

# Review of literature

Literature



REVIEW OF LITERATURE Research works in working capital management gives us an outstanding view about the exploration of the topic in different dimensions by different authors. The authors have emphasized that working capital management has to be effectively utilized for generating funds from sales. They have examined the efficiency of working capital management in different aspects. Chakra barty P K. (2004)

Stated that the conventional method of measuring liquidity would not be sufficient to cover this extended view of liquidity and new framework must be developed to cover analysis of amount and trend of internal cash flow, which is the better proposition to focus on a firm's liquidity position than those based on financial ratios. Reddy Y V. and Patkar S B. (2004) Stated that sundry debtors and amount due to creditors are the major components of current assets and current liabilities respectively in determining the size of the working capital.

Haworth C. and West head P. (2003) In their study of working capital in small firms of the UK found that firms focus only on those areas where they expect to improve marginal returns. Narasimhan and MurthyStresson the need for many industries to improve their return on capital employed(ROCE) by focusing on some critical areas such as cost containment, reducing investment in working capital and improving working capital efficiency.

Sanger emphasized that working capital has increasingly been looked at as a restraint on financial performance since these assets do not contribute to return on equity. The study undertaken by Peel et al (2000) revealed that small firms trend to have a relatively high proportion of current assets, less liquidity, exhibit volatile cash flows and a high reliance on short term debt.

Shin and Soenen (1999) Found that long term funds were used for working and observed that flexibility and adjustment in the requirement of working capital depended on the availability and cost of working capital.

The pioneer work of Shin and Soenen has found a strong significant relationship between the measures of working capital management and corporate profitability by reducing the number of days of accounts receivables and inventories. Chittenden ET. Al (1998) In their study revealed that working capital management is of particular importance the small business. With limited access to the long term capital markets these firms tend to rely more heavily on owner financing, trade credit and short term bank loans to financetheir needed investments in cash, accounts receivables and inventory.

According to Fraser (1998) There may be no more financial discipline that is more important, more understood, and more often overlooked than cash management. Bhattacharya In this study stated that for every business concern, irrespective of its size, nature and age, working capital is the life blood of the firm. Peterson and Rajan (1997) In their study revealed that the cost of availing trade credit from suppliers may be cost advantages vis-a-vis financing the working capital needs from the banks and financial Institutions due to competition in the product market.