Cash management research

2. 0. Introduction

Cash management refers to the management of an organizations short-term assets that are useful for progressive activities. Cash management is also linked to the concept of Treasury Management with emphasis on liquidity from various processes and factors of enhancing profitability. Ineffective management of money can lead to the bankruptcy of a company. This study shows the factors that can be controlled for organization and management of the corporate cash of an organization. The factors include Credit Risk, Cash Holding and Cash Conversion Cycle (CCC). The By using data retrieved from FMCG sector, this paper also measures the impacts of RCP on CCC as well as cash holding for effective cash management (Addae-Boateng, & Brew, 2013).

In the world of today, business activities cannot be conducted without cash. It also makes payment easy or makes it easy to use the funds in future. It is therefore taken to be a storage of funds that is used to meet emergencies. In the current world, businesses use credit as opposed to cash for most of its activities. Nowadays, using draft, bills, debit cards, ECS, debit cards and the transfer of funds through the use of internet has replaced using paper currency and use of coins. Cash also refers to currency money as well as bank account balances that are held at various commercial banks (Owen 2009).

Management of cash is both the science and art of managing the short-term resources of a company so as to sustain mobilization of funds, ongoing activities and liquidity optimization. Management of cash is composed of:

i). Proper use of current liabilities and current assets of a firm all through the operating cycles of companies.

ii). Synchronized and proper monitoring, planning and the management of the businesss disbursements, collections and account balances

iii). Management and collection of information to effectively use available resources and to also identify the risks involved. Improper avoidance of risks through management of cash can also lead to the bankruptcy of a company. It is worth noting that efficient management of cash prevents bankruptcy and improves profits earned. It also reduces the risks faced by the company. It is necessary for growing and new companies to capture the share of the market.

2. 1. Changing Consumer Behavior

Consumers in different parts of the world are changing; therefore, consumer driven businesses need to understand the various forces which can transform the FMCG sector in the next ten years. It is important for companies to understand how the existing transfer structures and policies should be made to reflect market trends adequately and stricter pricing regulations transfer around the world. With continued innovation, businesses serving the customers of tomorrow require sustainable pricing structures and tax effective chain management systems so as to drive the company sales and value. Leading specialists of the Transfer Pricing Associates also have in-depth experience and knowledge in supporting and advising MNEs with different operations in FMCG industry. Examples include:

Implementing and designing global transfer pricing chain management systems for all MNEs with different activities in the FMCG industry. It is worth noting that Bench marking different activities is important in the FMCG industry. The activities include centralized procurement, merchandising functions, licensing of trade names/trademarks and centralized credit management operations. Preparation of pan regional of transfer of pricing documentation solutions which aid MNEs for the reduction of costs of the preparation of local transfer documentation of pricing, while at the same time enhancing control and consistency in the disclosure of different transfer pricing policies meant for stakeholders and tax authorities.

Standard financial ratios may be used to predict financial activities of businesses. Different studies have tried to demonstrate the predictive values of various techniques for the estimation of actual business performance. Foster also reviewed the literature that describes theories and methods for predicting and evaluating financial performance that also reveals that different methods are complex while few researchers are in the position to address the problem adequately. For instance, ratio analysis studies also use a multivariate analysis which is based on assuming a normal distribution of financial ratios. Without the confirmation of the approximation of a normal ratio distribution, researchers are at risk of drawing existing erroneous inferences. When making considerations of the distribution of all financial ratios in a database, normality of distribution can also be skewed by negative denominators, recording errors and denominators that approach zero. The only way to make assessments of future financial performance is by including subjective measures.

Dept ratios also show how efficiently the organization makes use of money from other people and whether it uses borrowed money. Most researchers also divide different financial ratios into groups such as solvency, profitability, activity ratios and liquidity. Financial ratios are vital and established techniques of financial analysis. There are many benefits of making financial analysis. Financial ratios can also be designed to evaluate financial statements. It is worth noting that financial ratios can be used as a control and planning tool. Financial ratio analysis can be used in the evaluation of an organizations performance.

2. 2. Decisions on Working Capital in FCMGs

A working capital decision is important to an organization because it affects the liquidity position of a firm. Accountants also see working capital as a difference existing between current liabilities and current assets. Working capital is also the investment of a company in current assets. Decisions from working capital affects the profits made from a firm through impacts on operating costs, sales, and interest expense. They also affect the firms challenge through impact on cash flow volatility, ability of cash generation during crisis and the chances of not getting cash flow (Juan Garcia-Teruel & Martinez-Solano 2007).

Working capital policy is also about functional areas of a businesss operation. A company is required to maintain balance between profitability and liquidity at the same time conducting daily operations. Working capital management becomes important because it also consumes a large proportion of the time taken by the financial manager. Most financial managers efforts and time are therefore used in identifying non-optimal levels of current liabilities and assets and ensuring they reach optimal levels. It is important to know that working capital plays a major role in a firms risk, profitability and value. A company can choose strict working capital management policies with low levels of assets as a percentage of all assets. It can be used for financing decisions of a business in form of a high level of liabilities as a percentage of all liabilities.

Maintaining an optimal balance in all working capital components is a major objective of the working capital management. A close relationship between the level of current assets and sales growth also exists. Liquidity is the precondition which ensures that a firm is able to satisfy short-term obligations. The profitability and liquidity goals usually conflict in decisions made by the finance manager. For instance, if inventories are always kept while anticipating increase in the price of different raw materials, goal profitability is approached but there is danger in the liquidity of a firm.

By using liberal credit policies, a firm can push its sales while liquidity decreases. A company can borrow little capital if it can manage its working capital. Cash can also be invested to ensure that it generates a proper return to the involved investors. Companies can minimize financing costs or increase the funds which are available for expansion. It is done by minimizing the funds that are tied up in the current assets.

Strategic determinants existing in working capital on products can help determine why different businesses have varying levels of capital. Small batch production, capital intensity, order backlog and relative breadth of products can correlate positively to working capital. On the other hand, capacity utilization, continuous process production and ordered products were associated with varying capital levels. Working capital that is divided by sales correlated in a positive way to industry concentration (Parker 2012).

Examining differences in the financial ratio between various industries shows that there are differences between ratio in other companies. There are significant differences between industries in terms of the working capital measure. Improvement of the working capital by a delay in payment to creditors is inefficient and damaging both to the economy and the practitioners as a whole. Strategies of stock reduction, draw on techniques of effective production.

People seeking a working capital reduction that is strategic should also focus on reduction of stock. The experience of the author says that most finance managers have the view that such arguments can be good in terms of theory buy not in real terms. When cash flow rises in pressure, suppliers are the first people to feel draught. Despite being ethically questionable, it also reflects a dangerous short-termism. After studying the relationship between corporate profitability and capital management for one thousand and nine people, the results from the study showed negative correlation between cash conversion cycle and gross operating income as well as inventories and accounts received. McNeil & Embrechts (2015) researched on the impact of working capital on profits made from Hindalco industries for about seventeen years. The study showed that liquid ratio, current ratio, working capital and receivables turnover to asset ratio which had a statistically important impact on the profits made from Hindalco Industries.

The relationship between corporate profitability and working capital management of an organization in Athens Stock Exchange was studied. A sample of one hundred and thirty one listed companies between 2001 and 2004 were used to examine the relationship. After using regression analysis, a statistical significance between cash conversion cycle, profitability and gross operating profit was measured. The results showed that managers had the ability to create value for all shareholders by correctly handling a cash conversion cycle and maintaining different components at an optimum level. The management of the working capital upon performance of companies in Telecom industries were analyzed.

Variables such as cash conversion efficiency, days sales outstanding, payment to vendors income to total assets and number of days of the inventory were used. Findings showed an insignificant and negative relationship between working capital requirement and profitability in the same industry. According to Squire 2010, the relationship between firms profitability and working capital management by using eighty eight American Companies that were listed in the New York Stock Exchange from 2005 to 2007, found that there was no significance difference between corporate profitability and the number of days of the payable accounts.

In the literature review paper that was prepared by Anuar and Tahir between 2008 and 2010, found out the positive and significant influences of a firms sales and its profitability. They also showed that some studies indicated that there was a negative relation between dependent variables and the ratio of total assets to fixed financial assets. A study by Reheman et al. (2010) focused on capital management policies of two hundred and four firms from

Pakistans manufacturing sector between 1998 and 2007. Results indicated that manufacturing firms found in Pakistan followed a set working capital management. It also showed that companies need to make improvements in their payment and collection payment policy.