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Importance of Working Capital Management on Profitability of Organization and its Performance

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Abstract

Increased financial pressures on trauma centre have evaluated the importance of working capital management, that is, the management of current assets and current liabilities. Efficient working capital management allows trauma centre to reduce their holdings of current assets, such as inventory and account receivable, which earn no interest income and require financing with short -term debt. The resulting cash inflows can be reinvested in interest-bearing financial instruments or can be used to reduce short-term borrowings, thus improving the profitability of the trauma centre. Working capital management in important because of its effects on the trauma's profitability and risk, consequently its value.

The study examines the importance of working capital management on organizational trauma and their performance at managing two components of working capital : account receivables, measured in terms of trauma's average collection periods, and account payables, measured in terms of trauma's average payment periods. The importance of working capital management on profitability of organizational trauma and their performance was tested using the panel data methodology. This methodology presents important benefits.

The results show a negative relationship between trauma's average collection period and profitability. That is, hospitals that collected on their patient revenue faster reported high profit margins than did trauma's that have larger balances of accounts receivable outstanding. We also found a negative relationship between trauma's average payment period and their profitability. The results, which are strong enough to the presence of endogeneity, demonstrate that managers can create value by reducing their inventories and the number of days for which their accounts are outstanding.

The findings of this study suggest that working capital management indeed matters for trauma's profitability and their performance. Efforts aimed at reducing large balances in both accounts *receivable and accounts payable may frequently be worthwhile investments that have the potential to reduce the costs associated with working capital management and thus it improve the profitability of organizational trauma and their performance.*

Keywords: Working capital, Profitability, Organizational trauma

INTRODUCTION:

Working Capital Management (WCM) is a very significant yet highly abandon function performed by financial managers for making the companies competitive in the market. At present, management of working capital is the most pertinent thing in the business world that differentiates one company from another. Cash, the most essential components of current assets, is considered as the life blood of business. But, most of the companies prove to be inefficient in managing cash properly. Working Capital Management deals with the management of current assets (CA) and current liabilities (CL) along with the measures to finance them efficiently. Usually, a company owns half of its total asset as current assets. Both too much and too less current assets are detrimental for the profitability of the firms. Again, the firms face

Basing on these concepts, there are two types of working capital i.e. gross working capital (GWC) and net working capital (NWC). Gross working capital is the total amount of current assets whereas net working capital is the surplus current assets that is the net of current liabilities. Moreover, working capital can also be segregated into another two categories i.e. fixed (permanent) and temporary working capital. Permanent working capital is needed to carry out the regular business operations and temporary working capital is needed to shore up the changes in production and sales activities. Temporary working capital has two variants i.e. seasonal and special working capital. Efficient working capital refers to maintaining the optimum level of current assets and current liabilities to obtain maximum profit for the organizations in a given period of time.

Injury has become a major cause of death and disability worldwide. Organized approaches to its prevention and treatment are needed. In terms of treatment, there are many low-cost improvements that could be made to enhance the care of injured persons. The goal of the Guidelines for essential trauma care is to promote such low-cost improvements. These guidelines seek to set achievable standards for trauma treatment services which could realistically be made available to almost every injured person in the world. They then seek to define the resources that would be necessary to assure such care. These include human resources (staffing and training) and physical resources (infrastructure, equipment and supplies). By more clearly defining such services and resources, we hope these guidelines will facilitate the strengthening of trauma treatment services worldwide. The basic premise of these guidelines is that improvements in organization and planning can result in improvements in trauma treatment services and hence in the outcome of injured persons, with minimal increases in expenditures. Organizational trauma is a collective experience that overwhelms the organization’s defensive and protective structures and leaves the entity temporarily vulnerable and helpless or permanently damaged. Organizational traumatization may also result from repeated damaging actions or the deleterious effect of the nature of an organization's work.

Lastly in the field of managerial firms WCM has a vital role with both positive and negative impacts on the business as it has significant effect on the Profitability of the firms. The current research is being done to have better understanding between WCM and Profitability. The mission of the WCM is to make balance in every component of Working Capital.

According to Fildeck and Kruegar (2005), Profitability of firms is associated with capabilities of the manager; if the managers are capable he can properly manage Inventory, Receivables and payables. Firms will have availability of finance for the expansion projects if it reduce its financing cost and minimize the amount of investment which is being blocked in current assets. In the study of non-optimal levels of current assets and liabilities and rising up to the balance level managers should contribute a lot of their time and efforts. (Lamberson 1995) a balance level of Working Capital is the one in which equilibrium is achieved between efficacy and risk. It requires a continuous monitoring the balance level of the Working Capital.

The remaining study is basically based on the analysis of previous literature review which is relevant to the topic which provides information for this topic, research methodology which provides the information about all the variables included in the study and sample size.

LITERATURE REVIEW:

J P Singh and Shishir Pandey (2008) have studied on topic impact of working capital management on profitability of Hindalco Industries Limited. This study is based on secondary data and data are collected from annual reports of company for 17 years period i.e.1 990-2007.

The research methodology used in this paper is ratio analysis, percentage method, correlation coefficients and multiple regression analysis. Regression results of study show that current ratio, liquid ratio, receivables turnover ratio and working capitals to total assets ratio have statistically significant impact on the profitability of Hindalco Industries Limited.

Shishir Pandey and Vikash Kumar Jaiswal (2011) analyzed the effect of working capital management on profitability of manufacturing firms. The study period of the paper was five years i.e. 2005-2010. The research methodology by the author is correlation and regression analysis (two different method fixed effects model and ordinary least squares model). The result of correlation analysis show there is negative relationship between profitability and debtor's days, inventory days, and creditor's days. The results of regression analysis shows cash velocity, size of the firm, and net working capital leverage are significant both working capital method.

Dr. Ashok Kumar Panigrahi (2012) analyses the impact of working capital management on profitability of ACC Cement company. The study is based on secondary data, data are collected from websites money control as well as company websites and study period are for 10 years i.e. 1999-2000 to 2009-2010. The research methodology used in this paper is correlations coefficient, multiple correlation analysis and multiple regression analysis. In this paper few variables show a strong and positive correlation with the profit whereas some others do not have. The result shows that there is moderate relationship between the efficiency of working capital and the profitability.

Arun Kumar O.N. and T. Radharamanan (2012) examined the effect of working capital Management on profitability of Indian Manufacturing Firms. The study period was of 2005 -06 to 2009-10 i.e. for 5 years and methodology used on this study was correlation and regression analysis. The result of research shows that in correlation analysis profitability has negative relationship between profitability and Debtor day, inventory day and creditor day. And a result of regression analysis shows that there is positive relationship between number days of inventory and number of days of account payables.

Ganesamoorthy L. and Rajavathana R. (2013) in their study on, effects of working capital management on profitability of select automobile companies in India; they found insignificant relationship between working capital management and profitability of Tata Motors and Mahindra and Mahindra.

Kruti A. Patel (2015) studied on impact of working capital management on profitability of Indian Oil Corporation. The study was based on secondary data and study period was 2009-10 to 2013-14. Pearson correlation, descriptive statistic and INM SPSS were applied as research methodology. The result shows that there is significant negative correlation between working capital management and net profit and it also indicates that there is negative relationship between liquidity and profitability.

Poonam Gautam Sharma and Preet Kaur (2015) examine the impact of working capital management on profitability of Bharti Airtel Telecom Company. The study period was from 2007-08 to 2014-15 and statistical and econometric tools were used for study. The results reveal that there is significant negative relationship between liquidity and profitability of the company and it also reveals that quick ratio, inventory turnover ratio, debtor's turnover ratio of company shows satisfactory performance and current ratio of company was not satisfactory.

OBJECTIVES:

The objective of this study is to find out the importance of working capital management and profitability of organizational trauma and their performance. To develop a frame work for measuring the importance of working capital management and profitability of organizational trauma and their performance. It is hypothetical that there is a significant relationship between efficient working capital management and profitability of organizational trauma and their performance. To get insight into the concept of working capital management in organizational trauma. To investigate the impact of working capital management on profitability. To find out association between working capital management and profitability of organizational trauma and its performance**.**

METHODOLOGY:

This study is based on secondary data. In this research we will see the different working capital management practices and its impact on profitability of organizational trauma and its performance. In this study, the choice of explanatory variables is based on alternative theories related to working capital management and profitability and additional variables that were used in previous studies. The variables used in this study are based on the line as applied in previous research. Data of account receivable, account payable, inventories, sales turnover, total assets, and cost of goods sold were extracted from the annual financial statements of the sampled company. Raw data were analysed then transformed into meaningful information as the way of easing their understandability. This is a quantitative and descriptive design. Data provided by the respondents in their own words are the qualitative methods. By contrast, quantitative method is a type of method where the researcher is interested in quantities and numbers. The researcher analysed secondary data by computing regression analysis where Gross Operating Profit is the dependent variable. To find out the difference between the effects of the working capital management on performance of organizational trauma and its performance, a one-way ANOVA was carried for each variable. Various statistical tools will be applied to test the above hypothesis. The statistical tool used for above type of hypothesis correlation, multiple linear regression statistics will be used to check the dependence of financial performance on working capital.

FINDINGS AND CONCLUSION:

The results show a negative relationship between trauma's average collection period and profitability. That is, hospitals that collected on their patient revenue faster reported high profit margins than did trauma's that have larger balances of accounts receivable outstanding. We also found a negative relationship between trauma's average payment period and their profitability. The results, which are strong enough to the presence of endogeneity, demonstrate that managers can create value by reducing their inventories and the number of days for which their accounts are outstanding. The findings of this study suggest that working capital management indeed matters for trauma's profitability and their performance. Understanding the work-culture connection is the first step an organization can take to free itself from dysfunctional dynamics and heal from trauma. The organization can then be more open to change while affirming and its mission. Efforts aimed at reducing large balances in both accounts receivable and accounts payable may frequently be worthwhile investments that have the potential to reduce the costs associated with working capital management and thus it improve the profitability of organizational trauma and their performance.

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