2.1 Concept of Working Capital:
When a business is started, the owners and investors contribute the capital. This capital is then invested in the long-term assets like land, building, plant, and machinery. These fixed assets are of no use unless they are put in use or made to work. The capital which makes fixed assets work is called the working capital. The working capital management is concerned with decisions relating to current assets and current liabilities. The key difference between long-term financial management and the working capital management is in term of timing of the cash. Long-term financial decisions like buying capital equipment or issuing debentures involve cash flows over an extended period of time; short-term financial decisions typically involve cash flows within a year or within the operating cycle of the firm.

Management of the working capital refers to the management of current assets and current liabilities. The management of current assets is crucial because the current liabilities arise in the context of the current assets. The working capital management is a significant facet of financial management.\(^{11}\) It is important because of two reasons:

1. Investment in current assets represents substantial portion of total investment.
2. Investment in current assets and the level of current liabilities have to be geared quickly to changes with sales.

Fixed assets investment and long-term financing are also supportive to increase sales. However, this relationship is not as close and direct as it is in the case of the working capital components.

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The importance of the working capital management is reflected in the fact that financial managers spend a great deal of time in managing current assets and current liabilities. Arranging short term financing, negotiating favorable credit terms, controlling the movement of cash, administering accounts receivable, and monitoring the investment in inventories consume a great deal of time of the financial managers.

Decisions relating to the working capital management are repetitive and frequent. The operating financial decisions are taken not in isolation but in a manner which is coherent with the overall objectives of financial management. Operating financial decisions are concerned with day-to-day running of the business with the objective of ensuring liquidity, smoothness, and profitability. In other words, it means ensuring that the bills are paid in time, adequate inventory is maintained for production and sale, ensure that debtors pay in time, cash deficits are made good at a reasonable cost and excess cash is invested in time to earn a suitable return. Operating decisions are of repetitive nature as they are to be kept taken frequently and at shorter duration.\textsuperscript{12} All elements of the working capital are quick moving in nature and therefore, require constant monitoring for proper management.

The working capital management involves deciding upon the amount and composition of current assets and how to finance these assets. The aim of effective working capital management is to minimize the number of days taken for cash to complete the cycle.\textsuperscript{13} The working capital management refers to proper administration of all aspects of current assets and current liabilities. It is concerned with the problems arising out of the attempts to manage current assets, current liabilities, and the inter-relationship between them.

\textsuperscript{12} Rajesh Kothari and Bobby Dutta, Contemporary Financial Management, 2007, McMillan Indian
The intention is not to maximize the investment in the working capital nor is it to minimize the same. The intention is to have optimum investment in the working capital. The aim of the working capital management is to have minimum investment in the working capital without affecting the regular and smooth flow of its operations.

The level of current assets should be sufficient enough to cover its current liabilities with a reasonable margin of safety. Shortage of funds for the working capital has caused many businesses to fail and in many cases, has retarded their growth. Lack of efficient and effective utilization of the working capital leads to earn low rates of returns on the capital employed or even compels to sustain losses.

The working capital plays a key role in a business enterprise just as the role of heart in human body. Its effective provision can ensure the success of a business while its inefficient management can lead not only to loss but also to the ultimate downfall of what otherwise might be considered as a promising concern. In other words, efficiency of a business enterprise depends largely on its ability to manage its working capital. The working capital management, therefore, is one of the important facets of a firm’s overall financial management.

The working capital management refers to management of the working capital, or to be more precise, the management of current assets. A firm’s working capital consists of its investment in current assets which include short-term assets such as cash and bank balance, inventories, receivables (including debtors and bills), and marketable securities.


So the working capital refers to the management of the level of all these individual current assets. The need for working capital management arises from two considerations. First, the existence of working capital is imperative in any firm. The fixed assets which usually require a large chunk of total funds can be used at an optimum level only if supported by sufficient working capital, and second, the working capital involves investment of the funds of the firm.

If the level of working capital is not properly maintained and managed, then it may result in unnecessary blocking of scarce resources of the firm. The insufficient working capital, on the other hand, put different hindrance in the smooth working of the firm. Therefore, the working capital management needs attention of all financial managers. The working capital management includes the management of the level of individual current assets as well as the management of total working capital. However, each individual current asset has unique characteristics which the financial manager must consider in deciding how much money should be invested in each of these current assets. In other words, he must decide the level of all the current assets must be decided.

An examination of the components of the working capital is helpful because of the preoccupation of management with the proper combination of assets and acquired funds, concerted efforts are made to ensure the ability of the firm to meet the short-term obligations. The management must be concerned with proper financial structure; these and other funds must be raised judiciously.\textsuperscript{16}

\textsuperscript{16} V. K. Bhalla, Financial Management and Policy, 6\textsuperscript{th} revised Edition, Anmol Publication Pvt. Ltd. p179

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The management of the working capital is a challenging task; but, it may be regarded as the lifeline of the concern. Its effective and efficient management can ensure the survival of a business enterprise and gasping for breath in their effort to maintain production and remain solvent. It has thus become a basic and broad measure for judging the performance of a business firm. It is an integral part of the overall corporate management. The movement from working capital to income and profits and back to the working capital is one of the most vital characteristics of business administration.\textsuperscript{17}

To a finance manager, a working capital sphere throws a spare welcome, challenge, and opportunity. In the view of the multiplicity of factors exerting varied degrees of influence of working capital studies, a management has to be alert to the internal, external and environmental developments and constantly plan and review its working capital needs and strategies. Working capital management has been looked upon the driving seat of a financial manager. Moves and actions in the operating fields production, procurement, marketing, and services are ultimately interpreted and viewed in financial terms; hence the preoccupation with the financial implication of the management of working capital and its segments. In this connection, Louis Brandit observes, “We need to know when to look for working capital funds, how to use them and how to measure, plan and control them”.\textsuperscript{18} The basic objectives of the working capital management includes the optimizing of the investments in current assets and reducing the level of current liabilities thereby, reducing the locking of funds in the working capital.

\textsuperscript{17} Dr. Alok B. Shah, Working Capital Management, 1\textsuperscript{st} edition, 2003. Himalaya Publishing House, pg.6)

\textsuperscript{18} P. V. Kulkarni and B. G. Satyaprasad, Financial Management, 2004, 12\textsuperscript{th} edition, Himalaya Publishing House, pg.713
It can improve the return on capital employed in the business. The second important objective of working capital management is that the company should always be in a position to meet its current obligations which should properly be supported by the current assets available with the firm. However, maintaining excess funds in the working capital means locking of funds without returns. The firm should manage its current assets in such a way that the marginal return on investment in these assets is not less than the cost of capital employed to finance the current assets.\textsuperscript{19}

The relevance of cost control as one of the measures to combat inflation perhaps lies in the context of the cost push inflation. Through cost control, the same amount of input will be available for larger output which in turn will not only reduce the prices but also generate additional employment opportunities. This will act as a deterrent to inflation and promote growth of the economy as a whole. Cost control has been extended to the use of finance where working capital is one of the sensitive areas. The effective management of working capital, like other areas of management, requires a clear statement of the goals to be pursued and the responsibilities to be allocated. Cash management and short-term loans along with the level of debtors, are the responsibility of financial executives. Inventory and credit control are managed by other departments. This division of responsibilities makes a co-ordinated approach of working capital management, even though it is a bit difficult particularly when the managers from different departments pursue different goals. The twin objectives of working capital management are profitability and liquidity. Investment in current as well as long term assets have to be undertaken so as to offer the most satisfactory return to the shareholders.

\textsuperscript{19} Sudhindra Bhat, Financial Management Principles and Practice, 2\textsuperscript{nd} Edition, Excel Books, p564
The goal of liquidity is to ensure that a company satisfies the financial obligations and continues as a going concern.

Profitability and liquidity conflict with each other. Attempts to produce maximum profitability out of the various elements of working capital do create severe liquidity problems. At the same time, over concentration on liquidity does dilute profits. The working capital management establishes the best possible trade-off between the profitability of net current assets employed and the ability to pay current liabilities as they fall due. This implies clearly designed risk policy to determine the required liquidity level. The firm’s current working capital policy can be tested by following ways:

**Level of working capital:** This should be maintained by a careful study of the movements of the working capital in successive periods. If a management can develop a pattern in these movements, this pattern would serve as a guide to its changing requirements in relation to certain decisions, which are made from time to time.

1. **Structural Health:** The relative health of the various components of the working capital should be considered from the point of view of liquidity. It is necessary to draw structural relationships in respect of each component constituting the current assets.
2. **Circulation:** This is an important feature of the liquid position and involves the natural activity cycle of an enterprise. Ratios may be calculated to show the average period required for the conversion of raw materials into finished goods, finished goods into sales, and sales into cash.

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20 Indian Institute of Banking and Finance, Macmillan India Ltd., 2007
3. **Liquidity:** A more comprehensive test to measure liquidity may be adopted by using the following three ratios, each express as a percentage of:

- Working capital to current assets;
- Stocks to current assets, and
- Liquid resources to current assets.

The various sources available for financing the working capital requirement should be properly managed to ensure that they are obtain and utilized in the best possible manner. Working capital management is significant in financial management due to the fact that it plays a vital role in keeping the wheel of business running.

To be precise management of the working capital involves;

- Forecasting funds requirements,
- Acquiring funds,
- Monitoring levels of cash, receivables and inventory,
- Knowing the percentage of funds in current accounts,
- Recording time spent managing current accounts,
- Identifying excess working capital, and
- Effective management of current assets.

**2.1.1 Ideology behind working capital management:**

Working capital is the measure of liquidity; creditors will often be interested in the company's working capital as one indicator of the debtor's ability to make payments on a timely basis. The components of working capital are used to calculate several financial ratios, including the current ratio, which is current assets divided by current liabilities. Banks will often write into their loan contracts requiring the maintenance of prescribed levels of working capital or current ratio. The importance of these measures to credit
analysts is what makes the determination of current versus noncurrent status so important on a company's balance sheet. Because of this, much thought goes into the classification of the assets and the liabilities.

- **Management of risk deviation:** If the level of working capital changes according to the sales volume, the risk of opportunity for gain or loss also varies proportionately. There is direct relationship between the degree of risk and the rate of returns. If working capital decreases because of decline in the sales volume, the degree of risk increases. Therefore, when the level of working capital goes up, the amount of risk goes down, but at the same time firms profitability also goes down. The size of the working capital depends upon the attitude of the management. A conservative management prefers to safeguard liquidity position of the firm. Likewise aggressive management accepts the greater risk by reducing this level.

- **Reduction in cost of capital:** There is inverse relationship in risk and cost of the capital. It is very important to manage various sources of finance as different cost of capital involved there.

- **Ensure equity position:** The amount of working capital invested in each component should be adequately justified by the firm’s equity position. Every rupee invested in the working capital should contribute to the net worth of the firm.

- **Judicious maturity of payment:** A firm should discharge its short term debt instruments in time but there should not be any disparity between them and their flow of internally generated funds. A margin of safety should be provided for short-term debt payments.
2.1.2. The amount of funds required to meet the operational needs changes from time to time in every business, but certain amount of assets in the form of working capital needs to maintained by every organization to run the business efficiently. Following is the classification of working capital:

Chart – 2.1

**Types of Working Capital**

- Net Working Capital
- Gross Working Capital
- Permanent Working Capital
- Variable Working Capital
- Cash Working Capital
- Positive Negative Working Capital

- Gross Working Capital: The term gross working capital refers to the firm’s investment in current assets. It is the minimum amount of funds invested in the various components of the current assets. Financial managers are profoundly concerned with the current assets. This concept has the following advantages:

1. It provides the correct amount of working capital at the right time.
2. It enables a firm to realize the greatest return on its investment.
3. It helps in the fixation of various areas of financial responsibility.
4. It enables a firm to plan and control its funds and to maximize the returns on investment. For these advantages, gross working capital has become a more acceptable concept in financial management.

- Net Working Capital: It is the difference between current assets and current liabilities. It is a qualitative concept which indicates the liquidity position of a firm and the extent to which working capital needs may be financed by permanent source of funds. The concept looks into the angle of judicious mix of long-term and short-term funds for financing current assets. A portion of net working capital should be financed with permanent sources of funds. The concept of net working capital also enables a firm to determine how much amount is left for operational requirements.

- Permanent Working Capital: It is the minimum amount of current assets which is needed to conduct a business even during the off season of the year. This amount varies according to the growth of the company and the stage of the business cycle in which it operates. It is the amount of funds required to produce goods and services which are necessary to satisfy demand at any particular point. It represents the current assets which are required on a continuous basis over the entire year. It is maintained as the medium to carry on operations at any time. It has the following characteristics:
  1. It is classified on the basis of the time factor.
  2. It constantly changes from one asset to another and continues to remain in the business process.
  3. Its size increases with the growth of business operations.

- Temporary or Variable Working Capital: It represent the additional assets which are required at different times during the operating year – additional inventory, extra cash etc., seasonal working capital is additional amount of
current assets particularly cash, receivables and inventory; which are required during the more active business seasons of the year. It is temporarily invested in current assets and possesses the following characters:

1. It is not always profitably employed, though it may change from one asset to another, as permanent working capital does, and

2. It is particularly suited to the business of a seasonal or cyclical nature.

- Positive and Negative Working Capital: The net working capital of a firm may be positive or negative. The positive net working capital represents the excess of current assets over current liabilities. Sometimes, it may turn to negative when current liabilities are exceeding the current assets. Such negative working capital may adversely affect the operations of the firm and its profitability. The chronic negative working capital situation will lead to closure of the business and the enterprise is said to be technically insolvent. The disadvantages suffered by a company with negative working capital are as follows:
  - The company is not able to take advantage of new opportunities.
  - Fixed capital is not used effectively in situation of working capital shortage.
  - The operating plans can not be achieved an will reduced profitability of the firm.
  - Employees morale will be lowered due to financial difficulties.
  - The operating inefficiencies will creep into daily activities.
  - Loss of trade and cash discounts.
  - The firm will not able to offer credits to their customers. Hence sales would be less.
  - Loss of financial reputation.
  - The creditors may take serious actions or even apply to court for winding up.
  - It would be difficult to seek adequate financed from banks and other financial institutions.
2.1.3 Factors determining working capital:

Nature of business: The working capital needs of the firm are basically decided by the nature of business. For example, trading and financial firms generally have a low investment in fixed assets, but require large investment in the working capital. On the other hand, public utilities have a limited need for working capital and have to invest abundantly in fixed assets.

1. Manufacturing cycle: It starts from purchase of raw materials and is completed with the production of finished goods. The manufacturing cycle involves a longer period of the need for working capital will be more, as funds tie-up for longer period.

2. Business fluctuations: Seasonal and cyclical fluctuations in demand for product considerably affect the working capital requirement, especially temporary working capital. For example, an upward swing in the economy leads to increase in the sale, resulting in an increase in the firm’s investment in inventory and receivables; on the contrary, slump in the economy results into the fall in sales and the level of stock and book debts.

3. Demand of industry: It ensures the creditors, as they want, their obligations are sufficiently covered.

4. Size of business: The need of working capital determines by size of business. Small firms have smaller proportion of cash, receivables, and inventory than large corporations.

5. Terms of purchase and sale: With more favorable terms from creditors and less liberal policy for sales reduce the need of working capital.

6. Inventory Turnover: If inventory turnover is high, the working capital requirement of firm will be low. More the control on the inventory lesser is the requirement for working capital.

7. Receivables Turnover: A prompt collection of receivables and good facilities for settling payables result into low working capital requirements.
8. Value of current assets: A decrease in the real value of current assets as compared to their book value reduces the size of working capital.

9. Inflation: Size of the working capital increases as a result of inflation, to some extent, this may be compensated by the rise in the selling price.

10. Profit planning and control: Adequate profit assists in substantial generation of cash. It makes it possible to plough back a part of this earning as an internal financial resource. A firm has to plan for taxation payments, which are an important part of working capital managements. The firm’s dividend policy depends upon the amount of available cash to it.

11. Liquidity and profitability: If the firm decides to take more risk for better gain, it reduces the size of working capital in relation to sales.

12. Repayment ability: It is determined by the level of its working capital. A firm can prepare cash flow projection and accordingly fix its working capital level.

13. Cash reserves: It is advisable to maintain some cash reserves to meet contingent disbursement.

14. Operational and financial efficiency: Working capital turnover is improved with better operational and financial efficiency of a firm.

15. Changes in technology: Technological development has direct impact on requirement of working capital.

2.2 Working Capital Cycle

The working capital cycle can be defined as, the period of time which elapses between the point at which cash begins to be expended on the production of a product and the collection of cash from a customer.

Between each stage of this working capital cycle there is a time delay. For some businesses this will be very long where it takes them a long time to make and sell the product. A substantial amount of working capital is needed to survive. Others, though,
may receive their cash very quickly after paying out for raw materials etc... (perhaps even before they've paid their bills?) - less working capital will be required. The chart of Working Capital cycle is given in chart no. 2.2.

The chart – 2.2 below illustrates the Working Capital Cycle for a firm:

The upper portion of the diagram above shows a simplified form of the chain of events in a firm. Each of the boxes in the upper part of the diagram can be seen as a tank through which funds flow. These tanks, are concerned with day-to-day activities, have funds constantly flowing into and out of them.

- The chain starts with the firm buying raw materials on credit.
• In due course, this stock will be used in production, work will be carried out on the stock, and it will become a part of the firm’s work in progress (WIP).

• Work will continue on the WIP until it eventually emerges as the finished product.

• As production progresses, labour costs and overheads will need to be met.

• Of course at some stage trade creditors will need to be paid.

• When the finished goods are sold on credit, debtors are increased.

• Payment not received, so that cash will be injected into the firm.

Each of the areas – stocks (raw materials, work in progress, and finished goods), trade debtors, cash (positive or negative) and trade creditors – can be viewed as tanks into and from which the funds flow. Working capital is clearly not the only aspect of a business that affects the amount of cash:

• The business will have to make payments to government for taxation;

• Fixed assets will be purchased and sold;

• Lessors of the fixed assets will be paid their rent;

• Shareholders (existing or new) may provide new funds in the form of cash;

• Some shares may be redeemed for cash;

• Dividends may be paid;

• Long-term loan creditors (existing or new) may provide loan finance, loans will need to be repaid from time to time, and

• Interest obligations will have to be met by the business.

Unlike movements in the working capital items, most of these ‘non-working capital’ cash transactions are not everyday events. Some of them are annual events (e.g. tax payments, lease payments, dividends, interest and, possibly, fixed asset purchases and sales).
Others (e.g. new equity and loan finance and redemption of old equity and loan finance) would typically be occasional events.

### 2.3 ISSUES OF WORKING CAPITAL MANAGEMENT INVOLVE:

**The following are the issues in Working Capital Management:**

1. The level of cash needs to be on call at various dates.
2. The level of inventory we need to maintain.
3. The bank overdraft.
4. The period of credit we grant to our debtors.
5. Suppliers Payments.
6. Proportion of current assets should be financed by short-term funds.
7. Level of working capital.

There are two interpretations of working capital concept:

- Balance Sheet Concept
- Operating Cycle Concept

The pattern of working capital management will be very largely influenced by the approach taken in defining it.

1. **Balance Sheet Concept:**

There are two interpretations of working capital under the balance sheet concept. It is represented by the excess of current assets over current liabilities and is the amount normally available to finance the current operations. But, sometimes, working capital is also used as a synonym for gross or total current assets. In that case, the excess of current assets over current liabilities is called the net working capital or net current assets. Economists like Mead, Malott, Baker and Field support the latter view of working
capital. They feel that current assets should be considered as the working capital as a whole, it helps to earn profits; and the management is more concerned with the total current assets as they constitute the total funds available for the operational purposes. On the other hand, economist like Lincoln and Saliers uphold the former view. They argue that in the long run what matters is the surplus of current assets over current liabilities. It is this concept which helps creditors and investors to judge the financial soundness of the enterprise that can always be relied upon to meet the contingencies. It is the excess of current assets over the current liabilities since this amount is not to be returned. This definition helps to find out the correct financial position of the companies having the same amount of current assets. Institute of Chartered Accountants of India while suggesting a vertical form of balance sheet also endorsed the former view of working capital when it described net current assets as the difference between current assets and current liabilities.

According to scholars, the conventional definition of working capital is in terms of difference between the current assets and current liabilities somewhat confusing. According to them, working capital is really what part of long term finance is locked in and used for supporting current activities. Therefore, larger the amount of working capital so derived, greater the proportion of long term capital sources siphoned off to the shorter activities. But scholars themselves are doubtful about such situation. It sounds as if, when firms are warned about tight working capital situation, the logic of the above definition would perhaps indicate diversion of long term finances for short term purposes. For, if short-term bank loans were procured to bring in cash, under the conventional method, working capital would evidently remain unchanged. Liquidation of debtors and inventory into cash would also keep the level of working capital unchanged. Similarly, a relatively large amount of working capital according to this definition may produce a false sense of security at the time when cash resources may be negligible, or when these may be provided increasingly by long-term fund sources in the absence of adequate
profits. Again, under the conventional method, cash enters into the computation of working capital, but it may have been more appropriate to exclude cash from such calculations because one compares the requirement of cash with current assets less current liabilities. The implication of this in conventional working capital computations is that during the financial period current asset get converted into cash which, after paying off the current liabilities, can be used to meet other operational expenses. The paradox, however, is that such current assets as relied upon to yield cash must themselves to be supported by long term funds until they are converted into cash.

2. Operating Cycle Concept:
A firm’s operating cycle typically consists of three primary activities; purchasing resources, producing the product, and distributing the product. These activities create fund flows that are both unsynchronized and uncertain. They are unsynchronized because the cash disbursements (for example payment for resource purchases) usually take place before cash receipt (for example collection of receivables). They are uncertain because future sales and costs which generate the respective receipts and disbursement cannot be forecasted with complete accuracy. If the firm is to maintain liquidity and function properly, it has to invest funds in various short term assets or working capital during this cycle. It has to maintain a cash balance to pay the bills as they come due. In addition, the firm must invest in inventories to fill customer orders promptly and finally in accounts receivables to extend credit to the customers as it is indicated in chart no. 2.3.
Chart no. 2.3 illustrating the operating cycle of a firm. The operating cycle is equal to the length of the inventory and receivables conversion periods.

The inventory conversion period is the length of time required to produce and sell the product. It is calculated as follows:

\[
\text{Inventory conversion period} = \frac{\text{Average inventory}}{\text{Cost of sales}/365}
\]

The receivables conversion period, or average collection period, represents the length of time required to collect the sales receipts. It is calculated as follows:

\[
\text{Receivables conversion period} = \frac{\text{Accounts Receivables}}{\text{Annual Credit Sales}/365}
\]
The payable deferral period is the length of time the firm is able to defer payment on its various resource purchases for example, materials, wages, and taxes. It is defined as follows:

\[
\text{Payables deferral} = \frac{\text{Accounts payable} + \text{Salaries, benefits, & payroll taxes payable}}{\left(\frac{\text{Cost of sales} + \text{Selling, general & administration expenses}}{365}\right)}
\]

In short, the cash conversion cycle represents the net time interval between the collection of cash receipts from product sales and the cash payments for the company’s various resource purchases. It is calculated as follows:

\[
\text{Cash conversion cycle} = \text{Operating cycle} - \text{payables deferral period.}
\]

It shows the time interval over which additional non-spontaneous sources of working capital financing must be obtained to carry out the firm’s activities. An increase in the length of the operating cycle, without corresponding increase in the payables deferral period, lengthens the cash conversion cycle and creates further working capital financing needs for the firm.

**Reasons for Prolonged Operating Cycle**

The reasons for prolonged operating cycle could be:

1. Purchase of materials in excess/short of requirements.
2. Buying inferior and/or defective materials.
3. Failure to get trade discount and/or cash discount.
4. An inability to purchase during seasons.
5. Defective inventory policy.
6. Use of protected manufacturing cycle.
7. Lack of production planning, coordination, and control.
8. Mismatch between production policy and demand.
9. Use of outdated machinery and technology.
10. Poor maintenance and upkeep of plant, equipment, and infrastructural facilities.
11. Defective credit policy and slack collection policy.
12. Inability to get credit from suppliers and employees.
13. Lack of proper monitoring of external environment, etc.
14.

2.4 Literature Review
Various authors and scholars have attempted to analyze the concept of working capital management. They have formulated working capital theories with diverse perceptions. While doing this study quantitative and qualitative characteristics of the working capital are also identified to make working capital analysis for meeting the specific needs. These efforts have offered further scope of study to the authors about management of working capital. Every scholar has some own basis and justification of his study. However, all these eminent authors have admitted the need for further investigation on working capital issues. The comprehensive review of literature on working capital management in general and in hotel industry has been carried out to enable to formulate the theme meaningfully and to carry out the study in line with the objective and scope. 23 research articles and 2 Ph.D. theses have been referred while doing literature review reveals the following:

A] Ph. D. Thesis
1. Management of Working Capital in Selected Small Scale Industries in India (Abbas Taleb Beydokhti, 2007): This study aims to understand the system of management of working capital in small scale industry in and around Pune. The researcher has studied the under utilization of the available resources is the reason of working capital mismanagement. The study, further, has revealed that unpredictable environmental situation and lack of authority may cause improper implementation and increase in the cost of working capital. According to him, the lack of regular supply of materials would cause increase in the cost related to working capital. The researcher
opinioned the lack of control on investment in inventories would cause to increase the costs associated with the working capital. However, very important aspects like cost of sources of financing working capital and debtors have not been considered in this study.

2. Evolution of Management Control Systems for Working Capital Management in Small Scale Industry in Pune (CA Sunil Shanoy, 2008): This study covers the analysis of various management control systems for the working capital management in detail. The researcher has observed that there is a lack of management control system in many small scale industries in Pune. He has made the root cause analysis for the same. He has studied the role of banks and qualified professional in the process of the working capital management. He has recommended certain does and don’ts while applying management control system in small scale industries in practice. However, he took the overview of spontaneous financing.

B] Research Articles:
1. Towards a Theory of Working Capital Management (John Sagan, 1955): The author of this paper has referred money as the lubricant that oiled the wheels of the industry. He has further stated that, it is the task of manager to ensure sufficient funds for business operations. He has also suggested that, it is the manager’s responsibility to invest funds as profitably as possible. He has emphasized the existence of working capital cycle in the present paper. According to him, the finance manager works in many areas of a company. His operations affect all the working capital accounts. He has mentioned the Net Working Capital of any corporation as the Net Current Assets position or the excess of current assets over the current liabilities.

2. The Determinant of Working Capital Management (Jeng-Ren Chiou; Li Cheng; Han-Wen Wu, 2006): This paper investigates the determinants of the working capital management. According to authors, they have used net liquid balance and working capital requirements as measures of a company's working capital management.
They further elaborate, its results indicated that the debt ratio and operating cash flow affect the company's working capital management, yet they lack consistent evidence for the influence of the business cycle, industrial effect, growth of the company, performance of the company, and firm size on the working capital management. The authors have observed that as compare to capital budget and capital structure, working capital attracts less attention in the financial management. They have revealed that the company may miss profitable investment opportunities or suffer short term liquidity crisis, leading to degradation of company credit, as it can not respondent effectively to temporary capital requirement. This paper uses the variables Net Liquid Balance (NLB) and Working Capital Requirement (WCR) to assess to working capital management, analyzing the influence of firm characteristics outside business factors and industrial effect.

3. Impact of Aggressive Working Capital Management Policy on Firm’s Profitability (Main Sajid Nazir and Talat Afza, 2009): The authors have studied the relationship between the aggressive/conservative working capital asset management and financing policies and its impact of profitability of the firms. The study finds a negative relationship between the profitability of the firm and degree of aggressiveness of working capital investments and financing policies. According to them, the managers cannot create value if they adopt aggressive approach in working capital investment and financing policy. However, if firms adopt aggressive approach in managing their short term liabilities, investors give more value to those firms. It is contradictory that in the same paper authors have also agreed that the degree of aggressiveness of working capital policies adopted, help to create shareholders’ wealth through increased market performance.
4. Working Capital Management: A study of Maharashtra’s bulk drugs listed companies (Yadav, Kamat, Manjarekar, 2009): In this paper, the authors have analyzed the working capital management of bulk drug companies that are listed on the Bombay Stock Exchange. According to these authors, negligence in management of working capital leads to the shortage of cash and may further lead to closing down. The research finding reveals that the listed companies have adopted a conservative approach in the management of their working capital during the year 2005. However, in the year 2006, they have adopted aggressive approach of working capital management. It has been observed that these companies could maintain acceptable level of liquidity but, it deteriorated in 2006. The finding also suggests the limitations of static working capital policy.

5. A supply chain – oriented approach of working capital management (Hofmann and Kotzab, 2010): In this research paper, the authors have developed and discussed a supply-chain approach of the working capital management. The main objective of this article is to explore the difference between the cash-to-cash cycle in a single company (Level-1) and form a supply chain oriented perspective (Level-2) by analyzing the role of payment terms for working capital improvements. The research has revealed that the minimization of C2C Cycle from a single company perspective does not add value to all the members in a supply chain. The study further revealed that the synchronization of material and financial flows within the supply chain helps to reduce net working capital. The paper also emphasizes that the supply chain relationships are based on equal distribution of powers among members and trust to achieve collaborative performance as well as the reduction of the cost of capital. The authors also have recommended that the supply chain member may give trade finance to selected members to manage C2C cycle in a proactive way. According to the authors, long term stability is based on the
profitability of entire supply chain, even though one member can extract premiums in the short term.

6. Does working capital Management Affect profitability of Belgian Firms? (Marc Deloof, 2003): In the paper, the author has investigated the relation between working capital management and corporate profitability for a sample of 1,009 large Belgian non-financial firms for the 1992-1996 period. The author has used a number of days account receivable, inventories, and accounts payable as measures of trade credit and inventory policies. He has also referred cash conversion cycle as a comprehensive measure of working capital management. The findings of the study suggest that the manager can increase corporate profitability by reducing the number of days of accounts receivables and inventories. The study further revealed that, less profitable firms wait longer to pay their bills.

7. State of the art of working capital management. (Smith Keith, 1972): In present paper, the author has recorded his observations that short-range or working capital decision gets less importance as compare to long range financial decisions of a firm. However, it has been noticed that most of the recent business failures are due to an inability of financial managers to plan and control properly the current assets and current liabilities of their respective firms. According to the author, the current assets collectively represent the large investment and current liabilities account for a major part of total financing of the firm. He had observed that increased cost of borrowing has placed an additional pressure on the management to limit investment in the working capital management. Looking at the weight-age of them in balance sheet, this paper has eight approaches to the working capital management. The first three approaches; aggregate guidelines, constraint set, and cost balancing, are partial models. The next two approaches; probability models and portfolio theory, stress future uncertainty and
interdependencies. While the last three approaches, mathematical programming, multiple goals, and financial simulation have a broader and systematic focus. Author of this paper further stated that these approaches do not lead to optimal solutions; however, they portray a series of trade-offs between liquidity and profitability. He has recommended that future efforts to examine individual working capital accounts, such as inventory or account receivable, should be made with an eye towards how their treatment will ultimately affect both net borrowing and profitability.

8. Working Capital Policy and Liquidity in the Small Business. (Belt Brain, 1979): This research article attempted to place the working capital policy in perspective with other policies of the small business. The author advocates here that, working capital policy should be expressed in terms of asset liquidity, deferability of current liabilities, predictability of sales, and composition of financing (particularly debt), rather than in terms of net working capital magnitude (CA-CL). According to the author, the distinction is critical for the small business because initial liquidity of them is poor, postponement of current liabilities is both an unknown and risk element, sales prediction is low and long term capital is difficult to obtain.

9. Working Capital Management: difficult but rewarding. (Andrew Harris, 2005): The author is of the opinion that many Chief Financial Officers struggle to identify core working capital drivers and the appropriate level of working capital. Hence, companies prefer to make provisions for unforeseen circumstances. He further noticed that by understanding the role and drivers of working capital management and taking steps to reach the right levels of working capital, companies can minimize risk, effectively prepare for uncertainty, and improve overall performance. He recommends entrepreneurial mind set which considered broad corporate environment, ability to act quickly to drive changes by combining operational and financial skills, appointment of
the right people in the right place, and finally could win over emotions from the analysis process.

10. Relationship between the working capital management and profitability of listed companies in the Athens stock exchange (Prof. Lazaridis and Prof. Tryfonidis, 2006): In this paper, authors have investigated the relationship of corporate profitability and working capital management. The performances of 131 companies which are listed in Athens Stock Exchange (ASE) have been studied for the period of 2001-2004 by the authors. The objective of this paper is to establish a relationship that is satirically significant between profitability, the cash conversion cycle, and its components for listed firm in the ASE. The research has explored that there is statistical significance between profitability, measured through gross operating profit and cash conversion cycle. The authors of the paper have observed that managers can create profits for their companies by handling components of cash conversion cycle (account receivables, accounts payables, inventory) to an optimum level. The authors further noticed that the net operating profit is negatively correlated with the variables of numbers of days account receivables, number of days accounts payables and cash conversion cycle. The authors are of the views that shorter the period between production and sale of products the larger is the firm’s profitability. It has been proven by the study that the companies with cash in hand can purchase raw material at better prices. The study has further revealed that the companies listed in ASE take the advantage of financial debt to decrease cash conversion cycle and increase profitability.

11. Managing target of the cash balance in construction firms using a fuzzy regression approach. (Chen, Wang and Lin, 2009): This study reviews the financial aspects of managing a construction firm. The financial management in such firms is based on its liquidity, which is most directly linked to the short term solvency. Hence,
cash management is the most important factor in the working capital management. For conceptual understanding, the authors have referred the Miller-Orr concept of working capital management. To study and analyze the relationship between the project duration and the progress towards completion is effectively made with the help of Takagi-Sugeno (T-S) fuzzy model. The practicality of the model is demonstrated using project cash flow and progress payment records from a sample project. The authors have obtained data for the present research which is from the Taipei City Government’s Department of Rapid Transit Systems.

12. CFO Magazine’s “Working Capital Survey”: Do selected firms work for shareholder? (Filbeck, Krueger, and Preece, 2007): CFO Magazine recognizes the importance of the basic parts of the business. It is the leading business publication for the C-level (chief executive officer, chief financial officer, etc.) and the senior financial executives. The magazine identified the working capital management as one of the key issues faced by the financial executives in the 21st Century. The inaugural 1997 “Working Capital Survey” ranks the efficiency of the working capital in 1,000 companies across 35 industries based on two measures of the financial data: cash conversion efficiency and days of working capital. This study has also revealed that there is a positive relationship between a firm’s returns and its cash conversion efficiency rank but no relationship between returns and the days of working capital rank.

13. A Banker’s perspective on Working Capital and Cash Flow Management. (Dev Strischek, 2001): In this research paper, the author has discussed what do the banker’s consider when organizations try to obtain a loan. The bankers judge the organizations working capital and cash flow management skills, which has the impact on their cost of the capital. This is why lenders have a vested interest in the three key areas: sound collection practices, inventory controls, and trade discipline. Like the bankers, the
investors are also interested in the working capital and the cash flow management skills because a major component of shareholder value is the cost of the capital and bank credit composes much of this key factor.

14. How controllers Alleviate Hidden Costs in Outdated Working Capital Strategies. (Controller’s Report, 2009): This paper is of the opinion revealed that during the boom period the business organizations are careless with their working capital. However, during the recession, such practices create liquidity problem.

15. The Effect of the Working Capital Management on the Cost and Profitability: Few Cases of Hotel Industry (Dr. Dinbandhu Mahal and Mrs. Deepali Bankapure, 2009): This paper has revealed that the working capital though is a firm’s short term use of funds, its funding has to be modest. Finance manager of any hotel has to perform a custodian function by prescribing and developing monitoring system for control over the assets owned by an enterprise and obligation created by it. The paper further revealed that poor working capital management reduced the firm’s liquidity as well as its ability to invest. The authors have also observed that many hoteliers are struggling to pay off accounts payables in time, reduce debtor’s collection period, and sometimes they face the problem of overstock and under stock of the material. These things made their banker unhappy and forced them to stay within given overdraft limit. The study has concluded that working capital analysis is closely related to analyze and manage every component effectively as it carries significant costs. Without judicial cost control, the survival and growth in the hotel business is difficult.

16. Forces Driving Change in the Hospitality Industry in India (Olsen, Chathoth and Sharma, 2001): This research is conducted by the International Hotel and
Restaurant Association (IHRA). The purpose of this article is to discuss about the driving forces which brought the changes in global hospitality industry. It also aimed at to know how 49 professionals from the Indian hospitality industry reacted in April 1999. The present paper explored that in order to compete effectively in the market, managers must develop the ability to continually scan the environment. This paper further revealed that capacity control (e.g. control on inventory), safety and security (e.g. Terrorism plagued cities had negative impact on the economy of these countries.), assets and capital (allocation of resources where advantages of opportunities can be taken), technology (have changed the design, structure, systems and procedures of hotel operations.) and new management (up gradation of knowledge, skills and business environment) are the forces of driving change in the hospitality industry in India.

17. Working Capital Management: Driving Additional Value Within AP (Bauer Dennis, 2007): This paper has revealed that, regardless of economic climate the companies are always seeking new and innovative ways to reduce the cost and increase revenue. One approach attracting attention from leading financial executives lately involves maximizing working capital or extracting more value from short-term cash. According to author, accounts payables (AP) and procurement professionals often help their organizations realize working capital opportunities by streamlining processes for paying suppliers and securing the best supplier discounts and terms. The paper further revealed that, treasury professions typically manage working capital through day’s payable outstanding and by optimizing the use of cash. This can be achieved by striking the balance between capturing the best early payment discounts and maximizing the float from short-term cash.

18. A Liquidity – Profitability Trade of Model for Working Capital Management (Mihir Dash and Rani Hanuman, 2009): According to authors planning is necessary for the efficient working of any organization and in all areas of operations. In this paper authors have suggested that businesses must continuously innovate and transform
themselves to stay ahead of competition in this fast growing world. They have further recommended that that an efficient working capital management system has to be designed to make projects in long run. Present paper formulates the working capital decision as a goal programming model which balancing the conflicting objectives of liquidity and profitability. This model determines for given working capital turnover and fixed assets turnover ratio how funds should be maintain between working capital and fixed assets to achieve targeted level of liquidity and profitability at the same time minimize the opportunity cost. The result of Trade Model given in this paper suggests that working capital and an inventory particular should be streamlined to profitability. Authors have also revealed the limitations of model like it considered only specific form of liquidity and profitability, which may not have considered the other relevant parameters. This model also has referred stable turnover ratios, which may not be applicable in practice. It proposes the linear programming model, thus deals only with the linear behavior of working capital.

19. Working Capital Performance of Corporate India: An Empirical Survey for the Year 2000-2001 (Dr. Manoj Anand and Dr. C.P.Gupta) A firm is required to maintained liquidity in its day to day smooth operations. However, it is not simple and straightforward task. The chances of mismatch of assets and liability may occur and in short run may increase firm’s profitability but may accompany with risk of bankruptcy. Higher liquidity offers comfort of meeting short term liabilities but at the cost of profitability. Hence, finance person of the firm is in a dilemma of achieving desired trade of between liquidity versus profitability in order to maximize the value of a firm. This empirical study has been designed to estimate three quantitative working capital bench marks (Days of operating cycle, Days of working Capital and Cash conversion cycle) in order to help corporate India to manage its working capital more efficiently and thus create the value. For the present study the authors have used the data of 427 companies over the period 1998-99 to 2000-01 of each industry. Besides providing quantitative
benchmarks, the authors have also tried to identify which are companies that have excelled in managing their working capital. The authors have found out from this study that cash conversion efficiency of coal and lignite industry was high on the other hand it was low in readymade garments it was very low. Operating cycle of hardware industry was high and liquor industry it was very low. Lowest days of working capital recorded were of tourism industry. However, the study is restricted to analyze the performance on companies on only three parameters. The important aspects like firms’ working capital strategies, cost of working capital financing etc. were not considered for study.

20. Cash Flow Management Incentives and Market Pricing: (Ran Zhang)
In this paper an author has examined the management of operating cash flows, its causes and the market’s reaction to such management. Author has further tries to understand the role of managers in cash management, the factors which influence to it, the situations, and its effects on market price. For present study an author has referred cash flow from operating activities. The present study was motivated by allegations in the business press that firms are engaged in manipulation of operating cash flows. Hence, an author has tried explored managements’ operating cash flow management behavior. He has found out discontinuities in cash flow and cash dividend differences which suggested that cash flows are indeed manipulated to meet business emergencies. However, he could not found out evidence consistent with firms’ managing cash flows to exceed the past years performance.

21. Effects of Working Capital Management on SME’s Profitability: (Pedro Juan Garcia, Pedro Martinez): The objective of this research was to provide empirical evidence about the effects of working capital management on the profitability of a sample of small and medium sized Spanish firms. This study was conducted for 8872 firms for the period of 1996-02. The authors have observed that the managers can create value by
reducing their firm’s number of days of accounts receivables and inventories. They further have studied that cash conversion cycle also improves the firm’s profitability. The decisions about how much to invest in the customer and inventory accounts and how much to credit accept from suppliers, are reflected in the firm’s cash conversion cycle. It is the number of days between firm must starts paying its suppliers and the date when it begins to collect payments from its customers.

The analysis carried out by authors has confirmed the important role of working capital management in value generation in small and medium sized firms. Further they have observed negative relation between a SME’s profitability and number of days account receivables and days of inventory. However, in this paper authors could not confirm the effects of accounts payable on SME’s return on assets. Further they did not suggest any corrective measures to reduce number of cash conversion cycle days or how to effectively manage AR and Inventory.

22. Principles of Cash Management from Indian Management Thought- ‘Thirukkural’: (Dr. C.Chedroyaperumal): Author in this paper has referred cash as most liquid, significant and the least productive assets a firm holds. However, it is a basic input needed to keep the business on a continuous basis without disruption. A firm should keep sufficient cash, neither more nor less. Wise management of cash is essential for the survival and success of any business organization. Textbooks prescribe a set of principles for successful management of cash, a key component of working capital. This paper attempts to highlight the principles of cash management propounded in ‘Thirukkural’- an Indian work on management written more than 2000 years ago but very relevant, practicable and consistent with that of the modern thought.

**Principles of Cash Management: Modern Vs Thirukkural.**

Modern Principles of Cash Management

1. Maintain adequate liquidity.
2. Ensure smooth operating cycle.
4. Follow a policy of level production.
5. Improve operating efficiency.
6. Accelerate cash inflows.
7. Decelerate cash outflows.
8. Determine and maintain optimum cash balance.
9. Invest excess cash in marketable securities.
10. Set upper and lower limits of cash balance. (Miller-Orr Model)
11. Prepare cash budget.
12. Monitor the sources and uses of cash.
13. Synchronize payments with receipts.

Thirukkural’s Principles of Cash Management

1. Evaluate the sources and the respective uses of cash. (Kural-471)
2. Synchronize cash outflows with cash inflows. (Kural-472)
3. Pace within the firm’s capacity. (Kural-473)
4. Set limits and practice it. (Miller-Orr Model!) (Kural-474)
5. Do not operate / produce excessively. (Kural-475)
6. Do not operate / produce beyond the upper limit. (Kural-476)
7. Disburse in accordance with the receipts. (Kural-477)
8. Monitor cash flows and especially control cash outflows. (Kural-478)
9. Live within the cash limits. (Kural-479)
10. Adapt to seasonality. (Kural-482)

It can be seen from the above that the Indian principles of cash management written in Thirukkural more than 2000 years ago is very much relevant, practicable even today and consistent with the modern principles of cash management of the 21st Century.

To carry out this study an author has referred the data set obtained from the Datastream & World Scope. The data includes yearly data of sales, cost of good sold, receivables, payables, inventory, and operating income. This data is used to calculate the receivable collection period, the inventory conversion period, the payable deferral period, the cash conversion cycle, and the operating income to sales. The data includes all the non-financial firms listed in the New York Stock Exchange, American Stock Exchange, NASDAQ Stock Market and the Over The Counter Market. Some firms with missing values are excluded from the sample. The final sample contains 5802 companies covering the period of 1990-2004 (87030 firm-year observations).

An author has observed that one of comprehensive measures of working capital management efficiency is the cash conversion cycle that concedes all financial flows associated with inventory, receivable and payables. He has further pointed out the traditional link between the cash conversion cycle and firm's profitability and market value is that reducing the cash conversion cycle by reducing the time that cash are tied up in working capital improves firm’s profitability and market value. This could happen by shortening the inventory conversion period via processing and selling goods to customers more quickly, by shortening the receivable collection period by speeding up collections, or by lengthening the payable deferral period via slowing down payments to suppliers. An author has also discussed the other side of the coin also that shortening the cash conversion cycle could harm the firm's profitability; reducing the inventory conversion period could increase the shortage cost, reducing the receivable collection periods could makes the company's to louse its good credit customers, and lengthening the payable period could damage the firm's credit reputation. However, achieving the optimal levels of inventory, receivable, and payable will minimizes the carrying cost and opportunity cost of holding inventory, receivable, and payable and leads to an optimal length of the cash conversion cycle. Hence, author has suggested an optimal cash conversion cycle as more accurate and comprehensive measure of working capital management that
maximizes sales, profitability and market value of firms. However, author has not considered in the present paper that the need of cash varies according to the nature of industry.

24. Optimizing Working Capital Management: (Haitham Nobanee, Wasim K. Shattarat and Ayman E. Haddad)

After doing literature review others have pointed out the efficiency of working capital management is based on the principle of speeding up collections as quickly as possible and slowing down disbursements as slowly as possible. This working management principal based on the traditional concepts of operating cycle, cash conversion cycle, weighted cash conversion cycle, and net trade cycle. The operating cycle of firm refers to the time lag between acquisitions of raw material to collection of receivables. The cash conversion cycle can be defined as time gap between the cash payments for purchase of raw material to collection of receivables. The weighted cash conversion cycle considered both time lag and amount of funds require for each stage of cycle. The net trade cycle is basically equal to cash conversion cycle where receivables, inventory and payables are articulated as a percentage of sales which reduces the complexity of calculations. All these cycles are powerful measures of working capital management. However, these cycles do not considered optimum levels of receivables, inventories and payables.

The authors have observed that the cash conversion cycle, the operating cycle and the net trade cycle can be shortened by reducing the time that cash are tied up in working capital. This could happen by shortening the inventory conversion period via processing and selling goods to customers more quickly, or by shortening the receivable collection period via speeding up collections, or by lengthening the payable deferral period via slowing down payments to suppliers. On the other hand, shortening the cash conversion cycle, the net trade cycle and the operating cycle could harm the firm's profitability; reducing the inventory conversion period could increase the shortage cost, reducing the receivable collection periods could makes the company's lousing it's good credit customers, and lengthening the payable period could damage the firm's credit reputation. Shorter cash conversion cycle (net trade
cycle and operating cycle) associated with high opportunity cost, and longer cash conversion cycle (net trade cycle and operating cycle) associated with high carrying cost. Achieving the optimal levels of inventory, receivable, and payable will minimize both carrying cost and opportunity cost of inventory, receivable, and payable and maximizes sales, profitability and market value of firms. The authors have further suggested an optimal cash conversion cycle, an optimal net trade cycle, and an optimal operating cycle as more accurate and comprehensive measures of working capital management. It is an additive function and measures the optimum length of inventory conversion period, optimal receivables collection period and optimal payable deferral period.

25. Hotel Management and Operations Options: Intellectual Capital Versus Financial Capital (Martin Armistead, 2004): Through this present paper the author examines the options for contracts and deal structures with hotel management companies, and highlights some of the trends and issues that need to be considered when embarking on the selection of an operating partner. The author has observed a change in hoteliers’ interest while making such business associations. They found out that some new or emerging operators do more flexible and creative deals and tailor the contract more specifically to the owner’s developer needs. However, such new operators do not have brand image as the old major groups have. These operators are the custodian and managers of the investment. They provide intellectual capital that is the brand name and operational management. The author recommends to make such contract profitable the hotelier can seek a clause to right to terminate the contract and if the hotel makes a loss then the operator will not take any fees and set reasonable performance targets.

26. Hotel business value and working capital: a clarification (Stephen Rushmore, 1987): This paper has disclosed that hotels and motels are going businesses composed of four primary components; land, and improvements (real property), personal property (furniture and equipment) and business or going concern value. The author has explored that lodging facility of hotel is a labor–intensive. They need a high level of specialized
management skills, and customer acceptance. Along with development of hotel property, the hotel working capital is also the management’s area of concern. The paper further reveals that almost every hotel operates at a negative current ratio (including international chain hotels like Sheraton, Hilton, Holiday Inn, Ramada, Marriot, etc.). The author also observed that normally hotel owners finance their current assets with their accounts payable and therefore, allocating a return on a nonexistent amount of the working capital is not appropriate.

27. Service orientation: antecedents, outcomes, and implications for hospitality research and practice (Chih-Ching Teng and Clayton W. Barrows, 2009): In this paper, the authors have elaborately discussed that hospitality employees play an integral role in service delivery, therefore their attitude and behaviors strongly influence the customers’ perceptions of service quality. In this article, the authors attempt to offer a tentative framework specifying different theoretical perspective and different themes have been identified. Among them, the first prospective focuses on an employee’s attributes, hence it is referred as ‘character based perspective’. The second perspective focuses on an organization service culture, organizational support and leader’s attitude and behaviour towards service orientation; hence, it is known as ‘culture based perspective’. The third perspective focuses on the business strategy that reflects a concern of an overall corporate value system and its external environments; therefore, it is referred as ‘system-based perspective’. These perspectives have direct impact on hotel performance and development.

28. Private Capital Seeking Hospitality Returns (Roger S. Cline, 1999): The author is of the opinion that the media has focused on the public capital and largely ignored private capital markets. Private capital embraces many sources, like corporate, governmental pension funds, financial institutions, borrowing from high net worth individuals, etc. In the business intensive hospitality sector, private capital is consistently looking for a strong management. However, some private players may prefer control on the
management. According to author, the private investors can be domestic as well as foreigners. Hospitality industry expects the volume of private investment to rise and at low cost.

Indian hospitality industry is a fast growing industry. Government of India has included it in priority sector now for its further development. The review of literature revealed that management of working capital get comparatively less importance than the firm’s long term investment (cost of capital structure and capital budgeting). The earlier studies related to the working capital have been carried out in various industries like small scale industries, construction companies, chemical industries, manufacturing industries, etc. The growth in service sectors also attracts the attention of the researcher in this field. The working capital management has significant bearing on the firm’s liquidity and profitability; hence hospitality industry also has understood its importance. However, more study and research is expected to be carried out in this area. The present study highlights, the requirement by making quantitative analysis of dependency of the working capital on certain selected variables. The selection of sources of finance by hotels, their credit policies for customers, and the study of various inventory control techniques have direct impact on the cost and profitability. However, may crucial aspects such as inventory management, supply chain management, cash holding capacity etc, have not been considered properly by the earlier authors.

The review of literature up to certain extent has revealed the need of efficient working capital management in an organization. This depends upon a number of variables like operating cycle, cash holding, inventory management, credit period to supplier, the impact of effective supply chain management to the working capital, credit period to the customers, and banker’s perceptions for financing the working capital, employee’s contribution, etc. However, the impact of dependency of working capital management on such variables needs to be analyzed in depth. In the present study individual aspects of
working capital has been given due importance and their extent of dependency has also been given significance.