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Impact of working capital management on performance Micro small Medium Enterprise using Digital Financial services

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DEDICATED TO:

This thesis is dedicated to my parents for their endless love, support, and encouragement. They not only raise and nature me but also taxed themselves dearly over the year for my education and intellectual development. They have been a source of motivation and strength during moments of despair and discouragement.

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Contents

Abstract:

The study investigate the relationship between Working Capital Management elements and how they affect sugar firm's financial performance. For this objective, secondary data is taken out of annual reports of sugar companies listed from 2017 to 2021 on the Pakistan stock exchange. The study has consider profitability, inventory, account receivable, accounts payable and cash conservation cycle factors that are taken into accounts. The findings of this research the Working Capital Management is significantly affects in the sugar companies of financial performance. Fund managers should place emphasis on both the acquisition and the use of capital as effective and efficient profitability can result from good working capital management. It will help to generate value for the stockholders.

Key Words: Working capital management, Account Receivable, Account Payable, Inventory, Cash conservation cycle

Chapter: 1

1. Introduction

1.1. Background of study:

Micro small medium enterprise are critical. Micro-enterprises are businesses with less than ten employees that operate under financial constraints and are hence less bankable. A small business is provided by Micro small medium enterprise research. Digital technology plays an important role in enhancing sustainability in today's environment. Micro small medium enterprise should be prepared, based on how important it is for them to be ready to implement. (Pangarso Astadi1, 2022)

(Shinozaki, 2022)Small and medium-sized businesses are critical to an economy's success, as they are a major source of job creation, as well as broader economic and social goals like development, competitiveness, innovation, and foreign exchange creation as well as price stability, regional prosperity and social and economic equality. Micro small medium enterprise confront a variety of challenges due to various their size, despite making a significant contribution to the economy. An individual is unlikely to be able to manage the increased volume of decisions and financial management because the business manager controls for investing funding, small and medium enterprise commonly turn to company must pay flexible financing credit terms and short terms personal loans in cash, accounts receivables, and inventory. (Kassegn, 2022)

(Ismail, 2016) By developing a solid financial and accounting framework, Micro small medium enterprise can accomplish this. By integrating additional information and exploring how the different industries between companies and financial performance, this research improves on his earlier work. Analyze how the Micro small medium enterprise operating environment influences the working capital management strategy it chooses. Not every business has the same operational cash flow situation. Retail organizations, for instance, rarely encounter symptoms with accounts receivable due to fast payment from customers. For these industries, the issue is more with inventory management. Working capital management is becoming increasingly important and popular.

This industry is given a lot of weight around the world in order to stimulate economic growth. The significance of the industry in supporting economies recognized of majority of high-income countries. A comprehensive Micro small medium enterprise growth framework that outlines that roles and duties of institution in supporting Micro small medium enterprise development and implemented by nation all over the words due to immense economic relevance of Micro small medium enterprise. Every emerging economy will face its own set of problem, but the majority will deal with difficulties including uneven income distribution, job creation, and poverty and infrastructure shortcomings. As a result its contribution to increase output more equitable income distribution, employments, and exports the Micro small medium enterprise sector becomes increasingly significant. (Shah, 2018)

1.1.1. Working Capital Management:

An organization's current assets and liabilities. It is a term used to describe an assets that, when business is used it may happen quickly convert sales into cash within a year without incurring a decline in value or having the operation disrupted. Working Capital Management main goal is to give companies peace of mind in terms of their daily operations and meeting their commitments as and when they arise. It has long been understood that excessive availability or a lack of current assets in a company is not a problem as long as there is adequate planning and control of working capital. Most firm directors usually enlist the help of financial experts who have the knowledge and professionalism to detangle the complexities of working capital management. (Frankline Chasha Sogomi, 2021)

Working Capital Management is a critical component of finance because it enables an organization to respond rapidly and effectively in response for changes market circumstances, such as interest rates and raw material costs, and so gain a competitive advantage over its competitors. Controlling each of the variable of working capital payable, inventory, and receivables will, as a result, reduce risk and improve performance. In order to have enough current assets to meet current liabilities, a company must effectively manage its liquidity position.

The operation and control capital balance optimization requires lowering the requirement for working capital and growing revenue generation. How well a company manages and is directly impact on its firm’s performance. Effective working capital management ensures a rise in the company's profitability. As a result, if a business minimizes its current asset investment to increase shareholders' returns and firm projected growth, the extra cash can be put to use in value-creating activities. (Frankline Chasha Sogomi, 2021) A company's working capital management is seen as a critical issue. Financial executives fight hard for this problem since it affects shareholders' money more significantly. Following a thorough review by shareholders and investors in these uncertain times, an efficient Working Capital Management is regarded as being extremely significant in the development of value for shareholders. Additionally, a large source of short term financing is thought to be Working Capital Management for a tiny to high-flying corporation. Such businesses typically have restricted access to financial markets in developing nations. Such businesses rely on short-term bank loans, trade credits, and shareholder finance to overcome this constraint. The primary goal of the study is to examine how Working Capital Management affects financial performance by selecting a sample of sugar companies that are registered on the PSE. (Muhammad Usmana, 2017) This study is valuable for a company financial operation since it provide in depth understanding of how they may boost the firm value and product value for a stockholder. Because a firm's profits will be disrupted if it only considers the liquidity element, and because a company's short-term survival will be disrupted if it focuses only on profitability.

1.1.2. Efficiency:

The digitalization of the supply side processor also includes the digitalization of the internal system, removing the requirement for trade finance applicants to fill out paper application forms that must be manually signed. By use of outer information for internal use can also be verified using optical character recognition technology. This technology has the potential to save money and time by analyzing and ensuring the compliance of external papers. The positives of digitization and the effectiveness of trading procedures in achieving interoperability across the Digital technology of the financial sector. The respondents are likewise pessimistic, seeing technology as the least effective way to narrow the trade finance financing gap. (Boschmans, 2021)

Such an investment results in the creation of a firm knowledge base is an intangible asset that may be used to generate profits and innovation. A large portion of this intellectual capital which reliant on the firm's personnel, is implicit rather than formal. As a result, graduate human capital should be a significant and quantifiable input to this basis. Because of the high risk and limited access, Micro small medium enterprise may be mainly hesitant to participate in instate of research and development. Effective public support aimed at addressing market failures, which is the focus of this research, will contribute to a company resource a promote innovation. Because knowledge is largely tacit, personal contacts, imitation, and regular interactions are especially important for firms in terms of knowledge transmission. (Frankline Chasha Sogomi, 2021)

It is important to create an accountability between the interests and capabilities in businesses, most of the small and medium enterprise size are, in order to strengthen consumer protection. Uneven regulations may lead to a high rate of business participant turnover and the exclusion of rivals from the market. It might reduce the options available to consumers. Therefore, there needs to be a fair distribution of rights and responsibilities between corporate actors and customers. There are at least four critical components to digital economic activity in the age of the digital economy, where big data and network expansion are crucial and geographic location is no longer as relevant as it once was. Economic digitalization have been demonstrated to have produced a number of improvements, with offering advantages in terms of efficiency is the digital economy and effectiveness as well as cutting production costs and fostering collaboration and interdependence between parties. As a result, the utilization of the digital economic revolution as a new method for driving economic growth has increased. A comprehensive range of possibilities that make use of advanced analytics, agile methodologies, the Internet of Things, automation, and customer-centric product and experience design. (Helen Dian Fridayani, 2022)

1.1.3. Profitability:

Market has become an important topic in modern business because of its high propensity for profit. Companies build marketing straggles to aid in the development of brand indentures in order to grow sales and acquire market share. With the right marketing strategy, a company can achieve financial performance. Marketing tactics such as "online marketing" have a direct and significant association with Micro small medium enterprise financial performance. E-commerce and organizational performance have a beneficial association in terms of global competitiveness. Organizations boost their leveraging e-commerce to improve corporate operation and employee performance. (Eva U. Cammayoa, 2021)

The issue of the performance of Micro small medium enterprise at both the microeconomic and macroeconomic levels emphasizes the power of financial management issues in terms of improved results and competitiveness of firms. Considering that the success of the business directly affects the possibilities of survival of Micro small medium enterprise, managers and business owners were also concerned about this. Success of the business ultimately benefits the economy of the nation because it demonstrates the effectiveness and efficiency of resource use.

They discovered that microeconomic factors have a large impact on enterprise performance, which appears to be greater than the impact of the industry. The goal of economic performance is to boost efficiency by improving Micro small medium enterprise ability to intervene and adapt to various economic cycles.

(K. Rajamani, 2022)Companies a range of financial indicators to evaluate their performance. The most common are which is included in sales, liquidity, capital, stock price and net income, the margin of profit, ROE, and ROA. The company is impacted by the availability of both short term and long term. A main subject for research because failure may be expensive and disruptive for many different types of stakeholders, including investors, society, and economies. There are five component of performance.

- Firm Attributes
- Financial Obstacles
- Financing decision
- Life cycle on Micro small medium enterprise
- Access to Finance

1.2. Research Objective:

A study is based on a specific research objective to find the relationship between working capital management and financial performance.

RO: To investigate the relationship between working capital management and financial performance.

1.3. Research gap:

After study in literature review particularly in relation to the associated variable. Based on the foregoing, the intention is to undertake a research on Micro small medium enterprise workers in the function of innovation for knowledge management in firm performance was named during this outbreak era. During the informal manufacturing enterprises, the difference between digital and non-digital run firms most likely narrowed. The finance initiative aims to address existing issues with Micro small medium enterprise limited access to capital. To direct the financial instrument for the short term credit. The study can fit the research that has been conducted; there are many businesspeople whose sales revenue tends to rise as a result of digital finance, and they can also draw consumer attention by promoting excellent products through digital marketing. (Martin Axelsson, 2016)

1.4. Problem Statement:

Micro small medium enterprise face the issue of picking between different finance sources based on the service provided by the financial institution. Among the components of the rational choice theory of financial service demand are:

- The desire for financial service
- Nature and type of service provided of the financial institution
- The term and condition service

According to behavior economics theory, Micro small medium enterprise access to funding is constrained when they base their decisions on the regularity of choice challenges, cognitive processing constraints, and time available for choosing the best source of finance. They need outside funding to help their expansion because the money they have already won't quite enough satisfy their needs.

1.5. Research Question:

RQ1: *What Working Capital Management has positive effect for SME?*

RQ2: *What Working Capital Management has negative effect for SME?*

RQ3: *What Working Capital Management has effect on profitability?*

RQ4: *What Working Capital Management has effect on efficiency?*

1.6. Significance of study:

As a result Pakistani Micro small medium enterprise will be more competitive in international markets and be able to further their numerous objective of the value addition, employment creation and the new business development. The Micro small medium enterprise development frameworks will results in the growth of creative and sustainable in addition to creating an environmental that is enabling for currently existing Micro small medium enterprise. In the end, the government will be able to more methodically accomplish its development growth.

Chapter: 2

2. Literature Review

2.1. Working Capital Management:

(Muhammad Usmana, 2017)Meanwhile the subject of financial management, an organization is critical. Working Capital Management allows businesses to fund the gap between short-term assets and liabilities. Working Capital Management, in fact, encompasses all of a company's client, supplier, and goods transactions. All aspects of working capital, including receivable, inventory, and payable will lower risk and boost efficiency. The current assets to cover the current liabilities for a company must effectively manage its liquidity position.

2.1.1. Current Ratio:

(Iqbal, 2012)Current liabilities divided by Current Assets yields the working capital ratio, often known as the current ratio. An essential indicator of a company financial health is its ability to meet its short term financial obligation. (Anthony Orji, 2022) A working capital ratio below 1.0, though figures differ by industry, typically signifies that a business is having problems paying its short-term obligations. In other words, the company's liquid assets would not be sufficient to pay its bills due in the next year. In this situation, the business may be forced to turn to asset sales, long-term debt borrowing, or other forms of financing to pay off its short-term debt commitments. Its transmission channels

2.1.2. Inventory Turnout Ratio:

Inventory management is a crucial component of Working Capital Management. (Anthony Orji, 2022) In order to operate as efficiently as possible and maintain an agreeable of high level of working finance an operation must keep enough inventory on hand to meet consumer demand while keeping away from unrestrained commerce that's locks up financial. Businesses frequently monitor their inventory turnout ratio to ascertain how well that balance is maintained. The inventory turnover ratio which calculated how increasing a company inventory. A significantly low ratio when compared to other companies in the same industry raises the possibility that inventory levels are too high, while a comparatively high ratio could mean that inventory levels are insufficient. (Iqbal, 2012)

(Muhammad Usman, 2017)Larger scales industries, which primarily produce cement, cars, sugar, textiles, oil and gas, and other products, produce 70% of the items in Pakistan's industrial sector.

Since there are so many subsectors within the manufacturing business, both an industry-wide and micro-level in-depth examination is necessary. Although agriculture makes up the majority of Pakistan's economy, the sugar industry also has a significant impact. The second-largest manufacturing sector in Pakistan, the sugar industry generated 2% of the country's overall GDP and 13% of the manufacturing sector. Production of sugar climbed by 3.8 million tons, or 26.5 percent, in term of pervious year the sugarcane production increase in 12% from the previous year. The sugar industry is one of the primary manufacturing sectors. Many people are working in the sugar industries, and more than millions of people depend on the growing of sugarcane for their livelihood. Pakistani sugar mills have the capacity to meet the nation's needs for the next three years. The government should focus on financing the working capital for the 69 businesses operating in Pakistan that are in dire need of that finance rather than considering any applications for the opening of additional sugar mills. Pakistan sugar mills in Sindh is trouble for past three years. As these sugar mills' profits are not increasing, poor value is created for shareholders, which has an impact on the owners of sugar mills. Raw material suppliers complain about low raw material prices and extremely slow payments from sugar mills. Finally, they claim that because profits have become negative, the sugar mills are not paying their staff. Sugar mills are having a difficult time paying their suppliers on time and at a fair price since they don't have enough cash.

A positive impact on financial performance by the management, the likelihood of organization collapse, fabrication process stop. Relaxing trade credit also boosts sales because customers can check the quality of the product and service before making a payment. (Vijayakumaran, 2019)Similarly, trade credit may entice customers to acquire goods during periods when demand is low. Furthermore, trade credit may encourage customers to purchase in quantity, so improving customer relationships. As a result, increasing working capital investment could boost profit and financial performance. Large investments in working capital, on the other hand, may cause businesses to go bankrupt. This is due to the fact that inventory storage costs money in terms of warehouse space, insurance, and security. As a result, a higher investment in working capital can be considered to have a negative influence on a company's profitability. An effort to manage current assets, current liabilities and the interaction between them.

Net Working Capital = Current Assets – Current Liabilities

A company investment in short term assets and resources with maturities of less than a year is referred to as a working capital. To ensure an adequate margin of safety, current assets should exceed current obligations. To avoid a liquidity crisis inside the company, each component of current assets must be managed effectively. Most Micro small medium enterprise assets are mostly current assets, but current liabilities are their primary sources of external finance because they have difficulty obtaining financing in the long-term capital markets. The long term debt capital is investing in current asset from current liabilities through the utilization of interest free to fulfil its operating cost for short term obligation is made possible by an effective. Working Capital Management influence the profitability and liquidity and consequently its value hence helps to produce excellent financial performance. Even for a company with long term prospects, neglecting the liquidity management procedure can lead to serious issue and losses because of unfavorable short term developments.

2.2. Theories of Working Capital Management:

(Xiaojing, 2022) The working capital approaches chosen will depends on a number of variable including the company growth pace, size industry and management risk. There are three theories of working capital management to invest in a cautious working capital in an effort to increase sales or investments

2.2.1. Aggressive Approach:

To generate more profits, aggressive firms are anticipated to have a high level of non-current assets and a moderate venture in current assets, particularly with tiny cash levels, smaller inventories, and a restriction on lending to clients. By reducing the proportion of total assets in the form of net current assets, minimizing working capital investment would improve the firm's profitability. The idea that lesser working capital investment result in higher profits is supported by empirical data on Working Capital Management and profitability in generals. If inventory levels are reducing too much there is chance of losing sales acceleration. Giving less trade credit could lead to a drop in sales from companies needing credit, which could affect their ability to compete. The aggressive method is a high-risk working capital financing strategy in which temporary working capital and a sizeable portion of permanent working capital are financed with short-term funds. The levels of inventories, accounts receivable, and bank balances under this financing strategy are barely adequate without a safety net for uncertainty. A legitimate reliance on trade credit exists. Let's examine the aggressive working capital policy in more detail.

2.2.2. Conservative Approach:

The significant investment in working capital might lead to higher profit. Customer are given favorable payments terms which increase demands finished goods inventories are high to ensure customer availability, raw material and working progress inventories are high to lower risk of running out of inventory and result production process interruption supply cost are low and the price are avoided and finally customer are given generous payments terms which increase demand. Consumers may check that the item they receive is as agreed and that the services contracted are carried out, and trade credit can assist firms develop long-term connections with their customers by acting as an effective price cut. A successful business should have the best working capital plan possible. If it has too much of working capital, then the business will incur costs like interest which can besides tapped can be invested more profitably whereas very little working capital can also have devastating consequence. The conservative method is a risk-free working capital financing strategy. By using this method, a business can keep larger levels of current assets and working capital. The majority of the working capital is funded by long-term sources of capital including equities, debentures, term loans, etc. As a result, there is less risk involved in short-term funding. In the cautious approach, fixed assets, ongoing working capital, and certain interim working capital are financed by long-term financing sources. Short term financial source are only used to pay for the balance. As a result Working Capital Management succeeded in achieving its principle objective.

2.2.3. Hedging Approach:

The short terms funds should be used to buy short term working capital while long terms funds should be used to buy a fixed asset for long term current. The idea of dividing total working capital requirements into permanent working capital and transitory working capital is the basis of hedging approach. As the term implies, the phrase "matching" refers to the life span of existing assets and the maturity period of the sources of funds. The standard rule is that the loan's period should be equal to the asset's useful life. As a result, only long-term funding options are available for fixed investments. The short term working capital needs in individual covered by short term sources. In other words while the fixed the working capital is financed by long term source of cash, the supplementary or fluctuating working capital demands are covered by short term financing.

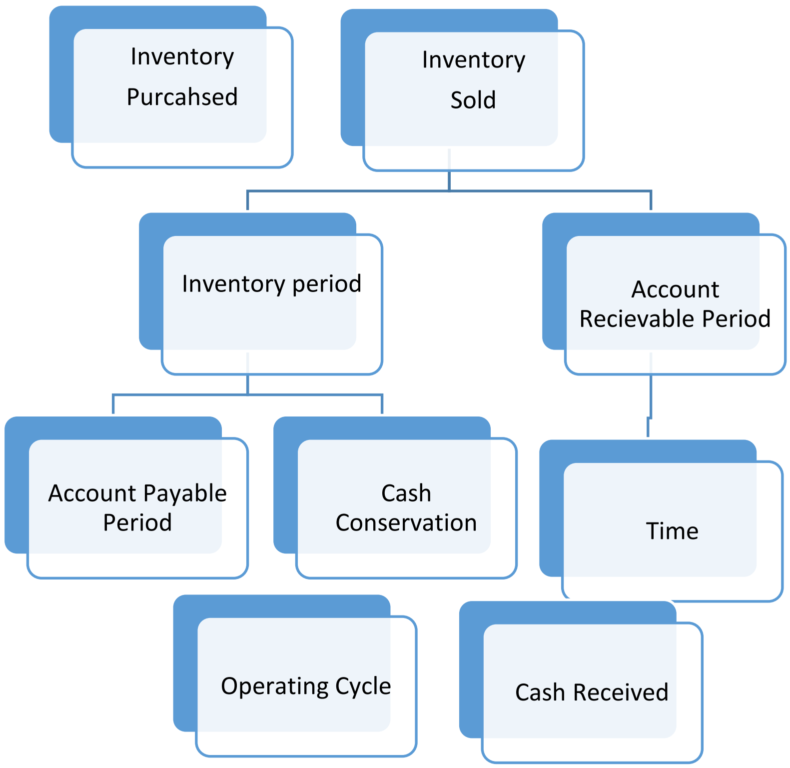
2.3. Working Capital Management Techniques:

The techniques and tools are used to monitor performance, assets profit is to examine the company situation in terms of liquidity, activity and leverage. (Ibrahim Dauda, 2022)

2.3.1. Cash conversion Cycle

Cash conservation cycle is for calculating the amount of cash necessary for any level of sales. It describe the connection between a company internal cash flow and its working capital elements. The amount of time that passes when cash begins to be spent on product creation and when cash is collected from the sale of finished items. The operating cycle is the continuous flow of cash from suppliers, inventories, accounts receivable, and cash back to suppliers. First, when inventory, which includes raw materials, is purchased, cash is changed into inventory, raw materials are transformed into working progress, finished items, and finally, finished goods are transferred to stock at the end of the manufacturing process. Trading organizations do not have a production process; instead, cash is instantly converted into stocks, shortening the phase. Obviously, this phase does not exist in the case of service businesses. Second, credit sales are made to customers, transforming the inventory into receivables. Clearly, companies that do not sell on credit are not in phase two of the operational cycle. Finally, phase three is the step during which cash is collected from receivables. This phase brings the operational cycle to a close, requiring businesses to go from cash to inventories, receivables, and then back to cash.

Figure: 1



Cash conservation cycle = Days Sales of Inventory + Accounts Receivable Period – Account Payable Period

Between cash conservation cycle and profitability, there is a significant trade-off. The process of planning and control an organization's cash inflows and outflows, as well as cash flows within the firm and cash balances at any given time. The aim of cash management is best attained by short in the working capital cycle, mainly the collection period, to meet business operation and devoting excess cash in marketable securities. This group consists of assets that can be promptly liquidated without suffering a significant loss in value, such as cash equivalents.

2.3.1.1. Money Markets accounts:

A bank savings account with tougher minimum balance restrictions and higher interest rates than a typical savings account you may occasionally have money on hand as a small business owner or investor that you don't need right away but want to keep as a cash reserve. Since your money is safe and easily accessible, a money market account is a great "parking location" for such monies. Additionally, money markets offer higher interest rates then regular saving accounts. According to Securities and Exchange Commission regulations, a money market fund is individual invest in short term instrument as a type of mutual funds, such as corporate and governmental bonds with average maturities three months or less. Individuals or small businesses can invest in money market funds through a money market account.

2.3.1.2. Certificate of deposit:

A savings account that you promise to keep inactive until it matures, typically after three months to a year the term "liquid assets" refers to assets with a high degree of liquidity without the need for legal intervention. These include bank deposits, government securities, gold jewelry, gold bullion, certificates of deposit, and shares of publicly traded companies that are actively traded on the stock exchange. a credit rating agency on the State Bank of Pakistan's approved panel, a credit rating agency on the State Bank of Pakistan's approved panel, and certificates of asset management organizations for which there is an active secondary market for trade.

2.3.1.3. Exchange Traded Fund:

A mutual fund created with the goal of being more liquid than other funds. In most cases, trade finance operates with confirmed orders. Trade financing enables you to purchase the stock or inventory you need to fulfil a purchase order from a customer. It typically means that you can ship the items as quickly as possible without worrying about running out of money as you wait for your buyer to pay. Trade finance is often referred to as import finance or purchase order finance because it is based on purchase orders. Trade finance is a catch-all phrase used by some lenders to refer to a variety of services created for companies that conduct international business, including invoice factoring, supply chain financing, import finance, and export finance.

2.3.2. Management of Inventories:

The inventory turnover period is the most significance part of the cash conservation cycle. Controlling financial and determining what level should be maintained when supplies should be refilled, as well as how much ordering size should be, are critical components in the costing process that account for more than 60% of current assets. Financial holding is beneficial since it serves various aims and purposes, but it is undesirable because it costs businesses a lot of money. Inventory management is to keep inventory at the lowest feasible cost while avoiding sales losses due to stock-outs. Holding excessive amounts inventory results in expenditures like warehousing, foregone interest, obsolescence and insurance, damage, and pilferage, as well as costs related to missed sales and delayed service. Work-in-progress (WIP), finished goods, and raw materials are traditionally the three parts of inventory. Raw material inventory is the quantity of fundamental inputs that the supplier has transferred to the warehouse of the buyer but has not yet been transformed into finished goods. Work-in-progress items are in various stages of semi-finishing; they are no longer raw materials but have not yet been transformed into finished things for sale or delivery to customers. The merchandise in the warehouse that is awaiting sale and delivery to customers is referred to as finished goods. To supply finishing goods, the manufacture typically employ. As stockpiles are now finished commodities the amount of raw material and work in progress is decreasing.

$$\textbf{Days Sales of Inventory} = \frac{\textbf{Inventory}}{\textbf{Costs of Sales}} \times \textbf{365}$$

Some businesses sell tangible goods that they must purchase and store before providing them to customer. During this sales the items recorded as inventory. Since the company anticipates selling the goods soon, they are liquidity assets that is included in the working capital.

No matter what type of inventory it is, make sure to include it:

- displayed in a physical store
- residing in a warehouse
- coming from your supplier in transit

2.3.3. Management of Receivables:

Money owing to another entity by customers, people, or corporations in exchange for products or services given or used but not yet paid for. Credit management is a way for a company to keep track of its receivables. According to, Micro small medium enterprise usually lack the resources needed to effectively manage their accounts receivable. Trade credit is a more profitable short-term investment than marketable assets, according to proponents. Customers should be granted trade credit because it encourages customers to acquire items when demand is low, improves supplier-customer relationships, and allows purchasers to inspect product and service quality before paying. The cash conservation cycle second component is the Account Receivables Period. The amount which is time taken for a credit sale to convert into cash that the business can use once it has been settled. As a result it is the average period of time a business should wait before getting the money after finishing goods for a credit sales. However, cash reception should not be delayed, as this might result in financial issues for the company to sustain its financial responsibilities.

They consist of money owed to your business that has not yet been paid and receive your payments this becomes cash. This factor include as

2.3.3.1. Open Voice:

You often provide your clients a window of time (commonly 30 days) to pay their bills when you invoice them. An AR cycle is the name given to this procedure. Include the monies in your asset section since you anticipate receiving them soon. One of the biggest and most liquid corporate assets, accounts receivable is crucial for enabling business transactions. Accounts receivable can be used as a source of funding as well as a means of obtaining funding. However, it can be ineffective unless it brings in more business because it uses up limited financial resources and puts companies at danger of default when the loan duration is long. It is very likely that a company will stagnate as a result of extremely low levels of accounts receivable and debt accumulation when it does not invest properly in the collection of accounts receivable. Large amounts of accounts receivable are likely to decrease the value of the company.

2.3.3.2. Outstanding Credit:

You could decide to give credit to other businesses in order to develop future business partnerships. Consider this an asset up until they pay you back. It can also happen when a consumer returns an item after paying their invoice, or when a discount is offered on goods or services after the initial invoice is delivered. An AR credit balance may occasionally be the consequence of a deliberate action by a firm or other business entity rather than an error. For instance, if your business is having trouble with cash flow, you can ask a client for a down payment on items or services that will be provided later. You would need to record the advance payment as a credit balance in accounts receivable after receiving it. (Prudential Regulations – General for Small & Medium Enterprise Financing, 2017)

2.3.3.3. Accrued Interest:

You can count any interest you charge as AR, even if it wasn't added to the customer's invoice. Accrued interest is a byproduct of accrual accounting, which mandates that all accounting transactions be recognized and documented at the moment they happen, whether or not a payment has been received or has been used. Making sure that the transaction is accurately documented in the appropriate period is the main objective of interest accrual. Cash accounting, which records an occurrence when money or other kinds of compensation exchange hands, is different from accrual accounting. According to the revenue recognition principle, revenue should be recorded when it was earned rather than when it was paid. According to the matching principle, costs must be reported within the same accounting period as the corresponding revenues.

2.3.4. Management of Payable:

A strong relationship between the company and its suppliers will improve the manufacturing process and strength the credit record for future expansion. Argues that decreasing supplier finance through payment will result in significant price reductions. The goal of Accounts Payable Management is to extend the payment period as long as feasible without jeopardizing the company's credit rating. Late payments should be avoided at all costs unless the company is experiencing financial difficulties and has no other choice, as late payments might result in excessive fees. The manufacturing enterprise require time to convert the raw material they have purchased into finished things that can be sold for money. Although some vendors provide discount for on time payments, these should only be use most profitability. When the discount rate is higher than the rate of interest on loans that the business will be required to pay over the same time period as the discount period are discount consider to be worth.

AP is the last element of working capital once all of your assets have been totaled. Include every debt you expect to incur in the following year. Payments on long term debt are excluded from working capital calculation after this one year.

AP = total supplier purchase / Beginning AP + Ending AP

2.3.4.1. Supplier or vendor invoice:

Amounts due to suppliers for goods and services received are included in AP. Since almost all payments made by a firm outside of payroll are handled through the accounts payable process or function, it is crucial. In a major corporation, the accounts payable department handles the process. In a medium-sized business, a small team does it. In a small business, a bookkeeper or possibly the owner handles it. No of the size of the business, the goal of accounts payable is to only pay valid and accurate bills and invoices. For the company financial statements to be complete and correct, the accounts payable procedure must likewise be effective and accurate. Due to double-entry accounting, failing to include a vendor invoice will result in two accounts reporting the wrong amounts.

2.3.4.2. Unpaid dividends:

Some businesses distribute dividends, which are portions of the profits, to investors every three months. A company's declared dividend that has not yet been distributed to stockholders is referred to as an unpaid dividend, also known as a dividend payable. Profits that a business gives to its shareholders are known as dividends. When corporations make money, they provide it to their shareholders. A declared dividend that has not yet been given to stockholders is known as an unpaid dividend. Unpaid dividends exist between the time a corporation declares dividends and the time shareholders get their payouts.

2.3.4.3. Upcoming tax payments:

Whether your business pays the IRS on a quarterly or annual basis, don't forget to include anticipated tax expenses for the following 12 months. The accounts payable procedure affects a company's financial statements' accuracy and completeness. The effectiveness and efficiency of the accounts payable process will also have an impact on the company's cash flow, credit standing, and supplier relationships. By putting in place a solid accounts payable system, you can get the precise financial data you need to make short- and long-term plans. What you need to know about managing your business debts is provided below.

2.3.4.4. Operating Costs:

These costs can include rent for offices or warehouse space, fees for utilities, and supply and material expenditures, depending on the type of firm. An organization's daily maintenance and management are accompanied by operating cost. These costs include rent, payroll, and other overhead expenditures, as well as costs for raw materials and maintenance. Non-operating expenditures associated with operating cost do not include financing charges like interest, investments or other currency.

2.3.4.5. Debt repayments:

Include all principal and interest payments that you anticipate making on your loans, mortgages, credit cards, and other borrowings. Short-term obligations to vendors or suppliers for delivered but unpaid products or services are known as accounts payable (AP). On the balance sheet, AP is listed under current liabilities. Normally, current liabilities are due in under a year. On the other hand, the suppliers and vendors would note the transaction as an increase to their accounts receivable in the same amount. An increasing AP indicates that the company is using credit rather than cash to paid more goods or service. A decrease in AP demonstrate that the business is faster than average at paying off its obligation it was doing so when compared to when it was making fresh purchases on credit.

2.4. Efficiency:

The failures are more likely to occur in the generation and application of knowledge; one example is when individuals who do not invest in research and development gain knowledge from those who do. Social returns to research and development are projected to be high and far exceed private gains as a result of such market failures. Evaluation of innovation policies have historically been limited to major manufacture businesses and have focused more on the research and development input than the innovation themselves. Recently coverage has been expanded to include manufacturing. There is proof that research and development surveys under-report research activities and innovativeness in these businesses. Smaller enterprises' investment in plant and equipment, rather than formal research and development, is more strongly linked to innovation. As a result, the approach to policy evaluation taken here is to look at the impact of self-reported innovation on manufacturing and service Micro small medium enterprise, as well as how this innovation influences the economy. Effective Working Capital Management is a crucial component of a company's overall corporate strategy and is anticipated to have a favorable impact on a company's development. Recent developments have seen a convergence towards Working Capital Management efficiency for short-term assets and liabilities, which are recognized as significant parts of overall assets. Therefore, effective Working Capital Management also revolves around keeping an eye on current assets and liabilities in order to reduce prospective debt and prevent businesses from spending excessively on assets. Additionally, effective Working Capital Management will enable businesses to reallocate underutilized resources to more valuable uses, which could improve business performance.

An efficient policies just that that produces outcomes, nevertheless, the costs of doing so may outweigh the advantages. The social returns on resource allocated in accordance with an effective policy outweigh their alternative application. Their finding that a unit of public money occasionally produced less than a unit research and development not always imply that the programmer was ineffective. A crucial analytical issue is determining what supported firms would have done if they had not received state innovation aid, as well as whether unsupported businesses would have innovated if they had been help. A method for matching tendancy scores is presented. Estimating the impact of innovations is also critical to policy evaluation. As a result, the section addresses how the firm's growth responds to them, as well as the assessment of the final production and control of policy, as well as the estimation of instrumental variables.

2.4.1. Innovating of SME:

The innovative firm, are required for estimating the impact of innovation policies. Patents are one type of innovation measure that can be used in three ways. Identifying and counting ‘significant' innovations is another way. One disadvantage is that there is no visible way to compare the relative importance of the ideas, making count assessments of innovation output potentially deceptive. Instead, a number of previously research imply that the self-reported approach may be able to explain corporate performance. The CIS4 questionnaire to management uses a self-reported technique, which is perhaps the best available SME innovation right now. The CIS notion of innovation does not necessitate profitability or market acceptance.

In contrast to other types of investment, how innovate will be determined that they acquire and uses knowledge by yourself, how they invest in innovation, and the challenges is sort of investment. Such an investment results in the creation of an intangible asset, the firm's knowledge base, from which profits and innovations can be earned. Much of this knowledge capital, which is reliant on the firm's personnel, is implicit rather than formal. As a result, graduate human capital should be a significant and quantifiable input to this basis. In comparison to larger organizations, Micro small medium enterprise may be more inclined to avoid intramural R&D due to increased risk and restricted access to capital. Effective public support aimed at addressing market failures, which is the focus of this research, will contribute to a financial resource base and hence drive innovation. Because knowledge is largely tacit, personal contacts, imitation, and regular interact with people are especially important for Micro small medium enterprise in terms of knowledge transmission. As a result, collaboration with other businesses and institutions will be crucial.

Human capital will be one of the enterprise resources for employing knowledge, according to another control in the model. Research and development spending and plant and machinery investment are examples of non-human resources devoted to knowledge development, usage, and innovation. New firms may be more likely than other businesses to have been established to exploit an innovation, so that age or date of formation could be an influence upon the chances of innovating. (Sunday, 2011)

2.4.2. Innovative of SME Growth:

The impact of innovation by a proportionate rise in turnover. The innovation lower cost for Micro small medium enterprise boost demands or combine the two. A successful process innovation will lead to a proportionate price drop. The impact of the idea would be clearly demonstrated by an increase in production. Secondly business must operate in the production range were demand is price elastic if they want to maximize profits. It increase the sales and boost the economy as well but increasing productivity overstate the inventory worth.

The way internal strategic resources are used to fund internal innovation and work with external partners influences SME performance and growth orientation. Improved managerial abilities and formal management procedures are strongly correlated with increased productivity, according to the evidence. As an illustration, process innovation frequently comprises cost-reduction techniques, the success of which depends on the management of the organization. (Sunday, 2011) Similar to this, Micro small medium enterprise need strong managerial abilities to adopt Industry 4.0, which involves using automation and digitalization in manufacturing. Numerous governments have encouraged Micro small medium enterprise in both high-tech and low-tech industries to improve their managerial capabilities. By enhancing their firm’s performance against the other companies. The Efficiency Programmed, for instance, improves operational efficiency in manufacturing Micro small medium enterprise. The goal is to eliminate manufacturing process waste-causing factors and increase business process productivity. Mexico has provided microbusiness owners in traditional sectors with a comprehensive six-hour management training session (e.g. retail trade). Low-skilled business owners that participate in this programmer are given an electronic tablet that includes a management training software application and allows for consumer electronic payments. The price elasticity of demand determines how much expansion occurs. When a product innovation affects the enterprise's demand function, an effect assessment based purely on labor productivity and a production function is especially described.

With constant demand elasticity and consistent returns to scale, profit maximization generally assures that although the newly improved products sales volume increase, their pricing stays same. Although turnover and output (or value added) rise, In the model where the impact of innovation on enterprise growth is entrenched, younger organizations may have a stronger capacity for learning about their own capabilities as well as their markets, hence increasing their growth rates. Allowing for the age of the business in the growth equation would thus aid in distinguishing between innovation and other drivers of growth. Firms with more intellectual capital should be better positioned to grow for the same reason.

2.4.2.1. The Importance of Micro small medium enterprise in a global economy:

The challenging market in which all organization operates is altering as a result of global economic integration, demanding an international expansion plan to support long-term growth and survival. The importance of small businesses has increased as they become a dominating factor influencing the expansion of national economies. SME's transitioning into global environments comes with a number of inherent drawbacks. Due to their limitations, Micro small medium enterprise frequently have low financial capital and a shortage of essential human resources. Many small business owners lack the knowledge necessary to create an international strategy. Furthermore, the organization's lack of major strength as a result of its size has disadvantages. (Hanadi AL-Mubaraki, 2013)

2.4.3. Workforce Skills:

Workforce skills are also crucial, particularly in small organizations where more employees than in large corporations are involved in putting business innovation into practice. In this regard, there is evidence that Micro small medium enterprise that give staff members the chance to hone their problem-solving abilities and use their expertise are more likely than others to be successful in creating new goods or procedures. Through policies that support the creation of business training groups in Micro small medium enterprise. This strategy has significant advantages for both the government and small businesses. For example, governments can reach more businesses with small business can employ trainers for less money and gain from learning from their peers in the same group, while the largest enterprise can only implement on innervation. Due to a general lack of knowledge and skills among Micro small medium enterprise, the vast majority of them do not have a strategy in place or incorporate IPRs into their overall company strategy or model. When Micro small medium enterprise operate abroad, obstacles to the use of IPR can be extremely severe and may include legal costs, multiple filings, regulatory and technical variations between nations, and the strength of local IP enforcement. Spreading the usage of IPRs in Micro small medium enterprise requires supporting the development of managerial abilities. Additionally, Micro small medium enterprise frequently lack awareness of the connection between company innovation and survival and growth or lack knowledge of how to innovate. (OECD, 2018)

2.5. Profitability:

As assets it can be faster converted into cash during normal business operation within a year without losing value or interfering with operation. Analytically, it has been recognized that excessive availability or a lack of current assets in accompany is not a problem as long as adequate planning and control of working capital is in place. As a result, most company directors employ the assistance of financial professionals who possess the requisite expertise and experience in determining their companies' effective working capital requirements. (PHILIP, 2015)In the contemporary narrative, the purpose of working capital management has had to be reevaluated throughout time; as a result, although the previous model viewed working capital solely as "a positive component of the balance sheet," the modern approach viewed working capital as a "strain on financial performance." Working Capital Management, as a vital elements of corporate governance, represents the enterprise's total operating scale, essentially serving as the foundation for the company's long-term survival and expansion.

As a risk reduction approach, effective working capital management can benefit from improved profitability while simultaneously keeping the firm's solvency expectations. More study require for Working Capital Management and the influence of deciding variables on financial performance, because these are sensitive problems that legislators, academics, and business owners care about. The leverage ratio will rise if these modern enterprises are backed by leverage, resulting in an increase in financial risk. Aside from that, during a downturn or in a scenario where commodity prices are constantly rising, working capital has a contradictory tendency. Working Capital Management is critical to a business's liquidity and profitability. It is significantly affects financial issue facing business. Liquidity and profitably are two sides of the same coin (Ciobanu, 2014)

(Morshed, 2020)The significance of profitability and came to the conclusion that businesses employ the four segments is use to examines financial statements and performance is profitability. There are three elements efficacy, solvency, and market potentials. These critical impressions are used by managers, creditors, and investors to evaluate the performance of the company and its potential going forward if operations are successful. The link between revenue and expenses, the company's performance, its potential for future growth, and its working capital management are all factors that affect profitability. The article came to the conclusion that lowering the turnover of both receivables and inventories results in a shorter operational cycle and higher profitability for businesses. Additionally, directors can benefit their companies by carefully controlling the cycle and keeping each working capital elements are the most appropriate levels result in a decrease in the time it takes to collect dealing assets and an increase in the number of days require to pay their liabilities are indicators of increasing profitability amount.

This terms refers to a company's liquid resources that are transferred from one to another during normal business operations. Cash, short term investments, debit, inventory, and prepaid expense are the most common assets. (Temtime, 2016)Optimizing the working capital balance in an acceptable manner necessitates lowering the working capital requirement while maximizing revenue generation. The proper administration of working capital ensures a rise in the company's profitability. As a result, if a company reduces its current asset investment such that shareholders earn a greater return while the company expands, surplus funds can be invested in value-creating activities. Financial executives put a lot of work into this issue because it has a bigger influence on shareholder value. Following increased research by investors and shareholders during turbulent times, an effective Working Capital Management has been recognized critical in the growth of shareholder value. Working Capital Management is also a critical source of short-term capital for a small to high-flying enterprise. In most underdeveloped nations, such businesses have restricted access to financial markets. To overcome this constraint, such businesses rely on short-term bank loans, trade credits, and shareholder finance. As a result, the working capital position of such businesses is not just a source of internal concern, but also a key risk indicator for creditors. If an organization maintains an increasing level of working capital, it can improve its borrowing capacity, reduce its default risk, and easily satisfy short-term obligations.

An increase in borrowing capacity indicates a drop in debt cost. Working Capital Management is crucial for long term financials performance. In short ineffective Working Capital Management is essential for any firm's profitability and growth. Since only two factors the cash conservation cycle and the number of days that inventory is held have a positive impact on sugar sector. Managers should monitor inventory levels to minimize storage cost and maximize shareholder return. As a result executive can improve the performance of their elements by reducing accounts payable ratio and by increasing cash flows from operating activities. Manufacturing firms' performance is influenced by working capital management, and it has been suggested that if these firms manage current assets well, their long-term profitability will improve. According to the relationship between Working Capital Management and performance, just two strategies, lowering receivables turnover and decreasing inventory turnover, can boost returns. A significant relationship between working management and the firm performance an empirically investigate that look up the impact of Working Capital Management on financial performance. This research suggest the business should review their policies and strategies that the cause reduce asset by effectively in order to increase assets cost price. Improved performance can be achieved through low-cost financing and effective administration. An outstanding relationship between performance and working capital, specially debit turnover, inventory turnover, credit and cash conservation cycle to learn the value to reducing the collection period and inventory turnover to come to the conclusion that working capital has a positive impact on the performance of manufacturing and construction sector. The purpose of Working Capital Management is to identify the link between profitability and liquidity to assets and financial liquidity in the asses the effects of Working Capital Management on financial performance and to make recommendation to financial managers on how to increase value by cutting down on average payments, spent holding inventory and cash conservation cycle.

2.5.1. Inventory:

One of a production company's basic logistic functions is to manage inventories that must be held for a variety of reasons that are strongly associated with their types. The objective of holding raw material and work in progress inventories assure cyclical manufacturing computing, economies of scale, and the reduction of risks associated with the unpredictability of delivery quantities and timeframes, as well as to mitigate the impact of series in supply and demand. As a result, finished products are kept in stock to assure sales continuity; failure to do so results in lower profitability as well as a company's reputation and competitive position. Keeping stocks, on the other hand, necessitates the incurring of numerous costs, such as warehousing, handling, and transportation charges, insurance, losses of items stored in stocks, and costs of lost earnings due to the tying-up of money in stocks. This means that, in addition to logistics and demand, financial considerations are critical in inventory management. A number of publications in the relevant literature illustrate the significant effect of inventory performance on business financial result. The majority of these studies concentrate on the effectiveness of working capital management and, in addition to assessing the profitability implications of inventory performance, they also consider the effects of controlling other capital elements, such as receivables and payables. As a result, less studies are devoted to determining the causal relationship between inventories and corporate financial success. While the majority of them believe that increasing inventory days has a negative influence on financial performance, As a result, the effects of discrete inventory categories on business financial performance are poorly understood. As a result, the primary goal of this article is to establish a causal link between profitability and inventory performance while accounting for inventory structure (Temtime, 2016)

2.5.2. Cash Conservation Cycle:

Working Capital Management is an elements of finance that effect the company profitability and liquidity. Working Capital Management regarded as the economic unit and managing it is one of the most important task of management. Therefore the size of profit oriented or not needs a sufficient amount of working capital. For a firms the gap between short terms assets and short term liabilities in the process. It is concerned with current assets and obligations. There are two fundamental methods for evaluating by a company. They are the balance sheet idea and the examination of current assets and liabilities. The cash conservation cycle the number of days between actual cash expenditures on raw material purchases and actual cash receipts from the sale of products or services is measured. The maintaining and enhancing profitability is a responsibility for any firms, they must monitor the elements that influence profitability. (Morshed, 2020) .In this regard these organization cannot ignore the impact that liquidity management has on corporate risk and return thus it is necessary to look into how the cash conservation cycle which serves as a sign of liquidity management may affect the profitability of corporate units. Every firms is to attempt to increase the due to shift of the global completion among business.

2.6. Hypothesis:

H1: Working Capital Management has effect for Account Receivable.

H2: Working Capital Management has effect for Cash.

H3: Working Capital Management has effect on Account Payable.

H4: Working Capital Management has effect on inventory.

2.6.1. Working Capital Management has effect for Account Receivable.

Every finance manager faces a significant difficulty when deciding how to use Working Capital Management in order to make the most use of limited resources. It is crucial to understand the distinction between the profitability and the liberalized credit term when examining the effects of receivables management. The key distinction between these two is caused by changes in the level and expenses of investments in receivables. Therefore, the finance manager should be aware of how credit policy affects management, monitoring, planning, and periodic review to remove bottlenecks and maximize profitability and turnover.

2.6.2. Working Capital Management has effect for Cash.

The amount of cash in a company fluctuates greatly depending on the size of the company. Due to their high levels of activity, large companies need to store more capital, whereas tiny companies need less due to their low levels of activity. Of course, small businesses frequently maintain high stocks of cash because their financial limits make them more prone to experience financial difficulties, whereas large businesses typically maintain low levels of cash due to economies of scale. Because the aforementioned ideas are crucial to an organization's performance, this study will examine how Working Capital Management tools affect cash holding levels.

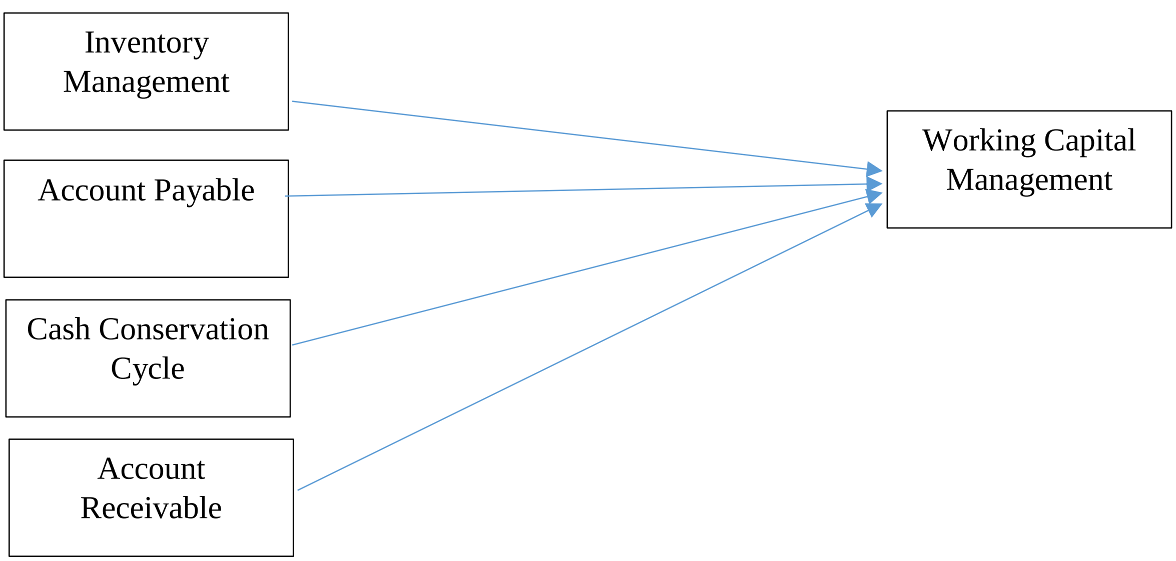
2.6.3. Working Capital Management has effect on Account Payable.

When a business receives credit term purchase of goods/service, the accounts payable a current liability, is credited. (The debit frequently pertains to an asset or spending account.) The strategy is only be credit of AP after a three way match. This indicates that the company has reviewed and approved the vendor's invoice as well as the company's purchase order and receipt report. When the business pays an amount that has already been recorded, Cash will be credited and Accounts Payable will be debited. At the end of an accounting period, the adjustment must be performed if a business has incurred a cost of liability but the vendors invoice has not yet been noted in accounts payable.

2.6.4. Working Capital Management has effect on inventory.

Working Capital Management is fundamentally dependent on inventory, particularly in the general retail and grocery sectors where it can make up as much as 70% of current assets. A surplus of inventory depletes existing assets and locks up cash in unused purchases of raw materials or warehousing expenses. Carrying buffer stock can become a burden if a company expects more orders than it actually receives, while too little inventory raises reordering expenses. Inventory optimization has gotten harder to achieve as supply networks have gone worldwide. Pockets of inventory and limited visibility across numerous sites are likely to stress businesses.

2.7. Framework:



2.7.1. Inventory Management:

Optimizing overall ordering costs entails striking a balance between increasing order quantity, which lowers buying price but raises cost of holding the items in stock, and preventing "stock-outs," which may be highly expensive in terms of damaged reputation and lost sales. In order to prevent stock-outs, several businesses have begun to maintain bigger volumes of inventory. Many businesses use cutting-edge technology to manage the critical factors that influence their inventory, optimizing the locations where stock is housed, increasing forecasting accuracy, adjusting economic order quantities, and improving inventory visibility. Systems for managing stock must be effective at entering received commodities into inventory.

2.7.2. Account Payable:

The bills and other debts that the company must pay are included in accounts payable. The only expense a business that is not reflected in accounts payable is payroll. The category includes everything else, making it an essential component of your company. The accounts payable process is essential to the accuracy and completeness of a company financial statement, according to the in accounting. The organization and success of the accounts payable process will also effect the cash position in the company, credit range, and relationship supplier. By putting in place a solid accounts payable system, you can get the precise financial data you need to make short- and long-term plans.

2.7.3. Account Receivable:

The lifeblood of a business's cash flow is its accounts receivable. It aids in managing cash flow by letting you know which clients owe you money and how much. You may determine whether your cash account truly reflects your current financial situation in this way. In other words, accounts receivable can mean the difference between relaxing in the assurance that you have enough money and fretting that you don't. Here's how to keep tabs on your receivables. The accounts receivable of your company are crucial for determining your profitability and serving as the most precise gauge of your revenue. It is seen as an asset because it symbolizes incoming funds for the business.

2.7.4. Cash Conservation Cycle:

The time period it takes for a business to transform its finance and other resource investment into cash sales is known as the cash conservation cycle. The time in the production and sales before converted into receiving cash. This metric accounts for the amount of time required by the business to sell its finance, the length of time need to collect receivables, and the amount required to pay its debts. The cash conservation cycle is one of a number of quantitative metrics it can be used to assess how effectively a company firm and operational processes is working.

Chapter: 3

3. Methodology

3.1. Introduction

We would discussion our methodology in order to find the Working Capital Management impact on sugar firms. Moreover, we have discussed variable speciation by using “SPSS”.

3.2. Data and Variable Specification

The data collected from 17 companies’ sugar firms of Pakistan. The top listed market capitalization firms from five year 2017 to 2021. The dependent and independent variable are as follow

3.2.1. Dependent Variable:

The working capital management is dependent variable in this research.

3.2.2. Independent Variable

- Account Receivable is used as an explanatory variable and is used to represents the collection strategy of a firm and obtained by calculating the ratio of accounts receivables and sales.
- Inventory Turnover is used as an alternate for the policy of converting raw material into sales and the ratio of stocks.
- Accounts Payable is the ratio of account payable the result of cost of sales.
- Cash conservation cycle the outstanding with inventory conservation time and deducing payment that its represent management of short term capital comprehensively

3.3. Research design:

The method utilized to investigate the data and other research components is known as the research design. The study looks into how well-managed working capital affects business performance. Given that the data for this study were acquired from secondary sources, it is based on a quantitative research approach. Regression models are used in this study to produce quantitative results.

3.4. Method

In this research we use SPSS method. The dependent variable to its composition in the primary essential to its expansion in SPSS which takes the data consider is ordinal.

3.4.1. Descriptive Statistics

Descriptive statistics basically induct the calculation of mean, median, minimum value, maximum value, and standard deviation. Mean simply refers to the average values of the data while standard deviation is used to calculate the spreading the data.

3.4.2. Regression

In regression "SPSS" an unconditional DV is available. The basically calculates the relation among DV and IV. The variables are referred to those variables which are ordered and categorical. Moreover, it could be a person health or their record of energy efficiency. The outcome of this research is occurring accordingly unsystematic error in the accounts of variable outcome.

3.5. Sources of data:

The quantitative nature of this study, secondary sources were used to collect data. The Pakistan Stock Exchange is used to gather information about various companies. The primary sources of data are annual reports and financial statements. Working Capital Management is the dependent variables which is gathered information from company balance sheets, and the independent variable is computed using the other balance sheet components we have already covered.

3.6. Summary

The methodology will be used for results and outcomes. Starting with the model specification, we specified a model which includes dependent and independent variables as well as controlled variables through which we will analyze the effect of independent variables. In the data specification, the data will be considered from the sugar firms from year 2017 till 2021. Furthermore, we have included variable specification in this chapter which basically includes all the details regarding the independent and dependent variables in our model along with the interpretations about how these independent variables are perceived by the performance of firms.

Chapter: 4

4. Introduction:

Within this chapter, the descriptive statistics, regression analysis and correlation matrix have been discussed.

4.1. Result:

4.1.1. Descriptive Statistics

Descriptive Statistics

	N	Minimum	Maximum	Mean	Std.Deviation
WCW	85	6.59	10.61	9.5707	.89344
AR	85	5.76	10.99	9.0318	1.29509
AP	85	6.12	9.58	8.4106	.64065
INV	85	7.14	9.98	8.9190	.60938
CASH	85	7.37	10.98	9.7449	.79879
Valid N (list wise)	85				

It represents the basic descriptive statistics' components which are mean, median, minimum value, maximum value and the standard deviation of the variables. The mean Working Capital Management is 9.5707 for overall 17 sugar companies. Secondly, AR shows an average of 9.0318 which shows that many companies have receivable that are used in the data set. AP shows a mean of 8.4106 which is a good sign. INV is 8.9190 on average that shows each company is having a significant number of directors in it and there are around 7 to 9 directors in all or most of the companies. The mean of cash is 9.7449.

The standard deviation of Working Capital Management is. 0.89, AR is. 1.29, AP is. 0.65 is high which shows that they change more as compared to others or in other words, they are more volatile. Along with them, inventory is 0.61 and cash 0.79 are higher than these three which means they are more volatile than this.

4.1.2. Correlations

Correlations

		WCW	AR	AP	INV	CASH
WCW	Pearson Correlation	1	.308**	.254*	-.047	.027
	Sig. (2-tailed)		.004	.019	.668	.809
	N	85	85	85	85	85
AR	Pearson Correlation	.308**	1	.330**	-.377**	-.071
	Sig. (2-tailed)	.004		.002	.000	.517
	N	85	85	85	85	85
AP	Pearson Correlation	.254*	.330**	1	.353**	-.104
	Sig. (2-tailed)	.019	.002		.001	.344
	N	85	85	85	85	85
INV	Pearson Correlation	-.047	-.377**	.353**	1	-.110
	Sig. (2-tailed)	.668	.000	.001		.318
	N	85	85	85	85	85
CASH	Pearson Correlation	.027	-.071	-.104	-.110	1
	Sig. (2-tailed)	.809	.517	.344	.318	
	N	85	85	85	85	85

**. Correlation is significant at the 0.01 level (2-tailed).
*. Correlation is significant at the 0.05 level (2-tailed).

Working capital management and other independent factors have been correlated in this study. Working Capital Management and all of its elements are mutually exclusive. IT arrived at the same conclusion for the Pakistani company. The results demonstrate that as all three Working Capital Management elements have a weak correlation with cash, accounts payable, accounts receivable and inventory the lower the Working Capital Management profit will be. While the Gearing Ratio has a negative association with profitability, Cash has demonstrated favorable and significant relationships.

4.1.3. Regression

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.353[a]	.125	.081	.85643

a. Predictors: (Constant), CASH, AR, AP, INV

With an adjusted R-squared of 0.81, the model was able to explain about 8.1 % of the dependent variable working capital management while leaving 91.9 % of the variance unaccounted for. Since working capital management was the research's dependent variable, it was necessary to evaluate and interpret the Coefficients table. Below is a discussion of the results' key points.

ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	8.374	4	2.094	2.854	.029[b]
	Residual	58.678	80	.733		
	Total	67.052	84			

a. Dependent Variable: WORKING CAPITAL MANAGEMENT

b. Constant, CASH, AR, AP, INV

The F statistic's significance value is 2.854, indicating that the model's ability to effectively explain the variation is strong.

Coefficients

Model		Unstandardized Coefficients		Standardized Coefficient	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	5.362	2.373		2.259	.027
	AR	.170	.093	.247	1.840	.070
	AP	.256	.185	.183	1.386	.170
	INV	-.018	.199	-.012	-.088	.930
	CASH	.069	.119	.062	.584	.561

a. Dependent Variable: WORKING CAPITAL MANAGEMENT

Chapter: 5

5. Conclusion:

In our study, the predictions were put to the test using several hypotheses in order to examine the effect on working capital management and firm performance. This suggests that the larger interest coverage would reduce the likelihood of default risk, resulting in enhanced company performance. The performance of company and accounts receivable are also strongly correlated. In the case of account payable, there is no connection between working capital management and firm source.

5.1. Recommendation:

Working capital management and other factors should be taken into account by investors who want to invest in Pakistan's sugar and industrial sectors because they serve as a standard for choosing which investments to make. Businesses that priorities working capital management and Micro small medium enterprise also have better investment opportunities than those that do not. Additionally, they must take into account the firm's performance as this includes all necessary financial and non-financial facts and knowledge of the company's potential future value. When making investment decisions, investors can save a lot of time and effort by using the firm performance as a yardstick to determine which companies to invest in. They essentially benefit from this study by making better decisions. Additionally, managers should give additional incentives to businesses that manage their working capital profitably and efficiently since this will help businesses create value for their shareholders. Additionally, this will raise the firm's value. Managers must take into account these as a tool to reduce risk and concentrate on their work because company success contributes to the growth of the firm's worth. An additional tool for evaluating a company's performance and that of its managers is its market value. The performance of the company is better the larger the market value. Additionally, any growth in Micro small medium enterprise indicates improved performance of the company, and vice versa for any drop in Micro small medium enterprise, which indicates worse performance of the company.

5.2. Limitation of Study:

The time period covered by the study was 2017–2021. The study's flaw or restriction is the small number of companies that were included in the sample. Initially, about 25 firms were selected, all of companies registered on the Pakistan Stock Exchange. However, due to data availability issues, the data was later reduced to just 17 companies. Therefore, it is advised that future studies take a larger sample size, or a greater number of companies. Similar to other studies, the researchers encounter various challenges while conducting their work. The availability of data is necessary for descriptive work. In underdeveloped economies, working capital management foundation is still unsteady.

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