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A Study on Working Capital of Multinational Companies

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Abstract – Working capital is a vital piece of the money related administration where budgetary exercises and venture of present moment are for the most part related. Working capital of an association is significant for the assurance of the liquidity of that association. The job of working capital in the corporate money the executives is considered as extremely valuable.

A significant assignment of the administration identified with the working capital is to limit a wide range of the hazard factors by appropriately controlling and dealing with the present resources and liabilities bringing about staying away from the huge amount of speculation identified with these benefits.

Working capital administration assumes a significant job in influencing the hazard the board and productivity of an association ,henceforth, more consideration ought to be done while the way toward dealing with the momentary resources and liabilities. The current paper highlights the practices related to the working capital.

Keywords: Working, Capital, Organization, Risk, Financial

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INTRODUCTION

The way toward keeping up the working capital of an association is performed by controlling the liquidity of that association. It is significant for the top authority of a firm/association whether their organizations are going in the correct manner or not as at times, it is hard to know the progression of the firm.

To show signs of improvement usefulness of the structure, all the present segments like resources and liabilities are looked at and legitimate procedure of controlling and dealing with the budgetary prerequisite of the firm if any irregularity is seen between current resources and current liabilities of a firm.

It resembles a sign of the decrease in the development of an association if any sort of the unevenness between the last yields of the present resources and liabilities is found. All things considered, the board needs to play out some genuine activities so as to direct the circumstance.

The degree of productivity of an association can be upgraded by actualizing powerful strategy identified with the working capital. Higher level of the present resources is additionally a pointer of the lessening in the benefit of an association.

Likewise, a declination in the degree of the liquidity of an association is watched if there are lower measure of current resources. The job of reserve stream is exceptionally critical so as to maintain a business for longer span. Creation of enormous number of money receipts is additionally a marker for the achievement of an association.

At times, it is seen that the presentation of an association will in general decrease because of more vulnerable budgetary administration. Thus, the issues identified with the incomes are advanced which additionally harms the picture of an association in the market.

For the most part, there are two different ways of actualizing the administration with respect to the money related dangers. In the main technique, an expansion arranging is executed which is solidly directed by the top specialists of the association. In second strategy, the structure is permitted to take part in the monetary exchanges.

In the primary plan, the budgetary market is accomplished by the organizations accordingly, managing the income and their unpredictability. Thus, a strategy for direct speculation is proposed by the organizations with the goal that the degree of the unpredictability can be adequately limited.

Likewise, the administration of the money related dangers has gotten simpler by executing appropriate arrangements with respect to the budgetary dangers if there should be an occurrence of the subordinate markets. Prior to the presentation of the subsidiary markets, various subordinates advancing the trade exchange were well known. In any case, around then, there was no appropriate administration which could deal with expanding level of hazard factors.

WORKING CAPITAL OF MULTINATIONAL COMPANIES

Financial risk can be effectively reduced with the help of the derivative markets. Practically, all the practices related to the risk management an be thought of using the financial derivatives. The cash-flow volatility can be minimized by the process of hedging the related financial risks of the concerned organization.

The cost of the expected financial cost can be lowered down by increasing the value of the expected cash flow. Also, an improvement can be done in the available funds for future investment with the help of lowering down of the volatility of cash flow.

A variant set-up cost can be used in order to operate a program related to the risk management. Some organizations don't expose to the financial risks irrespective of the process of hedging. It is also observed that the small firms usually don't implement the hedging program. But, the trend of using the hedging program is very higher among the large sized organizations.

Working capital management commonly involves monitoring cash flow, assets, and liabilities through the ratio analysis of key elements of operating expenses, including the working capital ratio, collection ratio, and the inventory turnover ratio. Efficient working capital management helps maintain the smooth operation of the operating cycle (the minimum amount of time required to convert net current assets and liabilities into cash) and can also help to improve the company's earnings and profitability.

Management of working capital includes inventory management and management of accounts receivables and accounts payables. The main objectives of working capital management include maintaining the working capital operating cycle and ensuring its ordered operation, minimizing the cost of capital spent on the working capital, and maximizing the return on current asset investments.

The working capital ratio, calculated as current assets divided by current liabilities, is considered a key indicator of a company's fundamental financial health since it indicates the company's ability to successfully meet all of its short-term financial obligations. Although numbers vary by industry, a working capital ratio below 1.0 is generally indicative of a company having trouble meeting its short-term obligations. Working capital ratios of 1.2 to 2.0 are considered desirable, but a ratio higher than 2.0 may indicate a company is not effectively using its assets to increase revenues.

The collection ratio, also known as the average collection period ratio, is a principal measure of how efficiently a company manages its accounts receivables. The collection ratio is calculated as the product of the number of days in an accounting period multiplied by the average amount of outstanding accounts receivables divided by the total amount of net credit sales during the accounting period. The collection ratio calculation provides the average number of days it takes a company to receive payment. The lower a company's collection ratio, the more efficient its cash flow.

The final element of working capital management is inventory management. To operate with maximum efficiency and maintain a comfortably high level of working capital, a company must carefully balance sufficient inventory on hand to meet customers' needs while avoiding unnecessary inventory that ties up working capital for a long period before it is converted into cash. Companies typically measure how efficiently that balance is maintained by monitoring the inventory turnover ratio. The inventory turnover ratio, calculated as revenues divided by inventory cost, reveals how rapidly a company's inventory is being sold and replenished. A relatively low ratio compared to industry peers indicates inventory levels are excessively high, while a relatively high ratio indicates the efficiency of inventory ordering can be improved.

DISCUSSION

The importance of working capital management is undisputable. Working Capital is the difference between resources in cash or readily convertible into cash (Current Assets) and organization commitments for which cash will soon be required (Current Liabilities). The objective of the working capital management is to maintain the optimum balance of each of the working capital components.

Viability of the business is depended on how well the individual components of working capital vis. Receivables, Payables and Inventory are managed. Firms would be able to reduce financing costs or increase the funds available for project financing, expansion etc. by reducing the amount of funds tied up in current assets.

Working capital improvements become all the more important during times of falling demand and restricted credit markets. When working capital management becomes top-of-mind, the question arises as to whether any changes being made are going to be sustainable. The companies are adopting several ways to improve working capital management. Some companies become very near-sighted during volatile times and aim only to harvest the lowhanging fruit while some have taken the next step of building a solid foundation for a sustainable working capital.

It is often said, you can lose money for some time, but you can only run out of cash once. The impact of ineffective working capital management can be complex and just as debilitating for a business.

Companies with effective cash flow management practices not only generate more cash from their businesses, they have more flexibility to take advantage of opportunities as they arise and are less dependent on external financing. While it is relatively easy to obtain short-term reductions in working capital by slowing down payments, speeding up collections, or starving inventory, long-term results require a sustained effort and continuous process improvement approach.

More often than not, companies ignore working capital management or create short-term and artificial fixes. To be successful in achieving the optimum level of working capital management, one needs cross-functional alignment of many managers, who will often see the cash flow management objective as secondary or in conflict with other measures or targets they must achieve. It cannot be implemented as a separate exercise from top line and bottom line performance optimization.

A lot of effort goes into bringing the non-optimal levels of current assets and current liabilities back to optimum levels. An optimum level is one at which balance is achieved between risk and efficiency. The optimum level of working capital depends on many factors like firm's credit policy, inventory management, bills paying capability, and also to some extent firm's future plans of growth and expansions. It may be feasible for one firm to minimize receivable and inventory than to maximize payables.

An efficient and effective working capital management practices is essential part of financial management decision in order to contribute for the wealth maximization goal of a firm through creating a balance between liquidity and profitability. This can be done through placing proper personnel who give adequate attention in setting working capital policy, reviewing the adequacy of working capital and employing methods and techniques which are proper to the management of specific components of working capital.

CONCLUSION

Working capital as a percentage of total assets is the most preferred monitoring method of working capital while speeding up cash collection is the most important working capital activities. The companies sometimes evaluate the implication of working capital on capital budgeting and average cost of capital was used as hurdle rate, followed by interest rate to evaluate change in working capital.

Concerning the management of cash and marketable securities of portfolio, the majority of responding companies determine the target cash balance using their past experience. Most of the portfolios of marketable securities are matured between three to six months. While debtors were requested to effect what they owed as a means of accelerating cash collection, the centralize payment was used as a technique of differing cash payments.

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