

ANALYSIS OF SHORT TERM FINANCIAL LIQUIDITY POSITION OF PUBLIC MANUFACTURING AND TRADING ENTERPRISES: EMPIRICAL EVIDENCE FROM NEPAL

*Dr. Bihari Binod Pokharel**

*Nischal Risal***

ABSTRACT

The paper aims to provide empirical evidence on the short term financial liquidity position of public manufacturing and trading enterprises in Nepal. The sampling technique is used to select a panel data on 13 public manufacturing and trading enterprises for the period of 2000-2010, which led to total of 138 enterprise-year observations. The result shows that the shorter is the cash conversion cycle, the more profitable the firm is likely to be. The result also shows that the increase in payable deferral period and receivable conversion period lead to the increase in gross profit margin. The gross profit margin increases with decreases in inventory conversion period. Majority of the selected public enterprises are following aggressive working capital policy. In addition to this, Nepali public manufacturing enterprises and trading enterprises are not able to manage liquidity in effective way. The liquidity position of public trading enterprises was found better in comparison with liquidity position of public manufacturing enterprises. The analysis revealed that the net working capital utilization was very poor in public manufacturing enterprises as compared to public trading enterprises. The analysis highlights the importance of managing working capital requirements to ensure an improvement in enterprises profitability.

Keywords: Liquidity, profitability, public enterprises, working capital

INTRODUCTION

The important theoretical developments in financial management during the past few decades have provided the potential for improved decisions in business organizations. Unfortunately,

***Dr. Bihari Binod Pokharel** is Professor of Management, Nepal Commerce Campus, Tribhuvan University, Kathmandu, Nepal.

****Nischal Risal** is Lecturer, Nepal Commerce Campus (NCC), Tribhuvan University (TU), Kathmandu, Nepal. He is MPhil in Financial Management. Email: nischalrisal@gmail.com

developments have not been uniform across all the areas of financial decision making, within and between business organizations. Working capital appears to have been relatively neglected in spite of the fact that a high proportion of the business failures is due to poor decisions concerning the working capital of the enterprises. Working capital management is the most imperative and crucial aspects of short-term financial matters of an organization. In a perfect financial management, working capital assets and liabilities are not necessary because there is no uncertainty, no transaction costs, and no scheduling costs of production or constraints of technology. The capital, labor and product markets reflect all available information and become perfectly competitive (Smith, 1976). In such an ideal business world, there is little need to hold any form of inventory other than a limited amount of goods in process during production.

An ideal business assumes that demand is exactly known in advance, that suppliers keep to their due dates, production can be smoother and orders executed directly without costs and delays. There is no need of holding cash for working capital other than for the initial costs, because it can be possible to make the payment from every receipt of sales. However, problems of working capital exist because these ideal assumptions are never realistic. Therefore, working capital levels make a significant part of an enterprise's investment in assets.

Enterprises of all size demonstrate sensitivity of their product performance to the efficient management of their working capital. However, which category of enterprises (large or small) exhibit relatively more responsiveness to proficient working capital management is obscure. In larger enterprises, efficient working capital management can significantly affect the enterprise's risk, return and share price. Enterprises may have an optimal level of working capital that maximizes their value. Sagan (1955) indicated the need to build up a theory of working capital by raising useful questions which require the study of working capital in depth, for which answers are not available. The efforts to build up a theory of working capital came with the emergence of study by Walker (1964). Van Horne (1969) recognized working capital as an area largely lacking in theoretical perspective. Van Horne developed a useful framework with the help of which, one can point out the best alternative among the several ones while conducting the risk-return analysis of working capital position. Smith (1974) observed that theoretical developments in finance ignored the area of working capital management. Smith had described the dual goals of profitability and liquidity. The major inference of the studies concerning approaches to working capital management centers on risk-return tradeoff. It simply attempts to develop an approach with the help of which risk-return analysis of working capital position can be conducted for selected public manufacturing and trading enterprises of Nepal. For this purpose, various working capital policies have been grouped into aggressive, conservative and moderate policy. Hence, working capital management efficiency is vital for manufacturing and trading enterprises, where a major part of assets is composed of current assets (Van Horne & Wachowitz, 2004).

Working capital management is an area in making the liquidity and profitability comparisons among enterprises (Eljelly, 2004). It directly affects the profitability and liquidity of the enterprises (Raheman & Nasr, 2007). It means the need for effective working capital management has become greater in recent years. Enterprises finance the total investment in assets with debt and/or owner's equity, the supply of which is limited. However, liquidity and

profitability management comes to the picture when an enterprise is faced with the dilemma of using short-term financing sources and investing in working capital levels. Liquidity and profitability management requires fine tuning because they have offsetting risk-profit effects. The combination of liquidity and profitability depends upon management's risk attitude, based on which it can use maturity matching aggressive or conservative approach. An excessive investment in working capital lowers the rate of return while inadequate investment hampers the solvency position and growth, thereby affecting the smooth operation of business. The need for skilled working capital management practice has thus become greater in recent years.

STATEMENT OF THE PROBLEMS

Most of the enterprises extensively use trade credit despite its apparent greater cost. Even in UK's corporate sector more than 80 percent of daily business transactions are on credit terms (Summers & Wilson, 2000). Eventually, the management of working capital necessitates short term decisions in working capital and financing of all aspects of both enterprise's short-term assets and liabilities (Mohammad & Saad, 2010). The facts that corporations do not exist without working capital is thus, undeniable. Consequently, it involves crucial decisions on multiple aspects, including managing account payables, account receivables, preserving a certain level of inventories and the investment of cash available.

In this process, the asset-liability mismatch may occur and it may increase the enterprise's profitability in the short run but at a risk of its bankruptcy (Long, Malitz, & Ravid, 1993). Higher liquidity gives the comfort of meeting short term liabilities at the cost of profitability and too little of it may increase the profitability at a greater risk of not meeting the short run obligations. The effective working capital management is essential for the increase in the corporate efficiency in terms of profit and other measures (Shin & Soenen, 1998; Deloof, 2003; & Quayyum, 2012). The management of receivables, inventory, and accounts payables has tremendous impact on cash flows, which in turn affect the profitability of enterprises (Cote & Latham, 1999). The enterprises which are better at managing working capital, have been found to be able to make counter cyclical moves to build competitive advantage (Siddiquee & Khan, 2009).

Raheman *et. al.* (2010) had used the model specification as Pearson Correlation method, and used balanced panel data of manufacturing enterprises listed at Karachi Stock Exchange. They developed an empirical framework on working capital management based on literature of Deloof (2003) and subsequent work of Padachi (2006). It was found that, enterprises were following conservative working capital management policy and concentrate on improving their collection and payment policy. It was suggested that indicators of working capital management had a perceptible impact on profitability of the enterprises (Afeef, 2011). Therefore, there is a need to develop sustainable working capital management practices in Nepali context.

A trade-off between risk and return, thereby following neither an aggressive nor a conservative approach was found in Nepali context in public enterprises (Pradhan, 1986). Almost all the selected enterprises had a positive networking capital and the negative working capital was observed in a few cases. No proper consistency was existed in between liquidity position and turnover of assets. It was a surprising result that public enterprises with lower turnover had the higher liquidity position. Thus, the desired trade-off between liquidity versus profitability in

order to maximize the value of an enterprise becomes necessary (Anand & Gupta, 2003). This study therefore was concentrated towards the study of working capital management practices in Nepali public manufacturing and trading enterprises. So, the objective of this study is to examine the short term liquidity position of Nepali public manufacturing and trading enterprises.

RESEARCH METHODS

The research design adopted in this study consists of descriptive and causal comparative research designs to deal with the issue related to short term financial liquidity position. The descriptive research design was adopted to undertake fact-finding operation searching for adequate information in the context of working capital management practices in Nepali public manufacturing and trading. The systematic collection and presentation of data give a clear picture of a particular situation and attempt to obtain a complete and accurate description relating to working capital management practices.

Population and Sample Size

According to the recent report from the Ministry of Finance, there were 37 public enterprises in the country. For this study, all the public enterprises operating in Nepal were considered as population. The seven public manufacturing enterprises and six trading enterprises were taken as sample. The samples were selected using judgmental sampling techniques. Hence, total 13 enterprises were selected for the analysis and study.

Nature and Sources of Data

The data obtained through published Annual Reports of enterprises, Office of the Auditor General, Annual Reports from the Government, Nepal Stock Exchange, Ministry of Finance and Security Board of Nepal were taken as secondary data. The selections of enterprises based on judgmental criteria are presented in Table 1 and Table 2.

Table 1: Selection Criteria for Enterprises

S.	Activities	Criteria
1	Selection norms	The enterprises established before 2000 were included in the study.
2	Nature	The enterprises related to public utility, service sector, banking sector etc., were excluded from the study.
3	Sale of the enterprises	The enterprises which were sold to private party, during the study period, excluded from the study.
4	Financial statements	Those enterprises, whose financial statements were not obtained for more than 5 years, were excluded from the study.
5	Loss or profit	The enterprises incurring losses for last several years were excluded from the study.
6	Liquidation	The enterprises which were liquidated during the study period, excluded from the study.
7	Private/Public	Only public manufacturing and trading enterprises were included in the study.

The data was collected on panel data methodology basis. The total number of observation was 138 firm-year observations. Among the 37 enterprises, the study was confined to only 13 enterprises. These enterprises selected for the study were representative of large and small enterprises, i.e., 35 percent out of the total population.

Table 2: List of Selected Public Enterprises and Study Period

Name of the Company	Study Period	Number of Firm-Year Observations
<i>Public Trading Enterprises</i>		
Agriculture Input Company Ltd (AIC)	2000-2010	11
National Seeds Company Ltd (NSC)	2005-2010	6
National Trading Corporation Ltd (NTC)	2000-2010	11
Nepal Food Corporation Ltd (NFC)	2000-2010	11
Nepal Oil Corporation Ltd (NOC)	2000-2010	11
The Timber Corporation of Nepal Ltd (TCN)	2000-2010	11
<i>Public Manufacturing Enterprises</i>		
Dairy Development Corporation (DDC)	2000-2010	11
Herbs Production and Processing Co Ltd (HPPC)	2000-2010	11
Hetauda Cement Industry Ltd (HCI)	2000-2010	11
Janakpur Cigarette Factory Ltd (JCF)	2000-2010	11
Nepal Drugs Ltd (ND)	2000-2010	11
Nepal Orind Magnesite Private Ltd (NOMP)	2000-2010	11
Udayapur Cement Industry Ltd (UCI)	2000-2010	11
Total Observation Period		138

METHOD OF ANALYSIS

The analysis of secondary data was carried out by application of SPSS and GRETTL data analysis software. The percentage, mean, standard deviation, maximum and minimum results in each variable have been described in this study. The various ratios calculated were grouped into liquidity ratios, ratios used in assessing structure of working capital and ratios used in assessing working capital utilization. Financial ratios are designed to evaluate a financial

statement. The short term liquidity position of the enterprise is measured by liquidity ratios. Net working capital itself is one of the measures of determining liquidity. An enterprise with more net working capital is considered more liquid than one with less net working capital (Brigham & Ehrhardt, 2012). The current ratio and quick ratio measures are most commonly used measure. The short-term liquidity of an enterprise is measured by the degree to which current ratio and quick ratio can meet its short-term obligations. The consequences of inadequate short-term liquidity are very serious and therefore measures of such liquidity have been attached greater importance. These ratios were used in the studies of Bernstein (1978); Kolb (1983); Pradhan (1986); Teruel & Solano (2007); Sharma (2007); Singh & Asress (2010); Mohamad & Saad (2010); Afeef (2011); and Quayyum (2012).

In addition to current and quick ratios, an additional ratio of cash to current liabilities was used to assess the liquidity position. This cash to current liabilities ratio indicates how much cash is available to pay current obligations. The ratio shows whether the level of cash maintained by the enterprise is greater or less than the current liabilities (Brigham & Ehrhardt, 2012). The low level of current and quick ratios may indicate extraordinary managerial capabilities rather than reflecting financial weakness. An enterprise may operate on low cash balances using the funds generated from operations to meet short-term liabilities. The liquidity ratios are therefore required to consider the cash flows or earnings. This is particularly important when current liabilities are greater than current assets or quick assets (Pradhan, 1986).

In the context of Nepal, data scarcity is acute. Updated and complete data are limited due to the manual data management system prevailing in the country. There is no automated central data bank and this makes it difficult to conduct any research in Nepal. In order to make a study on working capital management more fruitful, it is essential that data should be of frequent time intervals. Hence, such type of weekly or monthly data could not be obtained and due to this, the study had forced to use the annual data which were available in profit and loss accounts and balance sheets. So, pooled cross sectional panel data had used in this study due to unavailability of time series data of Nepali enterprises in systematic and appropriate way. The financial institutions, hotels and trading enterprises were excluded from the study. It implies that the conclusions drawn are of a tentative nature and enterprise generalization should be avoided for the entire enterprises in the public sector. At the time of conducting this study, secondary data were available only up to 2010. It was due to the fact that most of the selected enterprises have not prepared and audited their financial statements in time.

RESULTS

The measure of central tendency, variation and shape are discussed in this section. i.e., the mean, median, minimum and maximum values with standard deviation of different variables in the model during the period 2000-2010 have been presented in the Table. Table 3 presents descriptive statistics of different variables. The net profit margin on average was 15.55 percent whereas return on asset was found to be negative (-5.20 percent). Gross margin on average was negative 13 percent of sales while the median was found 0.08 percent.

Table 3: Descriptive Statistics of Variables for Manufacturing and Trading Sector

	NPM	ROA	GM	SALES	CR	DR	SG	ICP	RCP	PDP	CCC
Mean	0.15	-0.052	-0.13	273.32	1.48	0.58	0.005	214	173	474	230
Median	-0.03	-0.075	-0.0008	213.64	1.03	0.52	0.003	182	54	403	55
SD	0.54	0.131	0.44	161.29	1.62	0.29	0.009	249	400	555	613
MIN	-0.09	-0.19	-1.47	108.62	0.61	0.28	-0.001	1.46	0.21	1.29	776
MAX	1.76	0.31	0.003	578.31	3.96	1	0.23	1650	2717	3272	3626

Note: In this table, NPM is (net profit/sales), ROA is (net income/total assets), GM is (sales-cost of sales)/sales. RCP is (account receivable*360)/sales. ICP is (inventories*360)/cost of goods sold. PDP is (account payable*360)/purchase. CCC is (number of days account receivable + number of days inventories – number of days account payable). Sales are expressed in thousands of Nepali currencies. SG is calculated as (this year's sales- previous year's sales)/previous year's sales. CR is current assets/current liabilities. DR is total debt/total assets.

The average cash conversion cycle was very high in Nepali Public manufacturing and trading enterprises i.e. 239 days (median was 55 days). It indicated that the enterprises were cumulating their account receivables since long time ago. It also indicated an ineffective management of inventories. Hence enterprises were unable to manage working capital in good way. It was found that enterprises were receiving their payment on credit sales after an average of 173 days (the median was 54 days). The study has found that average of 214 days were taken by enterprises to convert or sell the inventories and enterprises wait on average of 474 days (median was 403 days) to pay their purchases. The enterprises current ratio of 1.48 times was found. The study has found mean sales growth rate of 53 percent, while median sales growth rate on sales was 29 percent. The debt ratio on average was nearly 60 percent found, while the median debt ratio was 52 percent. The study found the maximum rate of gross profit margin at 0.3 percent and minimum rate negative at 114 percent.

A negative net working capital was observed for eight enterprises. The majority of the public trading enterprises and manufacturing enterprises had negative net working capital. DDC, HPPC, JCF, NSC, NTC, ND, NOMP, and UCI had negative net working capital. The average net working capital of Nepali public trading enterprises and manufacturing enterprises was quite low. The net working capital fluctuated widely from one public enterprise to another public enterprise. It was also found that average NWC of public trading enterprises was positive whereas average NWC of manufacturing enterprises was negative. The CR and QR of public trading enterprises were found better than CR and QR of public manufacturing enterprises. This means, liquidity position of public trading enterprises was found better in comparison with liquidity position of public manufacturing enterprises.

Since the net working capital is the excess of current assets over current liabilities and current assets comprised illiquid inventories. Therefore, the quick net working capital was

computed in the assumption that it is more relevant than net working capital. The quick net working capital (QNWC) has been presented in Table 4. Table reveals that quick assets were insufficient to cover the current liabilities. Only, HCI had covered current liabilities from the quick assets. Other twelve manufacturing enterprises and trading enterprises had negative quick working capital.

The net working capital and quick net working capital could not be taken as a powerful measure to assess the liquidity position of the selected enterprises because they did not show the extent of margin of safety provided to current creditors. Due to this, current ratio and quick ratio were regarded as better than these measures. The current ratios are similar to net working capital. The current ratio presented in Table 4 indicates that the largest current ratio was for NSC. The high current ratios, however, need not indicate higher liquidity maintained by the enterprises. If the current assets comprise such assets which cannot be converted into cash easily, then higher current ratios may not indicate the true capability of the enterprises to pay their current debts. The basic assumption of quick ratio is that inventory is generally the least liquid current asset and should therefore be ignored. Viewed in this way, quick ratios were considered more relevant than current ratios. The quick ratio is similar to quick net working capital. The quick ratios for selected enterprises are also presented in Table 4.

The majority of the selected enterprises had quick ratios less than one. However, average quick ratios were greater than one for public trading enterprises and manufacturing enterprises in Nepal. The average quick ratio is highest for NSC. The measure of risk is useful when there is a need to indicate how much of current assets have been financed from the long term funds after financing fixed assets. In this process, the degree of risk associated with the liquidity was measured with the liquidity of enterprises (Sharma, 2007). The risk could be measured by using the following formula:

$$\text{Rk} = [(\text{Total Equity} + \text{Long Term Liabilities}) - \text{Fixed Assets}] / \text{Current Assets}.$$

It helps to assess the magnitude of the risk return trade-off achieved by enterprises. The varying level of average Rk, CR and QR maintained by the different enterprises has been shown in Table 4. For all the selected enterprises, Rk value was less than QR value and latter was less than CR value except for DDC and ND. The average values for CR, QR and Rk were closely associated with each other. An enterprise is assumed to have followed the aggressive approach when current liabilities are used to finance a portion of fixed assets and conservative when it uses only long term funds to finance all kinds of current and fixed assets. Similarly, it was assumed that public trading enterprises and manufacturing enterprises have followed moderate policy when it used long term funds to finance a portion of current assets.

An aggressive financing policy utilizes higher levels of normally lower short term debt and less long term capital. Although lowering capital costs, this increases the risk of a short liquidity problem. A more conservative policy uses higher cost capital but postpones the principal repayment of debt or avoids it entirely by using equity. The total current liability to total assets ratio was used to measure the degree of aggressive financing policy, with a high ratio being relatively more aggressive (Visscher & Weinraub, 1998). Under an aggressive current asset policy, an enterprise holds relatively large amounts of each type of current assets.

Under a conservative current asset policy, the enterprises holds minimal amounts of these items; using more of long term funds (Pradhan, 2004). The advantage of this measure is to identify the working capital policies followed by different selected enterprises.

Table 4: Working Capital of Selected Enterprises

Name of the Enterprises	NWC	QNWC	CR	QR	Rk
Public Trading Enterprises					
AIC	820.45	-391.45	1.21	0.99	-0.22
NSC	-236.37	-616.15	6.73	6.84	-0.41
NTC	-505.59	-4501.36	0.98	0.28	0.80
NFC	540.17	-278.00	1.48	0.31	-0.49
NOC	1319.09	-2502.15	1.40	0.68	-0.20
TCN	5287.12	-15458.77	1.76	0.94	-2.46
Mean	1204.14	-3957.98	2.26	1.67	-0.50
Public Manufacturing Enterprises					
DDC	-444.64	-723.66	0.52	1.05	0.35
HPPC	-20337.73	-20623.36	0.05	-0.04	-0.18
HCI	1378.23	103.55	1.59	1.05	0.04
JCF	-2869.32	-5337.15	0.77	0.44	0.62
ND	-1952.00	-1322.50	0.82	0.98	-0.62
NOMP	-1353.00	-9349.33	0.91	0.11	-2.93
UCI	-107.04	-1435.55	1.20	0.75	0.02
Mean	-3669.36	-5526.86	0.84	0.62	-0.38
Grand Mean	-1420.05	-4802.76	1.50	1.10	-0.44

Note: The sample consists of 13 manufacturing and trading enterprises in Nepal for the period between 2000 to 2010. Above Table shows average result of net working capital, quick net working capital, current ratio, quick ratio, and risk.

As per the assumption, if the value of risk is one or close to one, then the enterprise is said to have followed a conservative approach and if the value of risk is zero or less, then the enterprise is said to have followed an aggressive approach. Hence, if the value of risk is more than zero but less than one, it is said to have moderate approach. The positions of working capital approaches followed by selected enterprises are shown in Table 5.

Table 5: Types of Approaches followed by Selected Enterprises

Name of the Enterprises	Risk (Rk)	Approaches of Working Capital
Public Trading Enterprises		
AIC	-0.22	Aggressive
NSC	-0.41	Aggressive
NTC	0.80	Conservative
NFC	-0.49	Aggressive
NOC	-0.20	Aggressive
TCN	-2.46	Aggressive
Public Manufacturing Enterprises		
DDC	0.35	Moderate
HPPC	-0.18	Aggressive
HCI	0.04	Moderate
JCF	0.62	Moderate
ND	-0.62	Aggressive
NOMP	-2.93	Aggressive
UCI	0.02	Moderate

DISCUSSIONS AND CONCLUSIONS

A higher financial liquidity would generally mean a lower risk of technical insolvency showing capability of an enterprise to pay the current debts as they become due. There are several measures with the help of which the short-term liquidity of an enterprise may be assessed. Among them, net working capital itself provides the one which indicates a 'margin of safety' or 'cushion' of protection provided by Nepali enterprises as shown in Table 4. Liquid assets constitute a considerable portion of total assets and have important implications

for the enterprise's risk and profitability (John, 1993). The smaller enterprises have relatively fewer liquidity constraints, but the largest enterprises have no particular liquidity constraints, consistent with their ability to easily access to internal and external sources of funds (Audretsch and Elston, 2002).

The study revealed that most of the public trading enterprises and manufacturing enterprises were following aggressive working capital policy. Out of 13 public enterprises, eight enterprises were selecting aggressive policy. The majority of the public trading enterprises were following aggressive working capital policy as compared to public manufacturing enterprises. It means more current liabilities were used to finance a portion of fixed assets in public trading enterprises in comparison with public manufacturing enterprises. The majority of the enterprises had utilized higher levels of normally lower cost short term debt and less long term capital. Only, NTC was adopting conservative policy and four public manufacturing enterprises had moderate working capital policy.

On the basis of the analysis, it was reflected that the management of working capital depends upon the management of current assets. Out of public manufacturing enterprises, the largest ratio was for JCF and lowest for NOMP. Out of public trading enterprises, NTC had strong position and was followed by NOC, NFC, TCN, NSC, and AIC. On an average, public trading enterprises had invested more amounts in total assets in the form of current assets as compared to public manufacturing enterprises. Both, public trading and manufacturing enterprises had invested more than 50 percent in total assets in the form of current assets. This analysis revealed that public trading enterprises had used more current assets as compared to public manufacturing enterprises. The analysis revealed that public trading enterprises had more current assets in the form of inventories across the years as compared to public manufacturing enterprises. The year-wise average gross working capital ratio had shown the improvement in utilization of gross working capital over a period of time. The analysis indicates that the gross working capital was utilized with varying degrees of efficiency by public trading enterprises and manufacturing enterprises. The analysis also reveals that the utilization of current asset position in public trading enterprises was better as compared to public manufacturing enterprises.

The net working capital ratio fluctuated widely from one year to another without indicating any kind of improvement in net working capital utilization. Among public trading enterprises, the highest turnover was observed for NOC and among manufacturing enterprises, for DDC. The analysis shows that the net working capital utilization was very poor in public manufacturing enterprises as compared to public trading enterprises.

In the analysis of short term financial liquidity position of the selected public enterprises, it is observed that the average net working capital varied widely from one enterprise to another. It is further observed that the average NWC of public trading enterprises was positive whereas average NWC of manufacturing enterprises was negative. The CR and QR of public trading enterprises were found better than CR and QR of public manufacturing enterprises. This means, liquidity position of public trading enterprises was found better in comparison with liquidity position of public manufacturing enterprises.

The majority of the public trading enterprises and manufacturing enterprises had negative margin of safety to creditors from quick assets. In other words, quick assets are insufficient to cover the current liabilities. The majority of the enterprises had current ratio less than standard measure 2:1. Only NSC had current ratio of more than two. It means that Nepali public trading enterprises and manufacturing enterprises were unable to maintain liquidity in appropriate way. In majority of the public trading enterprises and manufacturing enterprises, similarity was found between net working capital and current ratio and between risk and current ratio. The result was not consistent for all the public trading enterprises and manufacturing enterprises. Most of the public trading enterprises and manufacturing enterprises were following aggressive working capital policy. It means the public trading enterprises and manufacturing enterprises were using short term funds to finance a portion of current assets.

In most of the public trading enterprises and manufacturing enterprises, the value of risk was found less than zero i.e. negative value. Only NTC had followed conservative working capital policy. The analysis also shows that the majority of the public trading enterprises were following aggressive working capital policy as compared to public manufacturing enterprises. Only four public manufacturing enterprises had followed moderate working capital policy.

The quick ratios were considered more relevant than current ratios. The majority of the selected enterprises had quick ratios less than one. However, average quick ratios were greater than one for public trading enterprises and manufacturing enterprises in Nepal. The average quick ratio was highest for NSC. The Rk value was less than QR value and latter was less than CR value except for DDC and ND. The average values for CR, QR and Rk were closely associated with each other. The study revealed that most of the public trading enterprises and manufacturing enterprises were following aggressive working capital policy. The majority of the public trading enterprises were following aggressive working capital policy as compared to public manufacturing enterprises. It means more current liabilities were used to finance a portion of fixed assets in public trading enterprises in comparison with public manufacturing enterprises. Only, NTC was adopting conservative policy and four public manufacturing enterprises had moderate working capital policy.

The descriptive statistics has shown the high average cash conversion cycle in Nepali public trading enterprises and manufacturing enterprises. This means public trading enterprises and manufacturing enterprises were unable to manage working capital in effective and efficient way. The delay in payment to suppliers and others were also found high in Nepali public enterprises and trading enterprises. The average sales growth was found low. The majority of the selected public enterprises had CR below its standard value. The mean return on assets was found negative. The highest total debt was found in Nepali public trading enterprises and manufacturing enterprises. NPM and ROA both had found positive relationship with cash conversion cycle. The majority of the public trading enterprises and manufacturing enterprises had shorter age of inventories which indicated the better liquidity of public enterprises. The public trading enterprises and manufacturing enterprises were not collecting the receivables on time. The majority of the public trading enterprises

and manufacturing enterprises had negative net working capital. The liquidity position of public trading enterprises was found better in comparison with liquidity position of public manufacturing enterprises. The majority of the public trading enterprises and manufacturing enterprises were following aggressive working capital policy. The average cash conversion cycle was very high in Nepali public trading enterprises and manufacturing enterprises.

Most of the public trading enterprises and manufacturing enterprises have been following aggressive financing policy, which is quite risky leading to high profitability and low liquidity. The public trading enterprises and manufacturing enterprises had used more short term financing or the entire estimated requirement of current assets was financed through short term sources. Herbert and Visscher (1998) also found that when relatively aggressive working capital assets policies were followed, they were balanced by relatively conservative working capital financial policies. In contrast, theory suggested the high profit in this approach, but Nepali public trading enterprises and manufacturing enterprises are getting low profit, this might be due to short term interest rate and other influences of different confounding variables. This finding is contradicted with Walker (1964) that more conservative management would employ more working capital for a given volume of output. The findings on working capital policy in this study are also in contrast with findings from Raheman and Nasr (2007). This study found that Nepali public trading enterprises and manufacturing enterprises were unable to maintain liquidity in appropriate way. The average collection period was high and average age of inventories varied from one public enterprise to another public enterprise. The majority of the enterprises had utilized higher levels of normally lower cost short term debt and less long term capital. This finding is consistent with the findings of Tewolde (2012). One of the central tenets of this study is that, effective working capital management enables proper management of the enterprise.

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