

**Working capital
management - a
business
organizations
success**



Running Head: WORKING CAPITAL MANAGEMENT Working Capital

Management In APA Style By An efficient working capital management has become increasingly important in maintaining the financial health of a business organization. Working capital refers to the amount of capital which is readily available for the company's utilization and is computed as the difference between its cash resources or readily convertible into cash and its commitment for which cash will soon be required. While holding ample amount of working capital is suitable in order to prevent the risk of illiquidity holding too much also hinders the business organization in undertaking profitable investments. Thus, the business arena has increasingly been putting emphasis on balancing working capital.

Working capital management is essential for a business organization's success and even mere survival. By focusing in this aspect, companies are able to ensure sufficient cash flow in order to settle maturing short term obligations and finance expected operational expenses (McClure 2008). Without efficient techniques in managing working capital, a company can show profitability but might be illiquid to settle its current liabilities thereby jeopardizing its relationship with creditors. Working capital management also covers the efficient collection of accounts receivable and sale of inventory in order to generate cash. The better the company manages working capital, the less money it needs to borrow. Holding excessive cash is also seen as inefficient because it can be used for investment which maximizes shareholder wealth.

One of the best examples of companies which benefits from focusing on working capital management is computer giant Dell, Inc. The company's success can be directly attributed to its efficient inventory management <https://assignbuster.com/working-capital-management-a-business-organizations-success/>

system which eliminates excessive production. In contrast with typical manufacturers, Dell's production is tied up with customer demand enabling it to get rid of inventory holding cost. This significantly affect the company's level of cash: " Improvements in inventory turnover increase cash flow, all but eliminating liquidity risk, leaving Dell with more cash on the balance sheet to distribute to shareholders or fund growth plans" (McClure 2008)

Another notable example of efficient working capital management is Toyota Corporation which focuses on a lean supply chain. Similar with Dell, the company eliminates wastage in its production process through the minimization of excess production (Stalk and Sirkin 2004). The company's management of inventory together with its strategic alliance with suppliers allows it to generate cash as well as pay its suppliers on time.

Companies which do not focus on working capital management are often hard to find since these do not succeed in the long run. For example, Sports Girl Fashion, an Australian chain store announced bankruptcy during the 1990s because of its poor financial position attributed to mounting debts and poor winter sales. The company failed to monitor changing trends in the fashion industry making it cash strapped: " Funds were tied up in out-of-fashion stock and fixed assets, which created a liquidity problem" (Working Capital Management n. d.)

Before becoming success in the IT industry, Cisco Systems Inc. has also been subject to the problem of receivables collection. Before its establishment of a web-enabled system which assists it in collecting from customers, the company has also lacked adequate cash to pay off its immediate obligations (Myers 2000)

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