Management Strategies of Working Capital in Polish Services Providing Companies

GRZEGORZ ZIMON
Department of Finance, Banking and Accounting
Rzeszow University of Technology
Al. Powstancow Warszawy 12, Rzeszow 35-959
POLAND

Abstract: - Net working capital aims at keeping companies in good financial condition and, above all, ensuring their financial security. It appears in micro, small, medium and large companies operating in every sector. In the case of services providing companies working capital management is very limited as in such businesses there is no inventory, which is the least liquid element of current assets. Therefore, in such companies working capital management strategies are based on the management of short-term receivables, short-term investments and short-term liabilities. In the paper services providing companies operating in the transport and tourism sectors have been presented. The research period covers the years 2016-2018. By means of selected statistical methods and appropriate financial indicators it was found that transport companies used different working capital management strategies compared to companies operating in the tourism sector.

Key-Words: - working capital, financial liquidity, services providing companies, transport, tourism

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1 Introduction

Working capital is a very important area of financial management that exists in virtually every business, regardless of its size. It appears in every sector, in manufacturing, services providing or commercial companies. However, its specificity in working capital management in services providing companies is different, and the working capital structure in particular. This is due to the fact that in most services providing companies there is no inventory in the structure of current assets. The lack of such an important item of current assets, characterized by low financial liquidity, means that the company managers, when defining working capital management strategies, primarily analyze two items shaping the level of net working capital, i.e. receivables from customers and liabilities to suppliers. The main goal of the paper is an analysis and an evaluation of working capital management strategies in Polish services providing companies. The analysis was carried out on a group of 64 companies providing transport and tourist services. The research period covered the years 2016-2018.

2 Working Capital – Literature Review

Working capital management means solving repetitive everyday problems faced by managers of a company. It results from the fact that the working capital management area concerns the most liquid assets and short-term liabilities. Determination of the optimal level of net working capital is the most difficult task that managers of companies need to face. Too high working capital surplus means unnecessary costs but financial security. In turn, shortage and low level of working capital are a sign that there may be difficulties in maintaining financial liquidity. Therefore, working capital management has the impact on profits and the level of financial liquidity. Many authors confirm in their research the impact of working capital management on the company's performance, profitability and liquidity[1,2,3,4]. In the literature one can find various opinions on the subject of the level of net working capital. There are the authors who recommend maintaining high levels of net working capital, there are also those who strongly criticize it [5,6,7,8].

Some studies have shown that higher levels of working capital allow companies to increase their sales volume and get larger discounts on earlier payments [9,10]. Therefore, a high level of working capital can also affect positively an increase in the value of a company.

The authors also state that it is necessary to create an appropriate working capital management policy by analyzing the relationship between individual components of working capital [11,12,13,14]

However, there are authors who claim that a high level of net working capital is a mistake since then unjustified costs arise, and they will affect negatively the company's financial result [15].
K. Smith [16] suggests that working capital decisions also affect business performance. On the other hand, Y.J Wang [17] states that large, rich companies from Japan and Taiwan have significantly lower levels of working capital compared to businesses with lower market values. So there is a group of authors who strongly criticize the high level of net working capital [18,19]. It is worth trying to create optimal working capital management strategies for the company [20,21,22,24]

In addition, a growing group of authors claims that a high level of net working capital not only reduces potential profits, but also raises the risk of companies functioning [25,26,27,28,29,30,31].
Therefore, in face of difficulty managers need to choose such a strategy of working capital management in order to obtain high profits, and at the same time not expose the company to loss of financial liquidity.

Working capital management in services providing companies is clearly different from management strategies in commercial companies. In the case of the first group three classic strategies: conservative, aggressive can be distinguished. However, the basic difference is practically no inventory in the structure of current assets. If already present, it is in small quantities. Therefore, the working capital management strategy in services providing companies is based on m anaging receivables from customers and liabilities to suppliers. Below there has been presented a general classification of the working capital management strategy for services providing companies.

- **Conservative Strategy**

It consists in maintaining high levels of cash, low amounts of receivables from customers and liabilities to suppliers. Conservative receivables management is based on the collection of receivables on time, sale for cash and strict control of contractors. Therefore, receivables do not constitute high levels in the structure of current assets, and they are at the level of short-term investments. The level of short-term investments will vary, depending on t he type of service the company offers.

- **The Aggressive Strategy**

The aggressive strategy is characterized by maintaining current assets and liabilities at a similar level. There is practically no inventories. In the case of aggressive strategy sales with deferred payment are being introduced with great emphasis. Therefore, receivables from customers should constitute the largest share in the structure of current assets. Their high level is caused by the sale of services to new customers who have not been checked. Short-term investments in the case of aggressive strategies are at a h igher level than inventory, but very often they are immediately used to settle current liabilities towards suppliers. This type of management strategy is characterized by maintaining a high level of obligations to suppliers.

- **Moderate Strategy**

Moderate strategy is the third type of working capital management. This type of management is an indirect strategy between conservative and aggressive ones. Moderate strategy, as in the case of trade units, is worth separating into two strategies, moderate - aggressive and moderately conservative. The latter one is based on a pplied principles for a conservative strategy. Moderate-aggressive strategy is based on the aggressive strategy. It is changed accordingly to improve the level of financial security of a company.
When analyzing service enterprises, it should be noted that the share of fixed assets in the structure of total assets will be higher compared to commercial enterprises. However, this depends on t he type of services the company provides. Transport companies will have high share of fixed assets in the structure of total assets. Enterprises providing tourist services may not have fixed assets.

3 Research Methodology

The research group consisted of 64 services providing companies. The selected units were divided into two groups: the companies providing transport services (52 businesses) and into entities providing tourist services (12 businesses).The analysis was made on the basis of financial data for the years 2016-2018. The analyses of financial ratios and statistical methods were used as the basic research tools. In tables of descriptive statistics characterizing the distribution of indicators in particular years there were such measures as: average, median and minimum and maximum.

4 Results

The research showed that all analyzed companies had positive working capital. The analyzed units were divided into two groups: the companies providing transport services and the ones providing tourist services.

• Transport sector

The first group of companies were the ones providing transport services. Table 1 s hows the structure of current assets in the analyzed businesses.

Table 1. The structure of current assets in transport companies in 2016-2018

Transport companies	$\bar{x}$	Me	min	max
Inventories	2.1	2.0	1.0	2.0
Receivables from customers	77.2	76.8	58.0	86.0
Short-term investments	20.7	19,8	11.0	42.0

Source: author's own research

Based on the results presented in Table 1, it can be clearly seen that the current assets structure is dominated by short-term receivables over other elements of current assets. The next item is cash, inventories appear in a minimal amount, often do not exceed even 1%.

Selected indicators that allow defining working capital management strategies in the companies providing transport services are presented below.

Table 2. Ratio analysis of transport companies in 2016-2018

Transport companies	$\bar{x}$	Me	min	max
Financial liquidity ratio	1,4	1.3	1.1	1.9
Quick liquidity ratio	1,1	2.0	0.9	1.6
Receivables turnover in days	55.0	50.1	60.2	45.3
Liabilities turnover in days	31.0	32.0	36.8	24.2

Source: author's own research

The receivables and liabilities turnover ratios in days presented in the table apply to short-term items. When analyzing individual ratios, it should be noted that in the group analyzed, the companies pay back their liabilities faster than they collect receivables from customers. It is quite a dangerous situation as i t can lead to a l oss of financial liquidity. This is confirmed by financial liquidity ratios, which are at a fairly low level.

• Tourism sector

The bankruptcy of the Neckermann tourist office has been the hottest news recently. Working capital is designed to protect a company against loss of financial liquidity, which is why the choice of its management strategy is of great importance for the financial security of businesses. When analyzing the financial statements of the largest Polish companies, it was not observed that they would have problems with paying their liabilities. Table 3 pr esents the structure of current assets in enterprises providing tourist services.

Table 3. The structure of current assets in tourism companies in 2016-2018

Transport companies	$\bar{x}$	Me	min	max
Inventories	0	0	0	0
Receivables from customers	40.0	38.2	20.1	60.4
Short-term investments	60.0	58.3	40.3	80.9

Source: author's own research

In the majority of the companies analyzed, short-term investments prevail over short-term receivables in the structure of current assets. There are practically no i nventories, therefore they were defined as level zero. In short-term investments, of course, there is usually one item of cash in hand and on bank accounts.

Below there are presented some selected ratios from the financial analysis enabling the definition of the working capital management strategy.

Table 4. Ratio analysis of tourism companies in 2016-2018

Transport companies	$\overline{x}$	Me	min	max
Financial liquidity ratio	2.3	2.1	1.3	4.2
Quick liquidity ratio	2.2	1.8	1.1	3.8
Receivables turnover in days	87.0	85.0	4.9	122.1
Liabilities turnover in days	102.4	101.3	6.8	140.1

Source: author's own research own study

The receivables and payables turnover in days presented in the table apply to short-term items. The analysis shows a faster turnover of receivables from customers compared to liabilities to suppliers. In addition, the high share of cash in the structure of current assets allows stating that a company providing tourist services should not have problems with maintaining financial liquidity. This is confirmed by the results of financial liquidity ratios. However, recently the bankruptcies of tourist enterprises in the world and in Poland indicate that relying only on results alone can be dangerous. One should constantly and systematically monitor an ability to settle current liabilities.

5 Conclusion

Managers need to abandon the classic strategies of net working capital management if they want their companies to obtain high results of financial liquidity and profitability. They should look for indirect solutions, i.e. various types of moderate strategies. The services providing companies operate in this direction. In the article only two sectors were examined, i.e. businesses providing transport services and tourist services.

In the case of companies providing transport services, it should be stated that they are based on a moderate-conservative strategy. For this group of companies the problem is a fairly large difference between the moment of payment of liabilities to suppliers and the moment of receipt of receivables from customers. In this group of companies there is a gap, a demand for cash. That is why the structure of current assets shows quite high cash volumes compared to other sectors. They are used to settle current liabilities. In the case of transport companies, managers should try to extend the deadlines for settling liabilities. In the case of small entities, it may be worth trying to merge and operate within multi-stakeholder organizations, thanks to which they will increase their negotiating power and obtain, for instance, a longer deadline for repayment of liabilities.

To sum up, the most effective and safe strategy for service units seems to be a moderate strategy. companies should combine it with other classic strategies, then liquidity and profitability results could be optimal. A very good solution would be for SMEs to start cooperation within purchasing groups, which would certainly improve their financial results.

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