

Working Capital Management Strategies in Nepalese Institutional Schools

Dharma Raj Upreti*, V. P. R. P. Venkata*

Faculty of Management and Commerce, Mewar University, Chittorgarh, India

Email: drupreti73@gmail.com

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Abstract

Working Capital plays an essential role in the success or failure of an organization. It is actually the lifeblood and controlling nerve centre of the organization. The reason of this particular study was to examine the working capital management strategies in Nepalese institutional schools located in Central Development Region. To analyze the working capital management strategies in Nepalese institutional schools data of 10 years extracted from annual reports of the sampled schools has been used from 2008-2009 to 2017-2018 along with structured questionnaire. The analysis showed that one of the leading issues that the Nepalese institutional schools are actually facing regarding financial management is working capital management. The majority of the Nepalese institutional schools still lack some orientation and they are not capable of developing highly effective and efficient working capital management. The overall performance of Nepalese institutional schools is actually to be examined in term of its working capital management.

Keywords

Working Capital, Current Ratio, Management, Institutional Schools

1. Introduction

Nepalese schools are categorized under two categories, namely community schools and institutional schools. Community schools receive regular government support and are required to follow the government rules and regulations in school management. Institutional schools on the other hand, do not receive any support from the government and are managed by themselves though they are required to follow some government rules, like they have to follow government prescribed curriculum and textbooks and students in institutional schools ap-

*Dharma Raj Upreti: PhD Research Scholar; V. P. R. P. Venkata: Research Supervisor.

pear national level examinations conducted at the end of grade ten and twelve. These institutional schools are organized under Nepalese Company Act and under the ownership of individuals or groups of people who make investment and are profit oriented. Some institutional schools are also organized under the trusts which are supposed to be not-for-profit making.

Working capital management is a very relevant component of financial management as it has direct influence on liquidity and profitability of the organization. Working capital management, therefore, is engaged with the problems that arise in trying to manage the current assets, the current liabilities and the inter-relationship that exist between them (Horne & Wachowitz, 2000). In other words, it represents all aspects of administration of both current assets and current liabilities. Working capital policies of various firms have an impression on the liquidity, structural health in addition to profitability of the institution. It is a really simple fact that investment in capital projects designed for long term receives a lot more interest in comparison to do the task related on a regular basis with the management of working capital. Nevertheless, companies which do not tackle such a financial component of working capital in the correct manner do not attract important capital to fund their very obvious projects; chatting clearly, one should go through the short sprint to attain the marathon finish line (Brealey, 2005). Working capital management being associated with current assets and current liabilities is a very complicated process that affects every ongoing decision that is made in each enterprise regardless of its size or the sector where it operates. Working capital is, along with fixed capital, one of the key elements of the firm (Dewing, 1941).

While analyzing and assessing the working capital management process in an organization, two more important components namely costs and revenues should be considered as they have the direct impact on the level of working capital. Net working capital is the fraction of equity that finances current assets, so one can notice that earnings have large impact on its value in the case where the earnings are retained in the organization and increase the level of equity. Another notable disturbance in the process of working capital management is that the alternative financial managers have to make when setting strategies for working capital management, profit or liquidity. They have to opt whether to operate the organization towards security and high liquidity or towards high profitability and low liquidity.

One of the major problems that the Nepalese institutional schools are facing is with working capital management. Most of the Nepalese institutional schools still lack such orientation and they could not able to build effective working capital management. The working capital management undoubtedly is a prime concern of any organization which influences almost all functions. Organizations are generally found to concentrate on acquisition of the working capital but not through proper analysis of trade-off between risk and return. They do not pay more attention on effective utilization in spite of high level of importance of op-

imum level and efficient use of working capital. There is lack of such scientific and empirical research that could identify the issues of working capital management in Nepalese institutional schools. Adequate level of working capital or liquidity is determined by how an organization maintains its current assets and manages its current liabilities. In this regard, the performance of Nepalese institutional schools is to be analyzed in term of its working capital management. This study has attempted to find the facts and suggestions in connection with some major issues which can also be regarded as problem of working capital management.

2. Objectives

The major objective was to examine the working capital management strategies in Nepalese institutional schools located in Central Development Region. The other objectives were;

- To analyze the composition of working capital in Nepalese institutional schools.
- Analyze the level of investment in current assets to total assets.

3. Conceptual Framework

Working capital management is typically based on three classical management strategies namely Conservative, Moderate, and Aggressive. **Conservative policy** carries a high level of current assets to sales. It uses more long term debt and less short term debt for financing current assets. Therefore, conservative policy lowers the risk and return. **Moderate policy** carries an average level of current assets to sale. It uses mid range of short term and long term debt of above two policies. Therefore, the moderate current assets policy results in mid range risk and profitability. **Aggressive Policy** carries a low of current assets (marketable securities, cash, inventories and receivables) to sales. It uses more short term debt and less long term debt for financing current assets. Therefore, an aggressive policy Therefore, an aggressive policy results in a higher risk and higher profitability.

The selection of the strategy is based on the decision whether an organization manages risky and low net working capital possessed, or safely accumulates net working capital which in the event of problems with financial liquidity will allow protecting the organization against bankruptcy for a certain period of time.

4. Literature Review

Vartak & Hotchandani (2019) analyzed WCM and performance of Indian firms by applying correlation and regression models for the study period of 2009-2018 and revealed that WCM has inverse but significant relation with financial performance of the firms. Result of the study indicates significant impact of inventory turnover and CCC on financial performance whereas insignificant impact of accounts payables. The finding of study concludes that efficient WCM increases the financial performance of Indian firms.

Olaoye et al. (2019) analyzed Working Capital Management and Firms' Profitability of Quoted Firms on the Nigerian Stock Exchange. Data were accumulated on a single performance variable Return on Assets (ROA) and components of working capital such as collection period, credit period, inventory period and current ratio. The study comparatively used fixed effect model and random effect model of panel. The result of the analysis showed that both cash collection period (CCP) and cash payment period (CPP) had a negative impact on Return on Assets (ROA), though the impact was only significant for CPP as against the estimate for CCP that is not significant.

Kipronoh and Mweta (2018) stated that efficient working capital management determines the failure or the success of the company in the temporary or maybe long-run since it establishes the liquidity as well as profitability balance of a company. The success of any company is determined by how financial managers in this instance efficiently manage working capital components including primarily cash, debtors, inventories as well as creditors. It is essential for a company to keep a sense of balance between liquidity as well as earnings while carrying out the day of its daily operations.

Almazari (2014) investigated the relationship between the working capital management and the firms' profitability for the Saudi cement manufacturing companies. The sample included 8 Saudi cement manufacturing companies listed in the Saudi Stock Exchange for the period of 5 years from 2008-2012. Pearson bivariate correlation and regression analysis were used. The study results showed that Saudi cement industry's current ratio was the most important liquidity measure which effected profitability, therefore, the cement firms must set a trade-off between these two objectives so that, neither the liquidity nor profitability suffers. It was also found, as the size of a firm increases, profitability increased. Besides, when the debt financing increased, profitability declined. Linear regression tests confirmed a high degree of association between the working capital management and profitability.

Ganesan (2007) analyzed the working capital management effectiveness of firms from telecommunication equipment sector. The relationship between working capital management effectiveness as well as profitability was examined utilizing correlation as well as regression analyses. ANOVA examination was done to study the effect of working capital management on earnings. Utilizing a sample of 443 annual financial statements of 349 telecommunication equipment businesses covering the period 2001-2007, the study found that although working capital is adversely related to the profitability, it's not substantially impacting the profitability of firms in telecommunication equipment industry.

Raheman and Nazir (2007) investigated the connection between the conservative and aggressive working capital policies for seventeen manufacturing organizations along with a big sample of 263 public restricted businesses listed on Karachi Stock Exchange (KSE) utilizing cross sectional details for the period 1998-2003. Utilizing Analysis of Variance (ANOVA) and Least Significant Dif-

ference (LSD) test, the study found important differences among their working capital investment as well as financing policies throughout various industries.

Mathur (2003) describes that working capital policy may broadly be divided into three categories as: Conservative policy, Aggressive policy and Moderate policy. Under the conservative policy, the company may prefer to hold rather heavy cash and bank balance in current account or investments in readily marketable securities, meanwhile with higher stocks of raw materials and finished goods, in the preparing for reducing the risks of stock out loss of sales. Aggressive or restrictive working capital policy may result in disproportionate losses by risks of stock outs and the consequential loss of production as well as losing the sales and negatively influence of the profitability of the company.

5. Research Methodology

The population for this study consisted of all the institutional schools having existence in Central Development Region. To analyze the working capital management strategies in Nepalese institutional schools, data of 10 years extracted from annual reports of the sampled schools has been used from 2008-2009 to 2017-2018 along with structured questionnaire administered to principals and employees of account department for financial and statistical analysis. Latest two years' data have been excluded because of non-availability of complete set of data of the sampled schools. The schools were selected using simple random sampling technique. The researcher applied Cronbach's Alpha to test the reliability of data as a means to check the internal uniformity of data. The Cronbach's alpha value of data was 0.759 which specifies the good quality of data. Financial ratios and statistical methods were used as the basic research tools.

6. Data Presentation and Analysis

The descriptive and financial analysis for all the variables under study is presented in following tables. They show the percentage, mean and standard deviation of different variables in under investigation. They also give minimum and maximum values of the variables.

Table 1 presents the components of working capital of the sampled 40 schools expressed as a percentage in terms of total assets. It is 5.22% in case of case of Inventory of Stationery and office supplies, 3.11% in case of Inventory of Uniform/tie/belts/badges, 3.67% in case of Inventory of Copies and school diaries, 5.67% in case of Inventory of Spare Parts, 13.56% in case of cash and bank balance, 9.80% in case of short-term bank borrowings, 0.45% in case of account payable, 8.33% in case of account receivable, 7.45% in case of salary and wages expenses and 1.56% in case of Utility expenses and other contingencies.

Table 2 presents sources of working capital finance in sampled institutional schools of the sampled 40 schools expressed as a percentage in terms of total working capital requirement financing sources. It is 29.00% in case of short term

Table 1. Components of working capital in sampled institutional schools.

S.N	Components	Percentage in total Assets
1	Inventory of Stationery and office supplies	5.22%
2	Inventory of Uniform/tie/belts/badges	3.11%
3	Inventory of Copies and school diaries	3.67%
4	Inventory of Spare Parts	5.67%
5	Cash and Bank Balance	13.56%
6	Short-term bank borrowings	9.80%
7	Account Payable	10.45%
8	Account Receivable	18.33%
9	Salary and wages payable	7.45%
8	Utility expenses and other contingencies	1.56%

Source: Structured Questionnaire, 2021.

Table 2. Sources of working capital finance in sampled institutional schools.

S.N	Components	Percentage in working capital
1	Short term Bank loan	29.00%
2	Informal Source-Friends and Relatives	11.30%
3.	Fees collected	59.70%

Source: Structured Questionnaire, 2021 and Annual Reports.

Table 3. Average financial ratios of sampled institutional schools.

Ratios	N	Min. Value	Max. Value	Mean Value	Std. Deviation	CV (Percent)
Current Ratio in times	40	1.20	3.12	21.99	0.35	1.59
Quick Ratio in times	40	0.40	1.98	0.97	0.21	21.65
Current Assets to Total Assets in percentage		23.45	35.34	27.33	12.45	45.56
Cash Conversion Cycle in days	40	20.67	78.99	47.55	21.23	44.65
Receivable Conversion Period in days	40	31.45	90.56	60.23	43.51	72.24
Payable Deferral Period in days	40	32.34	99.67	56.98	45.75	80.29

Source: Authors' Computation, 2021.

bank loan, 11.30 in case of Informal Source-Friends and Relatives and 59.70 % from the fees collected.

Table 3 presents different financial ratios of the sampled 40 Nepalese institutional schools. Minimum value, maximum value, average or mean value standard deviation and co-efficient of variation of the ratios under investigation are presented. One can notice that receivable conversion period is lengthy from the effective working capital perspective. This is the reason why Nepalese institu-

tional are in hardship in managing working capital as a consequence, they are compelled use short-term bank loan for working capital financing needs.

7. Conclusion

The study showed that working capital management in Nepalese institutional schools is less complicated, because it is basically based on receivables from customers and liabilities to suppliers. Working capital shortage is fulfilled by short term loan which is aggressive working capital policy. Due focus in working capital management should be given as aggressive policy is relatively risky working capital policy among the policies of working capital management. The optimal situation is when the liabilities turnover in days is longer than the receivables turnover in days.

Limitations and Research Gap

The main area of this study was working capital management of Nepalese Institutional schools and was a sample analysis. Provided financial statements were the basic source of secondary source of information where as the opinion of principals and employees of account department collected through structured questionnaire is the basic source of primary information. In Nepal, Institutional schools refer to the schools which are registered under Company Act and Trust Act. The management and stakeholders of such types of schools are completely in private nature. In Nutshell, they are business organizations. So this study would be beneficial to manage and study the working Capital management in these types of organizations where no nay substantial research has been carried out.

Conflicts of Interest

The authors declare no conflicts of interest regarding the publication of this paper.

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