



St. Mary's University  
School of Graduate Studies  
MBA Program

Assessment of Working Capital Management Practices of  
Selected Medical Importers in Addis Ababa, Ethiopia

By

Birtukan Sisay

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the Requirements for the Master of Business Administration (MBA) Degree  
in Accounting and Finance

Advisor: Zenegnaw Abiy (PhD)

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# St. Mary University

## School of Graduate Studies

### MSC Thesis Approval Sheet

This is to certify that the thesis entitled, assessment of working capital management practices of selected medical importers in Addis Ababa, Ethiopia was carried out by Birtukan Sisay Eshete under the supervision of Zenegnaw Abiy (PhD), submitted in partial fulfillment of the requirements for the degree of Master of Business Administration in Accounting and Finance complies with the regulations of the University and meets the accepted standards with respect to originality and quality.

#### **Approved by:**

Internal examiner: Signature \_\_\_\_\_ Date \_\_\_\_\_

External examiner: Signature \_\_\_\_\_ Date \_\_\_\_\_

Advisor: Zenegnaw Abiy (PhD) Signature \_\_\_\_\_ Date \_\_\_\_\_

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Name: Birtukan Sisay Eshete                      Signature\_\_\_\_\_

Place: St' Mary University

Date of Submission: June 2020

This master thesis, has been submitted for examination with my approval as thesis

Advisor Name: Zenegnaw Abiy (PhD)

Signature\_\_\_\_\_ Date\_\_\_\_\_

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## **Abstract**

*The study seeks to add to assess the working capital management practices of selected medical importers in Addis Ababa, Ethiopia. This was motivated by the fact that businesses have been noted to rely on banks and other third parties to finance their working capital and getting that loan at times get difficult. They give less attention to efficient working capital affecting their viability and profitability. To achieve this, descriptive research design and mixed approach has been applied. A total of 186 questionnaires were distributed to medical importers operating in Addis Ababa. Respondents were mainly accountants, finance heads, general manager and inventory managers. Respondents in general were found to have less experience in the industry, less qualified implying that the industry doesn't attract qualified professional with the necessary experience or management doesn't pay well to attract and retain those with good experience and qualification. Looking at the cash management, cash budgeting in general is done on monthly basis, and majority tend to recycle surplus cash within the business. When we come to receivable management, collateral is considered as the main consideration in expending credit to customers, most of the businesses have receivable follow-up mechanism in place by applying different approaches. For inventory management, they have different approaches to make restocking decisions. Among the different costs of holding inventory, the majority consider stockout cost as the most important. Most of the business take purchase discount from their suppliers by paying within the credit period. They also consider both internal and external factors in making working capital decisions. It is recommended that the medical importers reexamine the factors that determine their working capital so that they come up with best practices of working capital that can militate against the challenges. The working capital management policy need to be changed from informal to formal to enhance the chances of the medical importers to be successful in their WCM.*

**Key words:** working capital management, medical importer, Addis Ababa

## **Acronyms**

AR	Account Receivable
AP	Account Payable
CA	Current Assets
CL	Current Liability
WC	Working Capital
WCM	Working Capital Management

## Table of Contents

<b>DECLARATION</b>	<b>II</b>
<b>ACKNOWLEDGEMENT</b>	<b>III</b>
<b>ABSTRACT</b>	<b>IV</b>
<b>ACRONYMS</b>	<b>V</b>
<b>LIST OF TABLES</b>	<b>IX</b>
<b>LIST OF FFIGURE</b>	<b>X</b>
<b>CHAPTER ONE – INTRODUCTION</b> .....	<b>1</b>
<b>1.1. Background to the Study</b> .....	<b>1</b>
<b>1.2. Statement of the problem</b> .....	<b>2</b>
<b>1.3. Objectives of the study</b> .....	<b>5</b>
1.3.1. General Objective of the Study .....	5
1.3.2. Specific Objectives of the Study .....	5
<b>1.4. Significance of the Study</b> .....	<b>6</b>
<b>1.5. Delimitations of the Study</b> .....	<b>6</b>
<b>1.6. Limitations of the Study</b> .....	<b>6</b>
<b>1.7. Organization of the Study</b> .....	<b>7</b>
<b>CHAPTER TWO – LITERATURE REVIEW</b> .....	<b>8</b>
<b>2.1. Introduction</b> .....	<b>8</b>
<b>2.2. Theoretical literature review</b> .....	<b>8</b>
2.2.1. The concept of Working Capital .....	8
2.2.2. Working Capital Management .....	8
2.2.3. Importance of Working Capital Management .....	9
2.2.4. Working Capital Policies .....	11
2.2.5. Working Capital Management and Profitability .....	13
<b>2.3. Empirical Studies</b> .....	<b>13</b>
<b>2.4. Summery and Knowledge Gap</b> .....	<b>16</b>
<b>CHAPTER THREE – RESEARCH METHODOLOGY</b> .....	<b>18</b>
<b>3.1. Introduction</b> .....	<b>18</b>
<b>3.2. Research Design</b> .....	<b>18</b>
<b>3.3. Research approach</b> .....	<b>18</b>
<b>3.4. Population of the study</b> .....	<b>19</b>

<b>3.5. Sampling techniques and Sample Size</b> .....	<b>19</b>
<b>3.6. Data Collection Method</b> .....	<b>20</b>
3.6.1. Data Collection Instrument .....	20
3.6.2. Pre-test of Questionnaires .....	21
<b>3.7. Data Analysis procedures</b> .....	<b>21</b>
<b>3.8. Ethical Considerations of the Study</b> .....	<b>22</b>
<b>3.9. Reliability of the Data Collection Instrument</b> .....	<b>22</b>
<b>3.10. Validity of the Data Collection Instrument</b> .....	<b>23</b>
<b>CHAPTER FOUR - ANALYSIS AND PRESENTATION OF RESULTS</b> .....	<b>24</b>
<b>4.1. Introduction</b> .....	<b>24</b>
<b>4.2. Profile of Respondents</b> .....	<b>24</b>
<b>4.3. working capital policy</b> .....	<b>26</b>
<b>4.4. WCM Practices in the Past</b> .....	<b>30</b>
<b>4.5. Cash and cash equivalent management practices</b> .....	<b>31</b>
<b>4.6. Account recievable management practices</b> .....	<b>36</b>
<b>4.7. Inventory management practices</b> .....	<b>40</b>
<b>4.8. Account and note payable practices</b> .....	<b>41</b>
<b>4.9. Considerations in Working Capital Managment</b> .....	<b>43</b>
<b>4.10. Management system related considerations</b> .....	<b>45</b>
<b>4.11. WCM and application of information technology</b> .....	<b>47</b>
<b>4.12. Effectiveness of the wcm practices of medical importers</b> .....	<b>48</b>
<b>4.13. Discussion of the Findings</b> .....	<b>50</b>
<b>CHAPTER FIVE - SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATIONS</b> .....	<b>52</b>
<b>5.1. Introduction</b> .....	<b>52</b>
<b>5.2. Summary of Findings</b> .....	<b>52</b>
<b>5.3. Conclusion</b> .....	<b>55</b>
<b>5.4. Recommendations</b> .....	<b>56</b>
<b>REFERENCES</b> .....	<b>57</b>
<b>APPENDIX</b> .....	<b>60</b>



**LIST OF TABLES**

Table 4.1: Background information..... 26

Table 4.2: Factors to consider for short-term cash surpluses ..... 31

Table 4.3: Factors to consider for short-term cash shortage .....31

Table 4.4: Factors to consider five C’s of credit method ..... 32

## LIST OF FIGURE

Figure 4.1: working capital policy.....	27
Figure 4.2: Working Capital Policy Formulation.....	27
Figure 4.3: Type of risk policy.....	28
Figure 4.4: Working Policy Review .....	28
Figure 4.5: Working Capital Management Practice .....	29
Figure 4.6: Interval for Cash Budgeting .....	30
Figure 4.7: Surplus Cash Management.....	30
Figure 4.8: Credit granting techniques.....	32
Figure 4.9: Monitoring Credit Customers Payment.....	33
Figure 4.10: Evaluating Credit Term changes.....	33
Figure 4.11: Techniques for Replenishing Inventory .....	34
Figure 4.12: Parameters for Inventory.....	34
Figure 4.13: Suppliers cash discount .....	35
Figure 4.14: Parameters for Inventory.....	35
Figure 4.15: Choice of WCM practices and the external Macro Factors.....	36
Figure 4.16: Choice of WCM practices and the external Micro Factors .....	37
Figure 4.17: Choice of WCM practices and the Internal Macro Factors .....	38
Figure 4.18: Choice of WCM practices and the Internal Macro Factors.....	38
Figure 4.19: The usefulness of I.T in Working Capital Management Practices .....	39
Figure 4.20: WCM Challenges facing the medical importers.....	40
Figure 4.21: Benefits of Working Capital Management Practices.....	41

## Chapter One – Introduction

### 1.1. Background to the Study

Working capital refers to the capital that companies use in their daily operations and consists of companies' current assets, liabilities. Management of working capital is the ability to control the current assets and current liabilities in a manner that provides the firm with maximum return on its assets and minimizes payments for its liabilities (Raheman & Nasr, 2007).

Working capital management which deals with the management of a company's managerial accounting strategy designed to monitor and utilize the two components of working capital, current assets and current liabilities, to ensure the most financially efficient operation of the company. The primary purpose of working capital management is to make sure the company always maintains sufficient cash flow to meet its short-term operating costs and short-term debt obligations (Kenton 2018). However, an appropriate attention usually is not given for the ability of the firm to continuously operate for longer period is depending on how they deal with investment in working capital. There are much empirical evidences in the financial literature that present the importance of working capital management (Deloof 2003; Teruel and Solano, 2007; Shin and Soenen, 1998 and Wang, 2002; Raheman and Nasr, 2007). Results of these empirical analysis show that there is statistical evidence for a strong relationship between the firm's profitability and its WCM efficiency. The studies also give significant evidence that issue of WCM vary for different industries and firms from different industry sectors adopt different approaches to working capital management and follow an appropriate working capital management.

Proper estimation of working capital is a difficult task for the management because amount of working capital varies across firms over the periods depending upon the nature of business, scale of operation, production cycle, credit policy, availability of raw materials, etc. For this reason, significant amount of funds is necessary to invest permanently in the form of various current assets. For instance, due to time lag between sale of goods and their actual realization in cash, adequate amount of working capital is always required to be made available for maintaining the desired level of sale (Blinder & Maccini, 1991).

Working capital management of a business covers all the company's activities relating to vendor, customer and product (Sebhatleab, 2002:10). Then it requires a "Total" approach that considers such activities. This means that firms should have to manage efficiently both internal and external aspects of working capital (Hall, 2002:27; Sebhatleab, 2002:15). It requires, therefore, the focus of researchers' in identifying its determinants and examining its effect on firms' performance as well as risks. Consequently, companies can minimize risk and improve the overall performance by understanding the role and drivers of working capital from the studies. Therefore this study is going to explore the role of working capital and prospects in medical equipping importer companies.

## **1.2. Statement of the problem**

Pass and Pike (2002) emphasized working capital management was given very less attention in contrast to long term investment even if it played a very essential and important role in the growth of firm and in enhancement of profitability. Deficiency in the planning and control of working capital management is one of the main causes of business failure and it is a neglected subject which has been too little investigated or written about. The two main objectives need to be satisfied by working capital management is liquidity and profitability but there should be a trade-off / balance between these two objectives.

Daniel, Assefa and Shaofeng (2018) identified that in Ethiopia many private and public sectors do not carrying out working capital management practices due to obsolete business process and structure of the company organization makes profits which is not necessarily an indication of effective management of its working capital because a company can be endowed with assets and profitability but short of liquidity if its assets cannot readily be converted into cash. As such, there will be shortage of cash available for the firm's utilization as at when due. Such an organization may run into debts that could affect its performance in the long run because the smooth running of operations of the organization comes to a sudden halt and it will not be able to finance its obligations as at when due.(Eljelly, 2004). In identifying possible options on the part of these businesses, it is important not to focus exclusively on income and expense items but also to take efficient working capital management practices as an effective way to increase the value of the importers and distributors, release liquid resources, improve fresh cash flow and reduction in both inventory and capital cost.

Most businesses cannot finance the operating cycle (accounts receivable days + inventory days) with accounts payable financing alone. Consequently, working capital financing is needed. This shortfall is typically covered by the net profits generated internally or by externally borrowed funds or by a combination of the two (Sebhatleab, 2002).

This partly explains the need for this study there are many problems facing to working capitals in Ethiopia (Henock, 2015; Zelalem, 2016), but one of the major problems raising in this case is the shortages of foreign currency, because of shortage of foreign currency the parentage growth rate of the current account is decreasing, due to higher value of imports than exports hence widening trade balance gap (Tesfaye, 2015). since most of the goods imported often traded in the dollar, when the depreciate it may affect the reserve position of the county ,so there will also be depreciate in birr too against the dollar, that in return may require more dollar value than the previous to import the same quality goods and service. In this country the demand for imports is highly increasing because imports are growing faster and highly increasing because imports and export are huge gaps, they complained that they were facing ever increasing pressure on cost and growing financing requirements as a result in imports.

In addition, legal basis for official establishment of drug regulation in the history of Ethiopia are enabling the regulation of the practice of pharmacists, druggists and pharmacy technicians; manufacturing, distribution, and sale of medicines. In June 1999, a regulation called the "Drug Administration and Control Proclamation No. 176/1999" repealed most parts of the regulation 288/1964. The law established an independent Drug Administration and Control Authority (DACA) with further mandate of setting standards of competence for licensing institutions/facilities. DACA was re-structured as Food, Medicine and Health Care Administration and Control Authority (EFMHACA) of Ethiopia by the "Proclamation No. 661/2009" in 2010. The mere existence of this legal framework does not guarantee complete absence of illegal, substandard and falsified products as well as illegal establishments in the pharmaceutical system and dalliance of registration of the importing products. (Suleman, J Health Sci 2016). However, the implication of the regulation on working capital management is just to decrease the improper loss and cash flow.

Also the deficiency of effective and enforceable national regulations and dalliance of registration of product, import, distribution and storage, supply and sale, became troubled scarcity of inventories and lack of consistently ensure optimal benefit ,Although Ethiopia has banking oriented financial system where capital markets are not as much developed and banks

play an important role, nonetheless, how to secure financing from these banks have become very difficult nowadays, as part of credit risk management strategy by the banks, collateral in the form of real asset are required before credit is granted. A security issued by the Federal Government of Ethiopia, required unconditional obligation or guaranty issued with collateral, loans well- secured and avoiding non-performing, (SSB.2007). This makes it more difficult to secure the requisite loan. It follows that unlocking of capital for strategic investments and permanent reduction in funds tied up in working capital through excellent working capital management practices cannot be underestimated (Admassu, 2014).

Gap on this area the country the demand for imports is highly increasing because imports are growing faster and highly increasing because imports and export are huge gaps, they complained that they were facing ever increasing pressure on cost and growing financing requirements as a result in imports (Tesfay, 2015). It is understood that the gap on this area affect most Ethiopian company's managers thought regarding working capital management is, traditionally views to shorten the cash conversion cycle to increase firm's profitability. Hence, lack of proper research study on the area gives a chance for Ethiopian company's managers to have limited awareness in relation to working capital management to increase firms' performance. All these constitute the problem of the investigation, hence, the need to study the assessment of working capital management on the performance of selected importing medical equipment in Addis Ababa Ethiopia, in 2019.

As highlighted in other studies indicating (Wubshet, 2014; Tiringo, 2013; Tewodros, 2010)) that companies are facing huge challenge in terms of having an effective working capital management in Ethiopia, Either it be related access to foreign currency for import, regulatory hurdles either it be related to business operation of financial markets and other relevant factors that directly or indirectly affect the working capital management requires an assessment.

The current trend in the Ethiopian economy signals that the gap between the import and export in terms of foreign currency earning is huge , which implies that companies that are importing goods in general and medical equipment specifically need be effective and efficient in managing their working capital (Tesfay, 2015). Therefore, the planned study will be focusing on assessing key point of working capital management taking selected medical equipment Importing Company as a case study. In general, working capital management is not only improving financial performance in today's cash strapped and uncertain economy, but it is the question of meeting firm's day-to-day operation .The Significance of a study is to know and

understand the assessment of working capital management and its influence on firms. In addition, several research works have identified the assessment of working capital management on the performance of organizations, but no significant work appears to have been done on the assessment of working capital management on the performance of selected Importing Medical Equipment Company in emerging economics like Ethiopia. This limited evidence in the context of Ethiopia along with the importance of working capital management invite for research on their asses on firms' performance.(Ephrem, 2011) Considering of the above points, the general objective of the study will be to examine the asses of working capital management on the performance of selected importing medical equipment in Addis Ababa Ethiopia. the study will address the following research questions:

- How do medical importers manage their cash?
- What are the mechanisms medical importers use to manage their accounts receivables?
- How does inventory management look like among medical importers?
- How do medical importers manage their accounts payables??
- What considerations are taken into account in the management of working capital among medical importers in Addis Ababa, Ethiopia.

### **1.3. Objectives of the study**

#### **1.3.1. General Objective of the Study**

The study's general objective is to assess working capital management practice of selected medical equipment importers in Addis Ababa, Ethiopia.

#### **1.3.2. Specific Objectives of the Study**

To achieve the general objective, the following specific objectives will be used:

- To analyze the cash management practice of the selected medical importers
- To assess the receivable management practice of the selected medical importers
- To describe the inventory management practice of the selected medical importers
- To assess the accounts payable management practice of the selected medical importers
- To analyze the various considerations taken for the management of working capital.

#### **1.4. Significance of the Study**

The findings of this study may have implications for other companies who are trying to make decisions regarding working capital management reform model. This finding would help to develop knowledge of the advantages and disadvantages of financial practices and techniques of managing Working Capital Components in Medical importers. The study would reveal how essential Working Capital Management Strategies such as policies, practice and techniques is for the Medical importers company's in Addis Ababa Ethiopia in terms of performance. A general conceptual framework model will provide basic guidelines for researchers, accountants and professionals, financial managers, and policy makers in the medical equipment importer company's environment of Ethiopia. The study would suggest various financial management techniques Medical importer companies could use to assessment their performance in terms of profitability. For example, Current Ratio to assess the firm's liquidity status, Activity Ratios, Leverage ratios, Cash Conversion Cycle (CCC), Return on Investment (ROI), and Return on Equity (ROE).

The findings may also help assess the effectiveness of working capital management on firms' performance in the studied companies for program evaluation.

#### **1.5. Delimitations of the Study**

This study of delimited to the assessment of working capital management on firms' performance of medical importer companies located in Addis Ababa. It will better and exhaustive for the study has a chance of incorporating other Medical importers found in Ethiopia. Data were gathered from Importer Company, the responsible employees of the organization and (the finance head, accountant, Pharmacists, medical assistants, and procurement officers) using questionnaires. Secondary data was gathered from journals and articles. Data gathered from the questionnaires administered would be analyzed by the help of computer software such as SPSS and Microsoft Excel.

#### **1.6. Limitations of the Study**

Firstly, the findings of the study will be limited because of unavailability of the financial statement or the data, adequate accounting disclosure and treatment. As a result, the sampled selected Medical importer companies were not interested to give financial statements



information about the issue under consideration. Therefore, the study doesn't include financial statement analysis; it is purely based on the opinion of employees working on working capital movement.

Secondly, the study will mainly focus on the assessment of working capital management of the selected medical importer share companies found in Addis Ababa. In doing so, sample of 186 medical importer share companies were selected from Addis Ababa and. Therefore the study is limited to medical importer companies found in Addis Ababa and included in the study. The location is chosen because there are a lot of firms found in the city than the other part of the country. Because of the specific nature of their activities, firms in financial sector, banking and finance, insurance, leasing, business services, renting and other services are excluded from the sample. The result of the paper, therefore, is limited to those selected medical importer share companies in particular and could not be generalized to all medical importer share companies in Ethiopia. The topic needs much time and money to conduct and come up with important conclusions.

### **1.7. Organization of the Study**

Generally, the study has organized into five chapters. Chapter one started with general introduction about working capital management followed by statement of the problem and continues with the research objectives and questions, the scope and limitations of the study, justification of the study and the organization of the study. Chapter two reviews related studies and literatures on working capital management and trade level in trading firms. Chapter three provides the methodology used in the study and the organization profile. Chapter four presents the analysis of the findings and interpretation of the data generated. Chapter five provides the summary of the findings, recommendations and conclusions.

## **Chapter Two – Literature Review**

### **2.1. Introduction**

This chapter deals with the literature regarding working capital management. Structurally, the chapter comprises in to ten sections. Section 2.1 explains Overview of Financial management under section 2.2 and 2.3 Working capital, Working capital management and their roles on firm's profitability is been elaborated. section 2.4 explain the relation between Working capital and liquidity section 2.5 examine different working capital policies section 2.7 different related literatures summarizes and their result about the effect of Working capital management on profitability presented. Section 2.8 presented the summery and knowledge gap from the reviewed literature presented section 2.9 the conceptual framework has been presented.

### **2.2. Theoretical literature review**

#### **2.2.1. The concept of Working Capital**

According to Bahttacharya (2009), Karl Marks<sup>1867</sup> perhaps first evolved the concept of working capital, though in somewhat different form, and the term he used was “variable capital” meaning outlays for payrolls to advanced workers before the goods they worked on were complete. This ‘variable capital’ was the wage found remains blocked, in work- in- process along with other operating expenses until it is released through sale of finished goods. Although Marx didn't mention, workers also gave credit to the firm by accepting periodical payment of wages which founded a portion of work-in-process Guthman & Dougall (1948) defined the working capital as current asset minus current liabilities. Net working capital represents the excess of current asset over current liability and in an indicator of the firm's ability to meet its short-term financial obligation.

#### **2.2.2. Working Capital Management**

Working capital management refers to all the actions and decisions of the management, which affects the size, and effectiveness of working capital. Working capital management requires special attention in present days when cost of capital is rising and funds are scarce. It is been generally established that the performance / profitability of a firm largely depends upon the manner of its working capital management. If a firm is inefficient in managing working capital, it will not only reduce profitability but may also lead to financial crisis. Both inadequate and

excessive working capital is detrimental for a business concern. The excessive working capital can result in idle funds which could be used for earning profit while the inadequate working capital will interrupt the operations and will also impairs profitability (Chowdhary and Amin, 2007).

In their studies Wang & jin (2009) Defined working capital management as making decision that affect working capital. Also Explained working capital management as the administration of all aspect of current asset and current liabilities, it includes the firms' investment in short term securities, short term assets, inventories and account receivable. The working capital meets the short-term financial requirements of a business enterprise. It is a trading capital, not retained in the business in a particular form for longer than a year. The money invested in it changes in form and substance during the normal course of business operations. Just as circulation of blood is very necessary in the human body to maintain life, the flow of funds is very necessary to maintain business (Arshad 2013).

### 2.2.3. Importance of Working Capital Management

Working capital management is very imperative because it affects the firm's risk, profitability and value (Smith, 1980). Investment in working capital involves a balance/tradeoff between risk and profitability because investment decision which leads to increase in profitability will be inclined to increase risk and vice versa. Efficiency in working capital management is very important for the manufacturing firms where more than half of the assets are current assets. Efficiency in managing working capital also increases cash flow to the firms that in turn increase the growth opportunities for the firms and return to the shareholders (Blinder and Manccini 1991).

Proper estimation of working capital actually required, is a difficult task for the management because amount of working capital varies across firms over the periods depending upon the nature of business, scale of operation, production cycle, credit policy, availability of raw materials, etc. For this reason efficient amount of funds is necessary to invest permanently in the form of various current assets. For instance, due to time lag between sale of goods and their actual realization in cash, adequate amount of working capital has always required to make available for maintaining the desired level of sales. A firm can be very profitable if it can translate cash from operations within the same operating cycle, otherwise the firm would need to borrow to support its continued working capital needs (Cheatham, 1989).

Siddiquee and Khan (2009) observed that, firms, which are better at managing working capital, which found to be able to make counter cyclical moves to build competitive advantage. They are also better at generating fund internally and face lesser trouble while seeking external sources of financing.

Smith (1979) contends that the goal of working capital management is to replenish stocking points in such a way as to minimize the total of all associated cost, and there by enhance profitability of the organization.

Maintaining high inventory levels can reduce the cost of possible interruption occurred during the production process or the cost of business loss due to the product scarcity. It can also reduce supply cost and protect against price fluctuation.

Granting trade credit to customers favors the firm's scales in various ways. Trade credit can incentivize customers to acquire merchandise at times of low demand. And helps firm to strengthen long term relationship with their customers (Smith,M.B & Begmann,E. 1998)

Trade credits received from suppliers are considers as an internal source of financing that compensates the money tied up in the companies' inventories and customer receivables. However, there is another opportunity cost associated with early payment discount if available. In fact, this cost may exceed 20 percent, depending on the discount percentage and discount period granted (Blinder & L.J.Maccini 1991). From another aspect, the way Working capital management acts can have a significance impact on both liquidity and profitability of a company (Shin& soenen 1998) companies should make a good balance between these two targets.

Just as working capital has several meanings, firms use it in many ways. The first and most critical use of working capital is providing the ongoing investment in short term asset that the company needs to cover its daily expenditures such as payroll, vendor invoices, and inventory purchases. The business also needs working capital for prepaid business costs such as licenses, insurance policies or security deposits. (Crum, Klingman, & Tavis, 1983).

The second purpose of working capital is addressing seasonal or cyclical financial needs. Since most business does not receive prepayment for selling their goods or services, they need to

finance their purchase of raw materials, production and sales of goods prior to receiving (Arnold, 2008).

Thirdly, working capital is needed to sustain firm's growth. The firm is expanded not only by investing in new plants or machinery, working capital is also required to facilitate sales growth. It is because as a business grows, it requires larger investment in inventories, accounts receivable, personnel and other items to increase their sales.

The other use of working capital is to undertake activities, to improve business operations and to remain competitive, such as activities for product development or exploring new markets. In the time of high computation, firms are in need of integrating those activities into operations on a continuous basis. Consequently, those expenses are more likely to be incurred as small repeated costs rather than as large infrequent investments. Those ongoing investments, accordingly, must be addressed through working capital financing (Seidman, 2004).

#### 2.2.4. Working Capital Policies

Working capital policy can be best described as a strategy that provides the guideline to manage the current assets and current liabilities in such a way that it reduces the risk of default (Brian, 2009). Vishnani and Shah (2007) provided two basic reasons behind the tradeoff between profitability and liquidity: they investigated the role of working capital management policies on firm performance and the importance of a tradeoff between liquidity and profitability. On the one hand, if a firm wanted to take higher risk for higher profits, then it reduced the level of its working capital. On the other hand, if a firm wanted to improve liquidity, it increased the amount of working capital, which has a negative impact on the profitability of the firm.

**Aggressive policy:** An aggressive policy with regard to the level of investment in working capital means that a company chooses to operate with lower levels of inventory, trade receivables and cash for a given level of activity or sales (Cheatham 1989). According to Gallagher & Joseph (2000), an aggressive policy will increase profitability since less cash is tied up in current assets, but it will also increase risk because the difference between short-term or liquid assets and short-term liabilities turns very little. Furthermore, few finance managers take even more risk by financing long-term assets with short-term debts and this approach pushes the working capital to the negative side. Managers try to enhance the profitability by paying lesser

interest rate but this approach will be proves very risky if the short-term interest rate fluctuates or the cash inflow is not enough to fulfill the current liabilities. Such a policy has adopted by the company, which is operating in a stable economy and is quite certain about future cash flows. A company with aggressive working capital policy offers short credit period to customers, holds minimal inventory and has a small amount of cash. This policy increases the risk of default because a company might face a lack of resources to meet the short-term liabilities but it also gives a high return, as the high return is associated with high risk (Vishnani& Shah, 2007).

**Conservative policy:** conservative and more flexible working capital policy for a given level of turnover would be associated with maintaining a larger cash balance, perhaps even investing in short-term securities, offering more generous credit terms to customers and holding higher levels of inventory by using long term debt and equity. Such a policy will give rise to a lower risk of financial problems or inventory problems at the expense of reducing profitability because long-term debt offers high interest rate, which will increase the cost of financing (Cheatham, 1989)

Mostly the companies that are operating in an uncertain environment prefer to adopt such a policy because they are not sure about the future prices, demand and short-term interest rate.

In such a situation, it is better to have a high level of current assets. E.g. helps to keep the higher level of inventory in the stock to meet the sudden rise in demand and to avoid the risk of stoppage in the production. This policy provides the shield against the financial distress created by the lack of funds to meet the short-term liability but as we discussed earlier longterm debt have high interest rate, which will increase the cost of financing. Similarly funds tie up in a business because of generous credit policy of the company also have its opportunity cost. Hence, this policy might reduce the profitability and the cost of following this policy might exceed the benefits of the policy (Arnold, 2008).

**A moderate policy:** A moderate policy would trample a middle path between the aggressive and conservative approaches. Therefore, In order to balance the risk and return these firms are following the moderate approach. This approach is a mixture of defensive working capital policy and aggressive working capital policy. In these approach temporary current assets, assets that appear on the balance sheet for short period will be finance by the short-term borrowings and long-term debts is used to finance fixed assets and permanent current asset.

Thus, the follower of this approach finds the moderate level of working capital with moderate risk and return (Siddiquee and Khan 2008).

All three approaches are shows that the working capital policies of a company which will be characterized as aggressive, moderate or conservative only by comparing them with the working capital policies of similar companies. There are no absolute benchmarks of what may be regards as aggressive or otherwise, but these characterizations are useful for analyzing the ways in which individual companies approach the operational problem of working capital management.

#### 2.2.5. Working Capital Management and Profitability

Profitability can be termed as the rate of return on investment, if there is an unjustifiable over investment in working capital then, this would negatively affect the rate of return on investment Vishnani & Shah, (2007). Therefore, the basic purpose of managing working capital is controlling of current financial resources of a firm in such a way that a balance are created between profitability of the firm and risk associated with that profitability (Ricci & Vito 2000).

As stated by Siddiquee and Khan (2008) that will been observe, firms, which are better at managing working capital, are more profitable. They are also better at generating fund internally and face lesser trouble while seeking external sources of financing. Short-term assets and liabilities are important components of total assets and need to be carefully analyzed. Management of these short-term assets and liabilities warrants a careful investigation since the working capital management plays an important role in a firm profitability and risk as well as its value (Smith, 1980).

Recent works of, (Deloof, 2003); (Howorth and Westhead, 2003) and (Afza and Nazir, 2008), state that firms try to keep an optimal level of working capital that maximizes their value. As explained on Dupont model indicates by (Brealey et.al, 2006), there is a relationship between working capital and profitability of a firm.

### **2.3. Empirical Studies**

The first comprehensive survey of exploring the working capital management practices was done Smith & Sells' in 1978. They conducted research in United States (U.S) using 35 questions, some of which asked the respondent to choose one answer among several

alternatives, while the others asked the respondent to rank alternatives in terms of their relative importance to the respondent's firm. (Koury et al , 1998)

In 1988, a decade later, Belt & Smith (1992) as discussed in Koury et al. (1998) through expanding survey instrument to 38 questions replicated the survey in U.S largest industrial firms. Belt & Smith used the same instrument to survey working capital management practices of largest Australian firms that later led to comparisons of working capital practices in Australia and the U.S (Belt & Smith, 1991) as discussed in Koury et al(1998). In 1994 Koury et al, made study on working capital management practices of small Canadian firms and then compare the result of their study on Canadian firms with firms in U.S and Australia using an expanded version of previous surveys of Smith and Sell, and Belt and Smith that contain 48 questions .Koury et al. (1998) received 57 usable responses representing 15.8% response rate.

Nazir, Iqbal and Akram (2011) studied the working capital management practices of 250 largest non-financial firms in 12 different sectors listed at Karachi stock exchange in Pakistan using previously survey method that in four studies (Smith and Sell, 1980, Belt and Smith, 1991, Belt and Smith, 1991 and Koury et al., 1998). The response rate in this survey was 41.6% and 104 were useable responses received for analysis, which is good as compare to similar previous surveys.

There are also some other studies on working capital management practices such as (Burns and Walker, 1991); (Deresse and Abiy, n.d); (Perera and Wickremasinghe, 2010);

(Nyabwanga et al, 2012) and (Padachi and Carole, 2014). Though they didn't extend their studies for comparison to indicate similarities and dissimilarities on working capital management practices between respective firms that may exist due to the various time factor, country specific, and some other cultural differences in the social, economic, legal and governmental affairs. Deloof (2003), Surveyed on Belgian Firms to find out whether the working capital management affects profitability, using correlation and regression tests he found a significant negative relationship between corporate profitability and number of days accounts receivable, inventories and accounts payable of Belgian firms. Based on these he suggested that manager could increase corporate profitability by reducing the number of day's accounts receivable and inventories to a reasonable minimum. The negative relationship between accounts payable and profitability is consistent with the view that less profitable firms wait longer to pay their bills.



Arshad (2013) conducted a study to find out the relationship between working capital management and profitability of Pakistan cement sector. The research adopted quantitative method of research approach to test a research hypothesis. The survey use ratios of 21 listed cement companies in Karachi stock exchange during the period of 2004 – 2010. In the study the researcher uses regression analysis to investigate the effect of current ratio, quick ratio, net current assets to total assets ratio, working capital turnover ratio and inventory turnover ratio on firm profitability.

The result of study showed that there is significant relationship between working capital management and profitability of the firms, the study also indicate that accounts receivables, inventory periods, and account payable period lengthen then the profitability increase. The other variables that have significant effects on firm profitability are quick ratio affecting it negatively. This means that any increases in stock increase profits. The other variables included in the regression model working capital turnover ratio and inventory turnover ratios have no statistically significant effects on firm profitability. (Defined as logarithm of assets), sales growth, were also used debt and economic cycle (annual GDP growth rate) as control variables. The study utilized panel data econometrics in a pooled regression with fixed effect models, where time-series and cross-sectional observations were combined and estimated. Significant negative relationship was found between profitability and average collection period, inventory turnover in days, average payment period and cash conversion cycle.

According to the researchers, a negative relationship between number of days of accounts payable and profitability was consistent with the view that less profitable firms wait longer to pay their bills. In this case, profitability affects the account payables and vice versa. Furthermore, the study found no significant variations in the effects of working capital management between large and small firms. Finally, the researchers were suggested that managers could create value for their shareholders if they manage their working capital in ways that are more efficient by reducing the number of days of accounts receivable and inventories to a reasonable minimum.

In his study, Tufail (2008) investigated the impact of working capital policies on profitability. Return assets on was used as a measure of profitability. Current assets to total assets ratio was used to compute the investment policy of working capital management, and to determine financing policy of working capital management current liabilities to total assets ratio is used. Other variables are used in the study are quick ratio, debt to equity ratio and size of the firms.

Secondary data of 117 textiles firms listed on Karachi stock has taken exchange for a period of six years i.e. 2005-2010. Results of the regression analysis show that aggressiveness of working capital management policies is negatively associated with profitability. Moreover, liquidity and size of the firm have positive relation profitability whereas debt to equity ratio has negatively correlated with profitability.

In their study Falope and Ajilore (2009) present empirical evidence about the effects of working capital management on firms' profitability by using secondary data sources from annual reports and financial statements of 50 non-financial firms listed in Nigerian Stock

Exchange for the time period 1996-2005. The dependent variable, firms' profitability, was measure by return on assets. The independent variables, number of days of accounts receivable, number of days of inventory, number of days of accounts payable and cash conversion cycle were used to measure working capital management. Size

To mention the gap found in the literature, despite a sizable amount of the time and money invested in the different components of the working capital with a view to maximize firms' profitability. prospects and prosperity with reasonable risk ,there are such as impact is not attracted the attention of researchers adequately as attested by the limited literature in developing countries in general and in Ethiopia in particular. In addition, that study that has been under taken in the area have focused on small and micro scale through use of secondary data in view of establishing relationship between working capital management and profitability. However, to contribute a lot for profit and wealth maximization goal, the practice is so crucial. Ross et al (2003) discussed that profitability is the result of different practices and policies. To the knowledge of the current researcher, only Derese and Abiy (n.d) tried to study some working capital management practices in case of business enterprises of Jimma town in Ethiopia.

#### **2.4. Summery and Knowledge Gap**

Although lot of scholars provided much descriptive and empirical evidence on financial management practices, it appears that there are still some gaps in the literature which need to be addressed.

First, there is no agreement on the sign of relationship between the above-mentioned variables and their impacts on profitability. If we take cash conversion cycle as an example, some of literature suggests that cash conversion cycle (a comprehensive measure of working capital management) are positively related to firm profitability: Blinder and Maccini (1991) shows that longer cash conversion cycles increase the firm's profitability. The other strands of literature, however, suggest that shorter cash conversion cycle increases the firms' profitability Wang (2002), shin and Soenen (1993), Lazaridis and Tryfonidis (2006), Falope and Ajilore (2009). On the other hand, other researchers like (Bhunias, 2012), Samiloglu and Demirgunes (2008), Amarjit gill, (2010) concluded that there is no significant relationship between the two. We can see it from the above mentioned literatures there is no consensus on the nature of relationship between the variables. This study therefore, seeks to contribute to this research gap.

Secondly; As Demirguc-Kunt and Maksimovic (2002) indicated, firms operating in countries with more developed banking systems grant more trade credit to their customers, and at the same time, they receive more finance from their own suppliers. With limited access to the long-term capital markets, Working capital management is importance to developing countries. This suggests that in developing countries manufacturing firms have fewer alternative sources of external finance available, which makes them more Dependent on short-term finance. However, Studies that investigated the association between profitability and working capital management practices on manufacturing firms from the perspective of developing countries are rare.

## **Chapter Three – Research Methodology**

### **3.1. Introduction**

In this chapter, the research methodologies used in the studies is describes. The research design, population of the study and sample are described. The instrument used to collect the data, including methods implemented to maintain validity and reliability of the instrument is describes.

### **3.2. Research Design**

Research design is the plan and structure of investigation so conceived as to obtain answers to research questions. Quantitative approaches are following. Burns and Grove (1993) define quantitative research as a formal, objective, systematic process to describe.

A descriptive survey designs are used. A survey is use to collect original data for describing a population too large to observe directly (Mouton, 1996). A survey obtains information from a sample of people by means of self-report, that is, the people respond to a series of questions posed by the investigator (Polit and Hungler, 1993). In this study, the information where collected through self-administered questionnaires distributed personally to the subjects by the researcher.

A descriptive survey has selected because it provides an accurate portrayal, account of the characteristics, for example behavior, opinions, abilities, beliefs, and knowledge of a particular individual, situation, or group. This design was chosen to meet the objectives of the study, namely to determine the knowledge and views of the top management officials of medical importers company.

The current study focuses of assessing the working capital management practices among selected importing medical equipment in Addis Ababa Ethiopia, in view of this, the descriptive research design was adopted, since there will be no attempt in altering the data gathered.

### **3.3. Research approach**

There are three approaches to undertake a study: quantitative, qualitative and mixed. Each approach has its own advantage and disadvantage. This study describes the management of

working capital among medical importers in Addis Ababa, Ethiopia. data was collected using both fixed alternative and open-ended question. The fixed alternative questions were analyzed using descriptive statistics, hence quantitative approach. The open-ended questions were analyzed using qualitative approach by discussing the points along with the quantitative analysis. Therefore, the research approach applied is mixed.

### **3.4. Population of the study**

According to Burns and Grove (1993), populations defined are as all elements (individuals, objects and events) that meet the sample criteria for inclusion in a study. The study population of this consisted of all Staff and Management in the medical importers company.

The target population of the study consisted of staff from the Unit Administration /management, Unit finance, Unit Logistic, Unit Stores and Unit Pharmacy. The medical importers company has about 356 firms working in the using working capital management practices in Addis Ababa.

### **3.5. Sampling techniques and Sample Size**

Sampling is a key component of any investigation and involves several considerations. The aim of most investigations is to obtain information about a population. A census or sample of the population has taken for analysis.

The sampling techniques used for this study were purposive and convenience sampling techniques. Purposive sampling technique has used to select medical importers of finance mangers, finance officers and general manager's working capital at the company. Convenience sampling has used to select a representative number of the different units of the medical importers. There are about 356 firms working in the medical importers that are using working capital management practices in Addis Ababa. Use a number of respondent's sample size estimation 186 at 95% confidence interval level with 5% error of is the firms to be in the study (Yemane, 1995). 186 questionnaires were administered in order to ascertain the perceptions of both staff and management with respect to working capital management by medical importers in Addis Ababa. In this study, a sample size of 186 has considered adequate for the study. According to Pallant (2007), sample sizes of above do not violate or cause major problems in statistical measures even if the responses are not normally distributed.

### 3.6. Data Collection Method

The study relied on primary data. Primary data has collected with the use of questionnaires. Primary data refers to data collected by the researcher for a particular need as is encapsulated in the research objectives. Self-administered questionnaires and informal interviews were the techniques used in gathering data.

#### 3.6.1. Data Collection Instrument

A questionnaire has chosen as the main data collection instrument. A questionnaire is a printed self-report form designed to elicit information that obtained can be through the written responses of the respondents. The information obtained through a questionnaire is similar to that obtained by an interview, but the questions tend to have less depth (Burns and Grove, 1993). Data has collected with the aid of questionnaires to evaluate the management and staff knowledge, views that are the subject matter and how it affects service delivery in the medical importers. The questionnaire has designed to meet the objectives of the study. It has adopted from previous works (Oballah et al., 2015 and Anichebe and Agu, 2013) but the researcher designed it to suit the objectives of the study in order to solicit answers that would meet the objectives.

The researcher to top management officials and their staff to complete personally distributed a questionnaire. The data collected was over a period of one month. Before were administered the questionnaires, the researcher sought permission from the company and interviewed a few staff of which the researcher derived the research topic and objectives. The researcher interviewed some staff to know the activities of the company. From that, was designed the questionnaire for the respondents. The researcher first did a pre-test of the questionnaire to ensure were being met that the objectives. The purpose of the pre-test activity is to ensure that the questionnaires are meaningful, easily understood and appropriate for the main fieldwork. The activity enabled the researcher to become more familiar with items of the questionnaires and prepare them accurately for the main work. After were made corrections, the questionnaires were distributed to staff and management.

### 3.6.2. Pre-test of Questionnaires

The study pre-tested the questionnaires with key literature such as Oballah et al. (2015) and Anichebe and Agu (2013) as well as some experts. The rationale behind this exercise was to ascertain the level of understanding of the items in the questionnaire and to achieve face validity of the data collection instrument. In addition, it was to find out whether the feedback from the pre-test provides the type of information needed or whether the respondents were misinterpreting any of the questions. After this exercise, some of the items in the questionnaire were deleted and others were improved upon.

### **3.7. Data Analysis procedures**

Exploratory data analysis techniques were used which include the use of diagrams, charts and tables to give meaning to the data collected. From this, the study will detect patterns, trends and key influencers of working capital management practices in order to make it possible to question the data and information produced in a way that will answer the research questions. The exploratory data analysis according to Saunders et al (2009) will allow flexibility to introduce previously unplanned analyses to respond to new findings which can give way for the researcher to look for and describe other statistical relationships in which the data initially designed study was not to test. Data collected through the use of Statistical Package for Social Sciences (SPSS) software and Microsoft Excel will be the software to be used for the analysis of the data to be generated. The result from the subjected exploratory analysis will be to evaluation and synthesizing of ideas, summarizing, categorizing and the structuring of meanings from the data. In the process of analyzing the data, the structured analysis is into the following main blocks of issues. Firstly, the working capital management practices of each of the four major established components of working capital will be derived from the responses of the companies. Secondly, the factors that influence the choice of the WCM practices employed by these companies will be confirmed/validated or debunked based on the response data from the companies. Thirdly, based on the final working capital management practices of the retail firms under study, the companies themselves will tell whether the outcome of their choice of WCM practices is excellent or poor using performance indicator of WCM practices

### **3.8. Ethical Considerations of the Study**

Many ethical issues will take into consideration before, during and after the study. All articles, journals, books among others that used in this study properly referenced. Before the researcher administered the questionnaires and interviewed the company officials, letters were to the managers of the company for permission to be granted. Not only was that, the privacy of the respondents of the questionnaire considered. Managers asked were if they had the luxury of time to fill the questionnaires. More importantly, the purpose for which the research conducted is explain to respondents before they were handed with the questionnaire to fill.

### **3.9. Reliability of the Data Collection Instrument**

Validity of a research in two steps can be achieved they are internal and external validity. Internal validity is accuracy or the quality of the research work, external validity is the degree at which results or findings can be generalized (Yin, 2008).

Given the fact that questionnaires administered will be personally, the data collection method will accurately measure what they were intended to measure and that the study is convinced that the findings are going to be what they profess to be. As the theoretical framework, developed will be broad in sense and will enable to validate the survey internally and the respondent's answers will enable us to observe the degree of external validity. The theoretical framework will encompass certain theories, which will enable us to validate the survey, which has validated with other similar research within the domain of our thesis; hence, we can say that the survey developed that has been is validated to a certain extent as it has been developed from several research works.

Reliability is the extent the study repeated could be with same results (Williamson, 2002). The reliability for the survey as receiving can be seen quality answers for the questions, and how you are able to get the respondents to understand the questionnaire. To achieve this we are using simple questions with a scaling system. This questionnaire targeted will be at the sample required that are supply chain employees of the mining companies with a rank not less than a supervisor is. The survey which has been developed in a careful manner to ensure that the respondents can answer in the best possible manner and also the companies have been carefully selected to ensure a high response rate. Therefore, the data collection method will yield



dependable findings and there can be transparency in how sense made will be from the raw data.

### **3.10. Validity of the Data Collection Instrument**

The validity of an instrument is the degree to which an instrument measures what it is intended to measure (Polit and Hungler, 1993). Content validity refers to the extent to which an instrument represents the factors under study. To achieve content validity, questionnaires included a variety of questions on the knowledge of the top management officials and their staff about inventory management and its effect on service delivery of medical importers.

Questions based on information gathered during the literature review to ensure that they were representative of what respondents should know. Content validity has further ensured by consistency in administering the questionnaires. All questionnaires has distributed to respondents by the researcher personally. The questions has formulated in simple language for clarity and ease of understanding. Clear instructions have given to the subjects and the researcher completed the questionnaires for those subjects who could not read.

All the respondents completed the questionnaires in the presence of the researcher. This has done to prevent respondents from giving questionnaires to other people to complete on their behalf. For validation, the questionnaires have submitted to other researchers and academicians for their contributions. As a result, more questions have added to ensure higher representativeness. Rephrasing of some questions has done to clarify the questions and more appropriate alternative response choices has added to the closed-ended questions to provide for meaningful data analysis (Burns and Grove, 1993).

## Chapter Four - Analysis and Presentation of Results

### 4.1. Introduction

This chapter analyses the data collected from the field and presented in such a way that would easily understand by readers. Analytic tables and charts have been used to question the data collected and out of that trends have been established, patterns have been discovered and meanings have been given to the data collected. This has made it possible to answer the research questions of the study.

### 4.2. Profile of Respondents

**Table 4.1 Background information**

<b>Age</b>	<b>Frequency (186)</b>	<b>Percentage</b>
o 18 – 30	85	45.70
o 31 – 40	65	34.95
o 41 - 50	36	19.35
<b>Educational Level of Respondents</b>		
o Diploma	95	51.08
o First Degree	68	36.56
o Second Degree	23	12.37
<b>Years of work experience of respondents</b>		
o 1 - 5	128	68.82
o 6 - 10	38	20.43
o 11 - 20	20	10.75
<b>Position at work</b>		
o <i>General Manager</i>	4	2.15
o Finance Head	15	8.06
o Inventory Manager	45	24.19
o Accountant	113	60.75
o Other, please specify	9	4.84

### **Average Annual Sales of medical importers**

o Less than 0.5 million	34	18.28
o 0.5 million - 2 million	47	20.43
o 2.1 million - 4 million	71	10.75
o 4.1 million - 6 million	19	68.82
o 6.1 million and Above	15	20.43

### **Years of Existence of medical importers**

o 1 – 5	153	82.26
o 6 – 10	26	13.98
o 11 - 20	7	3.76

Source: Field Data (2019)

54.3% of the respondents are above the age of 30. Since these are the individuals that deal with the management of the working capital of the institutions, they are matured enough to handle the business. The remaining 45.7% are between 18 and 30 years of age. This many imply that there is a good prospect in terms of succession of management of the businesses since the mix between the your and older people is almost balance.

More than half (51%) of the respondents are diploma holders while the remaining have at least first degree. The implication is that the organizations don't have highly qualified staffs dealing with such a sensitive issue. The issue isn't only in education qualification. More than two-third of the respondents are relatively inexperienced with experience of 1 to 5 years. The management of this businesses haven't give due attention by paying for experience and qualified employees who can handle the management of working capital in these businesses.

Most of the respondents are accountants (61%) while the rest are general managers, inventory managers, and finance heads. This implies that the study subjects are dealing with the management of working capital at different levels hence their view on the issues can represent the reality on the ground.

More than 80% of the businesses studied have annual turnover of more than Br. 500,000. This imply that the scale of operation of the businesses are very high and they deal with a lot of

working capital amount and items. Proper management of those items will determine the success of those businesses.

Most of the business studies have been operating in the industry for less than 5 years. This may imply that the success rate of businesses can be low so exit from and entry to the industry can be high. Another way of looking at it might be that the sector is relatively young and hence very good prospect of expansion.

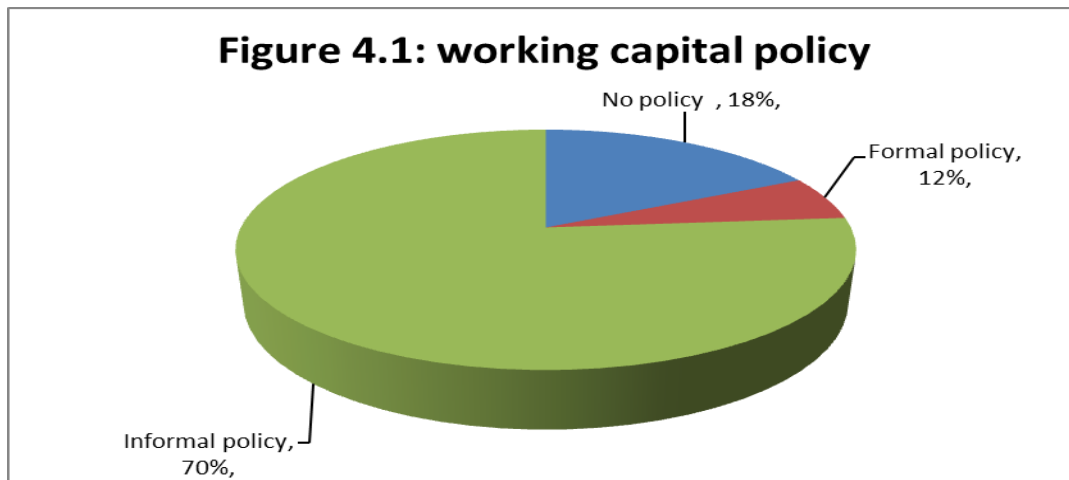
### 4.3. Working capital policy

**Policy on Working Capital:** Overall, the medical importers studied operated an informal working capital policy as show on the diagram, 12% of the companies sampled have a formal working capital policy. These companies are in a position to use their working capital and a policy-regulated environment that could enable them to manage their cash inflow, out flow in a planned manner, and utilizes their financial resources efficiently and effectively. For sure, these companies are in a position to manage excess cash flow and invest it timely on other profitable stream to generate additional revenue or manage their cash shortage in case they face in a planned and less risky way.

Whereas, 70% of the companies sampled have no formal working capital policy. This implies that they are far from regulated working environment and hence meant that they are in an inefficient and ineffective working capital management scenario. Managing excess cash inflow, outflow, or cash shortages will cause significant negative impact, as it is not in a controlled environment whereby the management can make strategic decision following formal policy. This will ultimately result in loosing opportunities of generating revenue from investing excess cash or mitigate operational risks at times of cash shortages.

The third categories of companies are those ones that have no policy at all, with a percentage rate or 18%. These are more of in a dark situation where they have no even informal policy to help them direct in their working capital management. Though they inclined towards the 70%, these companies have no even informal direction in using their capital, at times of excess or shortages.

### Figure 4.1 : Working capital policy



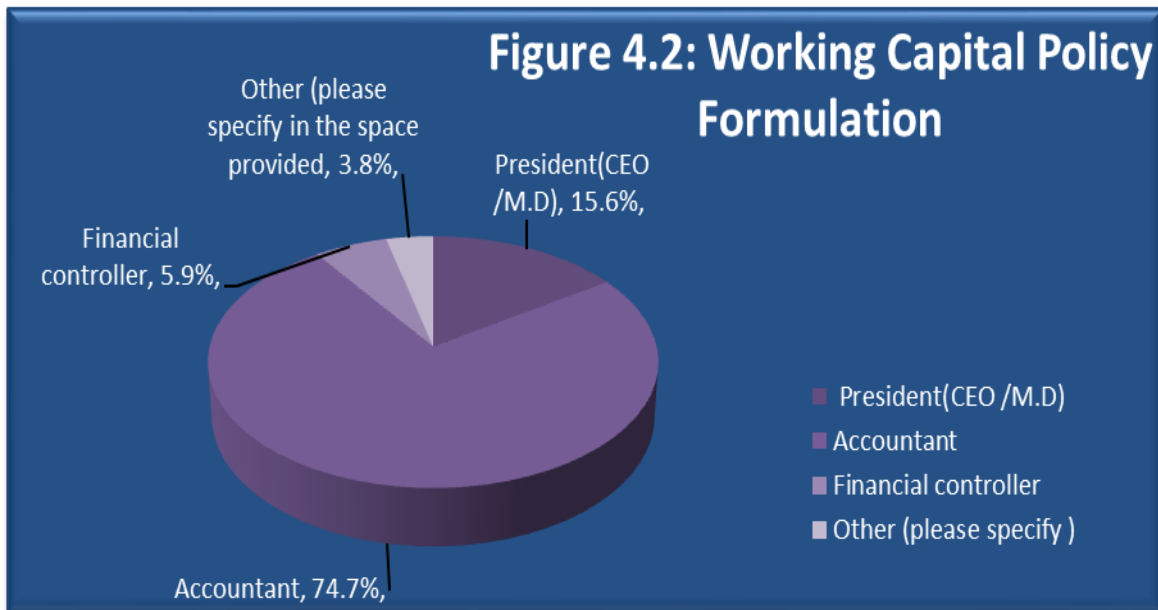
Source: Primary data (2019)

**Working Capital Policy Formulation:** The responsibility of setting the policy for working capital largely rest with the accountant representing 74.7% of the responding medical importers. Some of the medical importers (15.6%) however consider this as the duty of the managing director.

It drawn can be from the analysis that working capital formulation revolves around the senior employee's .Looking at working capital policy formulation, though such task requires a technical input from finance/accounting personals, it has a huge impact on companies' longterm operation, growth and over-all strategic direction. Therefore, it is imperative that such working capital policy formation has done to be by the senior management team having an input from other departments, like operation, sales, procurement, service, etc.

The other factor to be considered is that , accountants and finance staff are more involved in executing policies, manage budgets, and record transactions which push them more of into policy execution and control side rather than policy formation end of it. Having in mind the concept for segregation of duties and from strategy development perspective of the company, policy formation has done to be by the senior management.

**Figure 4.2: Working Capital Policy Formulation**



Source: Primary data (2019)

### Nature of risk policy

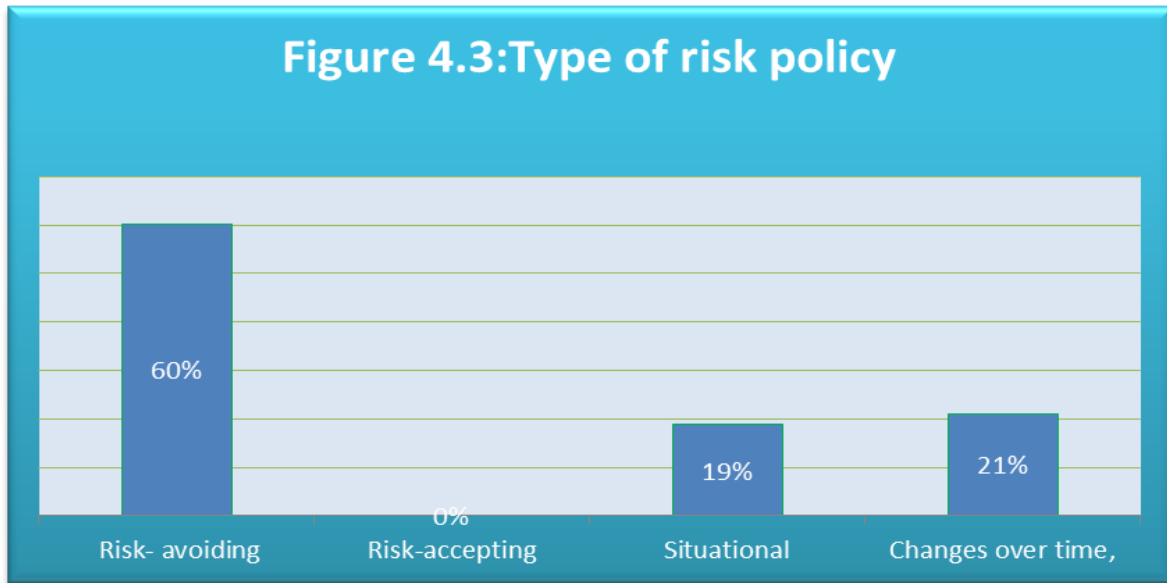
**The type of risk policy:** From the general financial management perspective, taking a risk on investment or in any business for that matter brings in high return. However, most of the companies are tending to be risk avoiders (60%). We have not found a company from the sampled cases that has assessed company, business and environmental risks, identify and analyze those risks, plan to mitigate them and then take a calculated risk in a planned manner

(0%). Therefore, it's worrisome to think a business where such a volatile business environment exists and even having a company setup which is being affected hugely by the external environment like the current medical sector. Therefore, managing company by avoiding risk and creating a sustainable business while in such an environment is very unimaginable. This requires a shift on the policy direction of the management to encourage them taking a risk to certain extent.

Though it is not significant, some of the companies tend to respond to risk regularly (21%) and adjust themselves to it. This seems like these companies are responding to risk in a forced manner rather than acting proactively. Such a risk management approach

is passive and would ultimately lead the company into failure, those one with (19%) respond to risk situational, which sounds that it's in a very unplanned and forced way like the previous group of respondents.

**Figure 4.3: Type of risk policy**

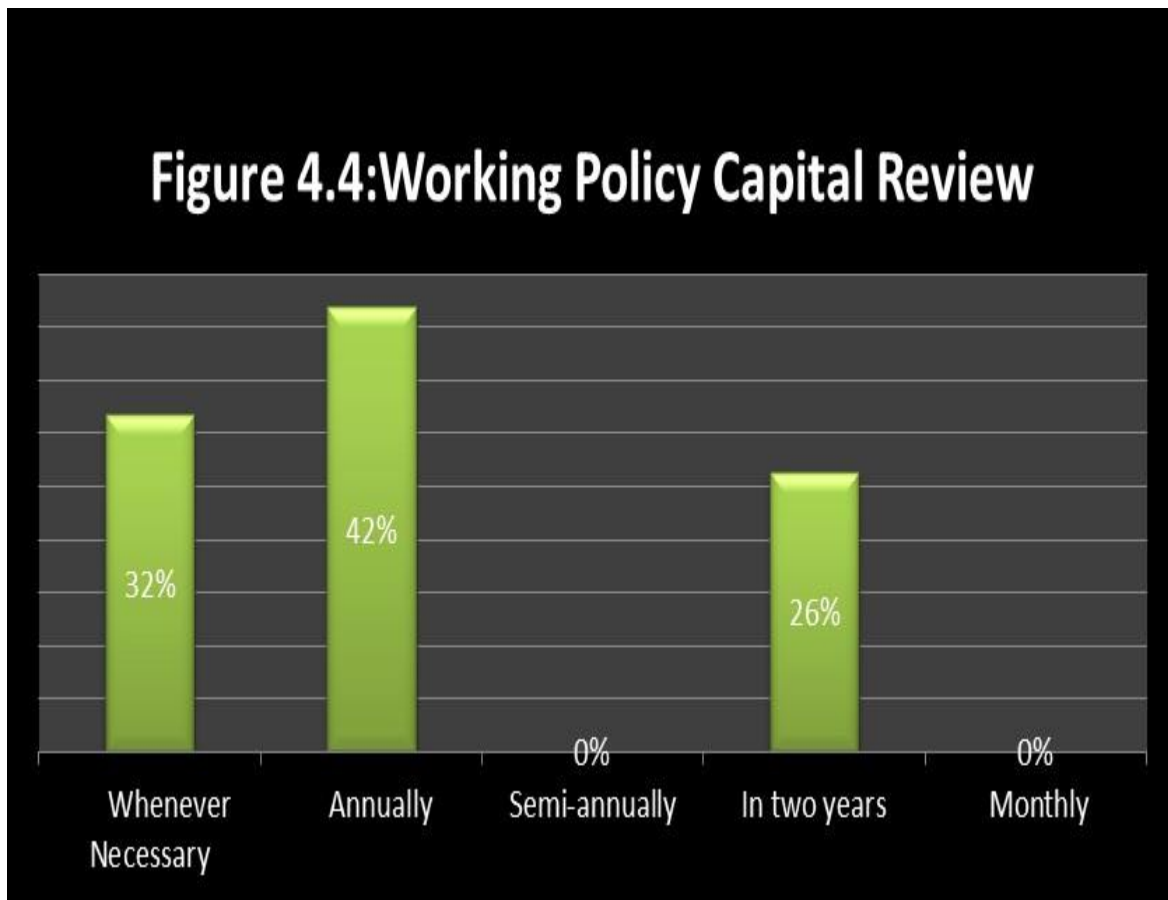


Source: Primary data (2019)

**Working Policy Review:** the working capital policies of the medical importers were reviewed from samples responding that they have a formal working capital policy, those own who review their policy are shown on the below figure 4.4. Having in mind the standard operational practices, every policy shall be reviewed a yearly or two years basis. 26% of the participants have reviewed their policy in two years, whereas, 42% of them reviewed it in annual basis. This implies that 68% of the participants have reviewed regularly meeting the formal standard within the review time line of the industry.

Thirty two percent of the respondents reply that they are reviewing their policy depending on the need they face. This makes it the review process situational and need based and signals that their policy may lack exhaustiveness or comprehensiveness. However, such approaches can help to address the immediate need but it can easily affect the consistency, integrity and reliability of the policy as this brings in repetitive changes. This can also lead to a loose internal control practices.

**Figure 4.4: Working Policy Review**



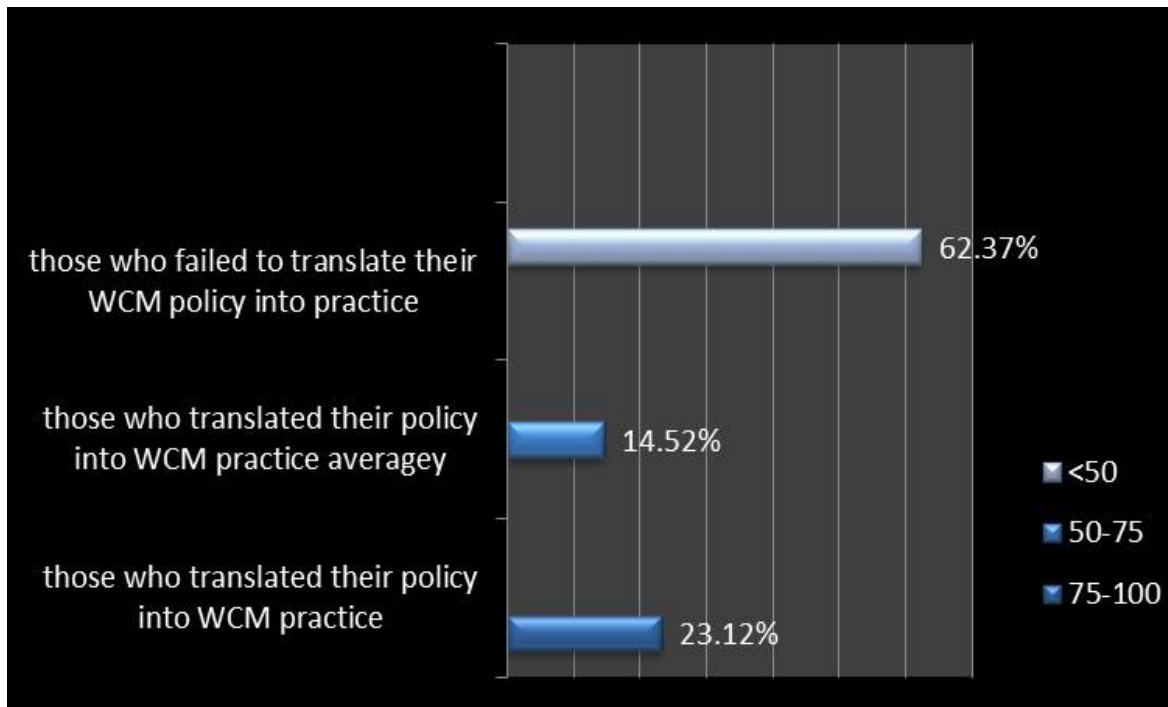
Source: Primary data (2019)

#### **4.4. WCM Practices in the Past**

In the past the practices of working capital management adopted by the medical importers data shows that most of the companies that have responded do not translate their policy into practice (62.37%). Having a policy but not implementing it effectively is equal to not having a policy, which makes these companies ineffective in terms of translating and bonding themselves to their policy. Therefore, the management of these companies should take this matter seriously and act decisively to reverse such unfruitful practice. 23.12% of the respondents translating their policy into action partially. These parts of the companies require strengthening their effort in improving the way the way they translate their policy into practice. Whereas, the remaining 14.52% of the respondents are translating their policy into practice and bound their action to it.



**Figure 4.5: Working Capital Management Practice**

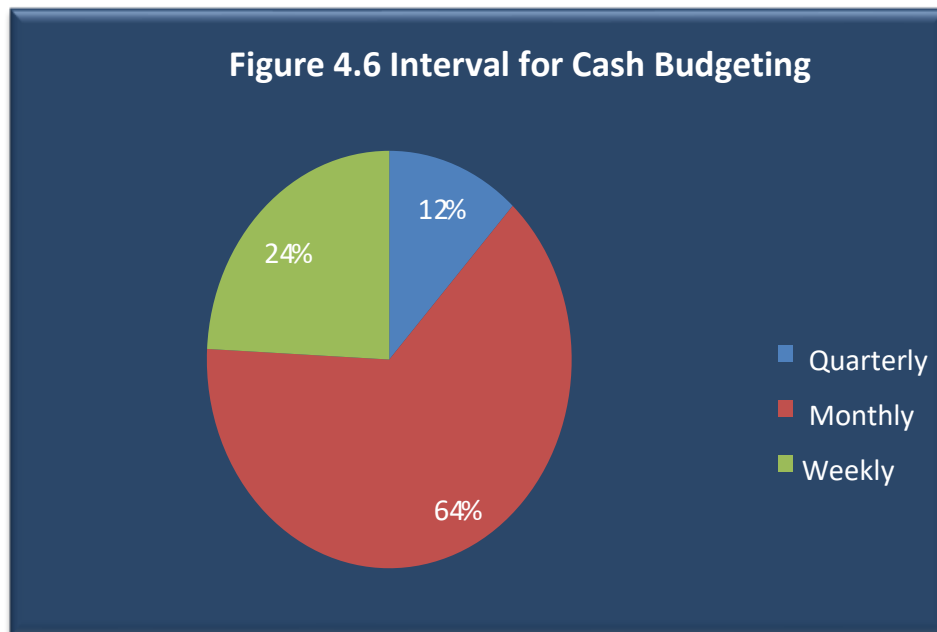


Source: Primary data( 2019)

#### 4.5. Cash and cash equivalent management practices

**Frequency of Cash Budgeting:** The shortest possible of time for which the medical importers utilizes cash budgeting from the companies sampled 64 % of them have responded that they use cash budgeting on monthly basis. From the basic budgeting concept, a budget is set up based on operational needs that trigger cost. Such operational needs tied are with daily operational tasks/targets that they will require a daily cash budget allocation, which aggregated will be ultimately into weekly, monthly, quarterly and annually budgets. Therefore, those companies who used monthly cash budgeting frame seem to have poor operational planning and cash management approach that ignored the daily need of cash management. Those companies who planned a quarterly cash budgeting frame are more of on the poor side of cash budgeting and the weekly one are much in a better situation though they are not reaching to the daily cash budgeting exercise.

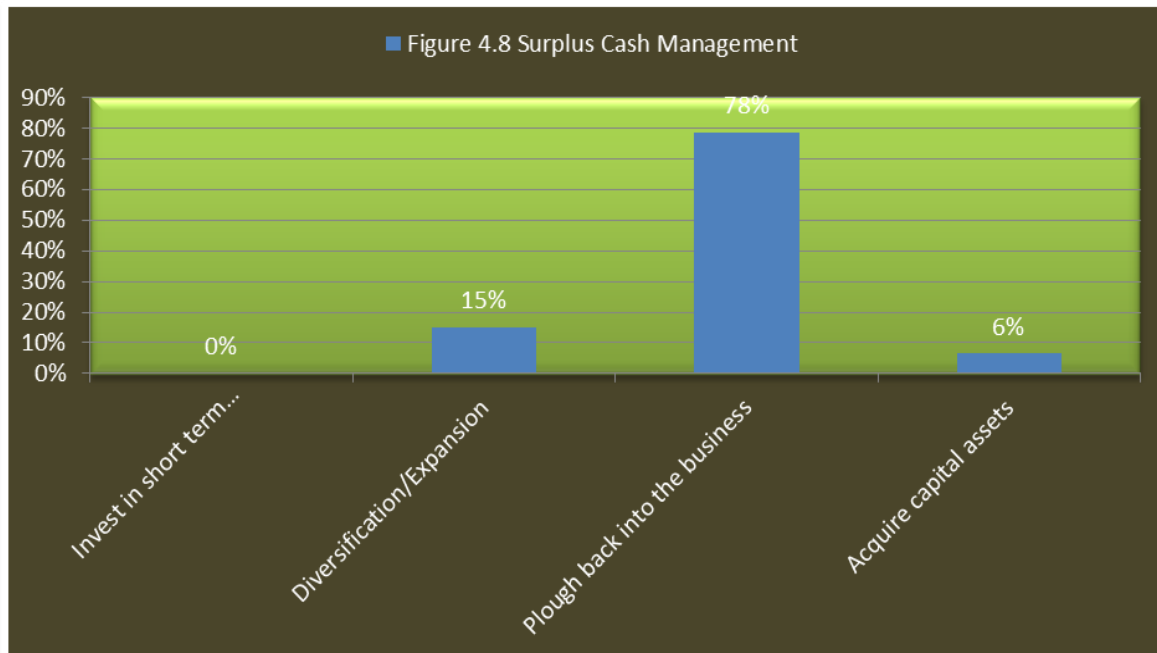
**Figure 4.6: Interval for Cash Budgeting**



Source: Primary data (2019)

**Management of Surplus Cash:** When the medical importers realize surplus cash from the summary data shows us that most of the companies are plough-back their excess cash into the same business, which implies that they are not using it to diversify the business portfolio and minimize the business risk attached to that specific business. The main triggering factor might be the absence of other short-term investment opportunities and overnight financing services in the market that used could be for investing the excess cash at hand. The practice of 15% respondents is something that we encourage as they invest their excess cash in a diversified investment, which ultimately reduce risk, and enable the business expand in healthy way. The same is true for the 6% respondents who acquire capital assets, and they took precaution that the capital asset they pricked up generates income.

**Figure 4.7: Surplus Cash Management**



Source: Primary data (2019)

**Motivation for investing cash surpluses:** The premium factors that the medical importers consider when choosing investment methods for cash surpluses are from 80 out of the 186 respondents replied that the risk and yield factor of an investment motivate them to invest their cash surplus. Whereas, the rest of 9, 23 and 5 respondents are motivated to invest their cash surplus by the size of the surplus they gain from the investment, the easiness of the return realization from the investment and any penalty which may be incurred for early termination respectively.

Eighty-eight out of the 186 respondents replied that the maturity time of the investment is a factor to motivate them to invest their cash surplus. However, the rest of the respondents, i.e 61 and 37 are motivated to invest their cash surplus by the easiness of the return realization and the risk and yield factor of the investment respectively.

Hundred and two of the 186 respondents replied that the easiness of the return realization is a lead factor to motivate them to invest their cash surplus. However, the rest of 29 and 55 respondents are motivated to invest their cash surplus by the maturity time of the investment and the risk and yield factor of the investment respectively.

Hundred and twenty-two of the 186 respondents replied that any penalty which may be incurred for early termination of the investment is a lead factor to motivate them to invest their cash surplus. However, the rest of 51 and 13 respondents are motivated to invest their cash surplus by the size of the surplus and the risk and yield factor of the investment respectively.

Hundred and twenty-six of the 186 respondents replied that the size of the surplus is a lead factor to motivate them to invest their cash surplus. However, the rest of 59 and 1 respondent are motivated to invest their cash surplus by any penalty that may be incurred for early termination of the investment and the risk and yield factor of the investment respectively. The table below depicts the details

**Table 4.2: Motivation for investing cash surplus.**

<b>Answer Options</b>	<b>1st choice</b>	<b>2nd choice</b>	<b>3rd choice</b>	<b>4th choice</b>	<b>5th choice</b>	<b>Response Count</b>
The size of the surplus	9	0	0	51	126	186
The easiness with which an investment can be realized	23	61	102	0	0	186
When the investment is expected to mature	69	88	29	0	0	186
The risk and yield of the investment	80	37	55	13	1	186
Any penalty which may be incurred for early termination	5	0	0	122	59	186
	186	186	186	186	186	
					answered question	186
					skipped question	0

Source: Primary data (2019)

**Methods applied to address short-term cash Shortage:** The primary approach that the medical importers consider in addressing short-term cash shortage are 118 of the total respondents convert unnecessary assets to cash to address their short-term cash shortages.

However, 29, 27, 8 and 4 respondents use this approach from 2<sup>nd</sup> option to 5<sup>th</sup> options respectively.

Contacting lenders to renegotiate financing options is opted as their first choice by 11 respondents, whereas, 116, 41, 11, and 7 of the respondents opted to use this option from their 2<sup>nd</sup> choice to their 5<sup>th</sup> choice respectively.

34 respondents pick negotiating with suppliers as their first approach to address short-term cash shortages, whereas, 8, 98, 33 and 13 respondents place this option as their 2<sup>nd</sup> to 5<sup>th</sup> choices.

Working aggressively on credit invoice collections is opted as the first choice by 14 respondents, whereas, 11, 95 and 57 respondents picked this option with the rank from 2<sup>nd</sup> choice to 5<sup>th</sup> choice to address their short term cash shortage.

Finally, cutting business costs is picked as the first choice by 9 respondents and 22, 11, 39, and 105 respondents use this approach as their 2<sup>nd</sup> to 5<sup>th</sup> approach to address their short term cash shortages. The table below depicts the details

**Table 4.3: Methods applied to address short term cash shortage**

-----	1st choice	2nd choice	3rd choice	4th choice	5th choice	Response Count
Convert Unnecessary Assets to Cash	118	29	27	8	4	186
Contact Lenders to Renegotiate Financing	11	116	41	11	7	186
Negotiate With Suppliers	34	8	98	33	13	186
Step Up Invoice Collections	14	11	9	95	57	186
Cut Business Expenses	9	22	11	39	105	186
	186	186	186	186	186	
					answered question	186
					skipped question	0

Source: Primary data (2019)

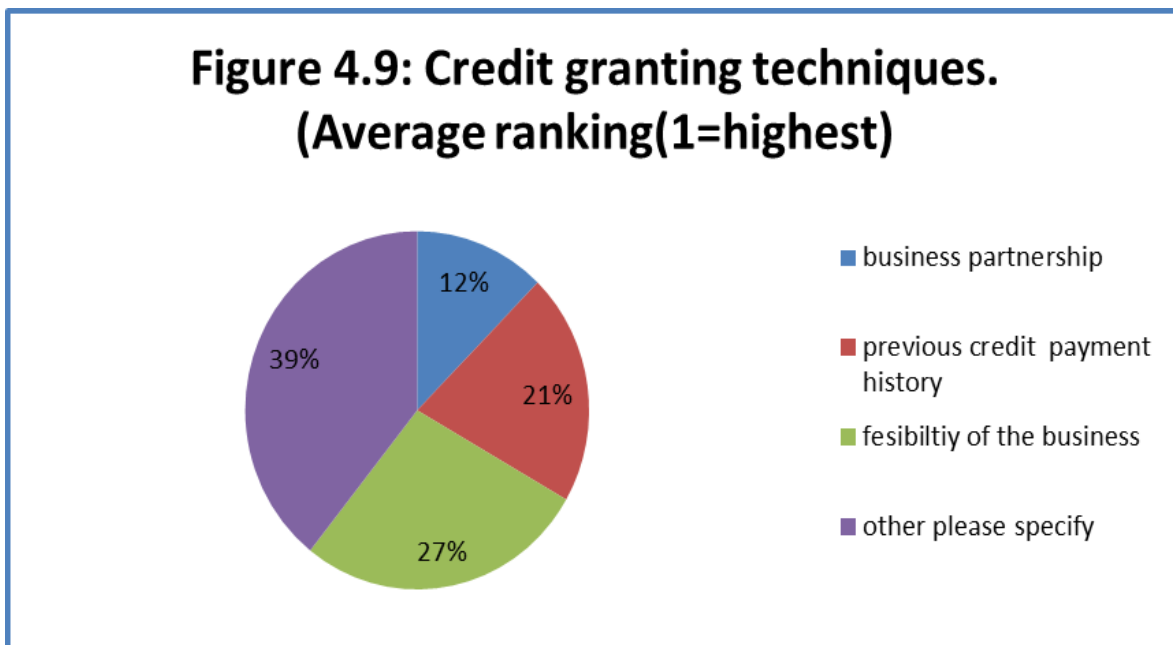
#### 4.6. Account receivable management practices

**Procedure for Granting Credit:** The five C's of credit was the principal technique used by the medical importers when granting credit. The average ranking for the five C's of credit is 39 % of the participants provide credit sales to their clients based on internal and external factors such as the need to sale their products, free capital tie, respond to market forces like addressing competition and protecting market shares etc.

27% of the respondents consider business feasibility as a factor to determine credit sales for their clients. The other 21 % and 12% of the respondents count on previous credit payment history and business partnership that the clients have with the companies to determine if they need to provide credit sales facility.

Looking at the factors being used in developed for assessing credit worthiness, this finding entails that we are more way behind in using instruments and rectification mechanisms that would allow the companies to expand their market using credit facilities.

**Figure 4.8: Credit granting techniques. (Average ranking (1=highest))**



Source: Primary data (2019)

**The five C's of credit:** The premium factors that the medical importers consider when choosing when granting credits are looking at the factors the majority of the respondents of my

study determine credit sales based on their observation and company based business information rather than an integrated criteria that regulated and monitored across the business environment at large. Because of this, the companies considered to use most prominently five C’s credit factors. Whereas, The premium factors that the medical importers consider when choosing a granting credits are 144 of collateral the amount of assets the applicant has available for use in securing the credit are not used either by their own or collectively to evaluate credit worthiness. 126 capital is the financial strength of the applicant, the 88 character which refers past payment history, the least of the factors they consider are

“Conditions” and “capacity which may be require ability to repay the requested for terms of granting credit” The table below depicts the details.

**Table 4.4: Factors to consider when selecting an appropriate five C’s of credit method.**

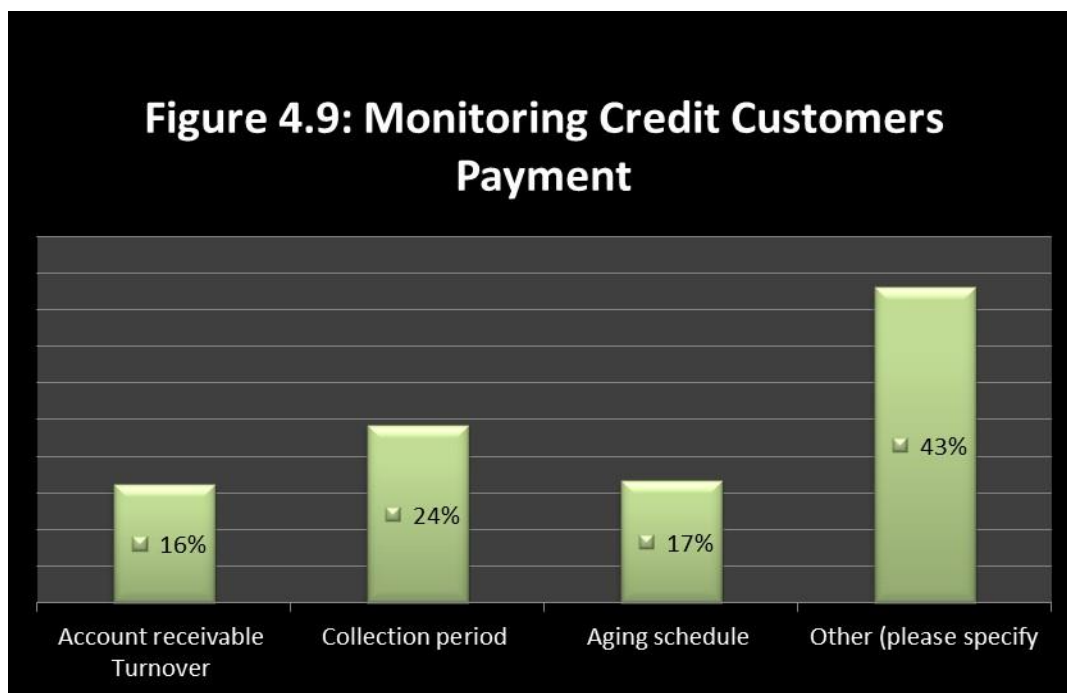
-----	1st choice	2nd choice	3rd choice	4th choice	5th choice	Response Count
capital	8	126	34	13	5	186
character	9	31	88	34	24	186
capacity	11	12	20	97	46	186
Collateral	144	8	18	9	7	186
conditions	14	9	26	33	104	186
	186	186	186	186	186	
					answered question	186
					skipped question	0

Source: Primary data (2019)

**Measures to Monitor Credit Customers’ Payment Behavior:** In monitoring the payment behavior of their credit customers, the medical importers that were studies relied on the

Credit Customers' Payment Behavior monitors their account receivable using varying approaches. The majority of the respondents 43% use which is a mix other approaches all of the other mechanisms that used are being to monitor their account receivable, 16% of the respondents predominantly use account receivable turnover time as a lead control mechanism. the number of times per year that a business collects its average accounts receivable. Accountants and analysts use accounts receivable turnover to measure how efficiently companies collect on the credit that they provide their customers. 24 % the respondents of a receivables are collection period is a measure of cash flow that is calculated, dividing average receivables by credit sales per day, the number of days it takes on average to collect accounts receivable based on the average balance in accounts receivable. 17% the respondents predominantly accounts receivable aging is a report that lists unpaid customer invoices and unused credit memos by date ranges. The aging report is the primary tool used by collections personnel to determine which invoices are overdue for payment. Given its use as a collection tool, the report may be configured to also contain contact information for each customer. The reports also used by management determine the effectiveness of the credit and collection functions.

**Figure 4.9: Monitoring Credit Customers Payment**

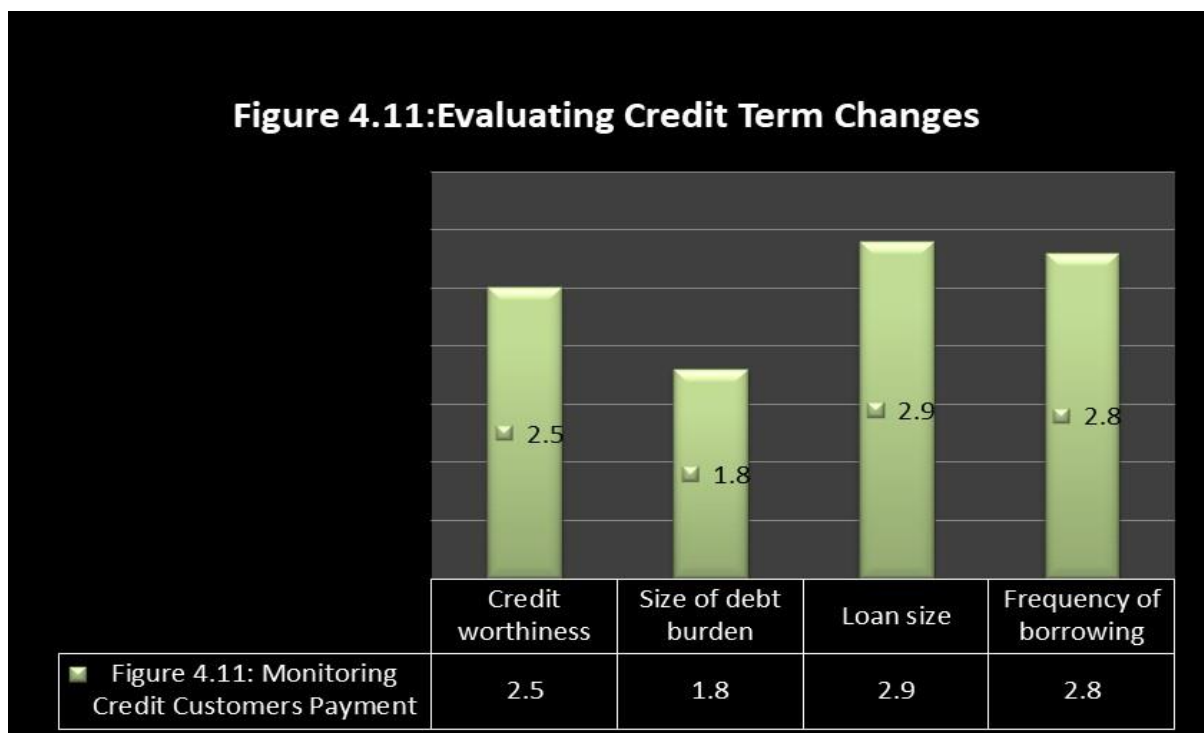


Source: Primary data (2019)



**Evaluating Credit Term Changes:** The major criteria of the medical importers utilize in evaluating proposed changes in their credit terms by considering the accounts receivable studies when evaluating a business of a premium factors that medical importers were 2.9 Which, loan size creditors prefer large loans because the administrative costs decrease proportionately to the size of the loan. However, legal and practical limitations recognize the need to spread the risk either by making a larger number of loans or by having other lenders participates. Participating lenders must have adequate resources to entertain large loan applications. In addition, the borrower must have the capacity to ingest a large sum of money.2.8 frequency of borrowing. Customers who are frequent borrowers establish a reputation that directly influences their ability to secure debt at advantageous terms. 2.5 Credit worthiness, a history of trustworthiness, a moral character, and expectations of continued performance demonstrate a debtor's ability to pay. Creditors give more favorable terms to those with high credit ratings via lower point structures and interest costs.1.8 Size of debt burden. Creditors seek borrowers whose earning power exceeds the demands of the payment schedule. The available resources necessarily limit the size of the debt. Creditors prefer to maintain a safe ratio of debt to capital.

**Figure 4.10: Evaluating Credit Term changes**

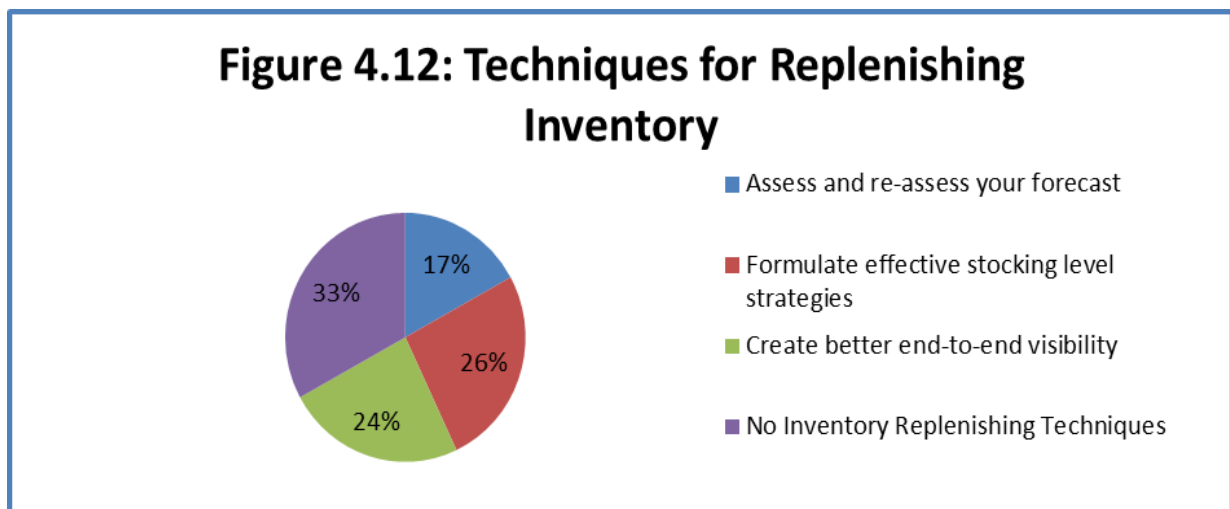


Source: Primary data (2019)

#### 4.7. Inventory management practices

**Replenishing Inventory:** The premium factors that the medical importers consider when choosing an appropriate amount of the inventory those replenished warehouses and other inventory storage are 17% respondents replied Assess and re-assess your forecast, that in the this discussion from and planners to company sales team to warehouse manager to suppliers, long-term customers and beyond and ensure that business. The responses are formulating effective stocking level strategies decisions representing 26%. Stocking level strategies vary depending on the size and specialty of the business, which means that yours must be tailor-made to fit the needs of your inventory and supply chain. It represents 24% of the respondents Create better end-to-end visibility diligence to ensure that your entire supply chain is in the loop when it comes to your changing stock levels. Within this system, make room for additional information that details shipment times within in the fleet.

**Figure 4.11: Techniques for Replenishing Inventory**



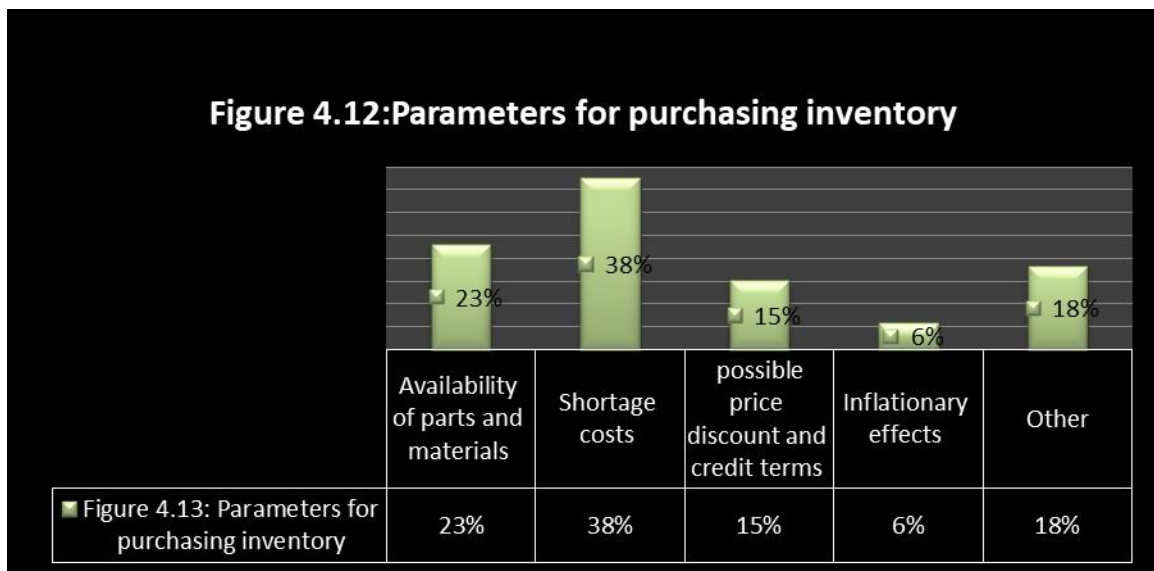
Source: Primary data (2019)

#### **Parameters for purchasing inventory:**

Purchasing department is a key to any organization by supplying the required stock materials to sustain their performance. According to the company activity, their purchasing department plays a big role to supply the required medical equipment and spare parts. Thus, the researcher believes that this area is important for the study of inventory management of medical importers. Because purchasing system on inventory

control management has an impact in every company activities. Consequently, the researcher assesses the company purchasing practices raising some interview discussions and questionnaires to logistic and warehouse department head and purchasers. In deciding on replenishment quantities for inventory purchased by the medical importers, they highly consider Shortage costs. Availability of parts and materials, possible price discount and credit terms offered by their supplier were also considered as important parameters. The department responses are shown in the following figure with interpretation.

**Figure 4.12: Parameters for Inventory**



Source: Primary data (2019)

#### 4.8. Account and note payable practices

Suppliers discount: Concerning the policy/practice of the medical importers regarding cash discounts offered by their supplier, 70% of them always take the discount by paying on the discount date, 12% Pay later than the discount date, but still takes the discount, 7% sometimes take the discount by paying on the discount date and 11% never takes a discount.

Offering a cash discount can benefit both businesses and customers in a variety of ways. A cash discount, also known as a sales or early payment discount, are provided to customers as a method to motivate invoices being paid in a prompt manner. Cash discounts can motivate and reward customers, increase cash flows, and lower inventory costs.

The primary advantage of early payment discounts are that suppliers can get paid sooner, which accelerates cash flow. It also reduces the risk of nonpayment or late payment. For some non-investment-grade suppliers, an early payment discount is an attractive alternative to traditional financing methods like commercial-based lending. Suppliers also feel that they will be rewarded with more business if they participate in customers' early payment discount programs. But for critical suppliers in the direct material supply chain, early payment discounts aren't the win/win they're often portrayed to be and any increase in customer demand can easily be negated.

Suppliers that find early payment discounts an attractive form of working capital finance should analyze the impact these discounts could have on supply chain costs. Interest rates on early payment discount terms that translate into an APR of 15% or more, place a heavy financial burden on suppliers. No efficiency is gained by a supplier incurring what is essentially a very high interest rate to get paid early. Furthermore, early payment discounts are at the discretion of the buyer and buyers can opt not to participate. This impedes the supplier's ability to forecast cash flow.

**Figure 4.13: Suppliers cash discount**

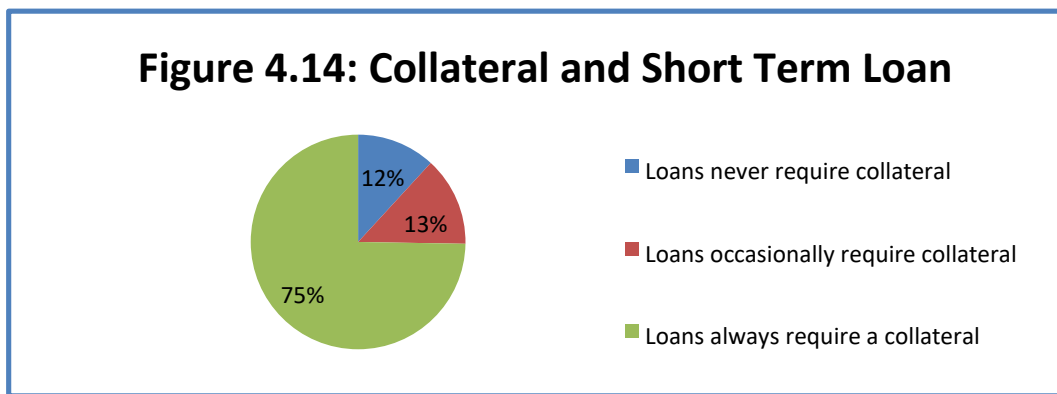


Source: Primary data (2019)

**Collateral and Bank Borrowing:** The study decided to establish the extent that collateral form part of the short term loans of the medical importers. Finding the loan that is right for your situation is important, so that you get the rates, terms, and payment options that fit your needs. Secured loans might be a good choice if you have personal assets such as equity in your home

or funds in a savings account that used can be as collateral. In addition, secured loans may have lower interest rates, larger loan amounts, or better terms than unsecured loans. Medical importers it discovered were from 75% of the respondents that their loans always require collateral. In the case of 12% of the respondents, loans never require collateral and 13% agreed that loans occasionally require collateral; Keep in mind, with a secured loan, the lender can take possession of the collateral if you do not repay the loan as agreed.

**Figure 4.14: Collateral and Short Term Loan**



Source: Primary data (2019)

#### 4.9. Considerations in Working Capital Management

**Macro factors that are external:** The premium factors that the medical importers consider when choosing working capital management practices were politics (held by 95% of the respondents) and economic environment (held by 72% of the respondents). The least of the factors they consider were legislation (held by 52% of the respondents) industries effect (held by 43% of the respondents). Please, refer to the figure below for details.

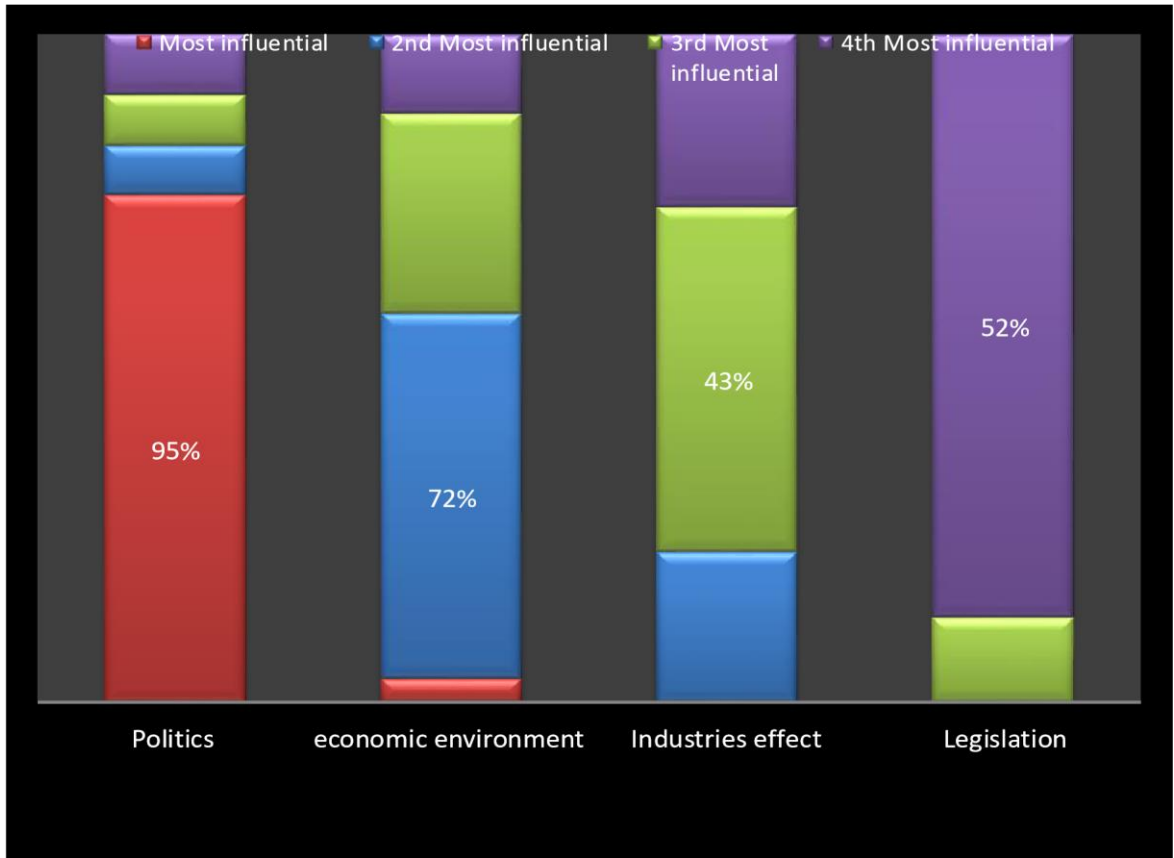


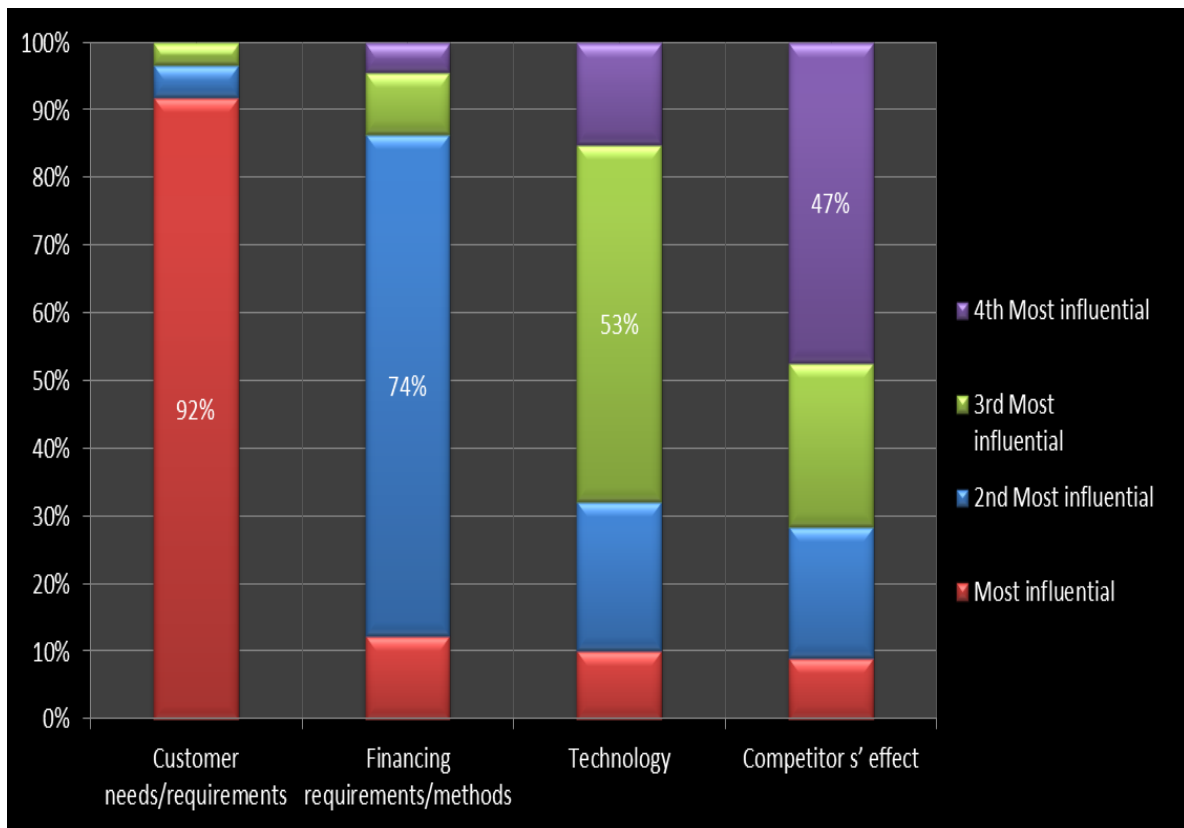
Figure 4.15: Choice of WCM practices and the macroeconomic factors that influence them.

Source: Primary data (2019)

**Other external considerations:**

The important factors that the medical importers consider when choosing working capital management practices were customer needs/requirement (held by 92% of the respondents) and financing requirements/methods (held by 74% of the respondents). The least of the factors they considered were technology (held by 53% of the respondents) and supplier influence/collaboration (held by 47% of the respondents). Please, refer to the figure below for details.

Figure 4.16: Choice of WCM practices and the other external Factors that Influence them

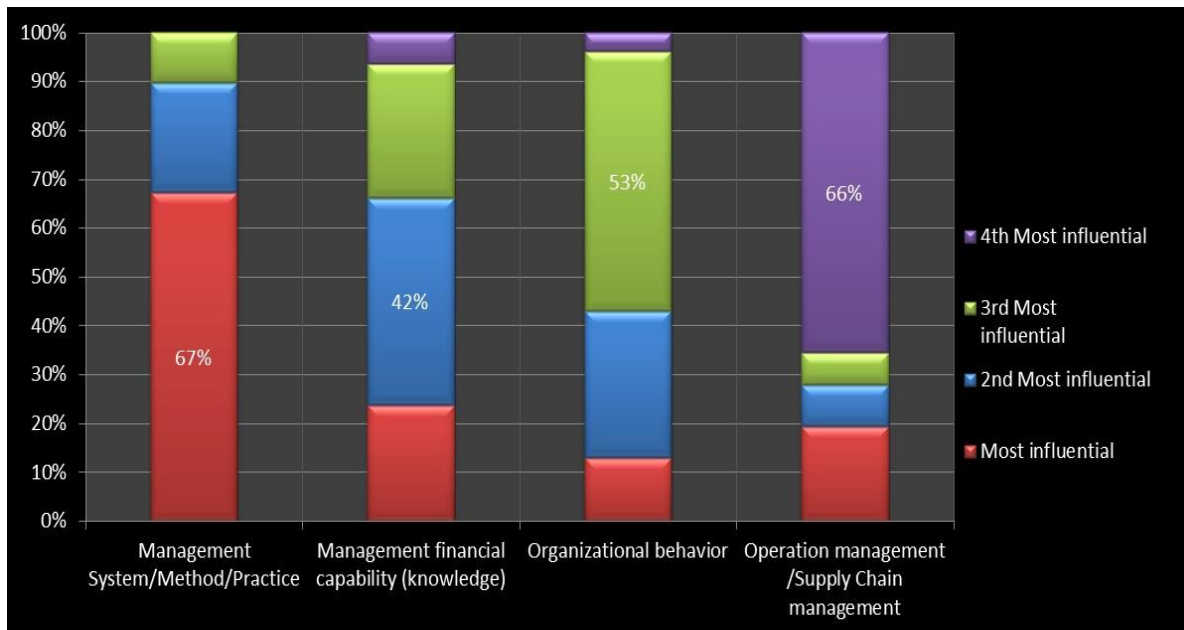


Source: Primary data (2019)

#### 4.10. Management system related considerations

The important factors that the medical importers consider when choosing working capital management practices were management systems/methods/practice (held by 67% of the respondents) and operation management/supply chain management (held by 66% of the respondents). The least of the factors they considered were Organizational behavior (held by 53% of the respondents) and management financial capability/knowledge (held by 42% of the respondents). Please, refer to the figure below for details.

**Figure 4.17: Choice of WCM practices and system related considerations**



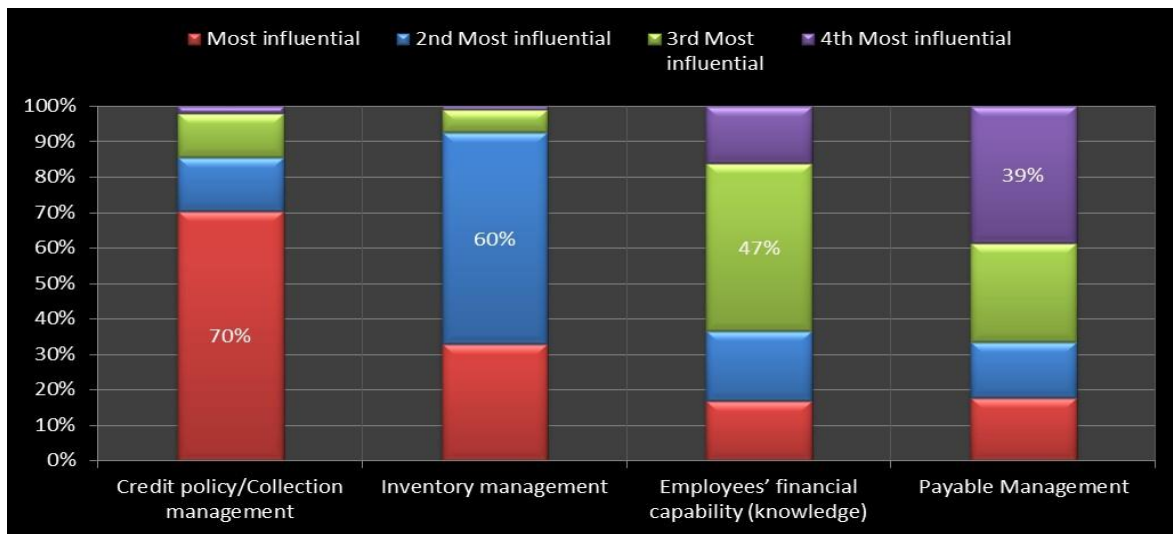
Source: Primary data (2019)

**Other internal considerations:**

The important factors that the medical importers consider when choosing working capital management practices were credit policy or collection management (held by 70% of the respondents) and inventory management (held by 60% of the respondents). The least of the factors they considered were employee financial capabilities (held by 47% of the respondents) and payable management (held by 39% of the respondents). Please, refer to the figure below for details.



**Figure 4.18: Choice of working capital management and other internal considerations**



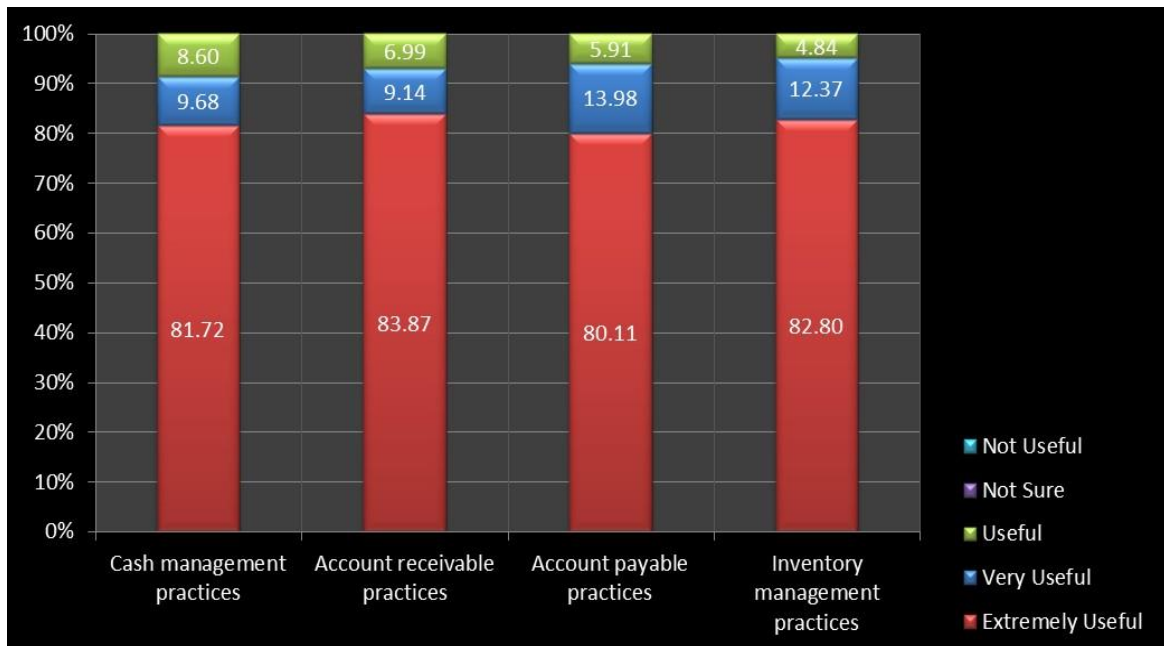
**Source: Primary data (2019)**

#### 4.11. WCM and application of information technology

From the perspective of 96% of the respondents, the application of information technology was very essential for efficient working capital management practices. Therefore, the medical importers consider information technology as extremely useful in cash management, inventory management, account receivable management and account payable management.

Please, refer to the figure below for details.

**Figure 4.19: The usefulness of I.T in Working Capital Management Practices**



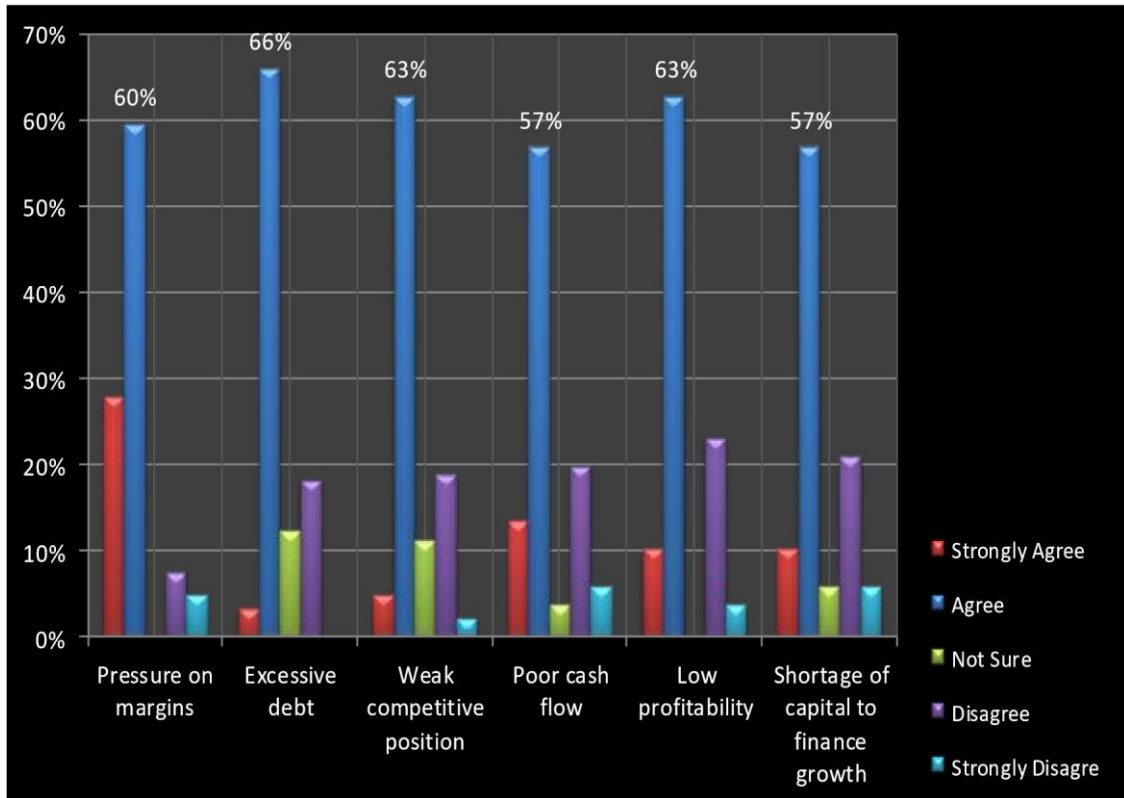
Source: Primary data (2019)

#### 4.12. Effectiveness of the wcm practices of medical importers

In an attempt to assess the effectiveness of the working capital management practices of the medical importers, the study in the subsequent paragraph examines the challenges and benefits of working capital management practices. Therefore, if the medical importers are benefiting from the working capital management practices then it means that they are effective in their WCM practices. Conversely, if they are facing challenges, then it connotes that they are not being effective in the management of their working capital.

#### **Challenges that medical importers face in their Working Capital Management:**

From the analysis below the respondents agreed to that the major challenges of medical importers face in their working capital management practices were; Pressure on margins (held by 60% of the respondents); Excessive debt (held by 66% of the respondents); Low profitability (held by 63% of the respondents) ; Weak competitive position (held by 63% of the respondents); Poor cash flow (held by 57% of the respondents); and Shortage of capital to finance growth (held by 57% of the respondents). Please, refer to the figure below for details.



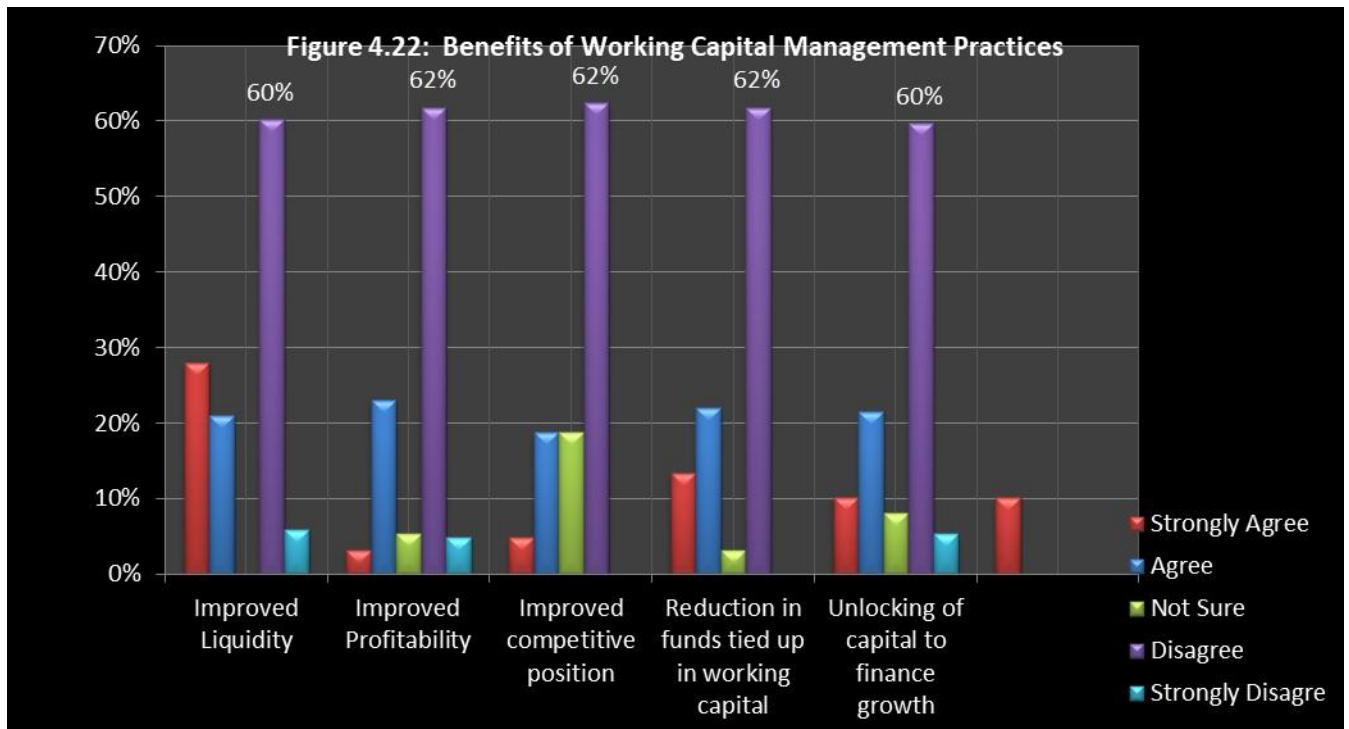
**Figure 4.20: WCM Challenges facing the medical importers**

Source: Primary data (2019)

### **Benefits of Working Capital Management Practices that accrue to the medical importers:**

Concerning the benefits that accrue to the medical importers as a result of the application of WCM practices, the respondents disagreed that the medical importers benefit from the application of working capital management practices. By this the respondents meant that: the medical importers do not experience improved liquidity (held by 60% of the respondents); the medical importers do not experience improved profitability (held by 62% of the respondents); the medical importers do not experience improved competitive position (held by 62% of the respondents); the medical importers do not experience reduction in funds tied up in working capital (held by 62% of the respondents); and finally, the medical importers are not able to Unlock capital to finance growth (held by 60% of the respondents). It was only between 20% and 30% of the respondents that were holding views opposite to the positions above. Please, refer to the figure below for details.

**Figure 4.21: Benefits of Working Capital Management Practices**



Source: Primary data (2019)

#### 4.13. Discussion of the Findings

From the findings of the study the five C's of credit was the principal technique used by the medical importers when granting credit. This is in line with Zaugg, (2003) who also the promote that the concept of „five Cs of credit“ is a very useful checklist and vital in assessing the request from a customer for supply on credit. The medical importers use the aging schedule to monitor the payment behavior of their credit customers. In a study by Wendorf, 2011, he concluded that aging analysis is a very key because firm transactions are tracked through account receivable, which signifies a key attention to such structures. Among the medical importers, the appropriate amount to replenish warehouses and other inventory storage points is based ad hoc decisions. However, William (2014), advice that the economic order quantity model is the best to use when it comes to the replenishment of inventory and that it must be used as a determinant of optimal inventory level, which takes into account total cost, inventory carrying and shortage cost. Legislation, Credit policy, management method, customer needs/requirement were the determinants of the Choices of WCM by the medical importers. This position is supported by (Peel, et al, 2000; Ooghe, 1998; Boisjoly & Izzo, 2009; Deloof,

2003) who also look at these determinants in the context of external and internal macro factors. Whereas this study found the determinants of working capital to be Legislation, Credit policy, management method and customer needs/requirement; Pieterse (2012), is of different opinion and that he argue that the choice of management practices in the management of the working capital of firm is dependable on the operational cycles of the farm's daily activity.

Pressure on margins is the major challenge that the medical importers face in their working capital management practices. The medical importers face liquidity challenges, low profitability, worse competitive position, increased funds tied up in working capital and finally lack of ability to unlock capital to finance growth. On the contrary, the following authors have differing positions on the findings above. According to Panwala, (2009), liquidity and profitability are the two very important aspects of corporate business existence.

Therefore, Liquidity measures the capacity of a company to meet all the growing obligations. The efficient management of working capital is the most crucial factor in ensuring the survival, liquidity, solvency and profitability of a business organization, (Samuelle, 2011). As mentioned earlier, liquidity is troubled with the capability of a company to make happy its financial obligations on a day to day basis (Moyer, et al., 2009). Moreover, two differing notions are recognized within this period, believed to contribute to effective WCM; that is financial viewpoint and organizational context. More emphatically efficient working capital management involves preparation and scheming current assets and current liabilities to put off the hazard of a company's incapability to meet due short period obligations on the one hand, and to keep away from unnecessary venture in these assets on the other hand (Eljelly, 2004).

Working resources is personally connected with day-to-day operations of a business. Thus, the managing of working capital becomes compulsory (Virendra, 2007). In wideranging practice, it refers to the surplus of current assets over current liabilities. Working capital management consequently, deal with the tribulations which happen to administer the current assets, current liabilities and the inter relationship exists sandwiched between them. The consequence of working capital to the achievement of any business cannot be overemphasized. One of the serious predicaments faced by the majority monetary managers is how to effectively and efficiently manage working capital to the advantage of their organization.

## Chapter Five - Summary Of Findings, Conclusion And Recommendations

### 5.1. Introduction

This chapter involves a presentation of the summary of findings from the analysis done so far. Recommendations based on the findings have been provide to improve the working capital management of the medical importers that studied. The studs are concluded and a statement of the way forward is made.

### 5.2. Summary of Findings

#### **Policy on Working Capital:**

The Overall, the medical importers studied operated an informal working capital policy as show on the diagram, whereas, 70% of the companies sampled have no formal working capital policy. This implies that they are far from regulated working environment and hence meant that they are in an inefficient and ineffective working capital management scenario. Managing excess cash inflow, outflow, or cash shortages will cause significant negative impact, as it is not in a controlled environment whereby the management can make strategic decision following formal policy.

#### **Working Capital Policy Formulation:**

It drawn can be from the analysis that working capital formulation revolves around the senior employee's .Looking at working capital policy formulation, though such task requires a technical input from finance/accounting personals, it has a huge impact on companies' longterm operation, growth and over-all strategic direction. Therefore, it is imperative that such working capital policy formation has done to be by the senior management team having an input from other departments, like operation, sales, procurement, service, etc.

The other factor to be considered is that , accountants and finance staff are more involved in executing policies, manage budgets, and record transactions which push them more of into policy execution and control side rather than policy formation end of it.

#### **WCM Practices in the Past**

In the past the practices of working capital management adopted by the medical importers data shows that most of the companies that have responded do not translate their policy into practice (62.37%). Having a policy but not implementing it effectively is equal to not having a policy, which makes these companies ineffective in terms of translating and bonding themselves to their policy. Therefore, the management of these companies should take this matter seriously and act decisively to reverse such unfruitful practice.

### **Working Policy Review:**

The working capital policies of the medical importers were reviewed from samples responding that they have a formal working capital policy, those who own who review their policy are shown on the below figure 4.4. Having in mind the standard operational practices, every policy shall be reviewed on a yearly or two years basis. 26% of the participants have reviewed their policy in two years, whereas, 42% of them reviewed it on an annual basis. This implies that 68% of the participants have reviewed regularly meeting the formal standard within the review time line of the industry.

### **Cash and Cash Equivalent Management Practices**

The medical importers resort to the shortest possible of time for which the medical importers utilize cash budgeting is on a monthly basis and when the medical importers realize surplus cash, 78% of the respondents claim that they plough it back to the business. The premium factors that the medical importers consider when choosing investment methods for cash surpluses are “the risk and yield of the investment” and “when the investment is expected to mature. The factors that the medical importers consider when choosing investment methods for cash shortage are “the Step up invoice collections of the investment”.

### **Nature of risk policy:**

The type of risk policy: From the general financial management perspective, taking a risk on investment or in any business for that matter brings in high return. However, most of the companies are tending to be risk avoiders (60%). We have not found a company from the sampled cases that has assessed company, business and environmental risks, identify and analyze those risks, plan to mitigate them and then take a calculated risk in a planned manner

(0%). Therefore, it's worrisome to think a business where such a volatile business environment exists and even having a company setup which is being affected hugely by the external environment like the current medical sector. Therefore, managing company by avoiding risk and creating a sustainable business while in such an environment is very unimaginable. This requires a shift on the policy direction of the management to encourage them taking a risk to certain extent.

Though it is not significant, some of the companies tend to respond to risk regularly (21%) and adjust themselves to it. This seems like these companies are responding to risk in a forced manner rather than acting proactively. Such a risk management approach is passive and would ultimately lead the company into failure, those one with (19%) respond to risk situational, which sounds that it's in a very unplanned and forced way like the previous group of respondents.

#### **Account Receivable Management Practices:**

The five C's of credit was the principal technique used by the medical importers when granting credit and they use the collection paired and aging schedule to monitor the payment behavior of their credit customers changes in credit terms is done based on the effect that the credit have on the level of accounts receivable. The five C's of credit was to consider when choosing when granting credit s and deduction of risk credit are "the Collateral and capital of the credit method. Evaluating Credit Term Changes are the major criteria that the medical importers utilize in their credit terms is to be worth considering were the effect of the credit on sales and the effect of the credit on the profit of the medical importers.

#### **Inventory Management Practices:**

The appropriate amount to replenish warehouses and other inventory storage points is based on ad hoc decisions whereas the shortage costs is the deciding factor for replenishing quantities of inventory purchased by the medical importers. Information technology was very useful in the management of all the components of working capital, the Parameters for purchasing inventory are deciding on replenishment quantities for inventory consider Shortage costs by the medical importers.

#### **Account and Note Payable Practices:**



As high, as 70% of the medical importers always take discount from their suppliers and pay on the discount date. It was discovered from 75% of the respondents that their loans always require collateral.

### **Considerations in WCM:**

Legislation is the major external macro factor that the medical importers consider when choosing working capital management practices. The customers' needs/requirement is the significant external micro factor that the medical importers consider when choosing working capital management practices. A management method is the central internal macro factor that the medical importers consider when choosing working capital management practices. Credit policy or collection management is the main internal micro factor that the medical importers consider when choosing working capital management practices.

### **Effectiveness of the WCM Practices of medical importers:**

Pressure on margins is the major challenge that the medical importers face in their working capital management practices. The medical importers face liquidity challenges, low profitability, worse competitive position, increased funds tied up in working capital and finally lack of ability to unlock capital to finance growth

### **5.3. Conclusion**

The study was motivated by the desire to assess the working capital management practices of selected medical importers in Ethiopia. To achieve this, survey instrument has administered on 186 senior employees of leading medical importers in Addis Ababa with a response rate of 95%. The data collected has processed by the capability of survey Microsoft excels. The results showed that the medical importers face liquidity challenges, low profitability, worse competitive position, increased funds tied up in working capital and finally lack of ability to unlock capital to finance growth. It is therefore recommended that the medical importers reexamine the factors that determine their working capital so that they come up with best practices of working capital that can mitigate against the challenges.

#### **5.4. Recommendations**

The working capital management policy need to be changed from informal to formal to enhance the chances of the medical importers to be successful in their WCM. Further, the policies of working capital must be review more than once a year depending upon the medical importers

Secondly, the choice of WCM practices of the medical importers depended on legislation, customer needs, management method, and Credit policy and yet failed to reap the benefits of efficient WCM.

It is recommended that the medical importers reexamine the factors that determine their working capital so that they come up with best practices of working capital that can mitigate against the liquidity challenges, low profitability, worse competitive position, increased funds tied up in working capital and finally lack of ability on the part of the medical importers to unlock capital to finance growth.

Finally, computerized control systems must be used a manage inventory instead of the use of the ad hoc system. Medical importers must therefore deploy I.T in their operations to inject efficiency in their WCM.

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## **Appendix**

Questionnaire on: working capital management practices among medical importers in Addis Ababa, Ethiopia.

**DIRECTIONS:**

Questions, you are asked to choose one answer among the alternatives. In some cases, your opinions are requested by asking you to select from a list of choices that range from one extreme to another. For other questions, you are asked to rank the alternatives in terms of their relative importance to your company. Use “1” to refer to the most important, “2” for the second most important, and so forth. Please do not assign ranks to alternatives that do not apply to your company, just leave the spaces blank. For some questions, you are encouraged to specify other alternatives in the space provided. Below each question, you are provided with a hint as to how to answer the question. Also feel free to write helpful comments, where appropriate, in the margins.

**SESSION 1: PROFILE OF MANAGERS**

**1. Age Range**

Choose One

*18 – 30*

*31 – 40*

*41 - 50*

*51 – 60*

**2. Educational Experience**

Choose One

*Senior High School*

*Master’s Degree*

*College Degree*

*Phd and above*

**3. Position at work**

**Please, type your position in the space provided below**

Choose One  *General Manager*  *Inventory Manager*  *Accountant*  *Finance Head*   
*Other (please specify in the space provided)*

---

---

**4. Years of work Experience Choose One**

- Less than a year*       11 – 15       21 – 25       31 – 35  
 6 – 10       16 – 20       26 – 30       36 - 40

**SESSION 2: PROFILE OF MEDICAL IMPORTERS**

---

**5. What is the total employee of your company?**

Choose One

- Less than 10*    101 – 200    301 – 400

*Other, please specify*

---

**6. How old is the company?**

Choose One

- 1 - 10       21 - 30       41 – 50  
 11 - 20       31 – 40       Above 50

**7. What is the nature of your company's product(s)?**

You may choose more than one  *Pharmaceuticals*    *Medical Instruments*    *Other*  
(please specify in the space provided)

- Medical supplies    Laboratory Equipment
- 

**SESSION 3: WORKING CAPITAL POLICY**

**8. Does your firm have an overall policy for the management of its working capital?**



Choose one

*a. No policy*

*b. Formal policy*

*c. Informal policy*

**9. Who sets the management policy for working capital (if there is one) for your company?**

Choose One

- a. Board of Directors
- b. President(CEO /M.D)
- c. Vice President/ Finance/Accountant
- d. Controller
- e. Other (please specify in the space provided)

**10. How would you describe your policy (if there is one) for the management of working capital? Choose One**

- a.Risk- avoiding
- b.Risk-accepting
- c.Situational
- d.Changes over time,

**11. How often is the management policy for working capital (if there is one) reviewed?**

Choose One

- a. Whenever Necessary
- b. Annually
- c. Semi-annually
- d. Quarterly

**12. Does your firm have an overall Past Working Capital Management Practices?**

Choose One

- a. We were not conscious of our WCM practices
- b. They were the same as our current WCM practices
- c. They were poor as compared with our current WCM practices

**SESSION 4: CASH MANAGEMENT PRACTICES**

**13. What is the shortest interval of time for which your firm utilizes cash budgeting?**

Choose One *o Quarterly o Weekly o other (please specify in the space provided) o Monthly o Daily \_\_\_\_\_*

**14. How do you manage your surplus cash?**

You may choose more than one *o Invest in short term marketable securities o Plough back into the business o Diversification o Acquire capital assets*

**15. What factors do you consider when choosing an appropriate investment method for short-term cash surpluses?**

Please Rank in order of their importance to you. Number the most important =1, the next =2, the next =3, and the least=5. If any of the options has no importance at all to you, please leave blank.

-----	<i>1</i>	<i>2</i>	<i>3</i>	<i>4</i>	<i>5</i>
The size of the surplus	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
The easiness with which an investment can be realized	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
When the investment is expected to mature	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
The risk and yield of the investment	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Any penalty which may be incurred for early termination	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

**16. How do you cover the Shortage of cash?**

You may choose more than one

Please Rank in order of their importance to you. Number the most important =1, the next =2, the next =3, and the least=5. If any of the options has no importance at all to you, please leave blank.

-----	<i>1</i>	<i>2</i>	<i>3</i>	<i>4</i>	<i>5</i>
Convert Unnecessary Assets to Cash	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Contact Lenders to Renegotiate Financing	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Negotiate With Suppliers	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Step Up Invoice Collections	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Cut Business Expenses	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

**SESSION 5: RECEIVABLE MANAGEMENT PRACTICES**

**17. What factors do you consider when choosing an appropriate credit?**

You may choose more than one.

Please Rank in order of their importance to you. Number the most important =1, the next =2, the next =3, and the least=5. If any of the options has no importance at all to you, please leave blank.

-----	<i>1</i>	<i>2</i>	<i>3</i>	<i>4</i>	<i>5</i>
character	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
capacity	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
capital	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
conditions	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Collateral	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

**18. In monitoring the payment behavior of your credit customers, which of the following measures do you find most useful?**

Please Rank in order of their importance to you. Number the most important 1, the next 2, the next 3, and the least 4. If any of the options has no importance at all to you, please leave blank

- Account receivable Turnover*    *Aging schedule*    *Collection period*    *Other*  
(please specify)

**19. What criteria do you utilize in evaluating proposed changes in the credit terms of your company?**

Please Rank in order of their importance to you. Number the most important 1, the next 2, the next 3, and the least 4. If any of the options has no importance at all to you, please leave blank.

*Credit worthiness*       *Loan size*    *Size of debt burden*        
*Frequency of borrowing*

**SESSION 6: INVENTORY MANAGEMENT PRACTICES**

**20. With respect to managing INVENTORY, how do you decide on the appropriate amounts to replenish your warehouses or other inventory storage points?**

Choose One

- Assess and reassess your forecast*       *Formulate effective stocking level strategies*       *Create better end-to-end visibility No Inventory Replens Techniques*

**21. In deciding on replenishment quantities for inventory PURCHASED by your company, which of the following parameters are considered?**

Please Rank in order of their importance to you. Number the most important 1, the next 2, the next 3, the next 4. The next 5 and the least important 6 if any of the options has no importance at all to you, please leave blank.

- |   |                          |
|---|--------------------------|
| <i>1. Availability of parts and materials</i> | <i>2. Shortage costs</i> |
| 3. Credit terms offered by your suppliers     | 4. Inflationary effects  |
| 5. Other                                      |                          |

### **SESSION 7: PAYABLE MANAGEMENT PRACTICES**

**22. With respect to managing ACCOUNTS PAYABLE, what do you estimate to be the annualized cost to your company of the trade credit obtained from your suppliers? (Thus, what is the annual cost associated with buying on credit)**

Choose from

- 1.0-5.9%
- 6.0-10.9%
- Greater than 11.0%

**23. What is your policy/practice with respect to cash discounts offered by your supplier?**

Choose One  Always take the discount by paying on the discount date   
 Sometimes take the discount by paying on the discount date  Pay later than the  
discount date, but still takes the discount  Never takes the discount

**24. To what extent is collateral a part of your short term loans?**

Choose one

*O Loans never require collateral o Loans always require a collateral*

O Loans occasionally require collateral

**SESSION 8: FACTORS THAT DETERMINE THE CHOICE OF WCM PRACTICES**

From question 26 to 29, select the factor(s) that influence your company's choice of working capital management practices.

**25. External MACRO factors**

Choose the alternative(s) that influence your choice of WCM practice

1=Most influential, 4=Least influential

-----	<i>1</i>	<i>2</i>	<i>3</i>	<i>4</i>
Politics stability	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
economic environment (knowledge)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Industries effect management	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Legislation	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

**26. External MICRO factors**

Choose the alternative(s) that influence your choice of WCM practice

1=Most influential, 4=Least influential

-----	<i>1</i>	<i>2</i>	<i>3</i>	<i>4</i>
Customer needs/requirements	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Financing requirements/methods	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Technology	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Competitor s' effect	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

**27. Internal MACRO factors**

Choose the alternative(s) that influence your choice of WCM practice

1=Most influential, 6=Least influential

-----	<i>1</i>	<i>2</i>	<i>3</i>	<i>4</i>
Management System/Method/Practice	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Organizational behavior	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Operation management /Supply Chain management	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Management financial capability (knowledge)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

**28. Internal MICRO factors**

Choose the alternative(s) that influence your choice of WCM practice in order of their importance to you. 1=Most influential, 4=Least influential.

-----	1	2	3	4
Inventory management	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Employees' financial capability (knowledge)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Credit policy/Collection management	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Payable Management	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

**SESSION 9: APPLICATION OF INFORMATION TECHNOLOGY AS A WORKING**

**CAPITAL MANAGEMENT PRACTICE**

**29. Do you apply information technology (I.T) in your working capital management practices?**

Choose one

*Yes*

*No*

**30. Do you consider Information Technology (I.T) useful in your working capital management practices?**

-----	<i>Extremely Useful</i>	<i>Very Useful</i>	<i>Useful</i>	<i>Somewhat Useful</i>	<i>Not Sure</i>	<i>Not Useful</i>
Cash management practices	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Account receivable practices	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Account payable practices	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Inventory management practices	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>



**SESSION 10: OUTCOME OF THE WCM PRACTICES EMPLOYED BY THE COMPANY**

**31. Do you face any of the following problems in your company?**

-----	<i>Extremely Useful</i>	<i>Very Useful</i>	<i>Useful</i>	<i>Somewhat Useful</i>	<i>Not Sure</i>	<i>Not Useful</i>
Pressure on margins	0	0	0	0	0	0
Excessive debt	0	0	0	0	0	0
Weak competitive position	0	0	0	0	0	0
Poor cash flow	0	0	0	0	0	0
Low profitability	0	0	0	0	0	0
Shortage of capital to finance growth	0	0	0	0	0	0

**32. Does your company experience any of the following effects?**

-----	<i>Strongly Agree</i>	<i>Agree</i>	<i>Strongly Disagree</i>	<i>Disagree</i>	<i>Not Sure</i>
Improved Liquidity	0	0	0	0	0
Improved Profitability	0	0	0	0	0
Improved competitive position	0	0	0	0	0
Reduction in funds tied up in working capital	0	0	0	0	0
Unlocking of capital to finance growth	0	0	0	0	0

**33. How would you describe your previous working capital management practices?**

Choose one or more  They were the same as our current WCM practices  They were poor as compared to our current WCM practices  They were better than the current WCM practices  We were not conscious of our WCM practices