

MIDLANDS STATE UNIVERSITY



FACULTY OF COMMERCE

DEPARTMENT OF ACCOUNTING

**IMPACT OF WORKING CAPITAL MANAGEMENT PRACTICES ON LIQUIDITY OF
A FIRM: PERFORMANCE OF CALUNDIKE EXPORTS PVT LTD (2016-2019)**

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**SUBMITTED IN PARTIAL FULFILMENT OF THE BACHELOR OF
COMMERCE ACCOUNTING HONOURS DEGREE**

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APPROVAL FORM

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Capital management practices on liquidity of
A Firm”**

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DEDICATION

I dedicate this dissertation to my late father Charles Mapfumo, my brother Blessing Mapfumo and the rest of the family for their unwavering support and resources they sacrificed during the period of my study. To my God send mother Angeline who supported me throughout the whole way and made it possible for me to pursue my studies from the stages that I had given up, it is to her that I owe all my gratitude.

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ABSTRACT

The study was established in order to investigate the impact of working capital management practices on the liquidity of Calundike Exports a wood furniture manufacturing firm. The analysis of the company's working capital components has led to the establishment of the research gap for the study. It was established that lack of proper trade receivables management, poor trade payables system and inadequate inventory management has affected the liquidity position for Calundike Exports negatively for the period of 2016 to 2019. A mixed research method was done on a sample of 18 members from the finance department that had unlimited access to most of the information. The working capital components used for the study were trade receivables (RCC), trade payable (PCC), Inventory cycle (ICC) and cash cycle (CCC) and return on asset (ROA) was used as the variable of financial performance. The relationship between the working capital components and financial performance was established using the Pearson correlation and regression analysis. The results of the study highlighted that that efficient working capital management ensures liquidity by monitoring of account receivables, account payable, stock management and debt management, it is able to create a good relationship with suppliers which fosters a good reputation within the industry and that production disruptions are reduced hence the positive impact of effective working capital management practices. When payments are due the company should by all means possible try to own their obligations in order to maintain and improve its good reputation within the industry. Management should also put frameworks across all section such frameworks include proper inventory management framework like economic order quantity or JIT .A credit framework should be established whereby it states the clear conditions of customers that can be granted credit and if bridged the conditions and terms should also be highlighted.

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CHAPTER ONE

BACKGROUND OF STUDY

1.0 INTRODUCTION

The chapter highlights how the study has been established by through the analysis of various working capital components and the main purpose of the study which is to analyse the impact of working capital management practices on liquidity of Calundike Exports Pvt Ltd a firm in the wood manufacturing sector. It also highlights the movement of the working capital components and how they affect the liquidity of the firm as well as the research objectives and assumptions for the study.

1.1 BACKGROUND OF THE STUDY

Khan et.al (2016), Niresh (2014), Tanveer et.al (2016), Mohamad (2016) and Vural et.al(2015) focused on the relationship between average collection period, average payment period and cash conversion cycle in relation to return on asset, return on equity ,earnings per share and gross profit margin on profitability of firms listed on stock excahnge. Kazimoto (2016) Abdulazeez (2018) and Hassan (2017) ,Odhiambo (2016) and Banafa (2017) , focused on receivable management, payables management, inventory management for profitability on financial performance. Masinde and Ochieng (2017) and Kiptoo et.al (2017) focused mainly on inventory management practices such as economic order quantity, inventory budget and inventory budget review and payable management practices on profitability. Waheed and Agha (2018), Kaushik and Swati (2019), Oluwatobi,B and Olokoyo,(2015) , Lois and Charitou (2016) Hoang et.al (2018), focused more on working capital management practices such as average collection period, average payment period and cash conversion cycle in relation to return on asset, return on equity ,earnings per share and gross profit margin.Awunya (2018) , Madugba and Ogonnaya (2016) and Thanh et.al (2016), focused on the aggressive and conservative financing policies in relation to liquidity risk however the studies focused on firms listed on stock exchange only. Kosgey and Njiru (2016) focused on cash management only in relation to liquidity of the organisation that was on study.Mabandla and Makoni (2019) and Polycarp and Nasieku (2016)

established positive effect of creditor management and the negative effect of debtor management, inventory management and cash management on the profitability of manufacturing firms only. Zariyawati et.al (2017) focused on ways for small firms to improve the profit by shorter collection period and reduced inventory turnover while for large firms lengthening the accounts payable period. In relation to above journals many authors focused on profitability on the financial performance of a company thereby living out liquidity as part of financial performance. Therefore this research will be aimed at exploiting working capital management practices in relation to liquidity on financial performance.

According to Vural,G et.al(2015),working capital management plays an important role for the firm's success or failure. The poor debtor's collection system, credit control policies, price instability and foreign exchange shortages has been most of the challenges affecting Calundike Export. The firm's performance has been affected negatively for the period of 2016 up to 2019.

Table1.1: Summary of movement for working capital components

<i>Details</i>	<i>2016</i>	<i>2017</i>	<i>2018</i>	<i>2019</i>
<i>Trade receivables(\$)</i>	<i>51,550</i>	<i>53,000</i>	<i>54,580</i>	<i>58,562</i>
<i>Trade Payables(\$)</i>	<i>200,000</i>	<i>180,600</i>	<i>166,500</i>	<i>100,030</i>
<i>Inventory-finished Goods-units</i>	<i>1000</i>	<i>800</i>	<i>650</i>	<i>400</i>

(Source):Calundike Exports Pvt (Ltd) Statement of financial position as at 31 Dec 2016,2017 ,2018and 2019

According to the minutes noted (Calundike Exports Purchasing Department 2018) explained how foreign exchange shortage resulted in inventory levels being affected negatively due to failure of purchasing raw materials from other countries .Kiptoo et.al (2017) focuses on inventory management practices such as economic order quantity, inventory budget and inventory budget review that if stock outs and overstocking are avoided the performance of the firm will be profitable. According to the illustration in table 1.1 from 2016 to 2017 there was a change from 1000 to 800 units a 12.25% change from 20% to 7.75% due to increase in shortage

of foreign currency according to (Finance Minutes 2017). The change from 2017 to 2018 resulted in a further decrease from 800 to 738 units a 4.25% change from 7.75% to 12% due to increase in scarcity of foreign currency. Lastly from 2018 to 2019 there was a huge decrease of inventory by 250 units from 650 to 400 units a 26.5% change from 12% to 38.5% respectively which was due to lack of availability of local raw materials.

Poor credit terms by the suppliers posed a challenge whereby the firm had to incur outflows of cash and this can be evidenced by the movement of trade payables illustrated in table 1.1 above. According to (Calundike Exports Finance Department 2018) Price instability that got out of hand resulted in suppliers demanding cash upon purchase or earlier payment period than before in order to avoid loss of value by the settlement date which is opposite to Zariyawati et.al (2017) who encourages the lengthening of payment period. The statistic changes are as follows from 2016 to 2017 was \$200,000 to \$180,600 resulting to a 9.7% increase due to tightened credit terms by suppliers. The period of 2017 to 2018 experienced a further decrease from \$180,600 to \$166,500 decrease from 9.7% to 7.8% as a result of more local suppliers selling on cash basis. The change from 2018 to 2019 from a value of \$166,500 to \$100,030 change from 7.8% to 4% was due to worsened credit terms on which more of the reliable suppliers were demanding payment before supply of goods.

According to Thanh et.al (2016) establishes the importance of managing trade receivables in order to improve the firm's liquidity. The increase change of trade receivables as illustrated above should have been caused by poor debtor's management system on which there was lack of constant follow up to customers and too much lenience on staff members by failing to charge interests on their debts. Kazimoto (2016) supports the collection of debtors on shorter terms. In year 2016 to 2017 there was \$1,580 value caused by change from \$53,000 to \$54,580 resulting to a 0.02% increase from 2.8% to 3% due to auction that was carried out on which internal staff members bought on credit and failed to pay on time according to (Finance Minutes 2017). In year 2017 to 2018 there was a 3,982 value increase leading to a 4.2% increase from 3% to 7.2% due to increase from \$54,580 to \$58,562 as a result of poor collection system. The trade receivables increased by \$7,220 from 2018 which was \$58,562 to 2019 value of \$65,782 leading to 5.1% increase from 7.2% to 12.3% due to more internal staff members purchasing half priced

goods and not paying on stipulated time frames according to (Calundike Exports Finance department 2018).

Technological changes also been another challenge on inventory as pointed out in minutes (Calundike Exports Production Department 2018). Change in designs and preference of customers which is changing always has lead to low levels of stock holding in order to avoid obsolete stock and under pricing of inventory no longer in trend. This also supports the statistic changes of inventory reduction. According to the illustration in table 1.1 from 2016 to 2017 there were 200 units decrease from 1000 to 800 units a 20% change from 20% to 7.75% because of new designs that were being introduced in the market but not yet adopted at the firm, 2017 to 2018 there was a further decrease of 62 units resulting from 800 to 738 units a 7.75% change from 7.75% to 12% due to late adoption of new trends in the market according to (Calundike Exports Production Department 2018). Lastly from 2018 to 2019 there was a huge decrease of inventory by 250 units from 650 to 400 units a 38.5% change from 12% to 38.5% respectively as a result of lack of funds to purchase the raw materials which met the new required designs.

Due to the listed above problems being faced by Calundike Exports working capital has been affected adversely and thereby leading to the research of working capital management practices on liquidity.

1.2 Statement of the problem

The poor working capital management practices experienced by Calundike Exports such as poor credit policies has led to inefficient management of payables while the technological changes has affected the inventory levels lacking due to shortages of foreign currency to meet customer's needs . Therefore the research sought to establish the impact of working capital management practices on liquidity of the firm as it forms the back bone for the survival of the organization through meeting of obligations on time and ability to meet demand of the products.

1.3 Main Research Question

- What is the impact of working capital management practices on the liquidity of Calundike Exports (Pvt) Ltd?

1.4 Sub Research Questions

- What is the relationship between working capital management and liquidity.
- What are the challenges faced in implementing effective working capital management practices at Calundike Exports (Pvt) Ltd?
- What are the effects of effective working capital management practices on liquidity of the organisation?
- What can be implemented on the working capital management practices to improve the liquidity of the firm?

1.5 Research Objectives

- To establish the relationship between working capital management and liquidity
- To determine the challenges affecting the implementation of effective working capital management practices at the organisation.
- To establish the impact of working capital management practices on liquidity of the organisation.
- To establish the techniques that can be used by Calundike Exports to ensure effective working capital management practices that can be implemented to improve the liquidity of the organisation.

1.6 Delimitations of the study

The research is confined to a manufacturing firm located in Ruwa Industries by the name (Calundike Exports Pvt Ltd) thereby excluding all other sectors of the economy. The research will be for a period of three years starting from 2016 up to 2019. The targeted respondents are the finance, quality control and production foreman of Calundike Exports team only.

1.7 Limitations of the study

Accessing information was made difficult as it was rendered confidential since it is a private company which has no mandate to publish its financial statements and releasing information

requires authority from top management who were not available by the time of need for the information. Participation by the finance personnel was also difficult since they were focusing on an ongoing audit session and thereby information and assistance was given when they were free.

1.8 Assumptions of the study

The response from the personnel of Calundike Exports represents all the manufacturing firms in the economy. All the information given is relevant, correct and free from manipulation. The study also assures that the researcher has gathered all the relevant information regarded necessary.

1.9 Definition of key terms

- **Working capital management**-Refers to the management of the firm's current assets and current liabilities, which relates to the operating investment of a firm according to Zariyawati et.al (2017).
- **Liquidity**-Ability of a company to pay its short term financial obligations falling due according to Kagoyire (2016)
- **Financial performance**- According to Barbole (2014), financial performance is established as the degree to which financial motive of an organisation are achieved at a certain period in form of revenue and profits.

1.10 Chapter Summary

This chapter covers the background of the study which has led to the development of research after considering what has been left out by other scholars. The basis for establishment of the research on the impact of working capital management practices on financial performance was determined in this chapter. Calundike Exports Pvt Ltd a manufacturing firm was used as the basis for the research .The chapter managed to establish the main research motivators which are the objectives behind and the intention to improve Calundike Exports by focusing on the liquidity position for the firm.

CHAPTER 2

LITERATURE REVIEW

2.0 INTRODUCTION

This chapter seeks to advocate what other scholars had discussed and established regarding working capital and financial performance. An analysis from different researchers has been considered in order to support the research in study. The concept of working capital and financial performance need to be addressed frequently. The following will be addressed in this chapter such as the challenges faced in effective implementation of working capital management practices and the relationship between working capital management and financial performance.

2.1 The relationship between working capital management and financial performance

2.1.1 Positive Relationship

According to Subeesh and Nagi (2019) and Doina and Mircea (2015) had the same view that current ratio proportion communicates the positive relationship between the short term assets and short term liabilities of a firm for a specific period. They went on further saying that the higher the proportion of current assets against current liabilities the more ability for the firm meeting its obligation thus a positive relationship established. A positive relationship was also established basing on research for banks according to Putrinda and Anggono (2014), Nobanee, and Abraham (2015), Niseku and Waema (2016) and Hira (2014) that liquidity is the ability of a bank to pay its increases in assets and meeting obligations as they come due without incurring negative impact of losing customers. They further said if adequate amount of cash is always available then shortages by withdrawers that can result in depositors taking back their monies and too much cash which results in inefficient utilization of resources can be avoided from the positive result established.

According to Akoto et.al (2014), Bui (2017), Charitaou (2014), Caballero et.al (2014) and Salon (2014) all supported that there is a positive relationship between cash conversion cycle and liquidity arguing that if a certain firm delays in paying its components it may decrease the amount of cash it needs as there will be no cash outflow at that moment. Panigrahi (2018) and

Chakraborty & Krishnankutty (2014) both established the positive relationship as an ability to effectively manage the current assets in order to meet the shorter obligations and they went on further to say if there is an effective working capital management system then excess or insufficient liquidity that can damage the goodwill of the organization can be avoided. Chagwiza (2014) also focused on banks highlighting that the positive relationship is established when balancing of deposits payments is greater against the withdrawals as this determine continuance of a bank. According to Mugo (2014) ,Hoelley et.al (2015) all established that when commercial bank's current assets are able to meet their short term obligations a positive relationship is created. Atieh (2014) highlighted that increasing the trade payables payment period also result in better liquidity position thereby establishing a positive relationship between trade payables and liquidity. Ajanthan (2014) and Mberia (2017) both established a positive relationship between liquidity ratios and return on assets reasoning that increase in return on assets is shown positively by the increase in current assets such as cash.

Wiyono (2014) and Imeokparia (2015) both established a positive relationship between current ratio and return on assets basing on a positive correlation relationship between the quick ratio and return on assets. Bolek (2014) states that the larger amount of assets the reduced risk of bankruptcy and the better the financial performance of a firm hence a positive relationship established. Sugathadasa (2018) went on further to establish that the cycle evaluates and measures risks and returns associated to management of liquidity and further established the relationship that the quicker the receivables collection the better the liquidity and profitability

However according to Nasieku and Waema (2016) and Sugathadasa (2018) very high levels of current assets detects excessive liquidity leading to be low returns on assets as funds will be tied up in idle cash and stocks earn nothing while high levels of debtors reduce profitability hence and inverse relationship. According to Durrah et.al (2016) when there is a current ratio which is less than one then a negative relationship is established but the firm can be profitable while illiquidity. Furthermore Brealy et.al (2014) and Kieschnick (2014) both supported that for the working capital to achieve optimal results there are other factors to be considered such as nature of the business as well as seasonal demand that can affect the product demand which in turn affects the trade receivables and cash .Therefore the above literature failed to highlight the

positive relationship between working capital and liquidity thereby making it the area of my study.

2.1.2 Trade Off

According to Kaushik and Swati (2019) If a firm does not have enough working capital in the form of current assets it is unable to meet its short term obligations and may go bankrupt while on the other hand if it has too much of working capital that can adversely affect its profitability thereby establishing a trade off relationship between working capital and profitability. According to Khan et.al (2016) highlighted that a small increase of working capital can increase profitability but can result in failure to meet short term obligations hence a tradeoff between working capital and liquidity. Leeson (2016) established that there is a trade off relationship between profitability and liquidity in the sense that when working capital in relation to sales is increased it will reduce risk and profitability but increasing liquidity.

According to Niseuku & Waema (2016) and Aravindan & Ramanathan(2014) established the trade off relationship between profitability and liquidity that the more profitable the firm may result in less liquidity. Excessive investments in inventory and trade collection reduce firm profits while little investment increases the risk of not being able to meet the short term obligations as denoted by Nasieku and Waema (2016).According to Krishnamoorthy (2019) there is a trade off relationship between return on assets and current ratio as financial figures all look good on paper but the higher profitability does not guarantee liquidity. In other words the firms that maybe recording higher profits may be financial crippled due to money tied up in elements of working capital hence failing to meet short term obligations as they fall due.

According to Gumbochuma (2014) and Gargm (2015) also highlighted the trade off relationship between profitability and risk in the sense that decisions that leads to increment of profitability tends to increase risk of failure to cater for short term needs that requires cash or early settlement .In addition Chowdury (2014) , Javid and Zita (2014) and Okinyi (2014) also established a trade off relationship between working capital management and profitability with the view that in order to achieve profitability the firm must sacrifice liquidity and maintain a close to low level of current assets but a greater risk to cash shortage and stock outs that result in loss of sales and reduced liquidity.

However according to Niresh (2014) and Aminu (2014) describes the direct relationship that when a firm invests more in current assets it reduces the risk of illiquidity but loses in terms of profitability since the opportunity of earning from the excess investment in current assets is lost. The positive relationship was further supported by Ajanthan (2014) and Imeokparia (2015) who established that there is a significant positive relationship between liquidity and profitability of a firm that the more profitable an organisation can be the more liquid it can become. This study therefore seeks to conclude the relationship between working capital and liquidity which has not been given by scholars.

2.1.3 Negative Relationship

Masinde et.al (2017) and Hunt (2014) highlighted that there is a negative relationship between return on assets and accounts payables period established through a negative correlation between the two variables. According to Hassan (2017), Singhanian and Mehta (2017) the longer the cash conversion cycle the lower profitable the firm becomes due to money tied up in inventory which will be idle hence a negative relationship established. Furthermore Vural et.al (2015) further established that if the time lag between rendering service and collection of payment is longer then there will be a higher default risk and liquidity will be affected negatively. According to Nasieku and Waema (2016), Charitaou (2014) and Khaldun (2014) all supported that very high levels of investment in current assets means there is a lot of uninvested money which affects return on assets that will be low as funds will be tied up in idle cash. The high levels of inventory that will be sited for long benefit nothing while high level of debtors reduce profitability thereby resulting in the negative relationship being established.

According to Gyekye & Oseifuah (2016) and Durrah et.al (2016) determined that cash conversion cycle is the time taken by funds being tied up in working capital components before they are realized as cash. They further implied that it shows the interactions between working capital components and the flow of cash within a company and established a negative relationship between the cash cycle and profitability of a firm. This means that when the cash conversion cycle increases it will result in reduced profitability of the firm and management can establish a positive value for shareholders by reducing the cash conversion cycle to a minimum possible level.

Majeed et.al (2014) and Khan et.al (2016) stated that if accounts payables rises there will be a decrease in the cash conversion cycle but however if the trade payables decrease then cash conversion cycle increases which better the financial performance...However according to Elfani et.al (2016) and Kamau (2014) highlighted that investing more in cash conversion cycle may lead to increased profitability since maintaining high levels of inventory is expected to increase sales ,reduce supply costs, reduce cost of possible production interruptions and protection against price fluctuations and improve on liquidity. The scholars above failed to conclude whether there is a negative relationship between working capital and liquidity which will be established with this study.

2.2 Challenges in implementing effective working capital management practices

2.2.1 Poor supplier management

According to Nasieku and Waema (2016) they stated that failure to negotiate for longer payments period affects the profitability and liquidity of organizations negatively hence the need to negotiate for longer payment period. In addition Boopathi (2016) described that adverse credit terms offered by suppliers such as the cash on cash basis policy and advance payments required or early payments of period less than a month affects the working capital management practices on place. Furthermore Abdollahi et.al (2015) highlighted that lack of sufficient selection processes of suppliers leads to improper decision that can cost the business by choosing the most expensive and or selecting the inefficient suppliers that cannot deliver on time thereby affecting the implementation of the working capital effectively.

Yeniyurt et.al (2014) also highlighted that lack of supplier working relations by in competent personnel who are not able to communicate locally and internationally to achieve a responsive supply chain can result in loss of reliable suppliers .They went on further to say that interpersonal skills are considered important when negotiating with suppliers as they have an impact of creation of a standing relationship or not. Furthermore Grazyna (2016) and Chowdury (2018) stated that lack of ability to adjust to the economic environment affects the relationship between buyers and suppliers. Suppliers would want their customers to pay up early in an unstable economic environment whereby there will be instabilities in prices and demand while

customers would want to delay payments in such volatile environment. These pressures negatively affect the implementation of effective working capital management practices.

Soh et.al (2016) and Enqvist et.al (2014) also highlighted that lack of honesty and commitment by the procurement personnel to the suppliers affects their relationship which will lead to the suppliers giving strict or unfavorable credit terms in order to avoid inconveniences. In addition Tansken and Aminoff (2015) highlighted that failure to package the firm attractively cannot convince the creation of a supplier to customer relationship hence it can lead to loss of trust by the suppliers. Failure to maintain a supplier register can result in selecting inefficient suppliers that might be overpricing goods thereby affecting the working capital negatively since the trade payables value will be higher as concluded by Ivens et.al (2014) affecting the effectiveness of working capital management practices. Therefore the study seeks to achieve how poor supplier management is affecting the liquidity of the firm as scholars above failed to establish the notion.

2.2.2 Poor Inventory Management

According to Kaushik and Swati (2019) keeping higher levels of inventory increases the stock holding costs for a firm such as warehouse rent, watchman salary and breakages that can occur due to the way the inventory will be set up .According to Mathuwa (2014) the production interruptions such unavailability of resources, change in production process and lack of products in stock affects the firm negatively in the sense that sales are lost and customers are lost along the way. The inventory time that takes long before dispatch tend to be costly for the business as money will be tied up in stock according to Ahmed (2016) and Macharia and Muturi (2017) and this tend to prove inefficient management of resources.

The disability to use proper inventory technique according to type of business and the environment as stated by Ding (2014) can result in more storage costs being incurred by the firm and more reorder cost incurred which result in increased costs for the firm. According to Templar (2019) changes in inventory management that cost the business directly affects the profits such as changing from Economic order quantity to Just in time technique or vice versa may have a negative impact on delivery of goods and services to clients thereby affecting the effective implementation of working capital management practices.

According to Leeson (2016) highlighted that the unavoidable such as lack of raw materials due to delay in clearance of cargoes that would be carrying imported raw materials can cause the production to shut down and unpredictability of demand increases the order costs increases as well thereby affecting the implementation of effective working capital management practices. Furthermore Lithubua (2014), Sugathadasa (2018) and Ogoye (2014) and stated that lack of policies to acquire and use of inventory such as Just In process can result in failure to track whether inventory is being managed efficiently thereby affecting the implementation of effective working capital practices..

Niklas and Victor (2014), Kinyua (2014) , Lithubua (2014),Muhuyima (2015) highlighted that production in smaller quantities increases costs and there is always a risk of unexpected demand that can result in shortages of inventory in warehouse. According to Atnafu and Balda (2018) and Brooks (2014) both highlighted the challenge to maintain the tradeoff between suppliers of inventories and the customers demand saying that the firm would want to have adequate stocks while avoiding stock outs and lose of sales but they would not want to have excessive stock whereby money will be locked up in stock in warehouse. The work in progress can be a problem since it may take long before it is declared a finished product thereby affecting the cash conversion cycle as money will be tied up in the buffer stock which will be un finished. This definitely affects the implementation of effective working capital management practices. According to Uduak and Nsikan (2015) the lack of knowledge and partial adoption in inventory management leads to shortage of products, wastage of raw materials and longer lead time thereby affecting the implementation of effective working capital management practices.

Onyango (2014) also highlighted that most of small firms have more inventory sitting for long because of in ability to efficiently manage inventory and has led to constrained cash flows. Furthermore Nzunza (2015) also highlighted that lack of management to track inventory properly affects the firm's profitability negatively in the sense that the sense may have loopholes that allows for stealing of raw materials practices to be executed. According to Atnafu and Balda (2018) suggested that failure by the personnel to know when time and quantity to order inventory affects the costs of a firm in the case of unavailability of raw components from

suppliers whereby the firm would need to divert to costly suppliers in order to meet the abrupt need.

However Brealy et.al (2014) and Johnson (2014) highlighted that there is a cost of keeping inventory that can be regarded as normal by a firm in the sense that it can become obsolete due to changes in taste and preference and it may need insurance to cover it up. Therefore the study sought to establish how poor inventory management implementation affects the liquidity position of firm.

2.2.3 Poor trade receivable collection system

Niklas and Victor (2014) highlighted that payment is not ensured due to displacement of invoices hence a poor system in the receivables collection as there will be need to re track information relating to the debtors. Furthermore Johnson (2014) and Ahmed (2016) argued that collection system is in the hands of the firm in the sense that they are the ones ought to create an efficient environment for receivables collection than the customer's obligation to pay. According to Masinde et.al (2017) and Sugathadasa (2018) highlighted that failure to have a credit framework that state the conditions under which a credit sale or discount should be applied may result in privileges being given to unworthy customers. Kennedy (2014) highlighted that there are difficulties in matching payments to invoices constantly and having to resend copies of invoice which tend to be costly to the business thereby leading to inefficient receivables system.

According to Imtiaz et.al (2016), Chakraborty and Krishnankutty (2014) highlighted that the collection which is not done regularly because of lack of personnel will affect the levels of bad debts that increase due to too much work that has to be handled by the inadequate staff. According to Wadira (2014) and Thanh et.al (2016) stated that when a firm is growing and developing into new markets through new sales, the invoice volume increases hence more work for department that would find it hard to cope with a lot of work and will tend to leave out some tasks like constant follow ups. According to Niko and Farokh (2015) highlighted that lack of proper frameworks in place to be adhered by the debt collector results in different goals or personal goals being achieved rather than achievement of corporate goals and inefficient trade debtors collection system.

According to Haque (2014) and Hunt (2014) when a department has no set roles assigned or no document processes, credit given to customers can be disorganized in the sense that some customers might be on unlimited credit while other customer's limits might be strict thereby tarnishing the reputation of the firm. According to Manu et.al (2014), Macharia & Muturi (2017) and Tirngo (2014) highlighted that higher investment on trade receivables means less cash will be available to cover obligations such as paying for bills like wages and also failure to manage the levels of debt result in problem of insolvency and results in loss of significant share of working capital and delay of in meeting obligations.

Nzunza (2015) highlighted that inefficient management of trade receivables that will be increasing by lack of following up tightens the cash available in the firm thereby making it difficult for the firm to meet obligations as they fall due like statutory payments and salaries payments. In addition Mugo (2014),Mircea (2015) and Atieh (2014) all suggested that poor management of accounts receivable impacts negatively on profits in two ways and the first one is that the level of credit losses written off will be increasing thereby reducing the profitability and liquidity account and secondly when a lot of funds are tied up in accounts receivable the firm will find it difficult to access financial lenders or otherwise the cost of finance may be high with the argument that there is no certainty of payments by debtors. Other than the bad debt and interest expense, there are legal expenses associated with collecting debts that may have gone bad which tend to be costly for the firm due to inefficient collection system that if adhered to would have prevented the costs .

According to Enqvist (2014),Hira (2014) and Chagwiza (2014) highlighted that ineffective management of accounts receivable may result to poor credit rating from financial institutions. This makes it difficult to obtain financing from the financial institutions to finance the firms working capital and if it does then it will be at a high cost since it will be unable to negotiate for better terms. There can be too much liquidity problems caused by so much funds held in accounts receivable and can lead to total collapse in production since the firm can no longer meet its financial obligations. The extreme cases may result in the firm becoming insolvent and consequently being placed under judicial management and finally being wound up.

However according to Lithubua (2014) highlighted that lengthened receivables collection system can attract many customers to the firm due to the reputation that would have been spread of

favourable conditions being offered by the firm. However the scholars above did not highlight clearly the challenges being faced on trade receivables management as intended by the area of study.

2.2.4 Foreign currency concern

According to Gombarume and Mavhundutse (2014) highlighted that the economic environment in Zimbabwe has proven to be challenging for manufacturing firms in the country especially the wood manufacturing sector that relies on importing raw materials such as boards mostly. Changes in exchange rate may cause changes in the profitability and liquidity of production and investment schemes. Exchange rate increase may increase the demand of domestic products and the cost of imported capital and other imported inputs. According to Schmidt (2019) foreign currency shortages has affected negatively the acquiring of key inputs of other industries which if purchased locally are of poor quality which is hard to work with thereby affecting the performance of organizations resulting in wound ups.

Bostan et.al (2018), Banciu and Mirchandani (2013) highlighted that if a firm is more dependent on imported inputs, there will be more variable costs than the marginal revenue hence a depreciation of exchange rate causes a reduction in the level of industrial investment. The cash shortage being experienced with the manufacturing firms has led to delay in the materials to be delivered especially those that take time for shipment hence affecting the finished inventory level that a firm would have forecasted. Therefore according to Lithubua (2014) was of the view that when local market can offer products required by the firm in production then they will have to switch from alternatives like importing which might take long time before delivery and may result in breakages of goods on delivery local materials may be of poor quality which affects the output of production which affects that the working capital negatively. Further Sugathasa (2018) and Ogoye (2014) stipulated that if there is a delay in obtaining the raw material, production will be interrupted and sales lost as well thereby affecting the liquidity position of the firm.

However Bostan et.al (2018) Imitiaz et.al (2016) and Chakraborty and Krishnankutty (2014) highlighted that there can be increase in price competitiveness of a firm following an exchange rate appreciation. The exchange rate changes may affect investment through increasing exports and increasing prices of imported capital goods and raw materials thereby making the feature of

delay of investment make. It was not established clearly how foreign currency management affects implementation of working capital management.

2.3 Impact of working capital management practices on liquidity of the organization

2.3.1 Ensures Liquidity

Ramadan et.al (2015),Rakibul and Anwar(2016) agreed that manufacturing firms often get in trouble due to lack of cash needed for operations and to repay short-term debts. It happens because of an ineffective or no working capital management policy in the enterprise. Furthermore Rezai and Azad (2014) ,Ronoh (2015) and Rouf and Abdur (2015) all agreed that working capital management ensures liquidity by monitoring of account receivables, account payable, stock management and debt management. It assists in keeping sufficient liquid cash in the business at any level of time to pay operational costs and short-term debts. According to Badu et.al (2014) suggestion highlighted that getting hold of the opportunities of discounts that are offered early and delaying payments can improve the liquidity position of a firm.

Khan et.al (2016) and Sharma and Saurab (2015) further supported that proper management of receivables ensures the cash flow of the firm which result to payment of suppliers ,payment of statutory obligations and payment of employees. When the firm manages the receivables and payables efficiently it is able to fund itself without borrowing funds which attracts interests and penalties if paid late and the firm obtains good credit rating which will have a positive impact when seeking for finance from financial institutions.

However Hassan (2017), Niseuku and Waema (2016) and Aravindan and Ramanathan(2013) all highlighted because of the trade off relationship between profitability and liquidity it is not always guaranteed that liquidity will be achieved .The firm can be profitable but illiquid thereby posing a threat of insolvency to the organization. Therefore the study seeks to establish how liquidity will be ensured .

2.3.2 Improved Goodwill

According to Davey (2014) ,Sherrif and Elsayed (2014) described that if the firm is able to meet its obligations on time then it is able to create a good relationship with them but this is fostered through an efficient working capital management system. The name goes beyond the suppliers

and customers of the firm but it spreads throughout the whole industry hence attracting by itself potential business associates that are willing supply their materials at lower prices and more favorable terms.

Putrinda and Anggono (2014) suggested that if there are adequate controls to manage inventory, less disruptions on the production process quality is most guaranteed as compared to where there is need to work without some components or to utilize inadequate resources in order to meet the need for a customer thereby affecting the reputation of the organization. In addition Samson et.al (2014) and Nazir (2015) highlighted that the company with good reputation can expect a good relationship from its trade creditors due to past experience during the time of financial difficulties.

Mathuwa (2014),Ahmed (2016) and Brooks (2014) all agreed that when there is efficient working capital management practices ,the goodwill of the firm improves as problems of failing to pay suppliers, employees and statutory obligations would have been managed. Furthermore Nobanee and Abraham (2015) further explained that this allows more interested parties like other suppliers and customers base to increase with the view of reliable and dependable in meeting agreed terms and conditions thereby further improving the profitability and liquidity of the firm due to longer and favourable and cost efficient suppliers that requires longer repayment period .

However Panigrahi (2018) highlighted that insufficient liquidity might damage the firm's goodwill, deteriorate firm's credit ratings and that might lead to forced liquidation of firm's assets and thereby resulting in problems like bankruptcy and insolvency which might happen. A firm tends to lose its reputation very fast even though it might be liquid enough due to social media that can spread corrupt news about the organization thereby affecting the goodwill of the firm negatively. However there was no conclusion on how goodwill improves the liquidity of organisation as intended by the study.

2.3.4 Reduced Interruptions on operations

Uduak and Nsikan (2015) and Ogoye (2014) highlighted that when inventory is properly managed then production disruptions are reduced so that demand can be met and sales are not lost thereby improving on our performance. In addition Tat et.al (2015) highlighted that when

the cash conversion cycle is shorter than the liquidity for the firm improves thereby meeting demand that requires cash payments upfront such as collection of inventory. Furthermore Nnate et.al (2016), Nazir (2015) and Mallick et.al (2016) highlighted that inventory management is necessary at different locations within an organization or within multiple locations of a supply chain, to protect the production from running out of materials or goods. Adequate inventories kept in manufacturing companies will smooth the production process.

Mathuwa (2014) and Ahmed (2016) highlighted that inventory plays a significant role in the growth and survival of an organization in the sense that ineffective and inefficient management of inventory will mean that the organization loses customers and sales will decline. According to Mwangangi et.al (2014) and Wilfred et.al (2014) suggested that prudent management of inventory reduces depreciation, re order costs, and wastages while ensuring availability of the materials as at when required. Inventory control means availability of materials whenever and wherever required by stocking adequate number and kind of stocks.

However according to Edwin and Florence (2015) and Medury (2014) manufactures that are major actors involved in downstream distribution channels face a special challenge in keeping inventory at reasonable levels due to the difficulty of forecasting demand and expectations of customers about product availability that can result in interruptions on inventory availability hence affecting the financial performance of the organization. Furthermore Kirmi (2017) also highlighted that inventory can be available and properly managed but other factors can interrupt the production process like inefficient machinery that is always down and requires constant maintenance and repairs thereby interrupting production. Therefore the study sought to establish the impact of efficient working capital management which was not faithfully presented by other authors.

2.4 Techniques to ensure effective working capital management practices in order to improve liquidity

2.4.1 Proper inventory management

Naliaka and Namusonge (2015) concluded that proper inventory management results in delivery of quality products and on time which leads to customers settling their debt on time as well thereby improving the liquidity position of the firm. According to Musau (2015) and Knauer and

Knauer and Wohrmann (2014) suggested that efficient management of inventory by constant stock counts, recalculations and proper adjustments addresses the problem of slow moving stock items to be noticed, under utilization of resources in the production process which tend to increase the costs of the firm thereby negatively affecting the performance of the firm. In addition Senthilmani (2014) highlighted that the model established through calculations demonstrates how incremental costs and handling costs can be minimized in order for the firm to efficiently manage its liquidity.

Barron et.al (2014) Suggests that economic order quantity theory should be applied in the idea that the firm will be able to know the proper time to order its inventory and the proper quantities to be ordered in order to avoid stock out. Furthermore Niaki (2014),Tat et.al (2015) highlighted that the model (EOQ) is appropriate where there is one supplier or vendor and promotes optimization of resources in the sense that warehouse space and costs are considered as well as demand and the promotes results in demand being met and ensures liquidity of a firm where there is quicker receivable collection and less stock outs. According to Agarwal (2014) the economic order model helps avoid the costs of changing production rate, penalties which has an advantage of reducing the production costs for a firm and thereby improving the performance

According to Nasieku and Waema (2016) just in time technique can be applied that includes having the right inventory at the right time and right quantity and utilization of this model promotes profitability and efficiency. They went on further to say that the less the inventory a firm stock the less the chances of inventory becoming obsolete and the more it becomes liquid. In addition Marco (2014) established a high positive correlation between good inventory management and organizational profitability and liquidity. According to the Just-in time principle (JIT) when all materials arrive just in time, no stock will be needed and thus inventory management will not have to deal with the temporary storage of all these goods.

However according to Saleem and Rehman (2014) they argued that the economic order theory is based on the unrealistic assumptions like annual demand being known and one product being produced. Furthermore Panda (2014) went on further to say that there ought to be training for labour so that it can improve their productivity. The above authors did not fully reach a conclusion on how proper management of inventory affects the liquidity of the organisation which the study sought to establish.

2.4.2 Quick receivables collection

Boden and Paul (2014) suggests that if receivables are collected on a quicker base and if managed effectively can result in a market advantage and the ability to generate funds for the organization. Sugathasa (2018) also highlighted that the collection period should be between 30 to 60 days only in order to reduce level of bad and to improve the liquid position of the firm. According to Kiptoo et.al (2017) emphasized on the need to maintain a level of receivables that can be able to achieve between objective of profitability and liquidity.

Mukhoma (2014) suggested that in order for trade receivables to be managed properly there is need to consider credit evaluation for each individual customer in order to offer credit to reliable customers which can in turn reduces level of bad debts. In addition Nasieku Waema (2016) suggested that the less time the trade debtors take to pay their bills the more cash that will be available to meet other commitments like acquiring of inventory and payment of bills .According to Agarwal (2014) in corporate credit, the bulk of credit sales are made on open account meaning that the seller only keeps specific account relating to all obligations arising for a certain customer.

Okunyu (2014) was of the view that there is need to employ qualified personnel that are able to issue proper invoice and that are able to convince customers to pay earlier without chasing them away thereby improving the performance of the organization. Furthermore Brealy (2018), Johnson(2014) and Uduak and Nsikan (2015) suggested that there is need to manage the average account receivable conversion cycle and time to collect the receivables and to test the aging report. In addition Nzunza (2015) further denoted that the practise will point out areas of weaknesses in the existing credit practices that inhibit effective control of accounts receivable and give recommendations on the best practices to employ in order to achieve optimal efficiency.

According to Kamau (2014), Mason (2019) and Konak and Guner (2016) highlighted that there should be contractual terms of formal acknowledgement of the debts arising at each specified time or signed promissory notes so that in case of conflicts the firm will not only rely on documents generated during the transaction such as customers orders, delivery notes, invoices and shipping documents in case of international trade to prove the occurrence of a debt in a court of law. The firm may place extra requirements such as bank guarantees on the buyer before

authorizing shipment of goods. The buyer is required to draw a letter of credit in favour of the selling firm or open a bank guarantee in favour of the selling firm. Trade credit may also be in form of instalment credit where payment is made as a series of regular instalments for the principal amount and interest. According to Remeikiene et.al (2016) suggested that if a firm decides that it is in its best interest to allow delayed payment then it needs to set up a system of rules and guidelines which will amount to a debtor policy and framework that defines how one would qualify for the benefit.

Zafar (2016),Oyadonghan (2014) and Tulsian and Tulsian (2017) all supported that the primary objective of accounts receivable management is to maximize the value of the enterprise by creating a balance between liquidity, risk and profitability and therefore a large part of accounts receivables management involves the adequate selection of customers as every credit sale involves the risk of delayed payment or non-payment of the value involved. Furthermore Niklas and Victor (2014) highlighted that pricing accuracy is possibly the most important determinant of management success and there are some fundamental practices that promote pricing and invoicing accuracy which includes keeping the pricing scheme as simple as it can be so as to avoid confusing and hard receivables management system which will be unrealistic.

Gumbochuma (2014),Gupta (2016) Singhania and Mehtap (2016) concluded that accepting of credit and its proper and effective management is not possible without involvement of any cost and the costs include administration costs, capital costs, production and selling costs just to mention a few.These costs cannot be possibly eliminated altogether but should essentially be monitored and controlled. Removal of such costs simply applies that there will not be credit grant given to the debtors .This can however leads to loss of revenue which is in credit that can be higher than the costs that would had been incurred thereby affecting the liquidity position of the firm. The scholars above highlighted how quick receivables collection system improves the liquidity but did not conclude fairly on the notion which therefore the study sought to do.

2.4.3 Lengthened Payables cycle

Singh et.al (2017) ,Moschos et.al (2014) and Niseku and Waema (2016) all argued that firms should strive to lag their payments to suppliers as much as possible but without destroying their good business reputation as this plays an important role in managing working capital since

delaying paying bills is regarded as a catalyst to access inexpensive source of financing. According to Nzunza (2015), Vatavu (2015) and Kosimbei et.al (2014) encourages that there should be a formal policy governing proper handling of invoices that must be ensured so that even if the delay payment has been accepted by the supplier then when the time is due there should be delivery of the payment without jeopardizing the relationship that would have been established so that in the future more credit purchases will be encouraged. They went on further to say that delivery of invoices should be done directly to the accounts payable department and or to the purchaser directly so that misplacement of invoices can be reduced.

Sagathasda (2018), Ogoye (2014), Muthuwa (2014) and Lithubua (2014) suggested that even if the payment cycle for trade payables is longer there is need to verify the invoices in order to confirm if the agreed terms are actually matching with the information presented on the invoices as this promotes correct measurement of liabilities as a component to working capital and also payment of correct amount in order to avoid prepayments. In addition Niklas and Victor (2014), Iven et.al (2014) and Subeesh and Nagii (2019) suggested that there is need for purchasing personnel to negotiate regularly with the suppliers to reduce the prices if the competitors are offering at lower prices so that the amount of trade payables reduces thereby improving the working capital position of the firm.

However Lu (2014) highlighted that opportunity cost of maintaining high levels of trade payables may cripple the business if an early payment discount is offered. The discount opportunity if taken result in reduction of short term liabilities which relates to the effective working capital management practices that can attract investors and financial lenders to assist the firm. The above scholars explained how lengthened payable cycle affects the liquidity by did not fully establish the notion behind which this study sought to establish.

2.4.4 Purchase of local raw materials

Johee et.al (2017), Saeed and Rasheed (2014), Ronoh (2015) and Makori and Jagongo (2014) highlighted that the far the firm gets away from elements of supply chain the less control it has over them and went on further to say that suppliers tend to have a strong and better relationship with customers they expect may show up or that they may have met. According to Obuya (2014), Ngumi et.al (2016) and Miras (2015) encouraged face to face visits which will allow

addressing any concerns and ensuring all products meet desired standards. There is also less chance of raw materials being lost and damaged which often occurs when working with distanced suppliers which improves our working capital.

Nyamao (2014), Chen et.al (2014) and Zhangu (2013) argued that dealing with local supplier in most cases is rendered efficient as there are less transport costs as compared to purchasing from abroad where there is need for import charges, the freight costs and also transport cost. These costs can be reduced as some local firms offers delivery services free of charge and even if it is charged the products may still be cheap thereby improving the liquidity of the firm.

Lin et.al, Wang (2016) and Kwaningi et.al (2015), Mavhundutse and Gombarume (2014) highlighted that there is often delay of goods clearance at the borders hence production can be disrupted sometimes but opting for local suppliers helps in covering for the gap efficiently.

Findings indicate that the use of local resources in humanitarian aid has positive effects on programs overall supply chain performance and these effects are not only related to the macroeconomic analysis, but benefits expand to improvements related to the use of knowledge

However it has been argued by Nangia et.al (2014), Maina and Ishmail (2014) suggested that local suppliers often run out of stock thereby resulting on being undependable or unreliable. This affects the financial performance of the firm negatively as sales may be lost and or customers lost as well thereby reducing the trade receivable level. The above scholars did not reach a conclusion on how purchasing from local suppliers affects liquidity position firm thereby giving this study the opportunity to establish fairly how purchasing from local suppliers affects the liquidity position of an organisation.

2.5 Summary

The literature review emphasized on the different facts gathered by other preceding authors with regards to working capital management practices in relation to financial performance as well as the effectiveness of the working capital practices on the liquidity of manufacturing firms. Chapter will focus on the ways to obtain an insight as to the techniques involved in gathering data from the relevant source.

CHAPTER 3

RESEARCH METHODOLOGY

INTRODUCTION

This chapter describes the method adopted by the researcher to gather information and how it was examined to come up with meaningful results. The section emphasizes on the research design, the targeted population, sample and sampling procedure, instruments, ethical concerns, validity, reliability, data presentation and analysis. It also gives in full the steps which made the the analysed data more reliable and valid through the appropriate research instruments that were distributed also to knowledgeable people in the organisation.

3.1 RESEARCH DESIGN

3.1.1 Mixed Approach

The author used the mixed research design approach to carry on the investigation of the impact of working capital management practices on liquidity of Calundike Exports Pvt Ltd . The researcher used both the statistical and non statistical data so that there can be a deep understanding of knowledge that is sufficient and that all the research questions would be fully answered in depth leading to validation of data presented.

According to Apuke (2017) quantitative research is focused on utilization and analysis of numerical data using specific technical techniques to answer the questions like what, how, how much and where. The researcher will use this method because it is regarded as neutral, accurate and provides less room for expression of researcher's opinion but only description of their observations. This approach is necessary for the research since it answers the research objective such as the relationship established between working capital management practices and liquidity of Calundike Exports Pvt Ltd.

The qualitative approach is non statistical in nature and brings in the deep knowledge so that there can be proper explanation and understanding .This approach answers the question of why, where and when according to Woodcock(2014).Therefore the research being a case study is supported by qualitative research design so that data could be gathered from the staff 's own

understanding of the organization on the working capital management challenges of Calundike Exports .

Therefore use of mixed research approach is vital as it will bring an in depth understanding of figures presented and explained in information of Calundike Export hence useful to a wide range of users.

3.2 SAMPLING

The researcher focused on a limited number of staff members from the whole population in the finance department from Calundike Exports in order to gather information using the interview guide and questionnaires. The sampling method was necessary as the team representing the department share the same attributes with others and are hence able to know and share the necessary information on working capital management practices on liquidity of the manufacturing firm. Sampling is efficient in the view that it gathers facts of everyone by just utilising a portion representing others which is thereby time conscious and cost effective where money is a tight resource.

3.2.1 Sampling technique

According to Woodrow (2014) random sampling is one of the effective ways to select the sample to use on a research so that it reduces the chances of manipulation and the effect of extraneous factors and is necessary where there are few participants who are centralized in carrying out their roles. The random technique involved selecting both male and female participants since in manufacturing firms the finance departments have few staff members and have knowledge of almost everything that concerns the department hence most of the members would aid in the study.

3.2.2 Sample size

Table 3.1 Sample size of the research population

Targeted population	Population	Sample size	Percentage of sample size
Managing directors	1	1	100%
Accountants	2	1	50%
Production Managers	3	1	33%
Finance Department	20	15	75%
Total	26	18	69%

3.3 Targeted Population

The researcher aimed at a population which comprised of the managing directors, production managers, and finance personnel who included student on industrial learning and accountants for wood furniture manufacturing firm in Zimbabwe which is Calundike Exports. Thus the research consists of eighteen members from the selected organization.

3.4 Research Instruments

3.4.1 Questionnaires

The author used the questionnaires for primary data collection as supported by Apuke (2017). The researcher used self constructed questions that were necessary for answering the research objectives and were therefore answered by the staff selected using the random sampling. The author gave the selected individuals the questionnaires directly in order to ensure confidentiality and to encourage the respondents to fill the real their view without any fear by giving the assurance that information will be used for its purpose only. The reason for choosing questionnaire by the researcher was that it answered most of the questions in a more unbiased way without fear of being known since there was less or no influence from other forces on what to answer. The author opted for this research instrument on how working capital impact on financial performance of Calundike Exports.

The questionnaires proved to be efficient as it led to data collection from more respondents in a short period of time and cost effective. Secondly questionnaires were drafted in a way that would result in answers of specific need by directly involved parties and proved to be efficient for the researcher as evidence would have been gathered by supporting different sources with honesty and open opinion. Moreover the questionnaires enabled the researcher to have full insight on the components that affects the working capital management and its impact on liquidity. The author opted for this research instrument so that the impact of working capital on financial performance would be acquired.

3.4.2 Interviews

The author used direct interviewing approach which encouraged clarification to both parties where they did not understand each other's view. The direct interview approach proves to bring reliable information since the researcher will by all means clarify the actual requirements from a question hence posing as a clarification tool that avoids unrelated matters of concern being given by respondents. The direct interview approach also gave a chance for depth of information from the organisation on responses on the impact of efficient working capital management for Calundike Exports. Another justification of using interview for data collection in this study is that the author obtained the desired information instantly which encouraged analysis of data on time.

The idea that the interview guide questions are checked first before carrying out the process to ensure if the questions are necessary in acquiring the appropriate evidence ensured the validity and reliability of the data gathered on explaining how efficient working capital management is being affected because of the people participating that would have full knowledge. The interviews therefore will supplement information obtained from questionnaires .The interview approach also gave an enlightening depth of knowledge since the management also participated that had more knowledge on the poor working capital systems that's affecting Calundike Export's liquidity but maybe fail to fill out the questionnaires due to various constrains such as time .

3.4.3 Likert Scale

According to Josh et.al (2015) likert scale of rating is whereby the respondents are provided with different views in which they need to choose from with the one that will be close or true to their views. The risk of inappropriate responses would be reduced since respondents would select from either strongly agree, agree, neutral, disagree and strongly disagree. This was used to rank the answers given by the respondents to questionnaires in order to present and explain it on bar graphs represented as percentages.

The researcher structured the Likert scale basing on the questionnaire to specify the degree of acknowledgement on examining the effects working capital management on liquidity. The scale was used in the research to enhance simplified data examination on closed questions.

3.5 Ethical Concerns

The researcher firstly asked for permission first to conduct out the research at Calundike Exports which was granted. The respondents for the interviews and questionnaires were first acquainted how confidential the information will be and also encouraged by management to participate in the study for the benefit of the organisation. Permission will also be sought before interviews to participants. Participants of the study will also be assured that the information they will provide will be considered to be confidential and will only be used for purposes of this research. Questionnaires will not be named so as to ensure that respondents are free to accurately state their views and opinions without fear of victimization which made the data more reliable and valid for the research.

3.6 Reliability

The researcher gathered the information personally through direct interview approach which resulted in reliable information as the researcher was able to analyse data which is true. According to Foyeke et.al (2016) who is of the notion that open-ended questions encourages the respondent to highlight fully other facts that may not have been considered in closed and also the respondent will give unbiased responses hence resulting in reliability of the questionnaires and interviews to the study. Furthermore Donald (2014) added that closed-ended questions

sometimes helps the respondents to understand what the notion behind the question will be highlighting and also that they give respondents no other choice but to rely on options given to choose from for example multiple choice questions that agrees and disagrees.

3.7 Validity

According to Creswell (2014) validity refers to the degree of excellence of the study which reflects whether the research should be believed and the extend generalizations can be made and ensures on how sure the researcher believe the instrument measures what it was purposed to do. In order to ensure validity the researcher conducted the sample size on finance personnel who are rendered to have adequate skills of the field such as the accountant, production manager and finance team which includes the purchasing personnel and accounting personnel. The Team had an insight of the working capital components and their impact on liquidity.

The sample size of 37% was used so that results generated would be valid to the research The researcher also structured the questionnaire and interview guide questions in such a way that research questions and objectives were fully addressed thereby ensuring validity .Questionnaires were verified by the author if they did not have errors and if they had met what it purported to before data presentation.

3.8 Data Presentation and Analysis

3.8.1 Data Presentation

After gathering data, the researcher organized it in a way that met the research objectives and goals. According to Stimpson and Smith (2015) there are a number of data presentation ways which includes charts, tables and graphs to mention a few. The author presented collected data using tables, bar graphs and pie chart which were very simple and easy to understand when interpreting and analyzing raw data and facts. Responses will be sorted according to question in order to establish numbers and percentages of the number of respondents whose responses fall in specified group. The use of the visual aids were considered virtuall by the researcher as it made it easy in establishing and relating the research findings to the research problem of Calundike Exports

3.8.2 Data Analysis

According to Woodcock (2014) the data analysis is a way of reviewing, explaining and presenting data with the motive of emphasizing useful information and establishing conclusions. The Pearson correlation regression analysis was used in the study to identify the nature and extend of relationship between working capital management variables and financial performance and it makes use of the secondary data which are reported annual financial statements. In order to examine the relationship between the variables the following model was adopted

$$Y = \beta_0 + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \varepsilon$$

Where

Y= Financial Performance indicator (Return on Asset)

X1= Inventory Conversion Cycle

X2= Receivable Conversion Cycle

X3= Payable Conversion Cycle

β_0 = Constant

ε = Error term

3.9 Summary

This chapter looked at the research design which is mixed and the research instruments which are questionnaires and interviews for data presentation and analysis. The chapter also highlighted how the data will be drawn using sample and the sample size as well as the targeted population in data collection. In addition the author ensured how the data presented is reliable in valid through the direct interviews and participation of knowledgeable staff members of Calundike Exports. The next chapter will discuss the findings from the data collected.

CHAPTER 4

DATA PRESENTATION AND ANALYSIS

4.0 Introduction

This chapter represents the evidence gathered from the respondents in form of questionnaires and interviews as well as statistical information from financial statements. Data is presented in the form of visual aids like bar graphs, pie charts as well as tables and explained rigorously. The qualitative evidence is explained and articulated in respect to the gathered evidence.

4.1: Questionnaire's Response Rate

The number of responded questionnaires out of those distributed to the targeted population is shown by the questionnaires respondent rate. The researcher issued 18 questionnaires to the personnel of Calundike Exports (Pvt) Ltd which included the managing director, production manager, accountant and accounting officers .However on the 18 questionnaires issued ,16 were responded to thereby yielding a 88.9% as illustrated below on the questionnaires respondent rate.

Table: 4.1 Questionnaire's Response Rate

Participants	Questionnaires Issued	Questionnaires responded	Response Rate
Managing Director	1	1	100%
Production Manager	1	1	100%
Accountant	1	1	100%
Finance Department	15	13	86.7%
TOTAL	18	16	88.89%

The above table 4.1 illustrates that one questionnaire was given to the managing director who responded giving a responded rate of 100% while another questionnaire was given to the production manager who responded as well resulting to a 100% response rate. One questionnaire was given to the accountant and the response was returned leading to 100% response rate and lastly the finance department was issued fifteen questionnaires and thirteen responded (13/15) resulting to 86.7% which is reliable as it covers more than half of the targeted population and illustrates willingness of targeted population to take part in the research .Overally fifteen questionnaires out of the eighteen issued were returned with information giving a response rate of 88.89% supported by Bryman and Bell (2015) that anything above 50% assures reliability of information.

Questionnaire Presentation and Analysis

4.1.1 What poor supplier management practices are being faced by Calundike Exports?

The researcher aimed for the respondents to highlight the different poor supplier management practices faced by the organization and organized the responses according to their likeness. Below is the table which explains how the sixteen respondents respondent to the question.

Table 4.2 Responses for poor supplier management practices

Poor supplier management practices faced by the firm	Lack of proper negotiation skills for favorable terms	Delaying the trade creditors payments which affects image of the firm	Dependency with the same supplier	Lack of commitment by procurement personnel
Respondents	5	4	5	2

Using the table 4.2. (5/16) 31.25% were of the view that lack of proper negotiation skills for favorable terms from suppliers was one of the poor supplier management practices for Calundike Exports. The other (4/16) 25% were of the notion that delaying payments when they fall due is another poor supplier management practice faced by the firm. Also as highlighted in the table above (5/16) 31.25% were of the notion that there is over dependency on the same supplier

which is a poor supplier management practice and last poor supplier practice supported by (2/16) 12.5% respondents were in agreement that lack of commitment by procurement personnel is also a poor supplier management practice faced by Calundike Exports.

The (5/16) 31.25% respondents with the view that lack of proper negotiation skills for favorable terms from the suppliers is a poor supplier management practice faced by Calundike Exports had scholars that supported them according to (Calundike Exports Finance Department 2018) price instability that got out of hand resulted in suppliers demanding cash upon purchase or earlier payment period than before in order to avoid lose of value by the settlement date. According to Boopathi (2016) existence of strict trading terms offered by suppliers like cash on carry basis, advance payment before delivery and or early payment period requires personnel that are able to bargain for change on the terms basing on different factors such as the long standing relationship, past reputation. Furthermore if negotiations are not done properly that will affect the firm's liquidity lack of the negotiation skills this affects the firm's liquidity negatively.

As indicated in the table above (4/16) 25% advocated that delaying payments when they fall due is another poor supplier management practice faced by Calundike Exports. This view was supported by Chowdury (2018) who highlighted that lack of adaptability and flexibility to the economic environment affects the relationship between buyers and suppliers. Suppliers would want their customers to settle their debt as regarded in their contract since the firms are operating in a volatile environment whereby there will be instabilities in prices. When asked in an interview there was one respondent in support of the view that delaying payments is another poor supplier chain management being faced. Therefore a delay in settling obligations has resulted in the firm being penalized and debts being reviewed more than normal thereby affecting the firm's liquidity negatively and damaging the reputation of Calundike Exports.

The table 4.2 also highlighted that (5/16) 31.25% were of the notion that overdependence with the supplier is also another poor supplier management practice faced by Calundike Exports. The notion was supported by Ivens et.al (2014) who highlighted that depending on the same supplier can lead to disappoint as they may fail to deliver materials on time due to stock outs on their sides and can also lead to poor quality products being send since there can be a long standing relationship of understanding each other as well as overpricing of goods with the knowledge that the firm has no other alternative besides them. This however affects the quality of product,

increases the settlement obligations and negatively affects the liquidity position of Calundike Exports.

Lastly (2/16) 12.5% respondents highlighted that lack of commitment by the procurement personnel is also another poor supplier management practice faced by Calundike Exports. Enqvist et.al (2014) also highlighted that lack of honesty when executing their duties and lack of commitment by the purchasing personnel negatively affects the relationship with suppliers as they will tend to lose trust in negotiations with their customers whom they believe would want to defer payments on them. Lack of constant visit and communication with suppliers to remind them of their relationship and enforce it more will give an impression to the supplier that the customer has no need for credit payments but rather cash payments and also failure to communicate the truth when the firm has no funds to pay for goods on stipulated dates tends to affect relationships that offered favorable payment terms. Therefore the researcher concluded after considering the respondents from interview that lack of proper negotiations terms of payment and dependence on the same supplier by the personnel affects is poor supplier management practice for Calundike Exports.

4.1.2: What poor inventory management practices are being faced by Calundike Exports?

The researcher’s motive is to know the poor inventory management practices being experienced by Calundike Exports as a manufacturing firm as an aid of working capital management. The sixteen responses gathered were grouped according to similarity and presented in the table below.

Table 4.3 Responses on poor inventory management practices

Poor inventory Management practice faced by the firm	Importing of raw materials found locally	Overproduction of goods which can become obsolete	Lack of inventory management framework	Frequent Reordering
Respondents	4	2	8	2

Table 4.3 above indicates that (4/16) 25% were of the view that importing raw materials found locally was one of the poor inventory management practice faced by the organization. Also (2/16) 12.5% were of the view that overproduction of goods which has a risk of leading to goods becoming obsolete and (8/16) 50% of the respondents had the notion that lack of inventory management framework by Calundike Exports is another poor practice. Lastly (2/16) 12.5% highlighted that frequency of re ordering is another poor inventory management practice being experienced by Calundike Exports.

The table 4.3 above indicated (4/16) 25% respondents in support of the point that purchasing materials outside the country that are found locally as a poor practice being experienced by the firm. Due to increase in shortage of foreign currency according to (Finance Minutes 2018) production levels were being affected severely as the firm was unable to purchase the imported raw materials on time .According to Leeson (2016) highlighted that the inevitable scenarios can exist such as lack of raw materials due to delay in clearance of cargoes that would be carrying imported raw materials can cause the production to shut down when unpredictability of demand increases .There is need to purchase from local suppliers since misstatements in calculation of the landed costs are reduced and foreign currency issues reduced.

Indicated by the table 4.3 above (2/16) 25% of the respondent were of the view that there is overproduction of goods that will become obsolete .This view was supported a respondent from the interview who highlighted that there are some products that are overproduced and have been staying for long in the warehouse. According to Onyango (2014) also highlighted that most of small firms have more inventory sitting for long because of in ability to efficiently manage inventory and has led to constrained cash flows. This inventory of finished goods tends to sit long and cost the firm as there are charges to be incurred such as security costs, risk of thefts and of breakages. When inventory sits for long before dispatch thereby the cash flow for the business becomes constrained.

The other (8/16) 50% respondents were of the view that Calundike Exports lacks an inventory management framework like Just in time techniques and Economic Order Quantity. According to Ogoye (2014) lack of policies to acquire and use of inventory such as Just In process can result in failure to track whether inventory is being managed efficiently thereby affecting the implementation of effective working capital practices. According to Uduak and Nsikan (2015)

the lack of idea and use of policies in inventory management leads to shortage of products, inefficient utilization raw components and longer lead time thereby affecting the implementation of effective working capital management practices.

Lastly as indicated by the table 4.3 there are (2/16) 12.5% respondents were of the same view that constant re ordering of raw materials is poor inventory management practice experienced by Calundike Exports. According to Sugathadasa (2018) lack of policies to acquire and use of inventory leads to constant reordering costs which tends to be costly for the firm considering transport costs being charged separately. In addition Atnafu and Balda (2018) also supported with the view that failure by the personnel to know the right time to order and the right quantity to order affects the costs of a firm in the case of unavailability of raw materials from suppliers whereby the firm would need to divert to costly suppliers in order to meet the need. Therefore basing on the highest response of 50% which makes the information reliable, the researcher concluded that lack of inventory management framework is the poor inventory practice for Calundike Exports.

4.1.3 What poor trade receivables collection system are being practiced by Calundike Exports

The researcher’s objective was to gather the poor trade receivables collection system being practiced by Calundike Exports as it is an efficient tool on working capital management and its importance relating to ensuring the liquidity of the firm. The table below highlights the responses gathered from the sixteen respondents.

Table 4.4 responses on poor trade receivables collection system

Poor receivables collection system practices	Lack of penalties on late payers	Lack of constant reminders	Lack of proper communication channels	Failure of establishing a credit framework
Respondents	8	3	4	1

Using the table 4.4 above (8/16) 50% of the respondents were of the notion that lack of penalties to late payers is one of the poor receivables collection system involved at Calundike Exports. This was in line with (Calundike Exports finance minutes 2018) which highlighted that lack of stringiest penalties to late payers has resulted in the trade receivables value increasing. This view was supported by John (2014) who highlighted that if late payers are not given penalties then they will be reluctant to pay off their debts thereby leading to high levels of customers becoming bad and educed liquidity for the organization. There should be benefits for early settlers of debts and penalties for late payers so that the firm reduces the levels of bad debts and improves the liquidity levels for Calundike Exports.

Table 4.4 also indicated that (3/16) 18.75% of the respondents were highlighting the same view that lack of constant reminders to debtors by the relevant personnel is another poor practice being experienced. This view was supported by Ahmed (2016) arguing that collection system is in the hands of the firm in the sense that they are the ones ought to create an efficient environment for receivables collection than the customer's obligation to pay hence the need to 89send constant remind reminders to debtors when their debts will be falling due. Thanh (2016) further supported the view stating that when a firm is growing and expanding into new markets through organic sales, the invoice volume increases hence more work for department that would find it hard to cope with a lot of work and will tend to leave out some tasks like constant follow ups.

Furthermore the table 4.4 also indicated another group of respondents (4/16) 25% who were of the view that another poor receivables collection system is that of lacking proper communication skills with the customers. According to Krishnankutty (2014) highlighted that the collection period which is not done regularly because of lack of personnel which affects the levels of bad debts that increase due to too much work that has to be handled by the inadequate staff is another poor receivable practice. The lack of adequate staff will result in lack of proper communication channels and skills to customers because of work load that will be too much hence unable to communicate with customers at Calundike Exports.

Lastly from the table above (1/16) 6.25% respondent highlighted that lack of credit framework guarantying credit to specific customers should be established hence a poor trade receivable system on Calundike Exports. Masinde et.al (2017) supported the view of the respondent

highlighting that failure to have a credit framework that state the conditions under which a credit sale or discount should be applied may result in privileges being given to unworthy customers like longer repayment period. Therefore basing on the modal response of 50% the researcher gathered that lack of penalties to late payers of Calundike Exports has been the most poor trade receivable collection system which has led to the debtors figure increasing and thereby when payment is done the money would have lost value and thereby affects liquidity position negatively.

4.1.4 What current challenges are being experienced by Calundike Exports due to shortage of foreign currency?

The researcher's intentions was to gather the challenges being faced by Calundike Exports as a result of foreign currency crisis and below are the results obtained from the respondents that were grouped accordingly.

Table 4.5: Challenges faced due to shortage of foreign currency

	It is costly for the firm	Lack of the raw materials in local market	Poor quality products found locally	Production affected negatively
Respondents	6	4	4	2

According to the table 4.4 there are (6/16) 37.5% respondents that were highlighting that due to local foreign currency shortage buying locally has resulted in cost of raw material being expensive and hence cost of production for the firm. This view was supported by Bostan et.al (2018) who highlighted that when the cost of raw materials increases such an increase on variable costs increases the production costs hence the firm find it hard to set prices since there will be need to increase selling price to cater for the increased portion. Therefore Calundike Exports faces a challenge of buying local material that has an impact of increasing costs of production and chasing customers away because of prices thereby negatively affecting working capital.

The table 4.5 above also highlighted that (4/16) 25% respondents also gave the challenge that the local market may not have the materials required hence a challenge faced by Calundike Exports. Their view was supported by Lithubua (2014) who was of the view that when local market can offer products required by the firm in production then they will have to switch to other alternatives like importing which might take long time before delivery and may result in breakages of goods on delivery .

The table 4.5 above also highlighted that (4/16) 25% respondents also highlighted that local materials may be of poor quality which affects the output of production thereby resulting in slow moving inventory which affects that the working capital negatively .This view was supported by Schmidt (2019) highlighting that foreign currency shortages has affected negatively the securing of key inputs of other industries which if purchased locally are of poor quality which the find it hard to work with thereby affecting the performance of organizations resulting in wound ups.

Lastly (2/16) 12.25% respondents were of the view that production is being negatively affected due to lack of materials on time .Their view was supported by Ogoye (2014) highlighting that if there is a delay in obtaining the raw material, production will be interrupted and sales lost as well thereby affecting the liquidity position of the firm. Therefore the researcher concluded that Calundike Exports is being negatively affected by the foreign currency shortage crisis which has led to production level being affected and quality being jeopardized thereby leading to reduced liquidity for the firm.

4.2 What is the impact of efficient working capital management practices on liquidity of the organization?

The question was aimed at examining the positive results of effective working capital management practices for Calundike Exports.

4.6 Responses on the impact of effective working capital management practices

	Agree	Strongly agree	Disagree	Strongly Disagree	Not Sure
Ensures Liquidity	10	4	1	1	0
Improved Goodwill	6	5	2	2	1
Reduced Interruptions on operations	4	7	2	1	2
Benefits of discount	10	3	2	0	1

4.2.1: Ensures Liquidity

Table 4.6 indicates that 4 out of 16 strongly agreed which is 25% and 10 out of 16 agreed which is a 62.5% that effective working capital management practices ensures liquidity of an organization. On the other hand one respondent disagreed resulting on 6.25%, lastly one respondent was strongly disagreeing resulting also on 6.25% that effective working capital management practices ensures liquidity and there were no respondents that were not sure. Therefore in total 87.5% of the questionnaire respondents agreed and also a total of 12.5% disagreed that efficient working capital management practices ensures liquidity.

A modal of (14/16) 87.5% that agreed with the notion of efficient working capital management results in ensuring liquidity supported by Rouf and Abdur (2015) who highlighted that efficient monitoring of receivables, payables and inventory assist in maintaining enough funds for the firm so that at any interval the firm can be able to pay its operational costs and short term obligations. According to Khan et.al (2016) also supported that when the firm manages the receivables and payables efficiently it is able to sustain itself without borrowing funds that attracts interests and penalties if paid late and the firm obtains good credit rating which will have a positive impact when seeking for finance from financial institutions.

However (2/16) 12.5% disagreed with the view that efficient management of working capital ensures liquidity. These respondents were supported by Hassan (2017) who highlighted that liquidity cannot be guaranteed hence the firm maybe profitable but insolvent due to the trade off relationship. The view that a firm can be profitability will not ensure its liquidity due to more

obligations failing due as compared to the cash conversion cycle. Therefore research indeed agreed with the view of the majority that efficient working capital management ensures liquidity for Calundike Exports. In conclusion the researcher concluded that working capital management ensures the liquidity position for Calundike Exports.

4.2.2 Improved Goodwill

Table 4.6 indicates that (6/16) 37.5% respondents agreed and (5/16) 31.25% strongly agreed that efficient working capital management results in improved goodwill. On the other hand (2/16) 12.5% disagreed with the view of goodwill while (2/16) 12.5% strongly disagreed and (1/16 6.25%) was not sure whether to agree or not to the notion that efficient management of working capital will lead to improved goodwill for Calundike Exports

In aggregate (11/16) 68.75% were in agreement with the notion that efficient working capital management will result in improved goodwill for Calundike Exports. This was highlighted in the (Calundike Exports production minutes 2018) that lack of delivering goods on time damages the reputation of the firm. This was thereby supported by Nazir (2015) who highlighted that if there are adequate controls to manage inventory there will be less disruptions on production hence quality cannot be affected negatively while deadlines and customers needs are met thereby resulting in establishment of good reputation by the organization's customers. Samson et.al (2014) also supported the respondent's views as he advised that companies with good management of receivables, payables and inventory will result in support from financial instates in times of financial difficult thereby improving the reputation of the organization which is the goodwill.

However total of (4/16) 25% were in disagreement to the view that effective working capital management will result in improved goodwill. When interviewed two respondents were also disagreeing to the notion that effective working capital results in improved goodwill. These respondents were supported by Panigrahi (2018) who highlighted that goodwill cannot be guaranteed because a simple phase of financial constraints for the organization can totally damage the long standing reputation of the organization thereby deteriorating the firm's credit standing that may lead disposal of firm's assets and thereby leading to bankruptcy and insolvency.

On contrary (1/16) 6.25% was not sure whether efficient management of working capital for Calundike Exports results in improved goodwill and this was maybe due to debatable issue surrounding the notion of goodwill that it is not only ensured by efficient management of goodwill but rather other factors are to be considered on for example how employees are treated, the governance of a company and the code of conduct applied when dealing with customers. Therefore the researcher concluded that efficient working capital management practices for Calundike Exports can result in improved goodwill for the firm.

4.2.3 Reduced interruptions on production

The table 4.6 above indicates that (4/16) 25% agreed with the notion that effective working capital management practices leads to reduced interruptions on production and (7/16) 43.75% strongly agreed with the reduced interruptions view. On contrary (2/16) 12.5% disagreed and (1/16) 6.25% strongly disagreed with the view that efficient working capital management result in interruptions on production. There were (2/16) 12.5% respondents who were not sure of the view that effective working capital management results in reduced interruptions on production.

In aggregate (11/16) 68.75% agreed with the view that efficient management of working capital result in reduced interruptions on production. This was supported by (Calundike Exports production minutes 2018) which highlighted that when there are enough raw materials then production will flow smoothly. The respondents were supported by Mathuwa (2014) who highlighted that efficient management of inventory plays an important part in the survival of the firm since availability of adequate resources will smooth the production flow resulting in avoiding loss of sales and customer retention. According to Wilfred et.a l(2014) highlighted that when inventory is managed properly then stock outs are avoided ,loss of sales avoided as well and survival of the firm guaranteed due to availability of cash to purchase raw materials that ensures manufacturing continues.

On contrary (3/16) 18.75% disagreed with the view that efficient management of working capital ensures reduced interruptions on production. The respondents were supported by Medury (2014) who gave an idea that manufacturing firms involved in downstream distribution channels face a challenge in keeping inventory at adequate levels due to difficulty in forecasting demand and expectation on customer's demand thereby resulting on interruptions due to product inventory

unavailability and unexpected demand. Efficient working capital management for Calundike Exports ensures production continues as there will be adequate funds to import raw materials required for production to continue without being interrupted.

However (2/16) 12.5% respondents were not sure whether efficient working capital management reduce interruptions on production. This may be due to the notion supported by Kirmi (2017) who highlighted that even though inventory might be available in adequate quantities but there can be other factors which interrupt production such as old machinery which will be inefficient and always down requiring repairs constantly thereby resulting in interrupted production. Therefore basing on the responses for Calundike Exports, the researcher established that efficient working capital management reduces interruptions on production for Calundike Exports.

4.2.4 Benefits of Discounts

The result from table 4.6 shows that (10/16) 62.5% respondents agreed and (3/16) 18.75%strongly agreed that efficient working capital management results in the firm benefiting from discounts. On contrary (2/16) 12.5% disagreed with the view of benefiting from discounts while there were no respondents that strongly disagreed with the notion of benefiting from discounts. Lastly (1/16) 0.625% was not sure on whether to agree or disagree with the view that effective working capital management practices will result in Calundike Exports benefiting from discounts.

In aggregate (13/16) 81.25% respondents agreed with the notion that efficient management of working capital will result in Calundike Exports benefiting from discounts .Two respondents from interview also responded with the same view hence making the view reliable. This was highlighted by Sharma and Saurab (2015) who suggested that when a firm is able to meet its obligation on time and has a frequent business base with the client the n it will be able to attract discounts from its suppliers which reduces the trade payables and improves the working capital.

On the other hand 18.75% were in disagreement of the view that effective working capital management can result in benefits of discounts for the firm. This was highlighted by

4.3 What techniques can be implemented to ensure effective working capital management practices in order to improve liquidity?

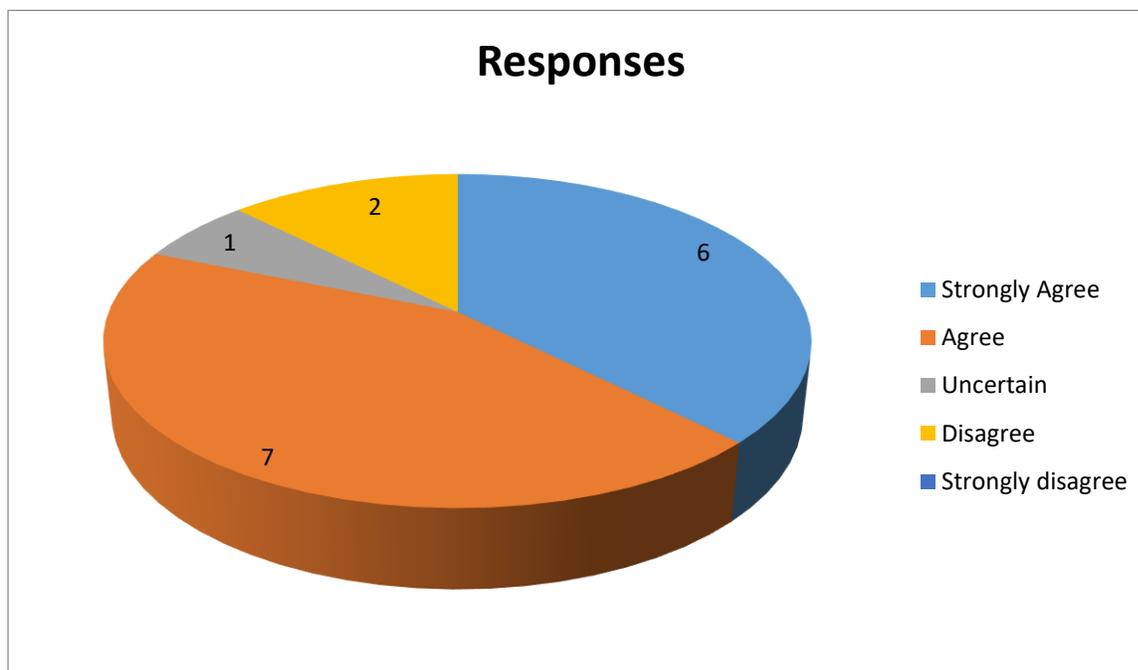
The objective of the researcher was to gather the techniques that can be done in order to improve the liquidity position for Calundike Exports.

Raw Data: Responses on proper inventory management

	Strongly Agree	Agree	Disagree	Uncertain
Respondents	6	7	2	1

This data was used for the figure below

Fig 4.1: Response on proper inventory management



From the Fig 4.1 above it can be denoted that (6/16) 38% strongly agreed ,(7/16) 44% agreed,(2/16) 12% disagreed and (1/16) 6% not sure that proper inventory management is a technique that ensures effective working capital management practice in order to improve liquidity for Calundike Exports.

In aggregate (13/16) 82% of the respondents were in support with the notion that proper inventory management is a technique which aid in ensuring effective working capital management practices in order to improve liquidity.(Calundike Exports finance minutes 2019) highlighted that a proper inventory framework will lead smooth flow of production that will result in improved liquidity position for the firm considering sales will not be lost. They were supported Knauer and Wohrmann (2014) highlighted that efficient management of inventory by constant stock counts, recalculations and proper adjustments addresses the problem of slow moving stock items to be noticed, under utilization of resources in the production process which often to increase the costs of the firm thereby negatively affecting the performance of the firm. Naliaka and Namusonge (2015) went further highlighting that proper inventory management results in delivery of quality products and on time which leads to customers settling their debt on time as well thereby improving the liquidity position of the firm.

On the other hand using the fig 4.1 above there was a total of (2/16) 12 % of the respondents as well as one interview respondent did not support the view that proper inventory management is a technique that can be implemented to ensure effective working capital management practices in order to improve liquidity for Calundike Exports. This view was supported by Saleem and Rehman (2014) who argued that the economic order theory is based on absurd views established like the yearly activity does not change and that there is only one component being produced. the framework can be in place but invalid and went on further to say that inventory without proper training of the personnel can affect the productivity levels hence proper management of inventory leaves out room more debate which can make it invalid technique for Calundike Exports.

Lastly as indicated above there was (1/16) 6% respondent that was not sure on whether to agree or to disagree to the notion that proper inventory management technique ensures effective working capital management practice that ensures liquidity of Calundike Exports. Therefore researcher concluded basing on the 82% respondents that were agreeing that proper inventory management is one of the ways that ensures liquidity for Calundike Exports if managed effectively.

4.3.2 Lengthened Payables Cycle

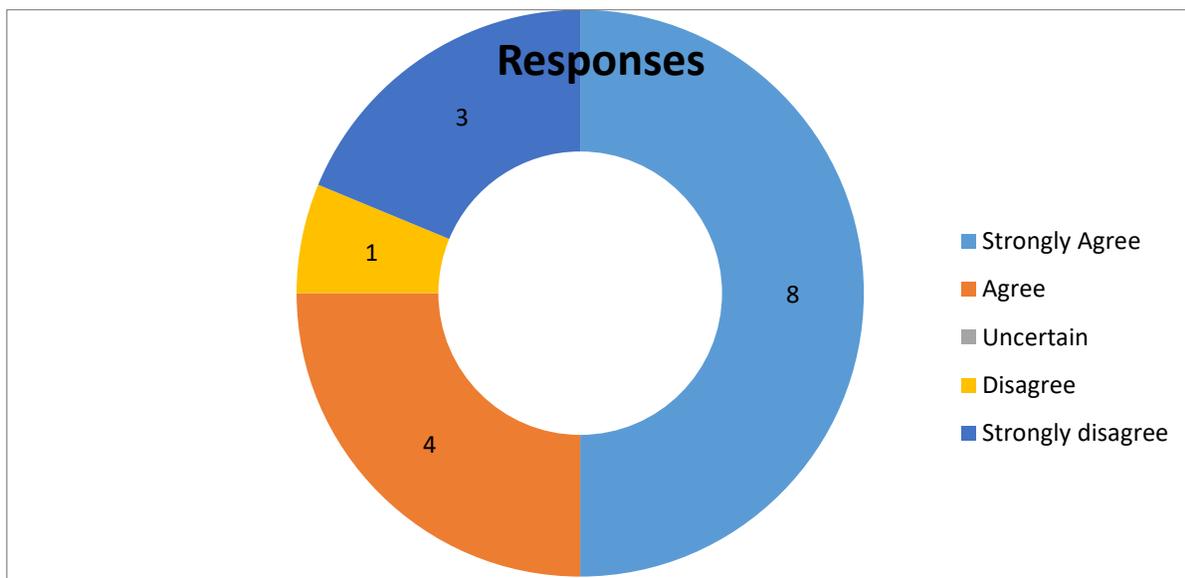
The objective behind this was establish the working capital management practices that can put in place to improve the liquidity position of Calundike Exports.

Raw Data: Responses on lengthened payables cycle

	Strongly Agree	Agree	Disagree	Strongly Disagree
Respondents	8	4	1	3

Data above used for the figure below

Fig 4.2 Responses on Lengthened Payables Cycle



The Fig 4. 2 above it can be noted that (8/16) 50% of the respondents strongly agreed to the notion that lengthened payables cycle an efficient way in ensuring liquidity for Calundike Exports while (4/16) 25% of the respondents agreed to the notion as well. While on the other hand (3/16) 19% of the respondents disagreed to the notion of the lengthened payable cycle and (1 /16) 6% of the respondents strongly disagreed to the view. There were not respondents who were not sure thus all respondents were either agreeing or disagreeing.

In aggregate (12/16) 75% were of the notion that lengthening the payables cycle can ensure the liquidity for Calundike Exports to be improved hence an effective way to manage the working capital. This was supported by Niseku and Waema (2016) who argued that firms should try by all means to delay their payments to suppliers as much as possible but without destroying their good business reputation as this plays an important role in managing working capital since lagging paying bills is regarded as a tool to access inexpensive source of financing. Lithubua (2014) also supported that even if the payment cycle for trade payables is longer there is need to verify the invoices in order to confirm if the agreed terms are actually matching with the information presented on the invoices as this promotes correct measurement of liabilities.

On the other hand (4/16) 25% of the respondents were not in agreement with the view that lengthening the payables is an efficient way of managing working capital which ensures liquidity for Calundike Exports. This notion was supported by Lu (2014) highlighted that opportunity cost of maintaining high levels of trade payables may hurt the business if an early payment discount is offered. The discount opportunity if taken result in reduction of short term liabilities which relates to the effective working capital management practices that can attract investors and financial lenders to assist the firm. There were no respondents that were not sure on responding and thereby the researcher concluded that lengthened payables cycle for Calundike Exports can be an efficient working capital management practice which ensures liquidity.

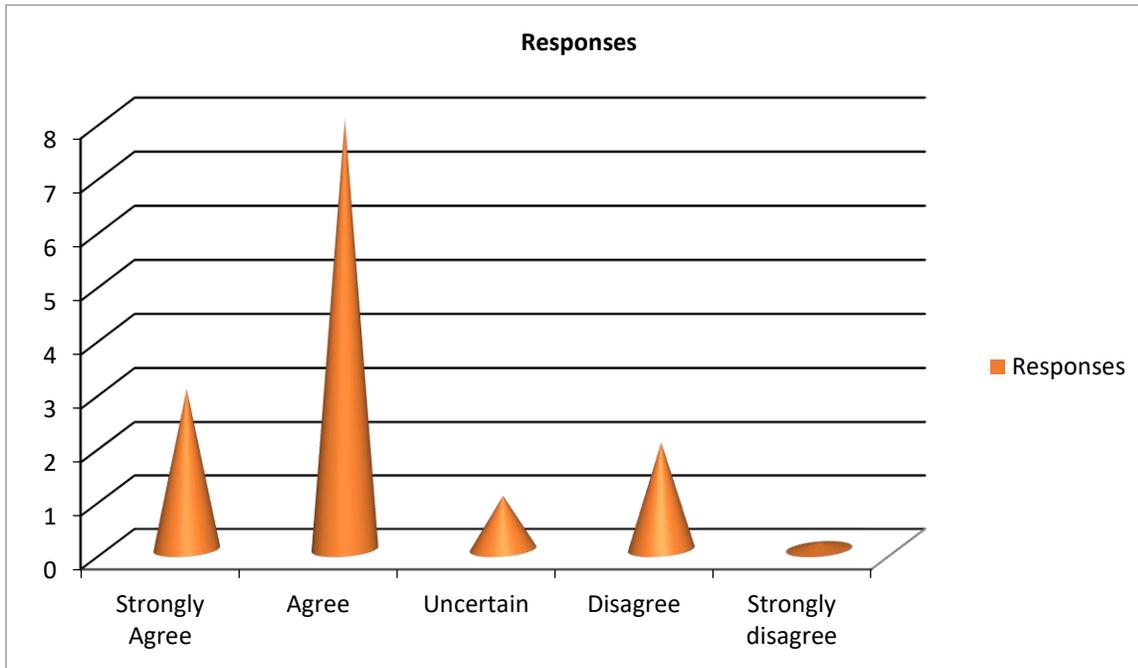
4.3.3 Purchase of local raw materials

Raw Data: Responses on ensuring efficient working capital management

	Strongly Agree	Agree	Uncertain	Disagree	Strongly Disagree
Respondents	3	8	1	2	2

Above data was used for the figure below

Fig 4.3 Purchase of local raw materials respondents



The Fig 4.3 above highlighted that (3/16) 18.75% respondents strongly agreed to the view that purchasing of local raw materials is an efficient way of managing working capital which can ensure liquidity for Calundike Exports and other respondents that agreed to the notion were (8/16) 50%. On the other hand there were (2/16) 12.5% disagreeing and (2/16) 12.5% strongly disagreeing respondents to the notion that purchasing of local raw materials is an efficient technique which ensures the liquidity for Calundike Exports. Lastly there was a respondent (1/16) 6.25% who was not sure on whether to agree or disagree to the view of purchasing from local suppliers would benefit Calundike Exports on its liquidity position.

The total (11/16) 68.75% respondents that were in agreement of the notion that purchasing of local raw materials for Calundike Exports is a technique which can be incorporated on managing the working capital efficiently and ensuring liquidity for the firm. Their view was supported Makori and Jagongo (2014) who highlighted that the far the firm gets away from elements of supply chain the less control it has over them and went on further to say that suppliers tend to have a strong and better relationship with customers they expect may show up or that they may have had meetings. When the firm is in need of raw material before the lead time then can

consult on local suppliers that may be able to respond quickly and understand each other thereby reducing the levels of losing customers to competitors.

The aggregate of the disagreeing respondents were (4/16) 25 % were disagreeing to the notion of purchasing local supplies. They were supported by Ishmail (2014) who suggested that local suppliers often run out of stock thereby resulting on being undependable or unreliable. This affects the financial performance of the firm negatively as sales may be lost and or customers lost as well thereby reducing the trade receivable level. One respondent was not sure on agreeing or disagreeing and the researcher concluded that purchasing from local suppliers is a technique that can be considered by Calundike Exports as there are foreign currency shortages and better negotiation terms in times of crisis which will thereby improve the liquidity position of Calundike Exports.

4.3.4: Quick Receivables Collection System

Raw Data: Responses on trade receivables collection system

	Strongly Agreed	Agree	Strongly Disagree	Disagree	Uncertain
Respondents	10	4	1	1	0

Above raw data was used for the figure below

Fig 4.4: Responses on trade receivables collection system

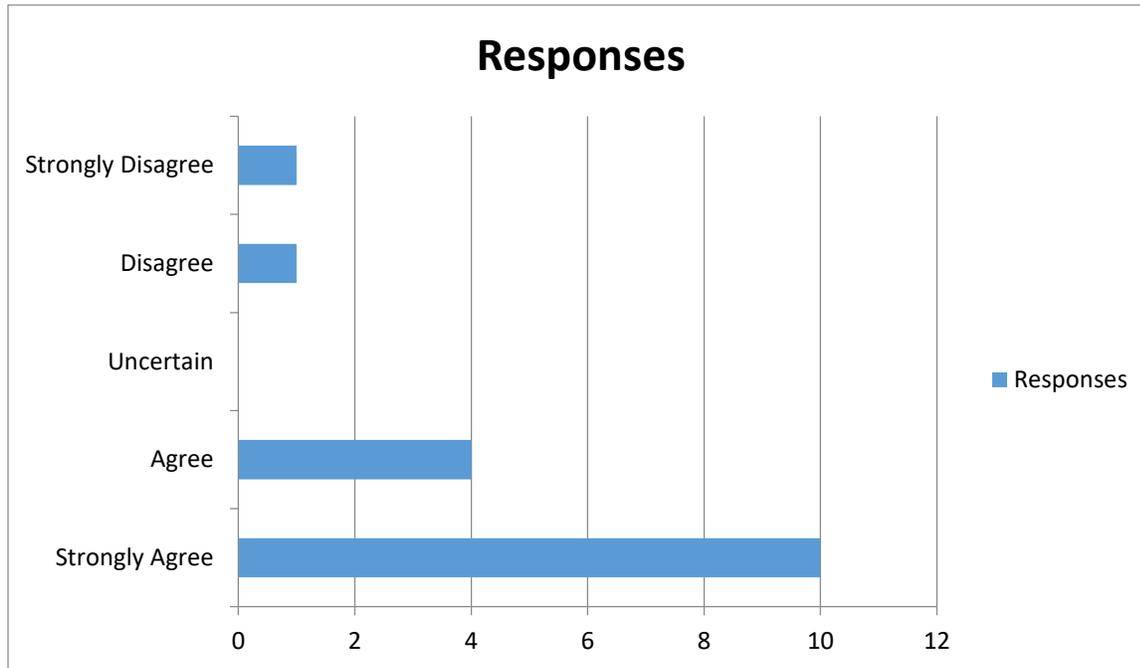


Fig 4.4 above highlighted that (8/16) 50% respondents agreed, (4/16) 25% respondents strongly agreed to the notion that a quicker trade receivable collection system is a technique which can improve the liquidity position for the firm. On the other hand (3/16) 19% respondents did not agree and (1/16) respondent strongly disagreed to the view that a quick trade receivables collection system can be a technique which improves the working capital management practice for Calundike Exports and there were no respondents who were not sure of on agreeing or disagreeing.

In aggregate (12/16) 75% respondents agreed to the notion that that a quicker trade receivable collection system is a technique which can improve the liquidity position for Calundike Exports. Their view was supported by Sugathasa (2018) who also highlighted that the collection period should be between 30 to 60 days only in order to reduce level of bad debts and to improve the liquid position of the firm. Kipto et.al (2017) also went on further emphasizing on the need to maintain a level of receivables that can be able to achieve the twin objective of profitability and liquidity.

On the other hand aggregate of (4/16) 25% respondents disagreed to the view that a quick trade receivables collection system can be a technique which improves the working capital

management practice for Calundike Exports. Singhanian and Mehtap (2016) concluded that granting of credit and its proper and effective management is not possible without involvement of any cost and the costs include administration costs, capital costs, production and selling costs, delinquency costs, default costs and opportunity cost. These costs cannot be possibly avoided totally but should carefully be regulated and controlled. Basing on the respondents that were agreeing to the view, researcher therefore concluded that quick receivable collection is an efficient technique of working capital management practice which can ensure liquidity for Calundike Export.

Quantitative Analysis

4.4 Determining the relationship between working capital and liquidity

4.4.1 Correlation Analysis

The Correlation Analysis indicated the relationship between the variables in the model which included the average inventory conversion period, average collection period, average payable period. The correlation showed the direction of the relationship between the working capital management as the independent variables and the return on assets as the dependent variable.

Table 4.7: Coefficient Analysis

Multivariate Regression result using Stata Statistical Software

```
. reg Y RCC PCC ICC
```

Source	SS	df	MS	Number of obs = 20		
Model	1.0786e+10	3	3.5955e+09	F(3, 16) =	2.83	
Residual	2.0294e+10	16	1.2684e+09	Prob > F =	0.0713	
Total	3.1081e+10	19	1.6358e+09	R-squared =	0.3470	
				Adj R-squared =	0.2246	
				Root MSE =	35615	

Y	Coef.	Std. Err.	t	P> t	[95% Conf. Interval]	
RCC	-.1226781	.3947643	-0.31	0.760	-.9595411	.7141849
PCC	-.0171473	.0543259	-0.32	0.756	-.132313	.0980184
ICC	-.5762636	.1993183	-2.89	0.011	-.9987995	-.1537276
_cons	161084.7	38269.5	4.21	0.001	79956.97	242212.4

$$Y = 161084.7 - 0.1226781X_2 - 0.0171473X_3 - 0.5762636X_1$$

The relationship between the dependent variable which is liquidity and the independent variables which included payables conversion cycle, receivables collection cycle and inventory conversion cycle has been established. The return on asset (Liquidity) = $161084.7 - 0.1226781(X_2) - 0.0171473(X_3) - 0.5762636(X_1)$. The constant was 161084.7 which implies that if there no change in any component of the working capital then the independent variable will be 161084.7. The receivables conversion cycle (X_2) had a value of -0.1226781 giving the meaning that a change in the receivables will result in a reduction of the liquidity by -0.1226781. This is as a result of poor credit framework established at Calundike Exports and as supported by Akoto (2014) who highlighted that the negative result should be an alarm to the managers that need to make sure there is receivables collection of 30 days in order to positively change the liquidity position of the firm. The findings also established a negative relationship between the payables conversion cycle and the return on assets such that X_3 (PCC) value of -0.0171473 will result in the decrease of the ROA which is the liquidity position of the firm. Falope and Ajilore (2014) also established the same negative relationship between the payables and the liquidity position with the notion

that a decrease in the unit of the payables will negatively affects the liquidity level of the organisation. Therefore from the finding above it was established there is a negative relationship between the payables and the liquidity of an organisation.

The negative value of the ICC (X1) of -0.5762636 implied that a unit increase in the inventory will result in the decrease of the return on asset which is the liquidity. This can be caused by the excessive funds being tied up in the inventory thereby not improving the liquidity position if they are not sold. Therefore it was concluded that there is a negative relationship between inventory conversion cycle and the liquidity performance of Calundike Exports. However Mathura (2014) held a positive relationship with the view that if the inventory conversion period is positive then it means that a decrease in inventory will improve the liquidity position of firm.

4.5 Summary

The chapter focused on the gathered data from the selected respondents of the targeted population. The author presented data using visual aids to enable understanding and also gave descriptive summaries of the data presented. The researcher also analysed the relationship that was established using the regression analysis using the Stata package and the results established negative relationships. The following chapter will provide conclusions as well as recommendations on the working capital management practices Calundike Exports should implement to improve its operations.

CHAPTER 5

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

Introduction

The main purpose of this research study was to assess on the impact of working capital management practices on liquidity for Calundike Exports. This chapter focus on everything that has been discussed in prior chapters but will rather be giving summarised details of areas of concerns. The chapter also is vital as it concludes on the research findings and how there can be an improved working capital management practices which improves the liquidity position for Calundike Exports.

5.1 Chapter Summaries

The study aimed at determining the impact of working capital management practices on liquidity for Calundike Exports as a case study. In the first chapter the researcher focused on how the study was established after determining the research gap that had been left out by other scholars which is the impact of working capital management practices on liquidity. The analysis of the organisation's information was carried out in relation to the research gap. The main problem being faced by Calundike Exports was established which activated the motivation to the researcher to carry out the study.

Chapter one that is where the writer established the research gap which focused on working capital management practice on liquidity position for Calundike Exports through conducting an analysis of previous author's work to identify the areas that were left out and analysis of Calundike Exports information which drove the need to establish the research.

Chapter two focused on the scholars that were in line with the research objectives of the study. The literature review managed to establish the relationship created between the working capital management practices and the liquidity of firms. The literature also established the impact working capital management practices if managed effectively on the financial performance of an

organization. The key thoughts established by other scholars were that shortened payable cycle, delayed receivables collection, improper inventory management adversely affects the financial performance of an organisation. Another key area by the scholars was there lack of negotiation skills, overdependence on one supplier and lack of penalties to late payers affects the effective implementation of working capital management. Lastly the literature review also established the effects of negatively managed working capital management practices on liquidity for firms.

Chapter focused on research method used by the researcher which is mixed research technique which is both statistical and non statistical in nature necessary for the study since it would answer all the research questions. The researcher used the interviews and questionnaires for the qualitative part and coefficient correlation analysis to establish the relationship between working capital components and liquidity.

Chapter four was centralised on presenting and explaining the data gathered. Data was presented in the form that was easy to understand for anyone that get hold of the research. There were negative relationship between the working capital components and the liquidity of Calundike Exports being established through the regression analysis.

5.2 Major Research Findings

5.2.1 Challenges in implementing effective working capital management practices

The major findings were that unfavourable credit terms , production interruptions such unavailability of resources, change in production process and lack of products in stock ,poor collection system and foreign currency shortages has affected negatively the effective implementation of working capital management practices.

5.2.2 Impact of working capital management practices on liquidity of the organization

It was gathered that working capital management ensures liquidity by constant controll of account receivables, account payable, stock management and cash management, it is able to create a good relationship with suppliers which fosters a good reputation within the industry and that production disruptions are reduced hence the positive impact of effective working capital management practices.

5.2.3 Techniques to ensure effective working capital management practices in order to improve liquidity

It was found that proper inventory management through establishment of frameworks, receivables collection on a quicker base, increased payment period to suppliers and purchase of local raw material are techniques that ensures effective working capital management techniques for ensuring liquidity.

5.2.4 Determining the relationship between working capital management practices and liquidity.

Through the correlation coefficient analysis different relationships such as negative, positive and weak were established between working capital management practices and liquidity. The effect of any change within the working capital component and its effect on liquidity was exploited.

5.4 Conclusion

It was concluded that effective working capital management practices such as longer payment period, quick receivables collection period and establishment of inventory frameworks results in the improved liquidity position for Calundike Exports improving through efficient flow of production, establishment of good reputation and benefits of discounts.

5.5 Recommendations

- The company should adopt efficient methods of managing working capital such as quicker receivables collection by sending constant reminders and introductions of penalties to late payers so as to take into account time value of money which can improve the financial muscle for the firm and also leading to reduced levels of bad debts thereby improving the liquidity position of the firm.
- The company should also try to engage new suppliers in their suppliers register list that may offer favourable terms of payment such as longer period or requires half payments down before delivery of goods and also maintain good relationship with the existing suppliers by honouring their obligations on time such that when they bargain for longer period terms they will be granted leading to improved cash flow management for the organisation.

- There should be a framework established whereby internal staff members that buy auctioned goods should not be granted on credit basis but rather on cash basis such that the level of trade debtors reduces thereby improving the liquidity position of the firm.

5.6 Chapter Summary

The chapter gave a short detail of all the information that as focused on in this whole study. Conclusions were established based on the findings of the study and areas of improvents were highlighted for Calundike Exports in order to manage its working capital managent practices for liquidity purpose.

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LIST OF APPENDICES

MIDLANDS STATE UNIVERSITY
FACULTY OF COMMERCE
DEPARTMENT OF ACCOUNTING

The Accountant

Calundike Exports (Pvt) Ltd

171 Mupfuti Road. Ruwa

Date 17 Feb 2020

Dear Sir

Ref: Request for information for a research

My name is Samantha Mapfumo (Registration Number – R168917Z). I am a student at the Midlands State University studying for a Bachelor of Commerce Accounting Honors Degree and currently undertaking a research project for my final year entitled “**analyzing the impact of working capital management practices on the liquidity of a firm: Case of Calundike Exports (Pvt) Ltd.**To this end I intend to collect data using questionnaires and conduction of interviews. I assure you that all the information gathered will be solely used for academic purposes and confidentiality will be maintained.

Should you require more details about the researcher you are free to contact the chairperson of the department of Account, Mrs Mashiri on her mobile number.

Your permission will be profoundly appreciated.

Accountant Signature.....

INTERVIEW GUIDE

- 1) What are the challenges faced in implementing effective working capital management practices at Calundike Exports (Pvt) Ltd?
- 2) Are the current working capital management practices effective in improving the liquidity position of the firm?
- 3) What are the effects of effective working capital management practices on liquidity of the organisation
- 4) What can be implemented on the working capital management practices to improve the liquidity of the firm?

QUESTIONNAIRES

Questionnaire to Calundike Exports finance department staff, production managers and finance team.

May you kindly complete the questionnaire and return it. The information you supply will be used solely for the purpose of this research and shall be handled with strict confidentiality.

I. What poor supplier management practices are being faced by Calundike Exports?

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II. What poor inventory management practices are being faced by Calundike Exports?

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III. What poor trade receivable collection systems are being practised by Calundike Exports?

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IV. What current challenges are being experienced due to shortage of foreign currency

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Please tick in the appropriate boxes provided below

2. What is the impact of efficient working capital management practices on liquidity of the organization?

	Agree	Strongly Agree	Disagree	Strongly Disagree	Not Sure
Ensures Liquidity					
Improved Goodwill					
Reduced Interruptions on operations					
Benefits of discount					

3. What techniques can be implemented to ensure effective working capital management practices in order to improve liquidity?

	Agree	Strongly Agree	Disagree	Strongly Disagree	Not Sure
Proper inventory management					
Lengthened Payables cycle					
Purchase of local raw materials					
Quick receivables collection					