National University of Science and Technology

Faculty of Commerce

Graduate School of Business

The impact of Working Capital Management on Firms' Performance: The Case of Printing Companies in Zimbabwe.

Tauya Moyo

N0164073K

A thesis submitted in fulfilment for the degree of General Master of Business Administration

Year: 2017

Abstract

The study sought to examine the impact of Working Capital Management on Firms' Performance, with specific reference to Printing Companies in Zimbabwe. This has been necessitated by a decline in printing companies in Zimbabwe, which could be attributed to viability challenges. It was felt necessary to investigate how working capital management practices could be implemented to restore operational profitability and liquidity. The study examined the impact of inventory management and trade credit management practices on firm profitability. It also examined the impact of cash management and payables management practices on corporate liquidity. The study sought to fill in the research gap as no studies have been conducted on the impact of working capital management practices on the performance of printing companies in Southern Africa region. Where studies have been conducted in other parts of the world, sophisticated statistical methods have been employed which can be daunting to readers without a statistical background. Therefore, the current study adopted a mixed research choice, utilising the descriptive research design which was useful in the collection of both quantitative data and qualitative data. It was observed that: Effective management of inventories and receivables can help to improve firm profitability, while effective management of the cash conversion cycle, cash and cash equivalents and payables can help improve the liquidity of firms. The study confirmed the hypothesis that Working Capital management practices influences the performance of firms in the Printing industry. Recommendations were split into two major categories: recommendations meant to improve corporate profitability and those meant to improve liquidity. To improve profitability, the study recommended: Implementing the Just-in-Time approach to inventory management, making use of the Economic Order Quantity (EOQ) and Implementing the Enterprise Resource Planning (ERP). All these measures are intended to reduce inventory holding costs. The study also recommended developing and implementing measures to improve trade credit management by increasing credit transactions and reducing the receivables collection period. Recommendations to improve corporate liquidity included developing and implementing measures to improve the cash management by embracing technology to shorten the cash conversion cycle, using cash management models like the Baumol model and the Miller-Orr model which helps management to ascertain optimal cash holding levels and emphasising the importance of adequate planning and monitoring such that there is organization wide adherence to set limits and budgets. The study further recommended developing and implementing measures to improve payables management by increasing credit transactions when procuring commodities, delaying payments to creditors, to reduce cash out flows and retain cash within the firm.

Key Words: Working Capital Management, Inventory management, Trade credit management, Cash management, Payables management, Profitability, Liquidity