100 index for 16 years was empirically investigated in this study. Six different models were used to test the hypotheses. Although a company's profitability is measured by ROA, ROE, and ROOA, our models used CCC, FAT, FS, SG, LEV, EPU, and WUto evaluate the management of working capital. This study found that the profitability of UK manufacturing firms was negatively impacted by the interaction variable (CCC 3 EPU). This implied that when economic policy uncertainty was high, there was a weaker correlation between working capital and profitability. Due to the possibility that economic policy uncertainty could lead to financial market instability in the UK, raising risk and uncertainty for It was possible that this instability would have a negative effect on the relationship between working capital and profitability, as this study found that the CCC of UK non-financial enterprises affected their profitability (ROA, ROE, and ROOA)

businesses. Because of this, companies may be more cautious when it comes to financing and investment decisions, which could lead to lower levels of working capital and profitability.
According to the results, UK companies had a shorter CCC, which demonstrated management's effective working capital management. This result is consistent with earlier research. According to Ademola (2014), Gonxcalvesetal (2018), and Longstadaas (2020), CCC has a favorable effect on profitability. The study's findings indicated that managers could increase shareholder value by cutting down on inventories and days of accounts receivable. This suggested manager would increase their operating asset base at lower working capital levels by using debt rather than equity. However, there came a point at which a larger investment began to negatively affect value creation because of the additional cost of operating assets, increasing the likelihood of bankruptcy and credit risk for businesses.

Implication for Managers

The study of working capital investment and managers may find our study useful in a number of ways. Given the costs involved in departing from the ideal working capital level, our findings suggest that managers should be aware of how EPU affects the relationship between working capital and profitability. Managers ought to monitor alterations in economic policies and their potential impact on their company. This can help managers anticipate and prepare for possible shifts in profitability and working capital.

● Even during uncertain economic policy periods, managers should maintain a sufficient working capital. To make sure they have the liquidity they need to fulfill their immediate obligations, they should concentrate on streamlining their working capital management procedures.

In order to lessen their reliance on a single source of funding, managers ought to think about diversifying their funding sources.This can lessen the possibility of financing interruptions that might happen when economic policy is unclear. Managers ought to create plans for various possible economic situations. They can better prepare for future changes in working capital and profitability by taking into account various scenarios and creating plans for each one.

● Managers should also focus on the ROOA, which is a tool for determining which assets are most profitable and which ones might need to be sold or taken out of service because they don't add value. One novel approach to discovery would be to link specific revenue and expenses to individual running assets. The decision of management to switch from one company to another may also be influenced by the ROOA. If the equipment is too costly and yields little return, it may make sense to sell it and go into a new market. Increasing sales and profits should be the goal of managers. This proposal is predicated on the idea that growth and generating shareholder value are synonymous. Our empirical results show that a firm's profitability and shareholder value are not increased by expansion. The highest rates of return and wealth creation for owners, on the other hand, are found in businesses with modest revenue or profit growth.
The average annual growth in sales for UK companies was nearly 2%. Their net income is increasing in tandemwith stock prices. More sales and better discounts for early payments made possible by higher working capital levels can increase a company's value (Deloof, 2003). Therefore, a company's ability to survive, grow, and make money depends on financial decisions that affect working capital (Marino &Sensini, 2014; Sensini& Vazquez, 2021). Our findings support Fuller and Jensen's (2010) warnings about the dangers of caving in to growth-oriented market pressures.

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