A Study on Working Capital Practices across Manufacturing Sector of Pakistan

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Abstract

The study examines the facts of working capital management practices adopted by Pakistani firms listed on Pakistan Stock Exchange (PSX).We collected data from 126 financial managers by using a questionnaire. We also make the discussion with financial analysts to know the components of working capital practices i.e. cash management, account receivable management, payable management, and inventory management. We found evidence that mostly firms follow hedge approach in financing and which involves a tradeoff between liquidity and profitability. Respondents consider account receivable management is backbone of efficient Working Capital. Moreover, we conclude that mostly firms rely on cash conversion cycle being a financial measure of WCM. Further, Pakistani firms tend to use centralized cash management and not follow any statistical tool or measure to control over inventory. Policy and decision makers and finance managers should pay more attention towards managing components of working capital and use statistical tool or software to check and evaluate their performance.

Keywords: Working capital practices; Cash Management; Receivable Management; Payable Management; Inventory Management; Survey Analysis

Introduction

Corporate finance literature has traditionally divided the financial decision into two categories long term and short term financial decision. Long-term financial decision are particularly belonging to long term investments, capital structure, dividends and company valuation

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decisions, which are the most important components of the corporate finance as compared to working capital till 1990s. Short-term financial decision belongs to short-term assets and short-term liabilities. Working Capital Management (WCM)is gaining interest across the different industry and it is considered as the lifeblood and nerve center of any business (Jain & Khan, 2005).

Existing literature on investment decision evolved through theoretical and empirical contribution over the world (Baños-Caballero, García-Teruel, & Martínez-Solano, 2014). Over the last half of the century, major theoretical development are made in the area of financial decision making and long term investment (Pratap Singh & Kumar, 2014). But due to strict credit and deposit policy of the financial institution, WCM got more attention in the corporate finance literature (Pratap Singh & Kumar, 2014; Chiou & Wu, 2006). Furthermore, during the financial crises of 2008 the firms were not able to efficiently perform their operation and suffered losses due to lesser consideration to their working capital management. Lot of studies are conducted by different researchers but not found any concerted theory about working capital management(Palombini & Nakamura, 2012). However, careful analysis of current assets and liabilities is necessary because significant portion of firm's balance sheet consists of short term assets and liabilities (Baños-Caballero, García-Teruel, & Martínez-Solano, 2010). Accordingly, the academic researchers, investors and managers after the 2008 crisis started paying more attention to short term investment (Pratap Singh & Kumar, 2014).

Working capital is considered as the lifeblood and nerve center of any business (Jain & Khan, 2005). Actually, efficient WCM helps a firm to maintain its liquidity, control over financial distress and long term survival (Padachi & Carole, 2014). In this regard, WCM plays a vital role in business failure of their poor or careless WCM (Smith, 1973) and (Berryman, 1983); and prior research (Dunn & Cheatham, 1993) improper WCM basically primary reason for the failure of business operation in United Kingdom and the United States. Therefore, WCM decision affects the organization operation, profitability, risk and its value as well (Smith, 1980). However, WCM is neglected area (Pass & Pike, 1987; Kwenda & Holden, 2014). It was a mindset that WCM consider only a balance sheet item that does not maximize the shareholder wealth. However, a paradigm shifts after global financial crises of 2007-2008 global financial crises (GFC). The GFC allows the researcher and writers to pay focus on the WCM (Enqvist, Graham, & Nikkinen, 2014; Fatoki, 2014).

Although WCM is gaining attention among shareholders, legal advisers, researchers, writers, loan providers, CFOs and owners (Singh, Kumar, & Colombage, 2017). It is fact, that development in WCM literature is limited (Pratap Singh & Kumar, 2014). Researchers mainly focus on the relationship of WCM and profitability (Lancaster & Stevens, 1996; Shin & Soenen, 1998; Deloof, 2003; Padachi, 2006; Juan García-Teruel & Martinez-Solano, 2007; Raheman & Nasr, 2007)on determinants of WCM by (Chiou et al., 2006; Narender & Shwetha, 2008); Afza & Nazir, 2008; Mansoori & Muhammad, 2012). In contrast, how firms can manage their working capital is a neglected area of the research and only few studies on working capital management practices and those are also in different developed countries, such as Australia, Canada, UK (Mian & Smith, 1992; Belt & Smith, 1991a). In case of developing countries, actually, literature related to WCP literature is scant (Singh et al., 2017). Although, World Bank report classify the Pakistan in developing country and low middle-income country. Therefore, in this context, firms should pay more attention on WCP. For this purpose, working capital practices are classified into four parts, such as, cash management, account receivable management, inventory management, and accounts payable management.

Working capital management is an essential part of the organizations to improve their performance, to keep smooth business operation and maintain optimal level of funds. After the review of comprehensive literature and to the best of my knowledge working capital management practices were analyzed in Australia and UK by (Belt & Smith, 1991a), a comparative study was analyzed in Australia, UK and U.S.A by (Khoury et al., 1999), an international WCM practice was analyzed in U.K by (Ricci & Vito, 2000) and WCM practice was analyzed in South Africa by (Fatoki, 2014). WCP has not been analyzed yet in manufacturing sector of Pakistan. Present study will be helpful to owner of firms, finance manager of firms, who is directly or indirectly connected with the decision making of WCM and bankers, who is providing short term and long term to firms, can make accurate decision and can make optimal level of working capital management. Hence, on the basis of cash management practices, researcher makes a discussion analysis and give suggestion and recommendation to policy makers of WCM, owner, finance department, cash department that cash is poorly manage in manufacturing sector of Pakistan and there are need to be refocus, redefine the policies and concern people or owner make it possible to utilize their cash properly like West countries firms.

The next section summarizes the previous research briefly in working capital area. Furthermore, the section “Literature Review” elaborates and

discussed in detail with the help of previous studies and develops the cruces on each variable. In addition, variable delimitation, sample of the study is discussed under data and sample is discussed in discussion analysis. Moreover, final section presents conclusion and discussion.

Literature Review

Working capital practices components are classified into four parts i.e. cash management practices, account receivable management practices, accounts payable management practices, and inventory management practices. Cash management plays a vital role in smooth daily operations of the business as far nature of the business is concerned(Emery & Finnerty). Actually, business firms face the risk to meet the balance between the cash management and daily expense of the organization. Cash management policy is directly affected by operating performance which significantly affects the WCM(Boisjoly, 2009). Corporate cash management policies are increasing trend in current era. So, early studies on cash management by (Keynes, 1937), (Jensen & Meckling, 1976), (Myers & Majluf, 1984), (Jensen, 1986)discuss the cash management and benefit to keep cash. (Pinkowitz Stulz & Williamson, 1999) discussed the influence of cash management on the efficiency of working capital in the organization. It is argued that cash management is one of the important factor for determining an organization demand for liquidity (Almeida & Weisbach, 2004). Therefore, the optimal cash management can minimize internal cost and it contributes toward the efficient WCM. (Almeida et al., 2004) evaluated the cash components and suggested that cash is lifeblood in the components of working capital management. After the review of comprehensive literature review, cash management issue is still like a puzzle and not resolved yet.

Receivables management involves making credit policy that increases sales and ensures the protection of necessary cash flows for operations. The firm's trade credit policy and terms influence accounts receivables management (Brigham & Ehrhardt, 2008). Due to firm's credit policy and competitor's pressure, it is difficult for a firm to pay all its sales in cash form, that's why certain amount of accounts receivable are generated. Sales, cash inflows and bad debts risk affect management decisions regarding trade credit policy (Hill & Sartoris, 1992). Change in credit policy significantly influences the performance of working capital. The length of cash conversion cycle (CCC) is directly affected by increasing or decreasing credit period for the customers. Average Collection Period (ACP) is a measure of firm's collection policy and it is the average amount of time; it takes a firm to receive cash against sales from its customers. It is suggested that ACP relates negatively to the

performance, which expresses that more profitable companies earlier collect their receivables to save it from chances of bad debts. Another benefit of having lower accounts receivables is that firm has to bear cost for granting credit to the customers. Earlier collections ensure capital availability for investment in profitable projects while external financing may lead to decrease in performance because company has to pay interest on amount borrowed (Gill, Biger, & Mathur, 2010); (Şen & Oruç, 2009). Positive association of ACP with performance is beneficial in terms of increasing sales value. Giving more credit period to customers leads them for more purchases which may increase performance (Garcia, Martins, & Brandão, 2011). For efficient management of accounts receivables, many techniques could be followed. It could be attained by strengthening collection procedures, by using receivables factoring and by offering trade credit and cash discount. ACP is measured by dividing average accounts receivable to credit sales and multiplying the value with number of days in a year (Boisjoly, 2009).

Inventory management ensures the flow of production with decreasing cost of raw material. It is one of the most difficult tasks for the managers of firms who would like to reduce Cash Conversion Cycle (CCC) to a minimum possible level by decreasing inventory level. The risk involved in minimizing inventory level is that, a firm might not have enough inventories to prepare finished products in time during the period of high demand. This situation would be expensive for a firm due to loss of definite revenues (Hill & Sartoris, 1992). In inventory management, a perfect balance should be maintained by manager; so in one way he should not increase inventory cycle to a level which prolong CCC and more investment in working capital; on the other hand, he should not shorten inventory level which creates revenue in periods of high market demand (Pass & Pike, 2007). Inventory Turnover in Days (ITID) indicates the inventory management of firm and it measures how much time; inventory takes from purchase of raw material to sale of finished goods. There are benefits and drawbacks of keeping high inventory level in relation with performance.

Payable management deals with source of financing with more time and less cost (Naser, Nuseibeh, & Al-Hadeya, 2013). General consideration is that firms should prolong payment period to maximum possible level which is helpful in utilizing the benefit of its suppliers to finance their investments, until payment has been made. Another advantage of extending Average Payment Period (APP) is that a firm can get time to convert its raw material into finished products they can sell and get cash in exchange (Hill & Sartoris, 1992). The benefits of

discount rates could be achieved by making payment to suppliers within credit period. Some suppliers offer discount rates for early payments of their receivables but this is not always profitable option. The firms should evaluate the advantages of both options; increase payment period for financing, investment or made early payments to avail discounts. If suppliers are not offering any discount, the whole credit should be used by a firm and made payment in given time. Late payments should always avoid until firm faces any financial difficulty and there is no other option. Suppliers may charge late fee after expiry date, so firm has to bear unnecessary costs (Dolfe & Koritz, 1999). Payable management deals with source of financing with more time and less cost (Naser et al., 2013). General consideration is that firms should prolong payment period to maximum possible level that is helpful in utilizing the benefit of its suppliers to finance their investments. Another, advantage of extending payment period is that by doing this, a firm can get time to convert its raw material into finished products they can sell and get cash in exchange (Maness &Zietlow, 2002). APP represents the payment policy of firm and it is average number of days, a firm required to made payment against raw material purchase to the suppliers (Mathuva, 2015).

Afrifa (2015) examined the working capital practices in 248 small and medium enterprises (SMEs) of the United Kingdom. Furthermore, it is found that educated and experienced manager can manage working capital efficiently and effectively. (Belt & Smith, 1991a) compared the working capital practices over the the periods of 1978 to 1988 in Australia and USA.

(Belt & Smith, 1991a) analyzed and compared the WCP between the Australia and the United States of America firms and find that American firms can manage their short term financing easily as compare to the Australian firms. Moreover, banking sectors of the Australian firm's reddened better terms and condition for short term financing as compared to American banking sectors. (Ricci & Vito, 2000) examined the international working capital practices in the United Kingdom and found that firms can improve their performance by managing components of working capital. In addition, mainly focused on the research is that international cash management operations, electronic fund transfer, cash pooling, payment netting, letter of credit and documentary collections. (Fatoki, 2014) there are numerous small and medium enterprise failed due to poor working capital practices in the South Africa. The causes of failure are used a manual system for budgeting and no documentation for credit policy.

(Khoury & MacKay, 1999) analyzed and compare the working capital practices among the Australia, United States and the Canada. It is

found that the Australian and the United Nation's firms mostly focus on the maximization of profit, while, the Canadian firms focus on maximization of sale along with the recovery of the receivables. Furthermore, it is observed that Canadian firms mostly prepare a working capital budget on the monthly basis. Budgets are prepared on daily basis in the Australian and the United States firms.

Methodology/Materials

Present research evaluates the WCP across the manufacturing sectors of Pakistan. Data is collected through questionnaire and it is adapted from the study of(Singh et al., 2017) and before that developed by (Belt & Smith, 1991a) and consistently used over the period (Belt & Smith, 1991b), (Khoury et al., 1999), (Ricci & Vito, 2000), (Bei & Wijewardana, 2012),(Fatoki, 2014). One of the section of the questionnaire is related to demographic details that comprised the generic information, i.e. company name, age, gender, experience of the respondent, company years in business. Second section deals with WCP and it is having into six different parts, which are the working capital policies, overall working capital practices in the firms, cash management practices, the inventory management, account receivable management, and accounts payable practices. First, we sent email to company's owner, executive director, finance manager to fill the questionnaire but response rate was zero. Then, researcher send the questionnaire through leopard courier service of Pakistan with back envelope to 158 companies in Karachi, Lahore, Faisalabad, Abbottabad, Rawalpindi and Islamabad almost across Pakistan. This time response rate is much better as compare to earlier approach because we contacted to all companies through telephone after sending the questionnaire. We have obtained 65 questionnaires via courier and 28 questionnaires filled by personal visits to finance executives in Lahore, Faisalabad, and Kallarkahar. Eventually, we got 93 responses in total from all over the Pakistan and further used for analysis.

Results and Findings

Cash Management Practices

In this section of the research, we identify the cash management practices, method and evaluate the factors. On cash management practice, the following conclusions are drawn by researcher from respondents. 71% firms prefer to receive the amount in banks but some of the distributors located in Swat, Nawabshah, FATA, and KPK send their amount in the form of TFC cheques and bank draft. Most of the firms have their account in 5 to 8 commercial banks to facilitate the banking transactions. Moreover, firms pay the payroll to labor and lower staff through cash and to employee or admin staff through online

transaction. This is an alarming situation for the firms in cash management to pay the payroll in cash. It has a chance to do some fraud in the organization because in international management practices firms should prefer online banking transaction (Belt & Smith, 1991b). Present research also evaluates that the order of flow of funds inside or outside the organization is based on email or on telephone and some organization rely on SMS. Most of the firms prefer email to request for funding inside the organization and outside the organization as well. In some cases, firms send profession keynote to request of funding but that case is less than 5% in Pakistan.

Cash management practices show disappointed answer from the respondents. Researcher concludes that firms avoid investing their cash in marketable securities. Actually, most firms are running by their owners and the owners of the firms have conservative mind or they are over-cautious about their cash. While, study of working capital practices in international country like, Australia, UK, and Canada firms generally focus to invest in different type of marketable securities. More than 51% firms prepare monthly budget for cash management and this result is also consistent with (Chittenden, Poutziouris, & Michaelas, 1998). Furthermore, it mentioned that only 5% of the firms face shortage of cash and 74% of firms have surplus cash in their accounts. Eventually, we found that most of the firms hesitate to invest in marketable securities. On the basis of cash management practices, we conclude that most firms prefer to keep cash in their account and some respondents said that they carry it for any future uncertainty. Firms managers mostly rely on stable market price security but majority of the firms are practicing with banks account. It is found that 90% firms prefer more than 10% return on their investment. In this regard, 72% firms keep cash in their accounts and want to invest in their own business like, expansion, increase the number of products or department, or increase the number of distributor in all over the Pakistan. Mostly firms prefer more than 80% firms want to mature their investment within a week and some respondents said that it could be one day even. Most of the firms are being operated by the owners and they rely on their judgment. It is found that cash management practices is ad hoc decision. It is concluded more than 80% firms have excess cash and firms have opportunity to invest but owners/ managers have conservative regarding cash management. Second, owners of the firms keep cash in bank accounts and they do not rely on investing in market able securities because of the future uncertainty. Third, firms pay their dues/ payroll in cash to labor and other parties and this is the worst practices by Pakistani manufacturing firms. Fourth, most of the decision regarding cash management is taken by the

owners/directors, not by the cash management officer by Pakistan firms which is not a good cash management practices. The last, most firms rely on email conversation and even on SMS for transferring the funds inside or outside the organization.

Table1: Measure useful in monitoring working capital

Sectors	Current Ratio Rank	WC as %age of total assets Rank	WC Turnover Rank	Other Rank
Food & personal care products	1.8	1.7	2.2	4
Textile	1.8	1.6	1.7	1.8
Cable and electrical goods	1.2	3.3	2.8	2.3
Cement	1.3	2	2	2
Tobacco	3	1	2	4
Engineering	1.7	2	2	3
Automobile parts & accessories	2.2	2.4	2	2.3
Leather & tanneries	1.5	2.5	3.5	1
Pharmaceuticals	1	3	1.7	4
Sugar & Allied	1.8	2.7	1.7	2
Industries	1.2	3	1.8	1.5
Chemical	2	1	4	3
Paper & Board	1	-	2	-
Glass & ceramics	-	-	1	-
Woolen	2.7	3	1	1.5
Synthetic & Rayon	3	1	2	4
Fertilizer				
Averages	1.7	1.9	2.1	2.3

Account Receivable Management Practices

With the respect of account receivable management practices, it is found that firms mostly allow credits to their loyal customers whose are doing business from many years. It is a surprising situation that firms do not make any technical analysis to grant credit to customer. Actually, firms focus on the customer who can provide a valuable business. Some respondents said that firms give credit to customers on reference basis. Evidence found in account receivable management is that firms do not make any analysis to recover the amount. In fact, their terms and conditions are already established with customer, on some extent, customers pay their dues after one month regularly, in some companies that is quarterly basis and most of the firms have condition with stock. It is that distributors/retailer/wholesaler sells the first old stock then they

make order for the new stock. Some of the firms have foreign customer like Kohinoor textile, Nishat, their terms and condition are already completed before order of the stock and when foreign customer receives the stock as per specification then they make payment through bank account to firm. Response of third question is that 75% firms generally consider production capacity and market consideration to make terms and condition for granting a credit. Moreover, 10% respondents said that firms granting a credit on the basis of previous bad debts situation. Further, three respondents said that they are not allowed to grant to those customers who are already involved in any bad debts case. In addition, response of last question is very interesting, that is firms may change the policy of account receivable with the change of sales. Simple is that, these firms sales of which are increasing continuously time by time, their account receivable terms and conditions make very strict. Actually, firms want to utilize the maximum amount from customer as soon as possible.

Researcher concludes several aspects after evaluating the response of different respondents from all over the Pakistan. Firms do not use any statistical tool or technique to make a policy regarding account receivable management in Pakistan. Most of the firms make networking in all over the Pakistan with previous business relationship, reference and in few good companies have good and sustainable policy with their customers to manage account receivable. Moreover, 79% firms redefine or reconstruct the terms and condition of account receivable according to the stock availability. Firms try to utilize the maximum amount from customer and customer definitely wants to keep a sound stock in store to avoid future uncertainty. Firms are very much concerned about the bad debts and even firms terminate the agreement with customer. In fact, companies are not directly connected with customer, there are many wholesaler/retailer/distributor are doing job on the behalf of companies. In this context, time period of account receivable is too long as compared to the expectation and there is also a chance of fraud or delay in collection.

Table2. Techniques used to decide on granting credit

Sectors	The "four C's" of Credit Rank	Sequential credit analysis Rank	Credit scoring Rank	Other Rank
Food & personal care products	2	1.3	2.5	2.5
Textile	1.6	2.1	1.8	2.4
Cable and electrical goods	1.8	3.3	3	1.5
Cement	1.4	1.9	2	2
Tobacco	3	2	1	4
Engineering	2.3	2	1.3	3
Automobile parts & accessories	1.8	2.5	2.2	2
Leather & tanneries	2.5	1.5	3	1
Pharmaceuticals	2	1.5	2.3	3
Sugar & Allied Industries	1.2	2	2.5	3
Chemical	1.6	1.5	2	3.3
Paper & Board	1	4	3	3
Glass & ceramics	1	-	2	-
Woolen	-	-	-	1
Synthetic & Rayon	1.2	3	1.8	3.5
Fertilizer	3	2	1	-
Averages	1.7	1.9	2	2.2

Inventory Management Practices

It is observed that more than 60% firms use different types of software i.e. Oracle, SAP and other automated software as per need of the firms to manage inventory. Some of the respondents said that, inventory is managed according to seasonal variation, market demand and somehow based on sales. It is found that firms have good computerized inventory control system to manage store or warehouse efficiently. Further, inventory management practices firms generally make the target of inventory according to availability of the material, parts and some respondents mentioned production capacity separately. Further, few respondents identify that inventory management is also effected with the terms and conditions of supplier. In addition, it is found that firms generally replenish the stock because of seasonal variation. Moreover, 21% respondents marked on the option of production capacity. Actually, a fast growing business have busy schedule and difficult to meet the customer's demand. In that situation, firms definitely replenish the stock according to production capacity of the firms. we examined that 47% of the firms make changes in the inventory policy according to the level of inventory and 38% respondents mark on inventory cost. Actually, with the change of raw material price and inflation, Pakistani market is already unexpected, that's why firms are conservative minded regarding cost of the inventory. Inventory management practices include just in time inventory system in last question. It is found that, 44% respondents mark on the option of 'does not use' and 38% of the respondents said, 'it makes a profitable results to the firms'. Eventually, researcher concludes in the present study in the section of inventory management practices several aspects are there. More than 70 of PSX registered firms use computerized inventory control system but firms do not make any statistical technique to meet the customer's demand or manage inventory control system. Firms redraft or reconstruct the policy to change the inventory system because of seasonal variation and because of cost factor. As researcher has already discussed that manufacturing sector of Pakistan mostly and even more than 70% firms sales their goods in local market and in our market seasonal variation is an important factor. Present study analyzed that price of material also effects the inventory control system. Most firms imports the material then risk of foreign exchange also involved, that's why firms prefer to maintain inventory at minimum level to control the price of the product. However, in seasonal variation firms try to meet the customer's order at any cost and this quotation is mentioned by many respondents.

Table3: Parameter considered for inventory purchase

Sectors	Availability of parts & materials Rank	Possible price discount on purchase Rank	Credit terms Offered by your Supplier Rank	Shortage costs Rank	Inflationary effects Rank	Other Rank
Food & personal care products	3.7	2.3	2.3	2.5	3.8	-
Textile	2.5	2.7	2.9	2.1	3.4	3.8
Cable and electrical goods	1.3	2.7	4	2.7	5.5	4.3
Cement	1.3	2.7	3.3	2	3	3
Tobacco	6	1	5	2	3	4
Engineering	1.7	3.5	1.3	3.3	2	4
Automobile parts & accessories	2.7	2.8	3	2.8	4	3.7
Leather & tanneries	3	3	5	1.5	1	3
Pharmaceuticals	3.5	1.7	2	3.5	4	5
Sugar & Allied Industries	1	2	3.3	2.5	4	6
Chemical	1.3	2.3	2.8	2.2	3.6	4.5
Paper & Board	5	3	1	2	1	-
Glass & ceramics	-	2	-	1	2	-
Woolen	-	-	3	-	-	-
Synthetic & Rayon	3.8	2.5	2.6	3	3	3
Fertilizer	1	5	2	4	3	-
Averages	2.4	2.5	2.7	2.3	2.9	2.8

Accounts Payable Management Practices

It is found that the discount policy on payments is already determined in the agreement or sometime mentioned on invoice. It is a trend now a days that supplier offers discounted price to companies and there are rare chances that supplier offers extra discount to companies at the time of payments. It is found that firms rely on their own resources and if there is the need of fund then firm take a long-term loan from banks. It is a common practice that many of the firms have taken loan from different banks. Generally firms have no need of short term financing from any bank. Hereby, it is said that actually manufacturing firms have no need of short-term financing. In fact, manufacturing sector of Pakistan is not a small sector, the companies, which are registered in PSX, definitely have short-term source of funds. However, firms need when try to expand the business and open a new unit then firms go for long-term financing. Almost, more than 70% firms respond that there is no need of short-term loans. 80% respondents said that firms pay direct fees to bank against their service. When firms collect the amount from customer or pay their dues to supplier then banks automatically charge their service charges and deduct from company account. We found that firms generally do not need any short-term financing for running daily business operation. Discount policy has already been described on agreement with supplier and there are rare cases in which supplier offer extra discount to firms. Third, firms generally have no need of short term paper and firms pay their daily operation dues easily. Sometime in seasonal variation, firms take loan from banks but this situation exists in only few firms.

Table4: Annual cost paid to supplier during accounts payable management

Sectors	Zero Percent %	1.0-5.9 Percent %	6.0-10.9 Percent %	11.0-14.9 Percent %	Greater than 15.0 Percent %
Food & personal care products	20	20	40	20	-
Textile	27	27	6	30	9
Cable and electrical goods	-	60	20	20	-
Cement	50	13	25	12	-
Tobacco	-	-	100	-	-
Engineering	-	67	33	-	-
Automobile parts & accessories	33	50	17	-	-
Leather & tanneries	-	-	50	50	-
Pharmaceuticals	-	33	67	-	-
Sugar & Allied Industries	40	20	40	-	-
Chemical	-	29	57	14	-
Paper & Board	-	-	-	100	-
Glass & ceramics	100	-	-	-	-
Woolen	-	-	-	-	100
Synthetic & Rayon	20	20	-	40	20
Fertilizer	-	-	100	-	-
Averages	18	21	35	18	8

Conclusion

Researchers investigated the working capital practices in manufacturing sector of Pakistan. It is important to consider the risk factors in working capital management. We investigate the cash management, account receivable management, accounts payable and inventory management practices in Pakistan. Therefore, we find through discussion that firms are poorly managing their working capital. In Pakistani manufacturing sector, still firms are using manual register to maintain their cash and rely on poor books of accounts. In fact, firms are not using any statistically tool or software to manage their cash and hesitate to invest in the market as well. In addition, present study finds that firms are not using material requisition Performa, economic order quantity and just in time method to maintain their inventory level. Still, Pakistani firms maintain the inventory level on experience basis and that's why their inventory level affected with seasonal variation and shortage of material. We, further find that firms in Pakistan have not same terms and conditions to grant the credit to their customers that's why the speed of collection period is too slow and amount of bad debt is increase time to time. Firms should pay more attention toward computerized system rather than manual. In this regard, it is recommended that firms can use automatic software to managing component of working capital i.e Oracle, SAP. Present study limited to only manufacturing sector and further researchers can compare the working capital policy with service sector of Pakistan in future. Moreover, researchers can also check the behavioral aspects of finance manger, decision and policy makers toward managing components of working capital.

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